

Estate: 35-123180
Court : 35-123180

In the Matter of Bankruptcy of
3550184 Canada Ltd.
O/A Home Fashion Market
of the City of Cambridge In the province of Ontario

Report on the Official Receiver section 161 Examination

History

The corporation filed an assignment on April 27, 2007 with BDO Dunwoody Limited. The individual examined, Stanley Jonathon West, was a director of 3550184 Canada Ltd. The corporation was a furniture store and was begun in 1992. The director advised that he became aware of an accounting problem which had inflated their profit margin. When the error was discovered they took steps to correct the problem. The corporation came up with a plan to close the two "high-end" or luxury furniture stores as they were not turning a profit. It was decided to concentrate their efforts on the "Furniture Direct" stores which were marginally profitable. The director also advised that the corporation was behind in its payment of Source Deductions to Canada Revenue Agency (CRA) but that a payment plan was in place and it was being honoured. CRA was not comfortable with the downsizing plan and on the advice of the corporation's lawyer the director consulted BDO Dunwoody regarding a formal proposal. CRA was consulted regarding the proposal and they informed the trustee that they would not vote positively for the proposal. The director stated that while these negotiations were taking place CRA had taken steps to seize the operating accounts of the corporation and that in his opinion this action forced the filing of the assignment in bankruptcy.

Assets

The director noted that the warehouse equipment was not list on the statement of affairs. This equipment is made up of fork-lifts and like equipment and was disclosed to the trustee. The director is aware that this equipment is under the care and control of the trustee but felt that it should have been listed on the Statement of Affairs. It may be included under the vehicle heading but the director felt that this was not a proper description. The director expressed his concern regarding floor models that were sold to customers but had not been delivered. It was his hope that these customers would receive their goods from the trustee.

Debts Owing to Creditors

The director was questioned regarding the corporations's policy of requesting a down-payment of 25% of the purchase price. The director stated that this is an industry standard and that most furniture stores require this as a down-payment. When asked if this had always been this corporations's policy he replied that it had been this way since the stores started in 1992. When asked about the policy of financing through HSBC the director replied that HSBC provided the

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training, equipment and method of use that was to be followed when a customer chose to use the finance option. HSBC considered the sale to be complete when the transaction had received their approval and the funds were then transferred to the corporation from HSBC and the customers loan was created. The director stated that all sales staff were to offer customers the option of paying by cash, credit card or financing through HSBC.



Glenn Schmid
Official Receiver

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FORM 28

Questions To Be Put to an Officer of the Bankrupt
Corporation, or a designated person, by the Official Receiver
(Sections 159 and 161 of the Act)

Instructions to Official Receiver

The following questions, or questions to a like effect, are to be put to the person examined under section 159 by the official receiver. The questions should be expanded or supplemented by the official receiver in an endeavour to extract from the examination the maximum of essential information and to determine as nearly as possible the true cause of the bankruptcy, the disposition of the property and the conduct of the bankrupt corporation. The books, statements, etc., of the bankrupt corporation should be available to the official receiver for reference or for the purpose of a more detailed examination of any phase of the corporation's business or conduct which the official receiver may deem warranted.

1. Are you an officer of the corporation referred to in these proceedings?

Yes - Director

2. Have you been made aware of your duties pursuant to sections 158 and 159 of the Act?

Yes - given list of duties by Official Receiver.

3. What is your full name and what position do you hold in the corporation?

Stanley Jonathon West .. Director

4. What is the full name of the corporation and what is the address of its head office?

3550184 Canada Ltd. 255 Holiday Inn Drive
Cambridge Ont.

5. When and under what Act of Parliament or of a province was it incorporated?

Federal Act;

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6. What is the authorized capital of the corporation?

Privately held shares. Amount unknown at this time.

7. What amount of the capital has been subscribed and what amount of subscribed capital has been paid in full?

100% Shareholder Ella - Marie West

8. What amount of the capital was paid in cash and what was the consideration for any other issue of the share capital?

Cash paid in was 100% cash investment.

9. Did the corporation have a share register containing particulars of the allotment, issue and transfer of all shares?

Share register held in minute book held at
Lawyer - Larene Welch.

10. Does it disclose the amount paid, whether by cash or otherwise, on each share of the corporation?

Yes.

11. What is the total amount, if any, unpaid on the shares of the corporation and by whom is that amount owing?

No.

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12. What are the names of the principal shareholders?

Ella - Marie West

13. What are the names of the directors and officers of the corporation?

No - Single Director.

14. Has the corporation any wholly-owned subsidiary corporations? If so, give particulars.

No.

15. Has the bankrupt corporation or any of its subsidiaries ever been in bankruptcy before or made a proposal or arrangement with the creditors?

No.

16. When did the corporation commence business?

August 1992

17. What was the nature of its business?

Furniture Sales

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18. Was a proper set of books kept, and are they up to date?

Proper books were kept and were up-to-date.

19. Were the books audited annually?

Books were reviewed annually.

20. What is the name of the auditor and when was the last statement drawn up?

David Webb CA. from Collins Barrow; Late fall of 2006

21. Have all proper returns been made to the various government departments requiring them?

GST returns were up-to-date and filed.

