

CANADA
District of Ontario
Division No. 09-Toronto
Court No: 31-1159650
Estate No: 31-1159650

IN THE MATTER OF THE BANKRUPTCY OF

WING SON GARMENTS LTD.
OF THE CITY OF TORONTO,
IN THE PROVINCE OF ONTARIO

TRUSTEE'S REPORT ON ITS PRELIMINARY ADMINISTRATION

BACKGROUND

Wing Son Garments Ltd. ("WSG" or the "Company") is a private corporation that carried on business in the design, contract manufacture and sale of active wear. WSG operated from leased premises located at 38 Metropolitan Road in Scarborough, Ontario, and sold to customers in Canada, and to a much lesser extent, in the United States. The Company also owns the *rk* trademark, operating seven retail locations in Ontario and one in British Columbia, from which it sold women's fashions.

The Company was unable to meet its financial obligations as they came due. In particular, the Company was in default on its loan obligations to the HSBC Bank Canada ("HSBC" or the "Bank") to whom it owed approximately \$2.3 million. On February 2, 2009, the Bank appointed Deloitte & Touche Inc. as Receiver and Manager (the "Receiver") of all of the property and undertakings of the Company pursuant to a General Security Agreement, General Assignment of Book Debts, and Section 427 Bank Act Security made by the Company in favour of the Bank.

Also on February 2, 2009, the Company filed an assignment in bankruptcy and Deloitte & Touche Inc. was appointed as trustee of the estate of the bankrupt (the "Trustee").

Causes of Insolvency

Based on our preliminary review, it would appear that deteriorating retail sales and operating losses from the *rk* locations, low operating margins, and declining manufacturing sales due to increased competition from lower cost offshore producers contributed to the Company's insolvency.

CONSERVATORY AND PROTECTIVE MEASURES

Upon its appointment on February 2, 2009, the Receiver attended at 38 Metropolitan Road ("Metropolitan") and WSG's former head office and second manufacturing facility located at 1100 Birchmount Road ("Birchmount") in Scarborough, as well as the *rk* retail locations to take possession and control of the property of the Company.

The Company's insurance coverage remains in force and the Receiver has arranged to be added as named insured loss payee.

Deloitte & Touche Inc., in its capacity as Trustee, has no assets to preserve and protect.

REALIZABLE ASSETS

As at February 2, 2009, the date of receivership, the realizable assets of the Company consisted primarily of the following:

	<i>Net Book Value*</i>
Accounts receivable	\$1,605,846
Inventory	1,979,883
Vehicles	52,287
Real Property	98,879
Furniture, fixtures and equipment	<u>591,547</u>
	<u>\$4,328,442</u>

**Net book value according to Management's internal books and records.*

Class I: Stock of Merchandise, including Raw Materials, Work in Process, and Finished Goods, etc.

The Company's inventory consisted of various bolts of fabric of different colours and textures. WSG also maintained a stock of private label finished goods in order to facilitate small quantity sales to customers through the Wing Corp Sports name. There was also a large quantity of thread, buttons, zippers and various other small items used in the garment manufacturing process on hand at Metropolitan and Birchmount.

Class II: Fixed Assets, Office Equipment, etc.

WSG's fixed assets are comprised of various office furniture and computer equipment, as well as sewing machines, sergers, spreaders, cutters, tables and other manufacturing equipment. The Company owned equipment for treating, dying, laundering and drying fabric. The Company also owned ten vehicles including three delivery trucks.

CLASS III: BUILDINGS AND REAL ESTATE

The Company is the owner of a condominium unit in a commercial plaza located at 2721 Markham Road, Scarborough. The unit is currently occupied by a tenant.

CLASS IV: BOOKS AND RECORDS

The Receiver took possession of the Company's books and records. Based on the Receiver's preliminary review, it appears that the Company's books and records were adequate in the circumstances.

CLASS V: OTHER ASSETS

1) Cash

At the date of the Receiver's appointment, WSG had an overdraft position in its operating account with HSBC. The Company also held accounts at four other financial institutions and the Receiver has contacted these banks to arrange for a transfer of any remaining cash balances.

