

RSM Richter Inc.

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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**

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**TRUSTEE'S REPORT ON THE FINANCIAL SITUATION  
OF THE DEBTOR AND ON THE PROPOSAL  
(Subsections 50(5) and 50(10) b) of the *Bankruptcy and Insolvency Act* ("Act"))**

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 ("notice of intention") 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"). We have enclosed herewith the Proposal as well as a Notice of the time and place of the meeting of creditors ("First Meeting of Creditors") to consider the 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:

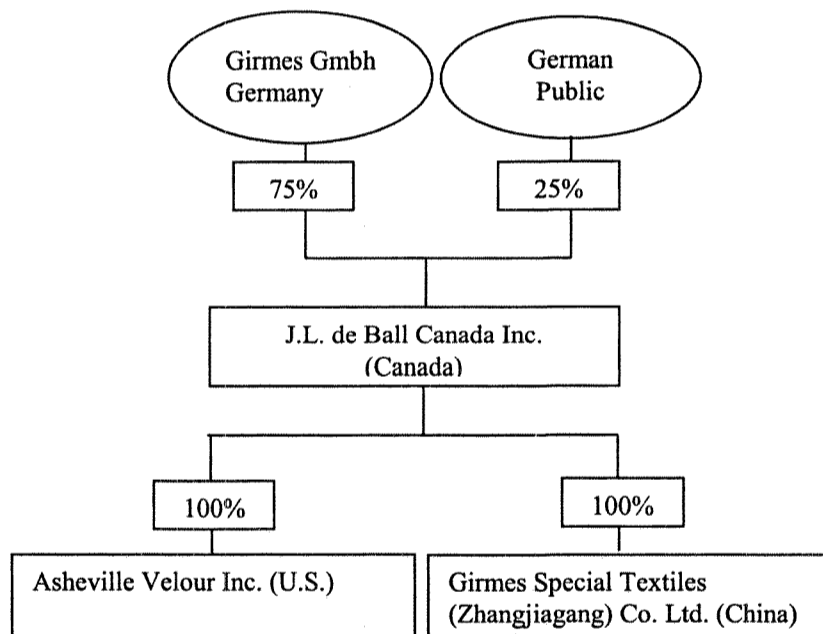
- Secured Claims shall be paid in accordance with arrangements existing between the Company and the of secured creditors;
- Preferred Claims are to be paid in full; and
- The payment of Unsecured Claims is deferred until the Company tables at the First Meeting of Creditors or at any postponement thereof 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 submits the present report on the financial situation of the Company.

## I. INTRODUCTION

### A) Company History

- ▶ De Ball is an integrated manufacturer of high quality piece-dyed velvet and corduroy fabrics for the North American apparel and home furnishing sectors.
- ▶ De Ball was incorporated in 1951 as a subsidiary of Girmes AG, a German Corporation, originally for the purpose of reselling the parent Company's products in the Canadian Market. It has been manufacturing in Granby since 1971;
- ▶ In 1999, the Company established a U.S. subsidiary in Asheville, North Carolina. All fabrics woven at this plant are dyed, printed and finished at the Granby facilities;
- ▶ In 2000, de Ball set up a facility in China in order to be able to produce high quality fabrics at lower costs and thereby recapture market share it has lost as a result of the transfer of a significant portion of its apparel customer base to the low-wage areas of the world;
- ▶ The corporate structure of the Company is currently as follows:



It should be noted that de Ball's parent company, Girmes Gmbh, was put under German court bankruptcy administration in November 2003 and its principal assets have since been liquidated. The German trustee is the beneficiary of the shares / investment in de Ball.

### B) Commercial Activities

The Company weaves, dyes, prints and finishes high-quality apparel (velvet) and furnishings (velour) fabrics. It also converts corduroy greige fabric purchased from third parties which it sells chiefly to North American apparel manufacturers. Its main manufacturing facility is located in Granby (Quebec) Canada;

De Ball also operates two others facilities through its two wholly-owned subsidiaries: the first is in Asheville, North Carolina, and is dedicated to weaving fabrics exclusively for its parent company. The second is in the city of Zhangjiagang in China. The Chinese operation is an integrated manufacturing facility capable of producing high quality velvet fabrics from yarn;

The Company's business has suffered over the last few years and it has been operating at a loss. Furthermore, the Chinese operations have yet to become self sufficient.

## **II. EVENTS SUBSEQUENT TO THE FILING OF THE NOTICE OF INTENTION**

Since the filing of the notice of intention on February 4, 2004, the Company has continued its activities in the normal course of business and has been paying its suppliers and employees on a timely basis for goods and services provided subsequent to the date of filing. De Ball continues to finance its operations with BMO Bank of Montreal ("BMO").

