

10 April 2023

CIRCULAR 05

THIS DOCUMENT IS A CIRCULAR TO THE AFFECTED PERSONS RELATING TO THE BUSINESS RESCUE PROCESS OF **SURFACE PREPARATIONS EQUIPMENT AND COATINGS (PTY) LTD** IN TERMS OF THE COMPANIES ACT, 71 OF 2008 AS AMENDED (THE ACT).

OUTCOME OF THE 2ND MEETING OF CREDITORS

The business rescue practitioners wish to advise all the affected parties the outcome of the 2nd meeting of creditors of **Surface Preparations Equipment and Coatings (Pty) Ltd** (Herein after referred to as "SPEC" or "The Business") - held on 5th of April 2023.

Mr Pattinson gave a brief introduction of the Business Rescue team and welcomed all of the affected persons to the meeting. It was again confirmed that the meeting is being recorded and that Mr Durandt will send out the meeting outcome via circular and will also publish same to the website.

RE-ITERATION OF THE REASONS FOR THE FINANCIAL DISTRESS:

1. **The difficulties**

a. R 6,5m in cash security demanded by a customer of the business.

b. **Options available**

i. Pay security and liquidate the business.

ii. If liquidated, security would be paid back to liquidator (disposition without value)

iii. Submit to Business Rescue and balance the rights of all affected persons.

1. Per the Companies Act and being the responsible decision made by the directors of the business.

2. All other options were considered before the decision to submit to business rescue.

c. **We will continue to seek out options to cover the security and continue to work towards profitability of the business.**

RE-ITERATION OF THE BELIEF THAT THERE IS A REASONABLE PROSPECT:

1. Restructure to Downsize business.

a. Affordability of operations.

b. In line with income of current projects.

2. Sale of assets to generate working Capital.

a. Assets not needed for current projects or planned projects.

3. Collect on connected Loan accounts.

4. This will provide sufficient income to cover the bank and creditors.

a. Will need assistance from creditors to take part in the sale of assets.

5. Worst case scenario, **BETTER OUTCOME THAN LIQUIDATION**

a. Faster Process

b. Transparent and Creditor Driven

c. Cost less than Liquidation

- d. Complete current project and continue to generate income.
- e. Save Jobs (possibly not all)
- f. Far better return to all affected persons

Based on the above and as discussed in the meeting. The practitioners confirm that they are still of the belief that a reasonable prospect of a successful business rescue does exist.

UPDATE ON THE BUSINESS RESCUE PROCESS TO DATE:

Mr Pattinson conversed with the creditors and confirmed the following important points amongst others:

1. The practitioners are currently business working with the Bank, as the bank has a cession on all book debts of the business. The practitioners are trying to secure access to the company's bank account and to request that a portion of the cession of debtors be allowed to be utilised for the continuation of business activities under the supervision of the practitioners.
 - a. The bank is amenable to such a possibility, but due processes need to be followed as was confirmed by them during this meeting. Once the valuation has been completed and all other conditions met, it seems possible that the access may be granted – we will confirm this in due time.
2. The ongoing litigation matters were mentioned, but for the fact that these matters are still ongoing, we were unable to discuss them in full – An update will be circulated once completed.
3. The various ongoing projects (as mentioned in full during the 1st meeting of Creditors) were briefly discussed as well and we would again continue to send updates to the affected persons regarding completion status etc.
4. Connected party loans – between the various SPEC Group of companies would be actively pursued and collected, letters of demand for any monies outstanding and due to SPEC will be sent out to the various entities and collection procedures followed.
5. The practitioner also mentioned the vital importance of working capital for the business to continue with its operations and the various manners in which this will be sought.
 - a. Such as the collection of the abovementioned connected party loans.
 - b. The business has some debtors, which will also actively be pursued as this will assist with cash flow.
 - c. Most importantly, the business has a large amount of assets that have recently returned from various sites around the country, which simply are not needed anymore. The assets were for previous long-term projects that have now come to a conclusion and the business no longer has any need for them.
 - i. Therefore, the business will be, systematically holding “buyers days” (Notification of types of assets and dates will be communicated).
 - ii. This will allow the business and the practitioners to sell assets in an open and fair manner, in arm's length transactions, for fair value. The explanation of how these buyer's days will work will be contained in separate circulars sent to the affected persons.
 - iii. It was not required that the practitioners request the creditors to vote on this matter, but Mr Pattinson and Mr Durandt prefer to get the creditor's input on such matters.
 1. It was confirmed that the creditors were unanimously in favour of the suggestion of these buyer's days and that the assets may be disposed of in this way.

