

**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"

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

JULY 29, 2021

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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**”), the Third Report of the Monitor dated June 18, 2021 (the “**Third Report**”) and the Fourth Report of the Monitor dated July 16, 2021 (the “**Fourth 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 and July 21, 2021, when among other things, the Court extended the Stay Period to August 31, 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.

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

- 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 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, the Applicants have issued notices of disclaimer in respect of 30 leases and three related storage rental agreements. Six disclaimers have been rescinded by agreement of the applicable landlord and Applicant.
- 1.8 The purpose of this report (the “**Fifth Report**”) is to provide the Court with information, and where applicable, the Monitor’s views on:
- (i) the Applicants’ proposed Claims Procedure Order (also referred to as the “**Claims Process**”);
 - (ii) the Applicants’ proposed Plan of Compromise and Arrangement (the “**Plan**”);
 - (iii) the Applicants’ proposed Meeting Order, which among other things;
 - (a) authorizes the Applicants to conduct a meeting of the Affected Landlord Creditors (defined below) to consider and vote on a resolution to approve the Plan (the “**Creditors’ Meeting**”), and approves the procedures to be followed with respect to the Creditors’ Meeting; and
 - (b) extends the Stay Period to September 30, 2021;
 - (iv) the cash flow results of the Applicants for the two-week period ended July 25, 2021;

- (v) the Applicants' updated cash flow forecast for the 10-week period ending October 3, 2021;
- (vi) other updates regarding the CCAA Proceedings and the Chapter 15 Case since the date of the Fourth Report (July 16, 2021);
- (vii) activities of the Monitor since the date of the Fourth Report; and
- (viii) the Monitor's conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Fifth 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 Fifth 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 Fifth 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 Fifth 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 Fifth Report should be read in conjunction with the affidavit of Joseph McCullagh sworn on July 29, 2021 (the "**Sixth McCullagh Affidavit**") for additional background and other information regarding the Applicants. Capitalized terms used and not defined in this Fifth Report have the meanings given to them in the Pre-Filing Report, First Report, Second Report, Third Report, Fourth Report (collectively, the "**Prior Reports**") or the Sixth McCullagh Affidavit, as applicable.

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

3.0 UPDATE ON LANDLORD DISCUSSIONS

3.1 As described in the Sixth McCullagh Affidavit, the Applicants have successfully entered into agreements (the "**Supporting Landlord Agreements**") with certain of their landlords (the "**Supporting Landlords**"), whereby the Supporting Landlords have each agreed:

- (i) to the amount of their respective claim for voting and distribution purposes in connection with the Plan;
- (ii) to vote for and support the proposed Plan; and
- (iii) where applicable, to certain go-forward amendments to the terms of their lease arrangements.

3.2 The Monitor understands that discussions are continuing with certain other landlords and that there may be additional Supporting Landlord Agreements reached before the date that this motion is heard, in which case the Applicants will provide a further update to the Court.

3.3 As summarized in the following table, the Supporting Landlords are estimated to represent approximately 66.6% of the aggregate estimated Affected Landlord Claims³:

Summary of Estimated Affected Landlord Claims					<i>(USD in millions)</i>
	# of Claimants	# of Leases	# of Leases Disclaimed ⁴	Est. Affected Landlord Claims ³	% of aggregate estimated Affected Landlord Claims
Supporting Landlords	100	110	13	\$ 20.3	66.6%
Remaining Landlords ³	71	78	11	\$ 10.2	33.4%
Total	171	188	24	\$ 30.5	100%

3.4 As discussed in further detail below, the Applicants, in consultation with the Monitor and taking into account the discussions and negotiations held with their landlords to date, have

³ Affected Landlord Claims included in the table above consist of: (i) the actual claims amounts pursuant to the Supporting Landlords Agreements; and (ii) estimated claim amounts owing to the Remaining Landlords (defined below) in connection with: (a) pre-filing lease arrears; and (b) damage claims arising from lease disclaimers, calculated as the equivalent of four months' rent, where both (a) and (b) are based on the books and records of the Applicants. No other claims amounts are currently anticipated by the Applicants.

⁴ Excludes leases for which disclaimers were rescinded.

developed the Plan which, among other things, provides for the payment of 50% of each Affected Landlord Creditor's allowed claim amount.