As a result of the German proceedings during this reference period, the German trustee, Mr. Peipenburg, had put the Girmes group of companies up for sale. Unfortunately, a global sale transaction did not materialize. Consequently, Richter was given a mandate to initiate a marketing / sale process to find a buyer(s) for de Ball and its subsidiaries. In this regard, Richter is working with the Company to complete negotiations with interested parties.

On August 4, 2004, de Ball filed a Proposal to its creditors with no definitive payment of dividends. As previously noted, the terms of the definitive Proposal, including the proposed payment of dividends to the Unsecured Creditors under the Proposal, will be contingent upon the results of the marketing / sale process.

## **III. FINANCIAL INFORMATION**

The following financial information mainly emanates from de Ball's unaudited internal financial statements for the six months ended June 30, 2004, the year ended December 31, 2003, as well as audited statements for the years-ended December 31, 2002 and 2001, the Company's Statement of Affairs dated August 4, 2004 and discussions with management.

This information is presented solely for discussion purposes and to assist the creditors in their assessment of de Ball's current financial situation. The trustee makes no representations and provides no guarantees with respect to the accuracy or exhaustive nature of the financial information contained in this report.

**A) Historical Financial Results**

In order to assist the creditors, extracts of the Company's historical financial results are summarized as follows:

(in 000's)	June 30, 2004 (6 months) (unaudited) (non-consol.)	Dec 31, 2003 (unaudited) (consolidated)	Dec 31, 2002 (audited) (consolidated)	Dec 31, 2001 (audited) (consolidated)
Revenues	\$ 13,031	\$ 28,073	\$ 36,963	\$ 41,912
Cost of sales and operating expenses	14,514	31,000	35,416	37,903
Amortization	-	2,330	1,054	1,353
Interest	396	856	3,495	2,750
Foreign exchange loss (gain)	<u>(103)</u>	<u>(36)</u>	<u>(97)</u>	<u>168</u>
Income (loss) before income tax	<u>\$ (1,776)</u>	<u>\$ (6,077)</u>	<u>\$ (2,905)</u>	<u>\$ (262)</u>

Management attributes the main reasons for the poor performance to:

- Loss of market share due to international competition;
- Loss of profitable contracts; and
- Losses due to change in value of Canadian dollar.

**B) Current Financial Information**

All of the Company's assets are pledged to BMO. De Ball's books and records, as at August 4, 2004, reflect the following:

Statement of Affairs as at August 4, 2004		
(in 000's)	Book Value	Estimated Realizable Value*
<b>ASSETS</b>		
Accounts receivable	\$ 4,600	3,100
Sales taxes receivable	-	Tbd
Income taxes receivable	2,324	1,000
Inventory	5,483	2,500
Fixed assets	6,303	5,000**
Investment in subsidiaries	10,796	Tbd
Prepaid expenses	<u>461</u>	<u>Tbd</u>
	<b><u>\$ 29,967</u></b>	<b><u>\$ 11,600</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Bank indebtedness		
Operating	\$ 3,807	\$ 3,807
Long-term	7,309	7,309
Accounts payable and accrued liabilities	2,498	2,498
Due to parent	313	313
Due to affiliated company	1,037	1,037
Due to subsidiary (Asheville)	998	998
Due from subsidiary (GSTZ)	(3,431)	Tbd
Future income taxes	<u>397</u>	<u>Tbd</u>
	<u>12,928</u>	<u>15,962</u>
Capital Stock	15,259	15,259
Retained earnings (deficit)	<u>1,780</u>	<u>19,621</u>
	<u>17,039</u>	<u>(4,362)</u>
	<b><u>\$ 29,967</u></b>	<b><u>\$ 11,600</u></b>

\* The above values reflect the Company's best estimated of the value of its assets in a going-concern scenario.  
\*\* Asheville plant equipment is included in the stated value.

**i) ASSETS**

- **Accounts Receivable**

De Ball's accounts receivable total approximately \$4,600,000.

- **Sales Taxes Receivable**

Management believes that the Company is entitled to recover sales taxes (GST/QST), the amount of which has yet to be determined.

- **Income Taxes Receivable**

Pursuant to the filing of its corporate tax returns, the Company has claimed income taxes for prior years of \$1,000,000.

