

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE BANKRUPTCY OF
SHEMBI INTERNATIONAL MARKETING (UNITED BLVD) INC.
dba LALJI HOME**

TRUSTEE'S REPORT TO CREDITORS

JUNE 17, 2020

BACKGROUND

This report has been prepared by The Bowra Group Inc., in its capacity as Licensed Insolvency Trustee of the bankrupt estate of Shembi International Marketing (United Blvd) Inc. (the "**Trustee**") to provide preliminary information to creditors as at June 17, 2020.

Shembi International Marketing (United Blvd) Inc. ("**Shembi**" or the "**Company**") was incorporated on January 25, 2006 in British Columbia. Shembi was doing business as Lalji Home.

The Company is a high-end furniture retailer that operated in a 28,000 square foot facility located in Coquitlam, British Columbia. Prior to the date of the bankruptcy, the Company employed approximately 8 staff.

In order to reduce costs, the Company made the chose to operate in one location and closed the 10,000 square foot warehouse in Coquitlam and the 16,000 square foot Michael Amini Gallery store in Coquitlam prior to the date of the bankruptcy.

The Company had a policy to collect 100% deposits upfront on special orders and have done so for the past 14 years. The policy was adopted to ensure that the Company is not left to inventory on the showroom floor custom-made furniture, should one or more customers change their minds on a style, or fabric, or cancel their orders altogether. These amounts were deposited into the general operating account and not into a separate trust account. Payments to manufacturers for custom furniture was not made until the furniture was delivered to the store.

Management advised the Trustee that their financial difficulties were the result of:

- a slowdown in sales in 2019;
- periodic absence of the owners to operate the business due to personal injuries sustained in numerous car accidents over the past 4 years;
- low profit margins due to the weak Canadian dollar and import tariff increases in 2019 on inventory purchased from the US and China; and,
- COVID-19 shutdown.

During 2019 and early 2020, the Company obtained secured loans of \$250,000 from Thinking Capital Financial Corporation (“**Thinking Capital**”) to inject into the operations that was personally guaranteed by the owners. In addition, over the past 18 months, the owners injected \$495,000 of personal funds into the business.

The Company’s various restructuring efforts and injection of funds were not enough for the business to continue to operate at a profit.

Due to COVID-19, the Company made the difficult decision to temporarily shutdown operations. Unfortunately, all of the restructuring efforts and COVID-19 shutdown made it difficult to re-open the business. The shareholders were not able to continue to fund operating losses and the director assigned the Company into bankruptcy on June 1, 2020. The Bowra Group Inc. was appointed Licensed Insolvency Trustee of the Company.

FINANCIAL SITUATION

The table below is a summary of the income statements for the past three years:

	For the Period March 1, 2019 to February 29, 2020	For the Period March 1, 2018 to February 28, 2019	For the Period March 1, 2017 to February 28, 2018
	\$000's		
Sales	2,332	4,579	6,156
Cost of sales	(1,176)	(2,236)	(3,245)
Gross Profit / (Loss)	1,156	2,343	2,911
Operating and Other Expenses	(1,435)	(2,402)	(2,837)
Net Income / (Loss)	(279)	(59)	74
Notes:			
(1) The financial information was prepared by management.			

CONSERVATORY AND PROTECTIVE MEASURES

The landlord of the Coquitlam facility was owed approximately \$70,000 (equivalent to 2 months rent).

To minimize the lease and other costs to the estate, the Trustee removed all of the showroom furniture located at the Coquitlam facility and moved it to an auctioneer's facility at no cost for storage. The Trustee has vacated the Coquitlam store premises.

The Company does not have any additional physical assets.

BOOKS AND RECORDS

The Trustee has taken possession of the books and records of the Company and is in the process of reviewing financial records available and obtaining additional financial information.

PRELIMINARY EVALUATION OF ASSETS

A preliminary estimate of the realizable value of the assets of the Company is summarized below:

Assets	Estimated Realization
Furniture and fixtures	250,000

The estimated realizable values above are an auctioneer's preliminary estimate before realization costs.

SECURED CREDITORS AND PRIORITY CREDITORS

The Trustee is aware of the following parties that may have priority over the claims of unsecured creditors:

Creditor	Assets Secured	Estimated Claim \$000's
Thinking Capital Financial Corporation	All property	250
Travelers Leasing Ltd.	Specific vehicle	39
Employees - WEPP	Current assets	6
CRA - Unremitted source deductions	All property	3

The Trustee has been in communications with the secured creditor, Thinking Capital. Thinking Capital has confirmed that they support the bankruptcy proceeding and will not appoint a receiver. Thinking Capital has also confirmed that the costs and fees of the administration of the bankruptcy can be deducted from the sales proceeds from the sale of the assets they have security over. The Trustee has provided all employees with individual calculations of their entitlement under the Wage Earner Protection Program ("WEPP"). Under the WEPP each employee may qualify for a maximum of seven weeks of insurable earnings of \$7,296.17.

UNSECURED CREDITORS

The Company's records indicate unsecured creditors of approximately \$890,427 at the date of filing for bankruptcy.

LEGAL ACTIONS

The Trustee is not aware of any ongoing litigation. The Trustee has not commenced or continued any actions on behalf of the Company.

REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

The Trustee has taken possession of certain books and records of the Company and is in the process of obtaining additional records and gathering additional information.

The Trustee has conducted a preliminary review of the information available and has not identified any transactions which could be regarded as preferences transactions or transfers at undervalue to date. Further investigations may be conducted which could reveal such transactions.

CONCLUSION

Based on our preliminary estimates, the realization of assets will not satisfy the claims of the secured creditors. Therefore, we believe there will be no recovery to unsecured creditors.

The Bowra Group Inc.

In its capacity as the Licensed Insolvency Trustee of the bankrupt estate of Shembi International Marketing (United Blvd) Inc., and not in its personal capacity.

Per:



Mario Mainella, CPA, CA, CIRP