

# RSM Richter Inc.

RSM Richter Inc.

2, Place Alexis Nihon  
Montréal (Québec) H3Z 3C2  
Téléphone / Telephone : (514) 934-3497  
Télocopieur / Facsimile : (514) 934-3504  
[www.rsmrichter.com](http://www.rsmrichter.com)

June 11, 2004

Direct line : (514) 934-3514  
E-mail : [bgingues@rsmrichter.com](mailto:bgingues@rsmrichter.com)

**TO : CREDITORS OF LES BOUTIQUES SAN FRANCISCO INCORPORÉES,  
LES AILES DE LA MODE INCORPORÉES AND  
LES ÉDITIONS SAN FRANCISCO INCORPORÉES (« Petitioners »)**

Madam,  
Sir,

This letter provides a summary of certain information contained in the attached Report of the Designated Monitor on the state of the Petitioners' financial affairs and the Plan of compromise and arrangement ("Monitor's Report") in order to facilitate the creditors' understanding of the Plan

The English version of the Report of the Designated Monitor on the state of the Petitioners' financial affairs and Plan of Compromise and Arrangement is available at [www.rsmrichter.com](http://www.rsmrichter.com) or upon request by phone at (514) 934-3550, or by fax at (514) 934-3551 or by email at [bsf@rsmrichter.com](mailto:bsf@rsmrichter.com)

We recommend that you carefully review the Monitors' Report in order to better understand the terms and conditions of the Plan and the various issues that may be relevant to your decision as to whether or not approve the Plan. For purposes of this letter we have employed the same terminology as defined and used in the Plan.

On December 17, 2003, the Petitioners filed a motion for the issuance of an initial order in accordance with the provisions of the *Companies' Creditors Arrangement Act* ("CCAA") and on that date, Mr. Justice Clement Gascon issued an Initial Order (hereinafter the "Initial Order") appointing Richter & Associés, now known as RSM Richter Inc., inter alia as Monitor (the "Monitor"). The Initial Order has been renewed and amended successively and the stay of proceedings against the Petitioners was extended until July 30, 2004.

Les Boutiques San Francisco Incorporées ("BSF") is a public company whose shares are traded on the Toronto Stock Exchange. BSF holds all the shares of Les Ailes de la Mode Incorporées ("Les Ailes") and of Les Éditions San Francisco Incorporées ("Les Éditions").

Over the past few years, the Petitioners incurred significant operating losses and, notwithstanding certain corrective measures taken, the Petitioners remained unprofitable, thereby requiring the CCAA filing and the Restructuring Plan described in the Monitor's Report.

We encourage the creditors to take note of the corrective measures taken in the implementation of the operational Restructuring Plan described in the Monitor's Report.

On June 7th, 2004, the Petitioners filed a plan of compromise and arrangement with the Superior Court of Quebec in accordance with the provisions of the CCAA and the orders rendered by the Court.

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### **Creditors Meeting**

A meeting of the Petitioners' creditors will be held on Monday July 5, 2004 at 9:30am at the Sheraton Center, Salon A, level B, located at 1201 boulevard René-Lévesque West in Montréal, Québec.

The purpose of the creditors' meeting is to consider and vote on the Plan.

All creditors having submitted their proofs of claim to the Monitor prior to June 30, 2004 at 5:00pm are invited to attend the creditors' meeting or can vote by proxy. A proxy form has been included in the enclosed package.

### **Plan of Compromise and Arrangement**

The Plan of Compromise and Arrangement is presented to the creditors, jointly by the Petitioners, and is broken down into the following categories:

- a) The secured creditors of one or the other of the Petitioners;
- b) The unsecured creditors of BSF;
- c) The unsecured creditors of Les Ailes;
- d) The unsecured creditors of Les Éditions.

The Plan compromises only the claims of the unsecured creditors and excludes the inter-company loans. It provides for the distribution of a fixed amount payable in instalments, to the unsecured creditors of BSF and Les Ailes as full and final payment of their claims. The amounts to be distributed are the following:

<b>Fixed Distributions</b>			
<i>(In thousands of dollars)</i>			
<b><u>Instalments</u></b>	<b><u>Date of Remittance to Monitor</u></b>	<b><u>BSF</u></b>	<b><u>Les Ailes</u></b>
First Instalment	30 days from sanction by the Court	\$ 5,950	\$1,850
Second Instalment	Dec. 30, 2004	2,975	925
Third Instalment	July 29, 2005	<u>2,975</u>	<u>925</u>
		<b><u>\$11,900</u></b>	<b><u>\$3,700</u></b>

Further, the Plan contemplates a fixed distribution of \$11.9M to the unsecured creditors of BSF, representing a potential payout to the unsecured creditors of BSF other than Ivanhoe, of approximately 37 % of their claims (based on BSF's books and records) whereas in the case of an orderly liquidation of the assets, it is estimated that the unsecured creditors would receive a potential payout of approximately 22% of their claims (based on BSF's books and records). In the case of a forced liquidation, the amount available for distribution would likely be significantly lower.