- **Inventories**

The Company's records indicate that the book value of inventory totals approximately \$5,500,000, detailed as follows:

Raw Material	\$3,800,000
Work-in-Process	1,000,000
Finished Goods	<u>4,200,000</u>
	9,000,000
Provision for obsolescence	<u>(3,500,000)</u>
	<u>\$5,500,000</u>

- **Fixed Assets**

De Ball's fixed assets essentially include production equipment, office equipment, as well as land and building. Their net book values are summarized as follows:

Land and Building	\$2,170,000
Machinery and Equipment	4,110,000
Office Furniture and Equipment	<u>20,000</u>
	<u>\$6,300,000</u>

- **Investments in Subsidiaries**

As previously mentioned, de Ball has invested (approximately \$14,000,000) in two subsidiaries:

1. Asheville Velour Inc. ("Asheville")

Asheville's sole activities are to produce greige for de Ball. Its operating assets are pledged to BMO. However, they are worth less than the bank indebtedness. Thus, this investment has no value.

2. Girmes Special Textile (Zhangjiagang) Co. Ltd. ("GSTZ")

De Ball has invested substantial sums in a start-up operation in China which has yet to be fully operational and does not generate any profit. De Ball ceased to fund its subsidiary's operations in the fall of 2003. GSTZ is having financial difficulties. Delays have been obtained from its Chinese bankers to determine if there is any interest for this company. De Ball is unable at this time to assess if their investment has any value.

- **Other Assets**

The Company is the holder of trademarks.

De Ball has recorded prepaid expenses of approximately \$460,000 relating to prepaid operating expenses (rent, insurance, taxes, printing screens, security deposits, etc.).

ii) **LIABILITIES**

De Ball's debt, which is subject to the Notice of Intention / Proposal, detailed between secured, preferred and unsecured creditors, is estimated as follows:

- **Secured Creditor**

The Company is indebted to BMO for a total sum of approximately \$11,100,000, of which approximately \$3,800,000 (subject to fluctuation) represents its revolving loan, approximately \$5,600,000 represents its term loans, and \$1,700,000 represents the term loan of its U.S. subsidiary which it has guaranteed.

BMO holds security over all the assets of the Company and its subsidiaries.

- **Preferred Creditors**

The Company is not aware of priority claims owing to government authorities, on the contrary Management believes the Company is to collect amounts from the tax authorities.

There are amounts owing to the employees for vacation pay or unpaid wages which will be finalized when the Amended Proposal is filed.

- **Unsecured Creditors**

The Company has provided us with a listing of its Unsecured Creditors totaling approximately \$4,800,000 (including US\$750,000 owed to the Asheville subsidiary). Proof of claim forms have been supplied with this report to the Company's unsecured creditors so that they may register their claim, which the trustee will use (subject to the Company's approval) to establish the quantum of the unsecured claims that are to share in the distribution provided for in the Proposal.

#### **IV. VOTE ON THE PROPOSAL**

In order to be entitled to vote on this Proposal, creditors must submit their proof of claims to the trustee **prior** to the First Meeting of Creditors. Moreover, the creditors are invited to submit their voting forms and proxies to the trustee before the First Meeting of Creditors, or they can wait until the meeting for any additional clarification they feel they may require in order to vote.

In order for the Proposal to be approved, the Act requires a vote of approval of more than 50% of the creditors which have proven their claim, and which account for more than two-thirds of the value of said claims.

#### **V. ANALYSIS OF THE PROPOSAL**

The terms of the Proposal filed reflect the Company's inability to determine what it can offer to its creditors and, as such, a "Holding Proposal" is submitted to the creditors. The objective of this filing is to obtain more time to deal with the Company's affairs and avoid an immediate bankruptcy and ensuing liquidation of its assets. Hopefully, the process initiated by the Company to identify a buyer will be successful. In the interim, the Company is continuing its operations.

This position enables the Company to:

- Protect the value of its assets versus a forced liquidation realization;
- Determine what will be offered to the creditors (pending the outcome of a possible sale transaction);
- Continue operations, and maintain jobs and business relationships with suppliers.

#### **VI. CONCLUSION AND RECOMMENDATION**

In the event that the "Holding Proposal" is not approved by the creditors, de Ball will automatically be deemed bankrupt.

The trustee is of the opinion that de Ball should be given time to determine if it can conclude a transaction with a potential buyer. The creditors should agree to postpone any decision concerning the Company's ability to settle their claims. This situation is more advantageous to the creditors than an immediate bankruptcy.

It should be noted that it is uncertain whether the Marketing/Sale Process will give rise to a basis for a definitive proposal resulting in dividends. It is however virtually certain that in the event of a bankruptcy and forced liquidation of the Company's assets there would be no funds available for distribution to the Company's Preferred and Unsecured Creditors.

DATED IN MONTREAL, this 13<sup>th</sup> day of August 2004.

**RSM Richter Inc.**

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