PST returns were up-to-date and filed.

Source Reductions were up-to-date and filed.

22. When did the corporation first become aware of its insolvency?

January - February 2007 realized that they could not support all locations. Plans were made to down-size locations

23. Did the corporation continue to carry on business and contract liabilities after it became aware of its insolvency?

Business continued as usual while plans were being made to reorganize and down-size operations.

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24. Did the corporation make any payments, return any goods, deliver any property or give security to any of its creditors during the 3 months before the date of the initial bankruptcy event or since it became aware of its insolvency, except in the ordinary course of business? If so, give particulars.

~~No~~ One freight-carrier, Dejong, cut credit amount so that they had to be paid as bills submitted.
No other supplier asked for or received extraordinary payments or security.

25. Did the corporation, within the 12 months before the date of the initial bankruptcy event,

(a) execute any bill of sale or chattel mortgage or pledge any of its property?

One new vendor, Brayhill, received security ^(GSA) when new account was opened, this was done as part of new sales agreement.

(b) sell, dispose of or remove any of its property, except in the ordinary course of trade? If so, give particulars.

No.

26. Did the corporation make or was it a party to any settlement of property within the 5 years before the date of the initial bankruptcy event? If so, give particulars.

No.

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27. What are the causes of the bankruptcy of the corporation?

Seizure of bank accounts by CRA. kept
company from being able to function
financially.

28. What were the sales for the past 3 years and what percentage of the sales represented the profit or mark-up?

2004	\$4.8 million	40%	margin
2005	\$4.5 million	"	
2006	\$8.0 million	"	

29. When did the corporation last show a profit?

Small profit 2004, Break-even 2005.

30. Did the corporation, within the last twelve months pay a cash dividend or redeem any of its shares, notes, debentures, or any other long-term liabilities? If so, when and for what amounts?

No.

31. What was the total amount of salary and expenses for the officers and directors of the corporation during the twelve months prior to the initial bankruptcy event?

Was not drawing a salary from this company

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32. Did you personally keep track of the corporation's financial position?

Yes, through monthly financial statements.

33. Are you involved as director, officer or manager in any other business or corporation? If yes, give details.

Yes Director of 2031581 O.A. Ltd.

34. In the last 12 months prior to the date of the initial bankruptcy event, has the corporation entered into any transactions with the following persons:

(1) Employees, officers or directors

No

(2) An individual related to any employee, officer or director of the corporation

No.

(3) Another corporation, in which you or any of the persons mentioned in 1 or 2 above, or any individual related to them, had a financial interest?

No.

35. Did the corporation have any creditors or customers who fall within questions number 34(1), (2) or (3) above? If yes, give details.

No

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36. Were all sales made just prior to bankruptcy recorded?

Yes.

37. Was the corporation selling at a normal markup just prior to bankruptcy? If not, give details.

Yes.

38. Have you ever been involved as an officer in a corporation which has previously gone bankrupt? If so, give details.

Yes. 1992 was one of 6 shareholders of a manufacturing operation that went bankrupt, was also an officer.

39. At the date of bankruptcy, were there any orders previously accepted but unfilled? If so, what has been the disposition of these orders?

Yes; Still remain outstanding. approx. (approx. \$1.5 million in s

40. Does the Corporation have any other assets other than those shown on the Statement of Affairs, or are any assets held in trust by anyone for the Corporation?

or ~~to~~. It was noticed by Mr. West that the warehouse equipment was not listed on the statement of affairs. To his knowledge this equipment is under the care and control of the trustee.

SC

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41. What Banks or other Financial Institutions did the Corporation use for banking purposes?

Royal Bank

42. Were all business receipts deposited in these bank accounts?

Yes

43. Were all goods and services provided by the creditors solely for the corporate use and not for use by an officer, Director, or other person/business?

No

44. Have any other assets been disposed of or seized in the year prior to the date of the initial bankruptcy event other than as already disclosed?

No

45. How do you account for the deficiency created by the business? Example: How or where were the major losses incurred?

Business suffered a substantial loss in 2006.
A receiving error was made in regards to freight, custom
duty on goods, was not noticed for 18 months.
Leasehold improvements were substantial.

1. What was the company policy in receiving customer deposits for orders (i.e. percentage required on ordering)?

Policy was a requirement for a minimum of 25% ~~deposit~~ of full price for down-payment.

2. Did the company increase the required deposit percentage in recent years?

No. Policy has always been the same.

3. What is the common percentage deposit required by the industry?

Majority of stores use this policy.

SW

4. Over the years what was the company policy to process financing applications for purchases (re: HSBC)?

Training to process applications and use HSBC point-of-sale terminals and software was all provided by HSBC. This form of financing was provided as an option to customers.

5. HSBC has confirmed more than 350 individuals who have not received furniture but funds were advanced. Why did you submit applications to HSBC before delivery of furniture?

This was the method of sales used by HSBC. The HSBC product acted as a point-of-sale terminal with immediate processing, ~~and~~ authorization and approval. This was ~~not~~ the method set-up by HSBC.

SC