

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 04-GRANBY
COURT NO.: 460-11-000938-046
ESTATE NO.: 42-043090

SUPERIOR COURT
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE PROPOSAL OF:

J.L. de Ball Canada Inc.,

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:
835 Industriel Blvd.
Granby QC J2J 1A5

Debtor

**Trustee's Report Relating to the Affairs of J.L. de Ball Canada Inc.
Since the Meeting of Creditors Held on August 25, 2004**

On February 4, 2004, J.L. de Ball Canada Inc. (hereinafter called "de Ball" or the "Company") filed a notice of intention to make a proposal to its creditors. RSM Richter Inc. ("Richter") was named Trustee to the Notice of Intention.

On August 4, 2004, de Ball filed a proposal to its creditors ("Proposal"). Although the creditors must refer to the specific terms contained in the Proposal, the highlights of said proposal, which is considered a "Holding Proposal", are as follows:

- Secured Claims shall be paid in accordance with arrangements existing between the Company and the of secured creditors;
- Preferred Claims are to be paid in full; and
- The payment of Unsecured Claims is deferred until the Company tables at the First Meeting of Creditors or at any postponement thereof an amended proposal under which de Ball will propose a basis of payment to be made in full and final settlement of the Unsecured Claims.

In conformity with paragraph 50(10)b) and subsection 50(5) of the Act and in order to help the creditors study the proposal, the trustee submitted an initial report on the financial situation of the Company, dated August 17, 2004.

At the first Meeting of Creditors, held on August 25, 2004, a resolution was unanimously passed adjourning the meeting to December 1, 2004.

I. MARKETING OF DE BALL'S OPERATING ASSETS

The highlights of events since August 25, 2004 are summarized as follows:

A) Glenoit Fabrics (HG) Corporation ("Glenoit") Offer

- ▶ On August 30, 2004, pursuant to an exhaustive marketing process, the Company accepted an offer, subject to Court approval, to sell the operating assets of de Ball and its subsidiary Asheville Velour Inc. ("Asheville") to Glenoit.
- ▶ The offer was conditional, amongst others, on the receipt by Glenoit of a letter of interest before October 1, 2004, from the Fonds de solidarité des travailleurs du Québec ("FSTQ") indicating its interest in participating in the entity purchasing de Ball's assets ("FSTQ Condition").

- ▶ On September 8, 2004, at the Company's request, the Court appointed Richter as Interim Receiver to sell certain of the assets of de Ball according to the terms and conditions of the Glenoit Asset Purchase Agreement dated August 18, 2004, as well a Vesting Order and Distribution Order, all of which were granted by the Court on the September 8, 2004.

B) Termination of the Glenoit Offer

- ▶ On October 1, 2004, Glenoit's legal counsel advised the Company that the FSTQ Condition had not been fulfilled and that the Purchaser did not wish to proceed with the transaction contemplated by the Asset Purchase Agreement dated August 18, 2004. As a result, the Purchaser would not proceed to the Closing and considers the agreement resulting from the acceptance of the Offer to have terminated.