3.5 The claims of the Supporting Landlords will be as agreed to pursuant to the Supporting Landlord Agreements and will not be subject to the Claims Process, and accordingly Supporting Landlords need not submit any claim forms.

3.6 The proposed Claims Process is intended to determine the claims of those landlords that have not entered into a Supporting Landlord Agreement with one or more of the Applicants prior to the date of the Claims Procedure Order (the "**Remaining Landlords**").

4.0 PROPOSED CLAIMS PROCEDURE ORDER

Overview

4.1 Capitalized terms utilized in this section and not otherwise defined herein have the meaning given to them in the Claims Procedure Order, a copy of which is attached as Tab 2 of the Motion Record of the Applicants.

4.2 Key Dates of the Claims Process are set out below:

Proposed or Estimated Date	Activity
On or about August 4, 2021	Claims Package and Creditors' Meeting materials to be posted to the Case Website
On or about August 5, 2021	Claims Packages to be sent to Affected Landlord Creditors (other than the Supporting Landlords) and the Information Package and a copy of the Plan sent to all Affected Landlord Creditors
10:00 a.m. August 23, 2021	Hearing before the US Court to seek recognition of the Claims Procedure Order and the Meeting Order under the Chapter 15 Case
5:00 p.m. on September 1, 2021	Claims Bar Date to submit a Notice of Dispute of Claim and D&O Proofs of Claim
5:00 p.m. on the later of the Claims Bar Date or seven business days after any future lease disclaimer	Restructuring Period Claims Bar Date for Affected Landlord Creditors with a Restructuring Period Claim to submit a Notice of Dispute of Claim to the Monitor
5:00 p.m. on September 7, 2021	Deadline to submit Proxy in respect of the Creditors' Meeting

Proposed or Estimated Date	Activity
10:00 a.m. on September 9, 2021	Creditors' Meeting
Such date in September 2021 after the Creditors' Meeting as the Court may set	Sanction Hearing to seek Sanction Order to approve the Plan
Such date in September 2021 after the Sanction Hearing as the US Court may set	Hearing before the US Court to seek recognition of the Sanction Order under the Chapter 15 Case
By the end of September 2021	Plan implementation (if Plan is approved)
September 30, 2021	Stay Period expiry date (as contemplated in proposed Meeting Order)

Claims

4.3 As set out in greater detail in the Claims Procedure Order, the Monitor, on behalf of the Applicants, will solicit the following claims:

- (i) *Affected Landlord Claims*: any right or claim of any Remaining Landlord against the Applicants in connection with any indebtedness, liability or obligation of any kind whatsoever that was in existence on the Filing Date;
- (ii) *Restructuring Period Claims*: any right or claim of any Remaining Landlord arising out of the restructuring, disclaimer, resiliation, termination or breach by the Applicants on or after the Filing Date of any contract, lease or other agreement whether written or oral; and
- (iii) *D&O Claims*: any right or claim that may be asserted by any Remaining Landlord against one or more of the Directors and/or Officers of the Applicants, however arising, whereby such Director or Officer is by law or equity, liable to pay in his or her capacity as a Director or Officer.

4.4 The Claims Procedure Order does not apply to the following (collectively, the “**Unaffected Claims**”):

- (i) Claims entitled to the benefit of Charges under the Initial Order, including the DIP Lender's Charge;

- (ii) Claims enumerated in sections 5.1(2) and 19(2) of the CCAA;
- (iii) equity claims enumerated in section 2(1) of the CCAA;
- (iv) any Claims in respect of Post-Filing Lease Payments;
- (v) any Claims pursuant to any guarantees provided by YGC in respect of obligations of any non-Applicants;
- (vi) any intercompany claims within the Company; and
- (vii) any Claims by any Person that is not a Landlord, including the secured claim of Wells Fargo.

4.5 In addition, as noted above, the claims of the Supporting Landlords will be as agreed to pursuant to the Supporting Landlord Agreements and will not be subject to the Claims Process, and accordingly Supporting Landlords need not submit any claim forms with respect to their agreed claim amounts.

Claims Bar Date

4.6 As described in the Sixth McCullagh Affidavit, the proposed Claims Process employs a “negative notice claims process” pursuant to which the Monitor will distribute Claims Packages to each of the Remaining Landlords and the Notice of Claim form will be pre-populated with their total claim amounts based on the books and records of the Applicants, as follows:

- (i) *Affected Landlord Claims*: based on the lease arrears owing as at the Filing Date; and
- (ii) *Restructuring Period Claims*: based on estimated damages from lease disclaimers, calculated as the equivalent of four months’ rent.

