



ADAMANTEM



MATUSON
ASSOCIATES

Basil Read Limited (in business rescue)

Registration number 1962/002313/06

("The Company")

January 2019

Report to the Companies and Intellectual Property Commission

and to all Affected Persons

In Terms of Section 132 (3) (a) of the Companies Act 71 of 2008

Prepared by:

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Joint Business Rescue Practitioners ("BRPs")



1. Introduction

- 1.1. The Company was placed under the supervision of the BRPs in business rescue proceedings on 15 June 2018, and the Business Rescue Plan (“the Plan”) proposed by the BRPs was approved by 99% of all creditors and 98% of independent creditors on 27 September 2018.
- 1.2. The business rescue proceedings of the Company have not been concluded within three months of the date of commencement thereof, and therefore as required, this report, being the **Fourth Update Report**, is being tabled in terms of Section 132 (3) (a) of the Companies Act 71 of 2008 (“the Act”).
- 1.3. Reference is made in this report to the Plan, it is therefore important that this report be read in conjunction with the Plan and the previous update reports.
- 1.4. Please refer to www.matusonassociates.co.za/basilread/ for further information on the business rescue proceedings of the Company.

2. Current Status

2.1. Construction Contracts

- 2.1.1. The majority of the construction contracts that the Company had at the commencement of business rescue proceedings have either been completed or have been terminated.
- 2.1.2. The following contracts remain extant -

#	Employer	Contract
1	Eskom SOC Ltd	1. Medupi Ash 2. Medupi Clarifiers 3. Medupi Coal Phase 3 4. Medupi Buildings
2	Umgeni Water	1. Rosetta
3	Gauteng Department of Infrastructure Development	1. Julius Sebolai School 2. Nokuthula School
4	Gauteng Department of Roads and Transport	1. R59 Vereeniging
5	Rand Water	1. Zuikerbosch

2.2. Contract Claims

2.2.1. The resolution and payment of contract claims remains a challenge and the process is taking longer than anticipated for the following reasons -

2.2.1.1. The procedural processes in terms of the contract provisions are time-consuming and cumbersome.

2.2.1.2. A number of claims will have to be pursued through arbitration and/or litigation, and for which the BRPs are seeking post commencement funding.

2.3. Construction Plant and Equipment

2.3.1. During December 2018, SANRAL requested the guarantors to exercise their step-in rights and provide SANRAL with alternative contractors to complete their roads contracts. SANRAL subsequently allowed the Company to remove its plants and equipment from the various SANRAL related sites.

2.3.2. As a substantial amount of the company's plant and equipment was located on construction sites, completion and/or termination of these contracts was required to take place before they could be removed and sold

2.3.3. During January 2019, the BRPs appointed a professional, independent party to assist with a comprehensive valuation and cataloguing of the construction plant and equipment on each site.

2.3.4. This report will form the basis of an asset disposal catalogue, which disposal process will commence during February 2019.

2.4. Realisation of Non-Core Assets

2.4.1. Given the current economic climate these assets, which comprise mainly three properties, are considered 'problematic' and are likely to achieve substantially less, than what was anticipated in the valuations presented at the outset of business rescue.

2.4.2. Whilst there has been some interest, there has been few committed buyers.

2.4.3. The BRPs continue to engage with interested parties and should any affected person know of or be interested in any of the properties for sale, please contact the business rescue team at basilread@matusonassociates.co.za.

3. Unforeseen Setbacks

- 3.1.** The cash flows estimated at the commencement of business rescue have been negatively impacted by an estimated amount of R700 million, arising from *inter-alia*, the following -
- 3.1.1.** Pre-business rescue advance payments, which the BRPs were not advised of in full at the commencement of business rescue;
 - 3.1.2.** Negative certificates from Employers, which resulted in anticipated cash flows not materialising in favour of the Company;
 - 3.1.3.** Costs and penalties levied by Employers, subsequent to business rescue as a consequence of PCF related delays;
 - 3.1.4.** Legal disputes resulting in significant increases in legal fees and time spent on these matters by the BRPs;
 - 3.1.5.** Non-payment of long outstanding certificates and claims by certain Employers, resulting in further costs incurred to recover the monies owed;
 - 3.1.6.** Material changes in estimated future cash flows as a consequence of the above issues and certain operational issues;
 - 3.1.7.** The Banks conversion of a contingent liability into a current liability, negatively affecting the Company's working capital and management of its banking facilities; and
 - 3.1.8.** Delays in negotiating and securing PCF, which was substantially lower than initially anticipated and further delays in the flow of the funding into the Company.

4. Post Commencement Funding ("PCF")

- 4.1.** In view of the above-mentioned setbacks, the current PCF is now insufficient.
- 4.2.** The BRPs met with the Lenders on 25 January 2019 to discuss the need for bridging finance, in order to, *inter-alia* -
- 4.2.1.** Realise maximum value from the disposal of construction plant and equipment;
 - 4.2.2.** Pursue contract claims;
 - 4.2.3.** Repay PCF creditors (including lenders, creditors and sub-contractors);
 - 4.2.4.** Pay retrenchment costs;
 - 4.2.5.** Complete / cede the remaining construction contracts;
 - 4.2.6.** Limit the call up of guarantees; and
 - 4.2.7.** Pay a dividend to pre-commencement creditors in excess of that in liquidation.
- 4.3.** The BRPs are awaiting a response from the Lenders to this request.

5. Proof of Claims

- 5.1. There remains a large number of pre-commencement creditors who have yet to submit their claims, and who are encouraged to do so.
- 5.2. Having initially set 20 November 2018 as the deadline for submission of claims the BRPs have agreed to extend this date to 28 February 2019.
- 5.3. Claim forms can be found on - www.matusonassociates.co.za/wp-content/uploads/2018/06/Claim-Form-Basil-Read.pdf

6. Estimates going forward

- 6.1. On information to date and after taking into account the abovementioned events and initiatives being undertaken, the updated estimates going forward are as follows:

Inflows	Amount (R' millions)
Realisation of Non-Core Assets and Investments	445
Contract Claims Receivable	321
Total Inflows	766
Outflows	
Staff Retrenchments	108
Other Operational Outgoings and Shortfalls	133
Post-Commencement Liabilities	377
Total Outflows	618
Amount Available for Pre-Commencement Creditors	148
Estimated Pre-Commencement Creditors	1 600
Estimated Dividend - Cents in the Rand	9 cents

In giving consideration to the above estimates, attention is drawn to the risks associated with this business rescue, as detailed in the Plan. These risks still prevail.

7. Conclusion

With reference to paragraph 4 above, provided that the requisite level of bridging finance is provided to the Company, the BRPs consider that there remains a reasonable prospect of a successful business rescue, as defined in the Companies Act.

In the event of this not being possible, attention is drawn to the following dire consequences of a liquidation -

- 7.1.** Non-payment of full retrenchment packages (limited to R28,000 per employee);
 - 7.2.** The likelihood of guarantees being called;
 - 7.3.** Contagion effect, resulting from cross-guarantees being called, on profitable business entities;
 - 7.4.** Forced sale (i.e. fire sale) values on asset disposals;
 - 7.5.** High liquidation costs applicable to asset disposals;
 - 7.6.** Protracted timelines dictated by the liquidation process; and
 - 7.7.** Minimal dividend (if any) to concurrent creditors.
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