2) Accounts Receivable

Of the total accounts receivable of \$1.6 million, the Receiver estimates that approximately \$560k is uncollectable, \$475k of which is owed from related companies or non-arms length customers.

Since all of the Company's assets were subject to HSBC's security, no assets vested in the Trustee.

Realization Strategy

1. Prior to the receivership, Asset Engineering Corporation ("AEC") had been engaged by the Company to liquidate the *rk* inventory. Upon its appointment, the Receiver continued to engage the services of AEC in this regard. It is anticipated that AEC will complete its liquidation of the *rk* inventory by the end of February.
2. Given the lack of interest from any prospective going concern purchasers, the high monthly rent for Metropolitan and Birchmount, and the anticipated low proceeds of realization from the sale of the Company's inventory and fixed assets, in an effort to minimize costs, the Receiver retained a liquidator who could move quickly to sell the assets of WSG and allow it to vacate the two locations as soon as possible. The Receiver solicited and subsequently accepted a proposal from AEC to sell the contents of Metropolitan and Birchmount.

AEC commenced its engagement on February 11, 2009 and on February 19, 2009 an auction was held at Metropolitan and Birchmount. As at the date of this report, substantially all of the Company's inventory, equipment and fixed assets, have now been sold.

3. The Receiver is in the process of soliciting proposals from commercial real estate brokers to list the 2721 Markham Road property.
4. The Receiver continues to pursue the collection of WSG's outstanding accounts receivable.

LEGAL OPINION

The Trustee requested and received a written legal opinion from Aird & Berlis LLP dated February 10, 2009 with respect to the validity and enforceability of the security registered by the Bank. The opinion received indicates that the Bank's security is valid and enforceable as against the Trustee.

SUMMARY OF PROVABLE CLAIMS

The Trustee is not aware of any material changes in the nature of liabilities from that shown on the creditors' list circulated with the notice of the First Meeting of Creditors.

	<u>Claims Per Statement of Affairs</u>	<u>Claims Received To February 22, 2009</u>
Secured	\$8,297,382	\$2,329,794
Preferred	NIL	NIL
Unsecured	\$2,097,562	577,456
Total	\$10,394,944	\$2,907,250

SECURED CREDITORS AND TRUST CLAIMS

The following creditors appear to have a registered security interest against the assets, property and undertaking of the Company:

1528885 Ontario Inc.	\$1,433,334
1607332 Ontario Ltd.	1,433,334
1607333 Ontario Ltd.	1,433,334
Business Development Bank of Canada	Unknown
Chrysler Financial	Unknown
HSBC Bank Canada	2,329,794
Rainbow Stitch	1,667,586
Total	\$8,297,382

Claims that may rank in priority to the Bank's security include the claim of Canada Revenue Agency ("CRA") with respect to employee source deductions and employee wage claims pursuant to S.81.4 of the *Bankruptcy & Insolvency Act*. The claim of CRA is estimated at \$16,084 while the S.81.4 employee claims have yet to be determined at the time of this report.

LEGAL PROCEEDINGS

The Trustee is not involved in any legal proceedings at this time.

ASSET REALIZATION AND PROJECTED DISTRIBUTION

The Trustee is of the view that the proceeds of realization from the Company's assets will not exceed the secured claims against those assets and the costs of the receivership administration. Consequently, it is expected that there will be no funds available for distribution to the unsecured creditors of the estate.

REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

Based on the information available to date, the Trustee has not identified any reviewable transactions or preferential payments that warrant further investigation by the Trustee.

TRUSTEE'S FEES

The Receiver has agreed to pay for the reasonable professional fees and disbursements of Deloitte & Touche Inc. for the administration of the bankruptcy estate.

Dated at Toronto, in the Province of Ontario, this 22ND day of February, 2009.

DELOITTE & TOUCHE INC.

In its capacity as Trustee of the Estate of
Wing Son Garments Ltd, a bankrupt,
and not in its personal capacity



Robert J. Bougie, CA • CIRP
Senior Vice President