- 4.7 If any Remaining Landlord wishes to dispute their Affected Landlord Claim as set out in its Notice of Claim form, the Remaining Landlord must deliver a Notice of Dispute of Claim to the Monitor prior to 5:00 p.m. Toronto Time on September 1, 2021 (the “**Claims Bar Date**”).
- 4.8 If any Remaining Landlord wishes to dispute their Restructuring Period Claim as set out in its Notice of Claim form, the Remaining Landlord must deliver a Notice of Dispute of Claim to the Monitor prior to the later of: (i) the Claims Bar Date; and (ii) the date that is seven business days after the date of any future lease disclaimer (the “**Restructuring Period Claims Bar Date**”). In the event that any of the Applicants determine it necessary to disclaim additional leases, a Notice of Claim shall be sent to the applicable landlord which will include a pre-populated Restructuring Period Claim amount based on the books and records of the Applicants.
- 4.9 The proposed Claims Procedure Order provides that any Remaining Landlords asserting D&O Claims will be required to file a D&O Proof of Claim with the Monitor by 5:00 p.m. on the Claims Bar Date.
- 4.10 The Monitor believes that the Claims Bar Date and the Restructuring Period Claims Bar Date are reasonable in that they provide sufficient time from the date of this motion (or alternatively the date of any future lease disclaimer) for the Remaining Landlords to evaluate their Affected Landlord Claim, any Restructuring Period Claim and any Claim they may have against the Applicants’ Directors and Officers.

Notice

4.11 The proposed Claims Procedure Order provides that the Monitor will do the following in providing notice of the Claims Process:

- (i) as soon as practicable after the granting of the Claims Procedure Order, post a copy of the Claims Package, the D&O Instruction Letter and the D&O Proof of Claim to the Case Website;
- (ii) as soon as practicable after the granting of the Claims Procedure Order, send a Claims Package to each of the Affected Landlord Creditors (other than the Existing Allowed Landlord Creditors) which shall include pre-populated claim amounts as determined by the books and records of the Applicants; and
- (iii) provide a Claims Package to any Landlord that requests documents or information relating to the Claims Process prior to the Claims Bar Date, or if the Applicants or the Monitor become aware of any further claims, the Monitor shall take the steps that are considered appropriate to provide such Landlord with a Claims Package.

4.12 As described in the Sixth McCullagh Affidavit, the Applicants do not have any employees, and do not have other suppliers or creditors other than their landlords. Furthermore, the Claims Process is intended to only apply in respect of claims by the Remaining Landlords against the Applicants and the Directors and Officers. As such, the Monitor understands that the Applicants do not anticipate that there will be any unknown claimants coming forward in the Claims Process.

Assessment and Determination of Claims

- 4.13 The proposed Claims Procedure Order provides that the Monitor and the Applicants will review all Notices of Dispute of Claim received on or before the Claims Bar Date or the Restructuring Period Claims Bar Date, as applicable. If the Applicants, with the assistance of the Monitor, are unable to resolve the applicable disputed claim (whether for voting and/or distribution purposes), the Applicants must notify the Monitor and the Remaining Landlord, and any such disputed claim shall be referred to the Court or a Claims Officer for resolution, or to such alternative dispute resolution as may be ordered by the Court or as agreed to by the Monitor, the Applicants and the applicable Remaining Landlord.
- 4.14 The proposed Claims Procedure Order provides that the Applicants, with the assistance of the Monitor, shall review all D&O Proofs of Claim received from Remaining Landlords by the Claims Bar Date and shall accept, revise or reject each D&O Claim set out therein. The Monitor must notify each Remaining Landlord who has delivered a D&O Proof of Claim by the Claims Bar Date as to whether the applicable claim has been revised or rejected, and the reasons therefor, by sending a D&O Notice of Revision or Disallowance. The Claims Procedure Order provides that any Remaining Landlord who wishes to dispute a D&O Notice of Revision or Disallowance must deliver a D&O Notice of Dispute of Revision or Disallowance to the Monitor, with a copy to the Applicants, by 5:00 p.m. on the date that is five business days after the date of delivery of the applicable D&O Notice of Revision or Disallowance.
- 4.15 In the event that the Applicants, with the assistance of the Monitor and the consent of the applicable D&Os, are unable to resolve a dispute regarding a D&O Claim with the Remaining Landlord asserting such D&O Claim, the Claims Procedure Order requires that

the Applicants so notify the Monitor and such Remaining Landlord, and that the Disputed D&O Claim be referred to the Court or a Claims Officer for resolution, or to such alternative dispute resolution as may be ordered by the Court or as agreed to by the Monitor, the Applicants and the applicable Remaining Landlord.

