

CANADA  
PROVINCE OF ONTARIO  
DISTRICT OF ONTARIO  
DIVISION NO.: 12-OTTAWA  
COURT NO.: 33-1884683  
ESTATE NO.: 33-1884683

SUPERIOR COURT  
(Commercial Division)  
*Bankruptcy and Insolvency Act*

IN THE MATTER OF THE NOTICE OF  
INTENTION TO MAKE A PROPOSAL OF:

**K. F. S. Limited**, a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at 27 First Street East, of the City of Cornwall, in the Province of Ontario, K6H 1K5.

Debtor

- and -

**Richter Advisory Group Inc.**

Trustee

---

**TRUSTEE'S REPORT ON THE STATE OF THE INSOLVENT PERSON'S  
BUSINESS AND FINANCIAL AFFAIRS  
(Pursuant to 50.4(7)(b)(ii) and 50.4(9) of the Bankruptcy and Insolvency Act)**

I, Stéphane De Broux, CPA, CA, CIRP, of Richter Advisory Group Inc. ("Richter"), Trustee, with respect to the Notice of Intention to Make a Proposal ("Notice of Intention") filed by K. F. S. Limited (the "Company" or "Debtor"), an insolvent person, do hereby report to the Court the following:

1. On June 24, 2014, the Debtor filed a Notice of Intention in accordance with the *Bankruptcy and Insolvency Act* (the "Act"), a copy of which is annexed hereto as **Exhibit "A"**.
2. On June 24, 2014, Nathar Limited and 2726556 Canada Inc., which are controlled by the same entity as the Debtor, also filed a Notice of Intention. K. F. S. Limited, Nathar Limited and 2726556 Canada Inc. are herein collectively referred to as the "Companies".
3. On July 2, 2014, documents were sent by regular mail to all creditors of the Debtor, as identified by it, which included a copy of the Debtor's Notice of Intention, as annexed hereto as **Exhibit "B"**.
4. On July 4, 2014, the Debtor filed with the Official Receiver a Statement of Projected Cash Flow ("Projections") together with his report pursuant to Section 50.4(2)(c) of the Act, covering the period from July 1, 2014 to July 31, 2014, which included the major Assumptions used in the preparation of the aforementioned Projections. Concurrently therewith, the Trustee filed its Report on the reasonableness of the Projections in accordance with Section 50.4(2)(b) of the Act, all of which is annexed hereto as **Exhibit "C"**.
5. In order to monitor the affairs and finances of the Debtor, the Trustee has been provided with access to the books, records and other important documents of the Debtor.

6. The Debtor has been paying its suppliers and employees, on a timely basis, for goods and services provided subsequent to the date of the filing of the Notice of Intention, according to the current business terms. The Trustee has compared the actual results to those projected since the filing of the Notice of Intention. The actual results to date have been favorable.
7. The Companies, in operation since 1955, operate a chain of 21 retail stores in Ontario, Nova Scotia, New Brunswick and Newfoundland, specializing in ladies' and men's fashions, kitchenware, home accessories and gourmet foods. The Companies operate under various banners including Tweed & Hickory, Kastners Menswear, Flotron's Tweed & Hickory, Bucovetsky's, Dover's Menswear, Buckland's Fine Clothing, Shaw's of Perth, The Village Green, Jacobson's Ladies' Wear, Yazer's Men's Wear, Bellissima and Moe's Menswear.
8. At the time of the filing, the Companies had over 200 employees in their stores, warehouse and head office. The Companies' head office is located in Cornwall, Ontario.
9. In the past two years, the Companies have experienced a sharp decline of their sales and reported significant losses. Management attributes this decline in sales to the following:
  - Current unfavorable economic conditions in the retail industry;
  - General economic downturn; and
  - Highly competitive market.
10. Pursuant to the assessment of their financial situation, the Companies began implementing, in early 2014, certain corrective measures, with the intent of ensuring their long-term profitability. However, the decrease of their sales continued to exceed the Companies' forecasts and it became evident that such measures would be insufficient to reverse the negative impact of the sales decline, thus necessitating a formal restructuring through a Notice of Intention.
11. Pursuant to the filing of the Notice of Intention, the Companies have been developing and implementing their restructuring plan. The key elements of this plan include:
  - The identification and closure of underperforming stores. To date, two stores have been closed and the relevant notices to disclaim leases have been sent to the landlords;
  - The negotiation of more favorable leases terms with their landlords;
  - The liquidation of their slow-moving and excess inventory;
  - The reduction of operating and overhead expenses;
  - The search for potential investors who could participate in the restructuring; and
  - The determination of the terms of a viable proposal to their unsecured creditors.
12. The Debtor is filing a Motion to Extend the Delay for the Filing of a Proposal, in order to allow it to complete its dealings with regards to the above-mentioned key elements and to enable the formulation of a viable proposal to its creditors.

13. The Debtor's secured creditor, Royal Bank of Canada, does not object to the requested extension and supports the Debtor in its reorganization efforts.
14. Annexed hereto as **Exhibit "D"** is the Statement of Projected Cash Flow covering the period from August 1 to September 30, 2014, the Trustee's Report on the reasonableness of the Projections in accordance with Section 50.4(2)(b) of the Act and the Debtor's Report pursuant to Section 50.4(2)(c) of the Act.
15. If the extension is granted, the Trustee is not aware of any facts indicating that any creditor would suffer a prejudice.
16. Given the foregoing, the Trustee hereby recommends the granting of the extension by the Court to September 8, 2014.

DATED AT MONTREAL, this 16<sup>th</sup> day of July 2014.

**Richter Advisory Group Inc.**  
**Trustee**



**Per: Stéphane De Broux, CPA, CA, CIRP**