

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF YATSEN GROUP OF COMPANIES INC., SAR REAL ESTATE INC. AND
THE COMPANIES LISTED IN APPENDIX "A"

**FOURTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.**

JULY 16, 2021

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APPENDICES

Appendix A – List of Additional Applicant Companies

1.0 INTRODUCTION

- 1.1 On January 25, 2021 (the “**Filing Date**”), Yatsen Group of Companies Inc. (“**YGC**”), SAR Real Estate Inc. (“**SAR Real Estate**”) and the 35 companies listed in **Appendix “A”** (collectively, the “**Applicants**”¹) obtained an initial order (the “**Initial Order**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The proceedings are referred to herein as the “**CCAA Proceedings**”.
- 1.2 Alvarez & Marsal Canada Inc. (“**A&M**”), in its capacity as Monitor, filed the Pre-Filing Report of the Monitor (the “**Pre-Filing Report**”) prior to the commencement of the CCAA Proceedings. The Monitor has also filed the First Report of the Monitor dated January 29, 2021 (the “**First Report**”), the Second Report of the Monitor dated March 22, 2021 (the “**Second Report**”) and the Third Report of the Monitor dated June 18, 2021 (the “**Third Report**”). These reports and other Court-filed documents in the CCAA Proceedings are available on the Monitor’s case website at www.alvarezandmarsal.com/YatsenGroup (the “**Case Website**”).
- 1.3 The Initial Order, among other things appointed A&M as monitor of the Applicants (in such capacity, the “**Monitor**”), granted an initial stay of proceedings against the Applicants (the “**Stay Period**”), granted the DIP Lenders’ Charge, and authorized and empowered the Monitor to act as the foreign representative of the Applicants and to apply for foreign

¹ YGC and two of the other Applicants are incorporated under the laws of Ontario. The remaining Applicants are incorporated in the United States. As described in the Third Report, SJ Yorktown Food Inc. is no longer an Applicant in the CCAA Proceedings.

recognition of these proceedings in the United States pursuant to Chapter 15 of the United States Bankruptcy Code (the “**Chapter 15 Case**”)².

- 1.4 On February 2, 2021, the Court granted the Amended and Restated Initial Order which modified the Initial Order in certain respects, including, among other things, extending the Stay Period and increasing the DIP Lenders’ Charge up to a maximum of \$5 million. As described in section 5.0 of the Second Report, on February 24, 2021, the United States Bankruptcy Court for the District of Delaware (the “**US Court**”) entered an order (the “**Chapter 15 Recognition Order**”) enforcing the Initial Order, including any extensions, amendments or modifications thereto, in the United States on a final basis, recognizing the CCAA Proceedings as a foreign main proceeding.
- 1.5 The Stay Period was extended by the Court on March 29, 2021 and further on June 25, 2021, when among other things, the Court extended the Stay Period to July 30, 2021.
- 1.6 Each of the Applicants are directly or indirectly owned by Yatsen Group Inc. (“**YGI**”), a wholly owned subsidiary of Edjar International Inc. (“**EII**” and together with its direct and indirect subsidiaries, the “**Company**”). At the commencement of the CCAA proceedings, the Company operated approximately 226 Japanese quick service restaurants across the United States, of which 188 are leased directly by Applicants. YGI’s head offices are located in Markham, Ontario.
- 1.7 The CCAA Proceedings were commenced by the Applicants to stabilize their business and to allow them to pursue a restructuring plan that includes: (i) continuing discussions with

² All documents filed in the Chapter 15 Case are available at <https://cases.primeclerk.com/yatsen/>.

landlords in an effort to obtain sustainable lease amendments; and (ii) the termination of leases in respect of unsustainable locations and those locations where the Applicants cannot reach satisfactory consensual go-forward arrangements with landlords. As described in the Third Report, during the CCAA Proceedings the Applicants have issued notices of disclaimer in respect of 30 leases and three related storage rental agreements.