Claims Officer

- 4.16 The proposed Claims Procedure Order provides for the appointment of a Claims Officer in the event that a disputed claim is unable to be resolved by the Applicant, in consultation with the Monitor, and the landlord. If the appointment of a Claims Officer becomes necessary, the Applicant may apply to the court for an Order appointing a Claims Officer to resolve the disputed claim.
- 4.17 The Claims Officer will review and determine the validity and amount of disputed claims in accordance with the terms of the Claims Procedure Order and, to the extent necessary, may determine whether any claim or part thereof constitutes an Unaffected Claim. The Claims Officer will determine all procedural matters which may arise in respect of their determination of such matters, including the manner in which any evidence may be adduced and to what extent and on whose account the costs of any hearing before the Claims Officer shall be paid.
- 4.18 Claims officers are commonly used in CCAA proceedings in order to expedite the resolution of disputed claims in a cost-effective manner. The Monitor views the use of a claims officer if necessary in the present proceedings as appropriate in order to advance the Claims Process and the CCAA Proceedings.

5.0 PLAN OF COMPROMISE AND ARRANGEMENT

5.1 Capitalized terms utilized in this section and not otherwise defined herein have the meaning given to them in the Plan, a copy of which is attached as Exhibit "A" to the Sixth McCullagh Affidavit.

5.2 Readers are cautioned that the commentary below is an overview only, and, as such, interested parties should review the Plan in its entirety and should consider obtaining legal advice in connection therewith.

Overview of the Plan

5.3 The Sixth McCullagh Affidavit describes the Plan in detail. Certain key matters with respect to the Plan have been summarized below:

- (i) the Plan has the strong support of the Supporting Landlords, representing approximately 66.6% of the estimated Affected Landlord Claims in value, and approximately 58.5% in number;
- (ii) the Plan provides for the payment of 50% of each Affected Landlord Creditor's allowed claim amount;
- (iii) Affected Landlord Creditors' claims have either already been (or prior to the Claims Procedure Order date will have been) agreed to pursuant to a Supporting Landlord Agreement or will be finally determined pursuant to the Claims Process described above;
- (iv) the only Persons entitled to vote on the Plan at the Creditors' Meeting are Affected Landlord Creditors, subject to the terms of the proposed Meeting Order;

- (v) on or soon after the Plan Implementation Date, the Applicants intend to:
 - (a) pay to each Affected Landlord Creditor its Distribution Amount, being equal to 50% of the amount of its Allowed Distribution Claim(s); and
 - (b) pay to the Monitor, in trust, an amount equal to 50% of the aggregate gross amount of any Disputed Distribution Claims (the “**Aggregate Disputed Claims Potential Payable Amount**”) to be held in reserve for such claim amounts;
- (vi) following the payment of the Distribution Amounts in respect of the Allowed Distribution Claims, such claims will be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred;
- (vii) following the resolution of any Disputed Distribution Claim, the Monitor shall release from the reserve the amount necessary to pay the Distribution Amount in respect of such landlord’s Allowed Distribution Claim and shall remit any balance related to such dispute to the Applicants (or as may be directed by the Applicants);
- (viii) based on the Applicants’ books and records, it is estimated that the total expected distribution amounts will be approximately US\$15.3 million. The Company has provided the Monitor with confidential information that shows, to the satisfaction of the Monitor, that the Individual Opcos (as described in the Pre-Filing Report) have sufficient cash on hand to fund the distributions under the Plan and will be pre-funding approximately US\$16 million in a specified bank account with Wells Fargo for use only in connection with the implementation of the Plan;

- (ix) the Plan provides for full and final releases in favour of the Applicants, the Directors and the Officers, the Monitor, the Monitor's counsel, the Company Advisors, and each and every present and former affiliate, subsidiary, director, officer, member, partner, employee, auditor, financial advisor, legal counsel and agent of any of the foregoing Persons; and
- (x) any Non-Barred D&O Claims and Non-Released D&O Claims shall not be compromised, provided that any Person having such a claim shall be limited to recovery solely from the proceeds of the applicable Insurance Policies.