C) 3264289 Canada Inc. Offer

- ▶ In late August, 2004, the company 3264289 Canada Inc., represented by Mr. Chris Wood, had submitted a non-binding letter of intent to purchase certain assets of de Ball ("Wood Offer"). In view of the fact that the Wood Offer was lower than the Glenoit offer, and due to the advanced stage of discussions with Glenoit, the Wood Offer was not accepted.
- ▶ On October 8, 2004, we contacted Mr. Wood to determine if they were still interested in purchasing the assets of de Ball. On October 14, 2004, the company 3264289 Canada Inc. (the "Purchaser") submitted a revised and improved non-binding letter of intent to purchase certain assets of de Ball (the "LOI"), leading to the commencement of formal negotiations between the parties.
- ▶ In accordance with the terms of the LOI, the parties negotiated and agreed on the terms and conditions of the Asset Purchase Agreement (the "APA") to give effect to the sale of certain of the assets and the business of the Company as contemplated in the LOI. The intent of the parties is for Richter, as Interim Receiver to the assets and business of de Ball, to have the specific power to enter into and complete the sale transaction contemplated.
- ▶ On November 18, 2004, the Court authorized Richter, as Interim Receiver, to sell certain of the assets of de Ball according to the terms and conditions of the APA.
- ▶ The Wood Offer is summarized as follows:
 - The sale of the building, machinery, equipment, inventory and other assets (i.e. trademarks, name, rights to contracts, etc.) of de Ball and its subsidiary, Asheville.
 - The purchased assets exclude all cash on hand, accounts receivable, deposits, prepaids, insurance policies, income taxes refunds, corporate records as well as shares in Asheville and Girmes Special Textiles (Zhangjiagang) Co. Ltd. ("GSTZ").
- ▶ The sale transaction of de Ball's operating assets was completed on November 30, 2004.
- ▶ Concurrently to the above-mentioned sale of de Ball operating assets, BMO Bank of Montreal ("BMO"), the secured lender financing Asheville, sold at a private sale substantially all of Asheville assets, pursuant to the laws of the State of North Carolina, U.S.A.

II. MARKETING OF DE BALL'S INTEREST IN GSTZ

A) Summary of GSTZ Marketing Process

- ▶ The marketing process for the Company's interest in GSTZ, managed by RCF, is summarized as follows:
 - The Company engaged NLN Consulting Inc. ("NLN"), an independent agent (on a contingency basis) with expertise in Chinese mergers and acquisitions transactions, to assist in the disposal of the Company's interest in GSTZ.
 - In addition to the above, the Company engaged RSM Nelson Wheeler of Honk Kong on June 21, 2004 to assist in discussions with GSTZ's banker, the Agricultural Bank of China ("ABC"), and to assist in any discussions with potential interested parties.

- RCF also identified and dealt with potential purchasers, as well as assisted the Company in the preparation of the financial and legal information likely to be required by interested parties.

B) Results of GSTZ Marketing Process

- ▶ On June 30, 2004, de Ball received a non-binding offer from Aunde Achter & Ebels GmbH (“Aunde”) for the shares of GSTZ.
- ▶ Aunde subsequently sent a follow-up correspondence on July 13, 2004 indicating that, after review of additional financial information, the offer for shares was no longer valid and that they were only interested in acquiring certain assets of GSTZ and would require further due diligence to make an offer.
- ▶ Aunde has not initiated any due diligence or responded to RCF’s follow-up queries, and no revised offer has been received to date.
- ▶ NLN identified nine (9) potential interested parties which they considered may have an interest in GSTZ. Richter provided NLN with certain information relating to GSTZ to facilitate their discussions with the various parties identified, however no offers were received from any of these parties.
- ▶ On July 12, 2004 de Ball received a letter from ABC advising that they had been in discussions with a potential interested party for GSTZ.
- ▶ De Ball, through its representative, RSM Nelson Wheeler, began discussions with the interested party, China Aoyang Group (Hong Kong) Limited (“Aoyang”), and coordinated access to information and management to assist them in their due diligence and allow them to make an offer.
- ▶ Aoyang made an initial verbal offer to RSM Nelson Wheeler for de Ball’s interest in GSTZ and all related inter-company debts and negotiations ensued.