1.8 The purpose of this report (the “**Fourth Report**”) is to provide the Court with information, and where applicable, the Monitor’s views on:

- (i) updates regarding the CCAA Proceedings and the Chapter 15 Case since the date of the Third Report (June 18, 2021);
- (ii) the Applicants’ motion for an order (the “**Stay Extension Order**”), which, among other things, provides for an extension of the Stay Period to August 31, 2021;
- (iii) the cash flow results of the Applicants for the four-week period ended July 11, 2021;
- (iv) activities of the Monitor since the date of the Third Report; and
- (v) the Monitor’s conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Fourth Report, A&M, in its capacity as Monitor, has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Company and has held discussions with the Company’s

management and its legal and financial advisors (collectively, the “**Information**”). Except as otherwise described in this Fourth Report:

- (i) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the *Chartered Professional Accountants Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- (ii) some of the information referred to in this Fourth Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

2.2 Future oriented financial information referred to in this Fourth Report was prepared based on the Company’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

2.3 This Fourth Report should be read in conjunction with the affidavit of Joseph McCullagh sworn on July 15, 2021 (the “**Fifth McCullagh Affidavit**”) for additional background and other information regarding the Applicants. Capitalized terms used and not defined in this Fourth Report have the meanings given to them in the Pre-Filing Report, First Report,

Second Report, Third Report (collectively, the “**Prior Reports**”) or the Fifth McCullagh Affidavit, as applicable.

- 2.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars (“**CAD**”).

3.0 UPDATE SINCE THE DATE OF THE THIRD REPORT

Continuing Landlord Discussions

- 3.1 The Applicants, with the assistance of their advisors and in consultation with the Monitor, continue to advance negotiations with landlords in an effort to reach satisfactory consensual lease amendments and to address the lease arrears outstanding. As of the date of this Fourth Report, the Applicants have made significant progress in this regard such that a number of lease amendments have been executed or negotiations have sufficiently advanced such that executable agreements are anticipated in the near term. Given the sensitive stage of the ongoing discussions with landlords, coupled with the commercial sensitivities associated with agreements executed to date, further details in this regard are not included in this Fourth Report; however, the Monitor is satisfied with the Applicants’ ongoing progress with landlords and intends to provide additional reporting with respect to same at the appropriate time.
- 3.2 As further described in the Fifth Affidavit, as the Applicants continue discussions with a number of the remaining landlords, they are seeking a 30-day extension of the Stay Period to August 31, 2021 to attempt to complete negotiations and execute satisfactory lease amendments with certain of the landlords.

Rent Payments

- 3.3 As described in the Pre-Filing Report, consistent with past practice, rent obligations of the Applicants are being paid directly to landlords on their behalf by applicable Individual Opcos and franchisees (as described further in the Pre-Filing Report).
- 3.4 The Monitor has confirmed with the Applicants that rent relating to the period after the Filing Date, including most recently July rents, continue to be paid by Individual Opcos on behalf of the Applicants for ongoing leases.
- 3.5 The Monitor also continues to hold the US\$3.1 million Rent Reserve, representing approximately one month's aggregate rent obligation, to provide additional comfort to landlords that rents will be paid during the CCAA Proceedings. No draws on the Rent Reserve have been necessary.

4.0 CASH FLOW RESULTS RELATIVE TO FORECAST

- 4.1 Actual receipts and disbursements for the period from June 14 to July 11, 2021 (the “**Reporting Period**”), as compared to the cash flow forecast attached as Appendix “C” to the Third Report, are summarized in the following table:

Cash Flow Results, as at July 11, 2021		<i>CAD in \$millions</i>	
	Actual	Budget	Variance
Receipts	\$ -	\$ -	\$ -
Disbursements			
Professional Fees	(0.4)	(0.7)	0.3
Net Cash Flow	(\$0.4)	(\$0.7)	\$0.3
Cumulative draw on DIP Facility (incl. accrued interest)	\$2.0	\$2.3	\$0.3

4.2 During the Reporting Period, the Applicants incurred a positive net cash flow variance of approximately \$300,000 relative to forecast as professional fees were lower than projected.

4.3 As at July 11, 2021, the Applicants' borrowings under the DIP Facility, including accrued interest, were approximately \$2.0 million.