5.4 If approved, sanctioned and implemented, the Plan provides:

- (i) for a full and final compromise, settlement and payment of all Affected Landlord Claims; and
- (ii) for a successful global restructuring and resolution of the Applicants' lease obligations.

Review for Potential Preferences and Transfers at Undervalue

5.5 Section 36.1 of the CCAA provides that Section 95 to 101 of the *Bankruptcy and Insolvency Act* (the "**BIA**") apply to proceedings under the CCAA. Pursuant to these sections, a court may, on application by the Monitor under the CCAA, declare preference transactions and transfer at undervalue (collectively, a "**Preference Transaction**") to be void as against the Monitor or, in the case of transfer at undervalue, order any party to (or privy to) the transfer to pay the difference in value between the consideration received by the debtor and the value given by the debtor.

- 5.6 As described in the Pre-Filing Report the Applicants do not have any employees and other than its landlords do not have any other creditors. The only financial transactions the Applicants are party to are transactions that consist of rent obligations pursuant to leases and corresponding transactions that are recorded when rent is paid on behalf of the Applicants directly by Individual Opcos and franchisees.
- 5.7 In order to conduct a review for potential Preference Transactions, the Monitor obtained the internal unaudited financial statements for each of the Applicants for the fiscal years ended December 31, 2020 and December 31, 2019 (the “**Financial Statements**”). Based on its review of the Financial Statements (and as confirmed by Management), the Monitor notes that the only transactions recorded in the Financial Statements relate to these rent transactions. The Monitor also notes that the Applicants do not generate any cash nor do they hold any cash balances or other realizable assets (other than YGC which occasionally holds a negligible cash balance, which was nil on the Filing Date).
- 5.8 Based on the review of the Financial Statements and general understanding of the operational structure of the Company, the Monitor is satisfied that there are no transactions that would constitute a Preference Transaction.

Bankruptcy Analysis

- 5.9 Pursuant to section 23(1)(i) of the CCAA, the Monitor is to advise the Court on the reasonableness and fairness of any compromise or arrangement that is proposed between the Applicants and its creditors. In considering the fairness and reasonableness of the Plan, the Monitor considered a comparison of the treatment of Affected Landlord Creditors’

claims under the Plan against the treatment of those claims under the alternative to the Plan, which, in the circumstances, would be bankruptcy proceedings under the BIA.

5.10 As described above, the Applicants do not hold cash or other realizable assets. For this reason, the Monitor is of the belief that distributions to Affected Landlord Creditors in bankruptcy proceedings of the Applicants would be materially less than the recovery that Affected Landlord Creditors will receive under the Plan. The 50% recovery that Affected Landlord Creditors will receive under the Plan is substantially favourable compared to bankruptcy and accordingly the Monitor is of the view the Plan is fair and reasonable.

6.0 MEETING ORDER

6.1 The Applicants, in consultation with the Monitor, have prepared a proposed procedure for the Creditors' Meeting, and are seeking the Court's approval of the contemplated procedures, in the form of the Meeting Order. The Monitor views such procedures, including the terms for giving notice of the Creditors' Meeting, as appropriate in the circumstances in these CCAA Proceedings.

6.2 Capitalized terms utilized in this section and not otherwise defined herein have the meaning given to them in the Meeting Order, a copy of which is attached as Tab 3 to the Motion Record of the Applicants.

6.3 The Meeting Order contemplates a meeting of a single class of Affected Landlord Creditors, the Affected Landlord Creditors Class, to consider and vote on the Plan. Subject to the Meeting Order being approved, the Creditors' Meeting is proposed to be held

virtually on September 9, 2021 at 10:00 a.m. Toronto Time. The Creditors' Meeting will be chaired by the Monitor or its representative.

Notice of Creditors' Meeting

6.4 Following the granting of the Meeting Order, the Monitor will send to each Affected Landlord Creditor (or representative counsel):

- (i) the Information Package (consisting of the Notice of Meeting, the Proxy and the form of Resolution);
- (ii) the Plan; and
- (iii) a personal meeting identification number to access the Creditors' Meeting by electronic means (each, a "**Personal Meeting Identifier**").

