

**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 SCHEDULE "A"**

Applicants

**AFFIDAVIT OF JOSEPH MCCULLAGH**  
(sworn September 10, 2021)

I, Joseph McCullagh, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY:**

**I. INTRODUCTION**

1. I am the President of Yatsen Group of Companies Inc. ("**YGC**"), one of the Applicants in these proceedings, and the President and Co-Chief Executive Officer of Yatsen Group Inc. ("**YGI**"), the parent company of YGC. YGI is not an Applicant in these proceedings.

2. I have been the President and Co-Chief Executive Officer of YGI since September 2019, and the President of YGC since January 2021. I have been engaged in discussions and negotiations surrounding the proposed restructuring of YGC, SAR Real Estate Inc. and the companies listed on Schedule "A" hereto (collectively, the "**Applicants**"). I have knowledge of the matters deposed to herein, and where I have relied upon other sources of information, I have stated the source of that information and believe such information to be true. The Applicants do not waive or intend to waive any applicable privilege by any statement herein.

3. This affidavit is sworn as a supplement (the “**Supplemental Affidavit**”) to my affidavit sworn September 1, 2021 (the “**September 1 Affidavit**”) in support of a motion by the Applicants for an Order (the “**Sanction Order**”), substantially in the form attached as Tab 2 of the Applicants’ Motion Record, among other things:

- (a) sanctioning the Applicants’ Plan of Compromise and Arrangement dated September 9, 2021 (as it may be amended, modified, varied and/or supplemented in accordance with its terms, the “**Plan**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”);
- (b) terminating these CCAA proceedings (the “**CCAA Proceedings**”) and discharging Alvarez & Marsal Canada Inc. as monitor of the Applicants in the CCAA Proceedings (the “**Monitor**”), effective on the Plan Implementation Date (as defined in the Plan), subject to authorizing the Monitor to complete its remaining duties and responsibilities in connection with the implementation of the Plan and the resolution of any remaining disputed claims pursuant to the Claims Procedure Order; and
- (c) extending the Stay Period (as defined in the Amended and Restated Initial Order) to and including the earlier of (i) the Plan Implementation Date, and (ii) October 30, 2021.

4. As discussed in the September 1 Affidavit, the Plan is the result of the Applicants’ extensive discussions and negotiations with landlords over an extended period of time with a view to achieving consensual arrangements with such landlords in respect of their rent arrears

claims and amendments to go-forward lease terms. The Affected Landlord Creditors are the only affected creditors under the proposed Plan, pursuant to which (if implemented) the Affected Landlord Creditors would receive upon implementation of the Plan a cash payment equal to 50% of their allowed Affected Landlord Claims in full and final satisfaction of such Affected Landlord Claims.

5. The Plan has received overwhelming support from the Affected Landlord Creditors. On September 9, 2021, in accordance with the Meeting Order, the Affected Landlord Creditors had the opportunity to vote on the Plan at the virtual Creditors' Meeting, at which Affected Landlord Creditors with Affected Landlord Claims representing approximately 99.3% of the aggregate number of Affected Landlord Claims and approximately 99.5% of the aggregate value of Affected Landlord Claims that voted (in person or by proxy) at the Creditors' Meeting, voted in favour of the Resolution to approve the Plan.

6. For the reasons set forth in the September 1 Affidavit, the Applicants believe that the Plan is fair and reasonable, and it has achieved the approval of the Required Majorities at the Creditors' Meeting pursuant to the Meeting Order. Accordingly, the Applicants respectfully request that this Court approve the Plan and grant the other relief requested in the proposed Sanction Order.

7. Capitalized terms used in this Supplemental Affidavit that are not otherwise defined herein have the meaning given to them in the September 1 Affidavit or the Plan. Unless otherwise indicated in this affidavit, all dollar amounts expressed herein are in Canadian currency.

## **II. CLAIMS PROCESS**

8. The Applicants, with the assistance of the Monitor, are carrying out the Claims Process in accordance with the terms of the Claims Procedure Order. An update with respect to the Claims Process up until September 1, 2021, is included in my September 1 Affidavit.

9. As at the swearing of the September 1 Affidavit, the Claims Bar Date had not yet expired. Following the September 1 Affidavit, in addition to the two Notices of Dispute of Claim referenced in my September 1 Affidavit, four additional Notices of Dispute of Claim were received by the Monitor. The Applicants and the Monitor, are reviewing the Notices of Dispute of Claim and will work to resolve or otherwise address the Disputed Claims in accordance with the Claims Procedure Order.

10. Additionally, since the signing of one of the Supporting Landlord Agreements with one of the Supporting Landlords, the Applicants were advised by the Supporting Landlord that two of the leased properties listed in such Supporting Landlord Agreement are no longer managed and operated by such Supporting Landlord, with one property having entered receivership, and a second property having been transferred to another management company. On September 3, 2021, the Monitor issued Claims Packages to the receiver or management company, as applicable, adding the respective properties to their Claims Packages. Those properties were then removed from the Claims Package of the subject Supporting Landlord.