Important Dates

Board Resolution Submitted	: 3 March 2023, (133 Protection date)
Practitioners Appointed	: 8 March 2023
1 st Meeting of Creditors	: 15 March 2023
2 nd Meeting of Creditors	: 5 April 2023

REQUEST FOR AN EXTENSION:

1. The plan is currently due to be published on the 20th of April 2023 – not having given consideration to the *dies non days* in terms of upcoming public holidays.
2. Based on the discussions had in this meeting, it is proposed that another meeting similar to this one is held on the 4th of May 2023 so that we can provide further feedback to the creditors.
3. A unanimous vote was achieved in this regard and therefore the next meeting will be on the 4th of May 2023 where a further update will be given, and further extensions be requested should it be necessary.

PROOF OF CLAIMS:

1. The practitioner confirmed that Jaco Durandt has sent out the proof of claim forms and these proof of claim forms must be completed and returned to Jaco Durandt on the prescribed document. Same is also available – along with all other documentation relating to the business rescue – on the website of the practitioner at <https://pattinson.biz/> under the “Business Rescue” tab at the top right of the page.

CLAIMS HAVE BEEN RECEIVED FROM THE FOLLOWING CREDITORS:

2. Should your name not be on the list below, this means that a claim has not been received by the practitioners and you should please submit one soonest, on the prescribed form as mentioned above.

African Overalls

Ainsworth Valves Manufacturing

Atlanta Instruments

Beka-Schreder

Bo's plant and tool hire

Busu Trading
Chapman Brothers
Clive Moore Precision Engineering
Dynamic Express Services
Energo plant & tool hire
Engeli Enterprise Development
EP Electrical Distributors
Industrial Welding Supplies & Plant Hire
Macsteel Services Centres S.A.
Neptune Engineering
Pax Stationers
Robust Engineering and Maintenance
SARS
Subtech South Africa
Turner Morris
Volkswagen Financial Services
Wesbank Fleet
Zenzele Valves Manufacturing

QUESTIONS / COMMENTS

1. A question was asked as to whether or not the practitioners could confirm receipts of the claims received – as some creditors are unsure whether their claims have been received.
 - a. The practitioners confirmed that it is extremely difficult to reply to every email received, as we simply get dozens of these per day and replying thereto becomes a practical impossibility.
 - b. It is for this exact reason that the confirmation of claims received table hereinabove has been added to this circular and will be added to all circulars going forward until the publication of the proposed business rescue plan.

2. Regarding the assets that are to be sold, a question was raised as to whether creditors would be allowed to collect assets during these buyer's days as an offset against their debts.
 - a. The practitioners confirmed that this is NOT POSSIBLE. Should the creditors be interested in any of the assets that the business is disposing of, they will need to pay for it in terms of the conditions of the buyer's days and will need to pay the full purchase price before collection.
 - b. An offset of the debt due is not possible as this will be contrary to the Companies Act in that we will be benefiting one creditor over another. Furthermore, the company's assets are also protected in terms of the Companies Act and only under certain circumstances may these be disposed of.

3. A question was raised regarding the cash flow of the business and the commitment from staff and suppliers to be able to complete ongoing projects.
 - a. It was confirmed that some key suppliers have been approached and have expressed their willingness to continue to support the business during the business rescue proceedings. Mr Pattinson also further explained the process of securing project-based financing which will allow the oversight of the projects and the funding thereof.

Should there be any further questions, comments or concerns; please do not hesitate to contact the practitioners – the details of whom reflect below.

Kind Regards

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