6.5 The Monitor will also post the Information Package, the Plan and the Meeting Order to the Case Website.

6.6 As described in the Sixth McCullagh Affidavit, the Applicants do not propose to issue any newspaper notices in connection with the Meeting Order of the Creditors' Meeting as they are of the view that all of the Affected Landlord Creditors entitled to participate at the Creditors' Meeting are known to the Applicants and will be provided with the notice described above.

6.7 As contemplated in the Meeting Order, the Monitor will serve a report with the Court after the Creditors' Meeting (but prior to the Sanction Hearing) with respect to the results of the votes at the Creditors' Meeting.

Amendments to the Plan

- 6.8 The Meeting Order provides that the Applicants, with the consent of the Monitor, may make and file modifications, restatements, amendments or supplements to the Plan (each, a “**Plan Modification**”) prior to or at the Creditors’ Meeting prior to a vote being taken. Any such Plan Modification will be deemed to form part of and be incorporated into the Plan.
- 6.9 The Applicants may effect a Plan Modification after the Creditors’ Meeting: (i) pursuant to an Order of the Court; or (ii) where such Plan Modification is of an administrative nature required to better give effect to the implementation of the Plan or to cure any errors, omissions or ambiguities, and in either event is not materially adverse to the financial or economic interests of the Affected Landlord Creditors.
- 6.10 Where a Plan Modification is made prior to the Creditors’ Meeting, the Applicants will provide notice to the Service List. Where a Plan Modification is made prior to a vote at the Creditors’ Meeting, the Applicants will give notice to those Affected Landlord Creditors present in person or by Proxy. The Monitor will post notice of a Plan Modification to the Case Website forthwith in all cases.

Procedure for Creditors’ Meeting

- 6.11 The Meeting Order provides that a representative of the Monitor, to be designated by the Monitor, will serve as the chair of the Creditors’ Meeting and, subject to any further Order of the Court, will decide all matters relating to the conduct of the Creditors’ Meeting. The Monitor may appoint scrutineers for the supervision and tabulation of attendance at,

quorum at, and votes cast at the Creditors' Meeting, and a person designated by the Monitor will act as secretary at the Creditors' Meeting.

- 6.12 The only Person entitled to attend or speak at the Creditors' Meeting are 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 respective duly appointed proxyholder) and their legal counsel and advisors. The Meeting Order also provides that the Chair may admit any other Person to the Creditors' Meeting by invitation.
- 6.13 The Applicants, the Monitor or the Chair is authorized to adjourn, postpone or otherwise reschedule the Creditors' Meeting from time to time as they may deem necessary or desirable. Written notice of any adjournment or postponement to the Service List and, if the adjournment is made during the Creditors' Meeting, announcement by the Chair shall constitute sufficient notice of the adjournment or postponement.
- 6.14 The quorum for the Creditors' Meeting will be one Affected Landlord Creditor with a Voting Claim present at such meeting in person or by Proxy.

Voting at the Creditors' Meeting

- 6.15 The Meeting Order provides that the Chair will direct a vote on the Resolution to approve the Plan, with any amendments or modifications thereto made in accordance with the Plan, the Meeting Order, and any further Order of the Court.
- 6.16 Each Affected Landlord Creditor with a Voting Claim or a Disputed Voting Claim will be entitled to one vote as a member of the Affected Landlord Creditors Class.

6.17 The Monitor will keep separate records of votes cast in respect of Voting Claims and Disputed Voting Claim (if applicable) and following the votes at the Creditors' Meeting will determine whether the Plan has been accepted by the Affected Landlord Creditors pursuant to section 6 of the CCAA.

Voting by Proxy

6.18 Any Person entitled to vote at the Creditors' Meeting may do so in person or by proxy. The Meeting Order provides that any Proxy must be received by the Monitor by 5:00 p.m. Toronto time at least two business days prior to the Creditors' Meeting and in substantially the form attached as Schedule "C" to the Meeting Order.

6.19 In the absence of specific instruction to vote for or against the approval of the Resolution in a duly signed and delivered Proxy, the Meeting Order provides that the Proxy will be deemed to include the instruction to vote for the approval of the Resolution, provided that the Proxy-holder does not otherwise exercise its right to vote at the Creditors' Meeting.