5.0 EXTENSION OF THE STAY PERIOD

5.1 Pursuant to the Stay Extension Order, the current Stay Period expires on July 30, 2021. The Applicants are seeking a 30-day extension of the Stay Period to and including August 31, 2021.

5.2 The Monitor supports the requested extension to the Stay Period for the following reasons:

- (i) as described above, the Monitor understands that the Applicants are in advanced stages of negotiations with landlords representing a significant number of their leases, and the extension will provide the Applicants with the necessary time to execute additional lease amendments, or alternatively issue lease disclaimer notices, with a view to finalizing a restructuring plan in the near term;
- (ii) the Applicants have sufficient liquidity through the requested extended Stay Period;
and
- (iii) the Applicants continue to act in good faith and with due diligence in their efforts to advance the CCAA Proceedings.

6.0 MONITOR'S ACTIVITIES SINCE THE DATE OF THE THIRD REPORT

6.1 In addition to those activities described above, the activities of the Monitor from the date of the Third Report have also included the following:

- (i) participating in regular discussions with the Applicants and their legal counsel and advisors regarding the CCAA Proceedings, including in connection with ongoing discussions and negotiations with landlords;
- (ii) together with its legal counsel, reviewing and commenting on draft lease amendment agreements;
- (iii) participating in weekly update calls with Hilco Real Estate, LLC to discuss the status of landlord negotiations;
- (iv) working with the Monitor's US counsel, Young Conaway Stargatt & Taylor, LLP, and other counsel involved in the Chapter 15 Case;
- (v) continuing to assist the Applicants with communications related to the CCAA Proceedings and the Chapter 15 Case, including updating the Case Website with Court-filed documents;
- (vi) monitoring the Applicants' cash flow relative to forecast; and
- (vii) with the assistance of legal counsel, preparing this Fourth Report.

7.0 CONCLUSIONS AND RECOMMENDATIONS

7.1 For the reasons set out in this Fourth Report, the Monitor respectfully recommends that the Court grant the relief requested by the Applicants.

All of which is respectfully submitted to the Court this 16th day of July, 2021.

**Alvarez & Marsal Canada Inc., in its capacity as
Monitor of Yatsen Group of Companies Inc.,
SAR Real Estate Inc. and the Companies listed in Appendix “A”,
and not in its personal or corporate capacity**

Per: _____

Alan J. Hutchens
Senior Vice-President

APPENDIX A
LIST OF ADDITIONAL APPLICANT COMPANIES

1. HEAP Japanese Food Inc.
2. KB Wisconsin Food Inc.
3. MT Security Square Food Inc.
4. SAR Buckland Food Inc.
5. SAR Coastland Food Inc.
6. SAR Coventry Food Inc.
7. SAR Dulles Expo Center Inc.
8. SAR First Colony Food Inc.
9. SAR Glenbrook Food Inc.
10. SAR Greenbrier Food Inc.
11. SAR Laurel Food Inc.
12. SAR Lloyd Food Inc.
13. SAR Oglethorpe Food Inc.
14. SAR Orange Park Food Inc.
15. SAR Oviedo Food Inc.
16. SAR Park Place Food Inc.
17. SAR Plymouth Food Inc.
18. SAR Ramsey Food Inc.
19. SAR Santa Rosa Food Inc.
20. SAR Security Square Food Inc.
21. SAR St. Charles Food Inc.
22. SAR Stafford Food Inc.
23. SAR Superstition Springs Food Inc.
24. SAR Tanforan Food Inc.
25. SAR Valley Plaza Food Inc.
26. SAR Westgate Massachusetts Food Inc.
27. SAR Willowbrook Food Inc.
28. SJ Arsenal Inc.
29. SJ Boynton Inc.
30. SJ Fox Run Inc.
31. SJ Lenox Food Inc.
32. SJ Macon Food Inc.
33. SJ Rosspark Food Inc.
34. SJ Savannah Food Inc.
35. SJ South Hills Food Inc.

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF YATSEN
GROUP OF COMPANIES INC., SAR REAL ESTATE INC. AND THE COMPANIES
LISTED IN APPENDIX “A”**

Court File No.: CV-21-00655505-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
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Proceeding commenced at Toronto

FOURTH REPORT OF THE MONITOR

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