C) Aoyang Offer

- ▶ On November 1, 2004 Aoyang made a Declaration of Interest (“DOI”) to purchase de Ball’s equity interest and certain specified inter-company receivables from GSTZ (“Receivables”) for a total purchase price of US\$750,000. In this regard, de Ball, Richter, RSM Nelson Wheeler and Aoyang participated in discussions that resulted in the Equity Interest Sale Agreement (“EISA”) pursuant to the DOI.
- ▶ The receivables included amounts due to de Ball’s parent company, Girmes GMBH, a sister company, J.L. de Ball America Inc., an unrelated party, J.L. de Ball GMBH and de Ball. Accordingly, on November 12, 2004, de Ball and Richter commenced discussions with the various parties concerning the allocation of the purchase price.
- ▶ Furthermore, Aoyang had requested that the transactions contemplated by the DOI in the EISA be duly authorized. In this respect, Richter, as Interim Receiver, was authorized by the Court on November 18, 2004 to enter into and complete the transactions contemplated by the DOI and the EISA and that the said judgment orders the vesting of ownership of the Purchased Assets (as defined in the EISA) in the name of Aoyang or its nominee, free and clear of any charge, lien or encumbrances subject to the distribution of the Purchase Price to the Bank in partial satisfaction of its secured debt.
- ▶ The execution of the documentation to complete the transaction was initiated on November 26, 2004 and should be finalized shortly.

III. ESTIMATED REALIZATION AND DISTRIBUTION TO CREDITORS

Pursuant to the completion of the sale transactions regarding de Ball's and Asheville's the operating assets and in the interest in GSTZ, we have estimated the realization results as follows:

| | | Total |
|---|--------|--------------------|
| <u>Sale Transactions</u> | | |
| Sale of de Ball/Asheville operating assets | | |
| Initial net proceeds | | \$ 2,100,000 |
| Collection of balance of sale | | 3,650,000 |
| Net realization pursuant to sale of interest in GSTZ | Note 1 | 339,000 |
| <u>Collection of receivables</u> | | |
| Trade accounts receivable | Note 2 | 3,211,000 |
| 2003 provincial income tax refund | | 450,000 |
| 2004 income tax refund | Note 3 | TBD |
| GST/QST receivable | | TBD |
| Glenoit deposit (forfeited) | | 100,000 |
| Prepaid expenses | Note 4 | TBD |
| Proceeds available before costs and distributions | | 9,850,000 |
| Remittance to BMO Bank of Montreal | Note 5 | |
| Estimated operating line | | (3,000,000) |
| Term loan | | (6,310,000) |
| | | (9,310,000) |
| Estimated net proceeds before post-closing professional fees and costs | | \$ 540,000 |

Notes

- 1 The GSTZ transaction will generate US\$750,000 of which US\$243,600 is to be shared by the holders of related party /affiliated claims. Thus, the net realization of US\$456,000 (CA\$607,000) are first to be used to cover the fees for professional services rendered in Hong Kong, with the remaining funds remitted to BMO.
- 2 The book value of the AR as at November 25, 2004 (transaction date) is estimated to be \$4MM and should generate approximately \$3.2MM (net of collection fees). We believe that the majority of the AR should be collected over the following 90-day period (with the assistance of the buyer of the operating assets).
- 3 Subsequent to the completion of the various sales transactions, the Company will file its 2004 tax return and may be eligible for a refund of certain taxes based on the application of loss-carrybacks to prior years.
- 4 The above analysis does not take into account the following:
 - Sales taxes receivable (Management believes that the Company is entitled to recover sales taxes, the amount of which has yet to be determined).
 - The refund of outstanding supplier deposits (approximately \$240,000) before any consideration for deductions for amounts owing.
- 5 Before consideration for on-going interest charges on outstanding loans throughout the period.

IV. Validity of the Security

The trustee has retained the services of an independent legal advisor to obtain an opinion with respect to the validity of the security held by BMO. It is the opinion of Messrs. Kandestin Kugler that BMO has a valid first ranking security on all of the assets of de Ball and Asheville.

V. CONCLUSION AND RECOMMENDATION

Richter is of the opinion that the realization value of the assets will be maximized if bankruptcy is avoided and as such is recommending that de Ball file a "liquidating proposal" which would provide for the distribution of the net realization to the creditors according to their rights. Accordingly, this meeting of creditors should be postponed until January 20, 2004 to allow for the filing of the Proposal and the call of a new meeting of creditors.

DATED IN MONTREAL, this 1st day of December 2004.

RSM Richter Inc.

(estate formerly accepted under the responsibility of Richter & Associés Inc.)

Trustee