Transfers or Assignments of Claims

6.20 An Affected Landlord Creditor may transfer or assign the whole of its claim prior to the Creditors' Meeting by providing notice of such transfer or assignment, together with satisfactory evidence of such transfer or assignment to the Monitor, by no later than five Business Days prior to the Creditors' Meeting. The Monitor and the Applicants will not recognize partial transfers of assignment of Affected Landlord Claims.

6.21 An Affected Landlord Creditor may transfer or assign the whole of its Affected Landlord Claim after the Creditors' Meeting in the manner set out in the Meeting Order and as described above.

Extension of the Stay Period

6.22 Pursuant to the Stay Extension Order dated July 21, 2021, the current Stay Period expires on August 31, 2021. The Applicants are seeking an extension of the Stay Period to and including September 30, 2021.

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

- (i) the extension will provide the Applicants with the necessary time to implement the Claims Process and hold the Creditors' Meeting;
- (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.

7.0 CASH FLOW RESULTS RELATIVE TO FORECAST

7.1 Actual receipts and disbursements for the period from July 12 to July 25, 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 25, 2021	CAD in \$millions		
	Actual	Budget	Variance
Receipts	\$ -	\$ -	\$ -
Disbursements			
Professional Fees	(0.2)	(0.2)	0.0
Net Cash Flow	(\$0.2)	(\$0.2)	\$0.0
Cumulative draw on DIP Facility (incl. accrued interest)	\$2.1	\$2.1	\$0.0

7.2 During the Reporting Period, the Applicants incurred a net cash flow variance of approximately nil relative to forecast.

7.3 As at July 25, 2021, the Applicants' borrowings under the DIP Facility, including accrued interest, were approximately \$2.1 million.

8.0 UPDATED AND EXTENDED CASH FLOW FORECAST

8.1 The Applicants have prepared an updated and extended cash flow forecast (the "**Updated Forecast**") for the 10-week period from July 26 to October 3, 2021 (the "**Cash Flow Period**"). A copy of the Updated Forecast, together with a summary of assumptions is attached hereto as **Appendix "B"**. A summary of the Updated Forecast is provided in the following table:

Cash Flow Forecast	CAD in \$millions
Receipts	\$ -
Disbursements	
Professional Fees	(1.4)
Net Cash Flow	(\$1.4)
Cumulative draw on DIP Facility (incl. accrued interest) as at October 3, 2021	\$3.5

8.2 The Monitor notes the following with respect to the Updated Forecast:

- (i) as at the date of this Fifth Report, the Applicants have a negligible cash balance, which will not change during the course of the CCAA Proceedings as funds will be drawn on an “as-needed” basis from the DIP Facility to pay professional fees as the proceedings advance;
- (ii) other than professional fees, the Applicants do not have any other cash flow activity forecast during the Cash Flow Period; and
- (iii) as described in the Prior Reports, consistent with past practice, all rent obligations owing by the Applicants during the CCAA Proceedings are to be paid directly by the Individual Opcos and franchisees pursuant to the occupancy agreements or subleases.

9.0 OTHER UPDATES

9.1 As described in the Pre-Filing Report, consistent with past practice, rent obligations of the Applicants are being paid directly to landlords on the Applicants’ behalf by applicable Individual Opcos and franchisees (as described further in the Pre-Filing Report).

9.2 The Monitor has confirmed with the Applicants that rent relating to the period after the Filing Date, including most recently July rents, continues to be paid by Individual Opcos on behalf of the Applicants for ongoing leases.

9.3 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.

10.0 MONITOR'S ACTIVITIES SINCE THE DATE OF THE FOURTH REPORT

10.1 In addition to those activities described above, the activities of the Monitor from the date of the Fourth 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 various of the Applicants' lease amendment agreements;
- (iii) together with its legal counsel, working with the Applicants to develop the proposed Claims Procedure Order, Meeting Order and the Plan;
- (iv) participating in weekly update calls with Hilco Real Estate, LLC to discuss progress being made with landlords;
- (v) working with the Monitor's US counsel, Young Conaway Stargatt & Taylor, LLP, and other counsel involved in the Chapter 15 Case;
- (vi) continuing to assist the Applicants with communications related to the CCAA Proceedings and Chapter 15 Case, including updating the Case Website with Court-filed documents;
- (vii) monitoring the Applicants' cash flow; and

(viii) with the assistance of legal counsel, preparing this Fifth Report.