11. In aggregate, approximately 169 Affected Landlord Claims equal to approximately \$29.8 million have been resolved, either pursuant to Supporting Landlord Agreements, Affected Landlords being deemed to have accepted their Affected Landlord Claim as set forth in their Notice of Claim pursuant to the Claims Procedure Order, or otherwise

consensually resolved pursuant to the Claims Process. As at the date hereof, there remain 3 Disputed Claims to be resolved pursuant to the Claims Process, and the Applicants are working with counsel to those claimants in an effort to resolve them.

12. I understand that no D&O Claims were filed with the Monitor pursuant to the Claims Procedure Order.

13. The Applicants, in consultation with the Monitor, are continuing to diligently pursue all steps and requirements in connection with the Claims Process pursuant to the Claims Procedure Order.

### **III. THE MEETING**

14. The Meeting Order authorized the Applicants to convene a meeting of the Affected Landlord Creditors to consider and vote on the Plan.

15. Pursuant to the Meeting Order, the Creditors' Meeting was held on September 9, 2021, at 10:00 a.m., virtually by means of an electronic facility using a third-party service provider, Lumi, due to the ongoing COVID-19 pandemic.

16. In accordance with the Meeting Order, the only Persons entitled to vote at the Creditors' Meeting were Affected Landlord Creditors with Voting Claims or Disputed Voting Claims (each an "**Eligible Voting Creditor**"). The only Persons entitled to attend or submit questions at the Creditors' Meeting were representatives of the Applicants and their legal counsel and advisors, representatives of the Monitor and its legal counsel, and the Eligible Voting Creditors, or their duly appointed proxyholders entitled to vote at the Creditors' Meeting pursuant to the Meeting Order, and their respective legal counsel and advisors.

17. I am advised by Goodmans LLP, counsel to the Applicants (“**Goodmans**”), that the quorum requirement for the Creditors’ Meeting was satisfied, and that the chair of the Creditors’ Meeting declared that the Creditors’ Meeting was properly constituted.

18. I am advised by Goodmans that the Required Majorities voted in favour of the Resolution to approve the Plan. According to the Monitor’s tabulation, the following Voting Claims were voted at the Creditors’ Meeting:

	<b>% of the Aggregate Value of Voting Claims voted (in proxy of in person) at the Creditors Meeting</b>	<b>% of the Aggregate Number of Voting Claims voted (in proxy of in person) at the Creditors Meeting</b>
<b>Voted in Favour of the Plan</b>	99.5%	99.3%
<b>Voted Against the Plan</b>	0.5%	0.7%

19. No Affected Landlord Creditor with a disputed claim submitted a proxy or attended the meeting, so there were no Disputed Voting Claims to tabulate.

20. I understand that the Monitor will be providing an overview of the conduct and results of the Creditors’ Meeting in the Sixth Report of the Monitor to be filed in respect of the Applicants’ motion.

#### **IV. CONCLUSION**

21. As discussed in greater detail in my September 1 Affidavit, the Applicants believe that the Plan achieves the best available outcome for the Applicants and their stakeholders in the circumstances, will provide final resolution to the significant outstanding Affected Landlord Claims, and will allow the Applicants to complete these CCAA Proceedings with the benefit of

amended lease arrangements on more sustainable go-forward terms. If implemented, the Plan will achieve a global restructuring and resolution of the Applicants' unsustainable lease obligations.


22. The Plan is supported by the Monitor and has obtained overwhelming support by the Affected Landlord Creditors at the Creditors' Meeting. The Applicants are working diligently and in good faith to complete their restructuring efforts.

23. For the reasons set out herein and in my September 1 Affidavit, the Applicants respectfully request that this Court grant the requested relief pursuant to the proposed Sanction Order.

SWORN before me over  
videoconference by Joseph McCullagh  
stated as being located in the City of  
Toronto in the Province of Ontario,  
before me at the City of Toronto in the  
Province of Ontario, on September 10,  
2021, in accordance with O. Reg  
431/20, Administering Oath or  
Declaration Remotely



A Commissioner for taking affidavits

  
**JOSEPH MCCULLAGH**

## **SCHEDULE “A”**

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.

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

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COMMERCIAL LIST**

Proceeding commenced at Toronto

**AFFIDAVIT OF JOSEPH MCCULLAGH  
(sworn September 10, 2021)**

**Goodmans LLP**

Barristers & Solicitors  
333 Bay Street, Suite 3400  
Toronto, ON M5H 2S7

**L. Joseph Latham** LSO#: 32326A  
jlatham@goodmans.ca

**Caroline Descours** LSO#: 58251A  
cdescours@goodmans.ca

**Trish Barrett** LSO#: 77904U  
tbarrett@goodmans.ca

Tel: (416) 979-2211

Fax: (416) 979-1234

Lawyers for the Applicants