With regard to Les Ailes, the Plan contemplates a fixed distribution of \$3.7M representing a potential payout of 10% of claims (based on Les Ailes' books and records), whereas in the event of an orderly liquidation of the assets, it is estimated that that there would be no funds available to distribute to unsecured creditors.

In regards to the creditors of Les Éditions, the Plan provides that all amounts received by Les Éditions on account of its claim towards BSF, and to the extent necessary to settle the claims of Les Éditions, be remitted to the Monitor for distribution to the creditors of Les Éditions, prorata to their claims, to a maximum of their proven claims.

The Plan contemplates that the Monitor will distribute to creditors the fixed amounts to each category of creditors in the following manner, as soon as possible upon receipt of each instalment:

- a) First, in full payment of Claims of the Crown pursuant to paragraph 18.2(1) of the CCAA, as the case may be;
- b) Then, in payment of each Proven Claim up to \$500, all Claims of a given Person on the Filing Date being deemed to constitute a single Proven Claim for such purpose;
- c) as for the outstanding amount to be remitted to the Monitor, it will be distributed *pro rata* of the outstanding Proven Claims of the Creditors of the class, the whole of which shall result in a full and final release of their claims exceeding \$500, having already been received in accordance with paragraph (b) above.

#### **Voting on the Plan of Compromise and Arrangement**

The acceptance of the Plan and its sanction by the Court will have permitted the Petitioners to restructure their debt and their capital structure, thereby allowing them to continue operations.

In order for the Plan to be approved by a class of creditors, a majority vote of the number of creditors, representing more than two thirds of the value of that class of creditors present and voting in person, or by proxy, is required.

It is important to note that none of the Petitioners are required to apply to the Court for the Sanction Order of the Arrangement should the Plan not be accepted by all of the classes of creditors as well as the creditors of the other Petitioners, and sanctioned by the Court.

The Petitioners will have the option, but not the obligation, to apply to the Court for the Sanction Order of the Arrangement with regard to the classes of creditors which will have voted favorably thereon.

#### **Application for Sanction Order**

In the event that the Plan is approved by the Creditors, the Petitioners will apply to the Court on July 9, 2004 at 9:30 am in Room 16.12 of the Palais de Justice de Montréal, located at 1 Notre Dame Street West, Montréal, to obtain the Sanction Order.

### **Consequences of the Rejection of the Plan**

The Petitioners filed for protection under CCAA as a result of their insolvency with the purpose of restructuring. In the event that the Plan is rejected by the affected creditors, the Petitioners would likely have no other alternative than to proceed to the sale of their respective assets without delay. The Monitor has calculated the estimated funds that would be available for distribution for the unsecured creditors of BSF and Les Ailes in an orderly liquidation subject to certain assumptions.

According to his analysis, the funds that would be available to the creditors would be significantly lower than those provided for in the Plan. We refer you to paragraphs 163 to 177 of Monitor's report for further details in this regard.

### **Recapitalization of the Business and Continuing Operations**

#### **• Process**

Pursuant to a structured process for the identification of potential investors developed and controlled by Richter Corporate Finance and supervised by a special committee of independent directors of the Petitioners' Board of Directors, six offers for the acquisition of assets and one for the recapitalization of the Petitioners were received. The independent committee, and its financial advisor, PricewaterhouseCoopers Financement Corporatif Inc., recommended to the Petitioners' Board of Directors the acceptance of the offer of recapitalization made by a group of investors including the Petitioners' founder, Mr. Paul Delage Roberge.

The Board of Directors subsequently accepted the offer as it considered that it was the best offer for all of the stakeholders, specifically the creditors of the Petitioners. Furthermore, the recapitalization of the business allows Les Ailes and BSF to continue operations, preserves the maximum number of jobs and maintains ongoing supplier relations.

It is important to note that neither Mr. Roberge nor Mrs. Camille Roberge, Directors of the Petitioners, attended the Board meeting or participated in the process.

#### **• Description of the Recapitalization**

The Recapitalization Offer presented by the group of investors consists of a private offering of a minimum amount of \$15.4 million. The transaction is conditional on, among others, the approval of the Plan by the creditors as well as the Plan sanction by the Court. On June 7, 2004, Petitioners have received a written confirmation that \$16.4 million was placed in trust with the Group of Investors' legal counsel, pending the closing of the private placement.

### **Recommendation of the Monitor**

The Monitor is of the view that the Plan is fair and equitable and that the acceptance of the Plan is more advantageous to the creditors than the alternative of selling the assets of the Petitioners in liquidation. The Monitor therefore recommends to all classes of creditors to vote in favour of the Plan of compromise and arrangement.

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The creditors may remit their proxy as well as their voting letter to the Monitor prior to the meeting of creditors or alternatively, they may attend the meeting of creditors to obtain additional clarification they may deem necessary and vote thereat.

Yours very truly,

**RSM Richter Inc.**  
Monitor appointed by the Court

A handwritten signature in black ink, appearing to read 'Benoit Gingues', with a stylized flourish at the end.

Per: Benoit Gingues, CA

BG/il

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