11.0 CONCLUSIONS AND RECOMMENDATIONS

11.1 For the reasons set out in this Fifth 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 29th 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.

APPENDIX B
CASH FLOW FORECAST

See attached.

Yatsen Group of Companies Inc., et. al.
Cash Flow Forecast
(Unaudited, in 000s CAD)

Week Ending	<i>Week 1</i> Aug 1	<i>Week 2</i> Aug 8	<i>Week 3</i> Aug 15	<i>Week 4</i> Aug 22	<i>Week 5</i> Aug 29	<i>Week 6</i> Sep 5	<i>Week 7</i> Sep 12	<i>Week 8</i> Sep 19	<i>Week 9</i> Sep 26	<i>Week 10</i> Oct 3	10 Week Total
Total Receipts	-	-	-	-	-	-	-	-	-	-	-
Disbursements											
Professional Fees	-	(254)	-	(258)	-	(258)	-	(258)	-	(366)	(1,394)
Net Cash Flow	-	(254)	-	(258)	-	(258)	-	(258)	-	(366)	(1,394)
DIP Facility											
Beginning DIP Balance	(2,124)	(2,129)	(2,383)	(2,383)	(2,641)	(2,641)	(2,905)	(2,905)	(3,163)	(3,163)	(2,124)
DIP (Advance) / Repayment	-	(254)	-	(258)	-	(258)	-	(258)	-	(366)	(1,394)
+ Accrued Interest	(5)	-	-	-	-	(6)	-	-	-	(7)	(19)
Ending DIP Balance	(2,129)	(2,383)	(2,383)	(2,641)	(2,641)	(2,905)	(2,905)	(3,163)	(3,163)	(3,537)	(3,537)

Prepared by Management. To be read in conjunction with the Notes and Summary of Assumptions.

Yatsen Group of Companies Inc., et al
10-Week Cash Flow Forecast
Notes and Summary of Assumptions

Disclaimer

In preparing this cash flow forecast (the “Forecast”), the Applicants have relied upon unaudited financial information and have not attempted to further verify the accuracy or completeness of such information. The Forecast includes assumptions discussed below with respect to the requirements and impact of a filing under the Companies’ Creditors Arrangement Act (“CCAA”). Since the Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Forecast period will vary from the Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized. The Forecast is presented in thousands of Canadian dollars.

1. Professional Fees - Includes payments to the Applicants’ Canadian and US legal counsel, CCAA Monitor, Monitor’s Canadian and US legal counsel, case management services, and legal advisors to the DIP lenders.
2. Rent - **Readers are directed to review Section 4 of the Pre-Filing Report of the Monitor.**

As described in the Pre-Filing Report, the Applicants are party to a number of leases and are contracted to make rent payments to landlords pursuant to those leases. The Applicants however have occupancy and/or sublease agreements for each of its restaurant locations with an Individual Opco or franchisee who is contractually obligated to pay the Applicants the applicable rent amount for each of the individual locations. Prior to the impacts of the COVID pandemic, these rent amounts were paid directly by the Individual Opco to the applicable landlord on behalf of the Applicants. During the CCAA Proceedings, the applicable Individual Opco or franchisees will continue to make rent payments directly to the applicable landlord, not to the Applicants who would then have to remit them to the applicable landlords. **Accordingly, rent payments have not been included in the Forecast.**

Further, in order to provide additional comfort to landlords that rents will be paid in accordance with the leases during the CCAA Proceedings, the Applicants have deposited US\$3.1 million (the “**Rent Reserve**”) representing one month of aggregate rent obligations of the Applicants pursuant to their respective leases, held in escrow by the Monitor as security to ensure the payment of such rent obligations during the CCAA Proceedings.

3. Cash and Liquidity - As at July 25, 2021, the Applicants had cash of approximately nil. The Monitor understands that all future disbursements during the CCAA Proceedings will be funded by the DIP Loan. As at July 25, 2021, the DIP Loan had an outstanding balance, including accrued interest, of approximately \$2.1 million.

**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
COMMERCIAL LIST**

Proceeding commenced at Toronto

FIFTH REPORT OF THE MONITOR

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