

6 June 2022

## CIRCULAR 07

THIS IS A CIRCULAR TO ALL THE AFFECTED PERSONS OF **SERVELEC PTY LTD** RELATING TO THE OUTCOME OF THE 3<sup>RD</sup> MEETING OF CREDITORS, HELD IN TERMS OF THE COMPANIES ACT, 71 OF 2008 AS AMENDED (THE ACT).

### OUTCOME OF THE 3<sup>RD</sup> MEETING OF CREDITORS

The business rescue practitioner wishes to advise all the affected parties the outcome of the 3<sup>rd</sup> meeting of creditors held on **31<sup>st</sup> of May 2022**.

Mr Pattinson welcomed the attendees and notified the attendees that the meeting would be recorded and a circular pertaining to the outcome of the meeting will be circulated to the affected persons.

### Statement of Profit and Loss

	Jan 2022	Feb 2022	Mar 2022	Apr 2022	Tot Actual	AVE
<b>Revenue</b>	R1 070 649,34	R4 496 107,65	R3 524 161,98	R1 878 411,35	R10 969 330,32	R2 742 332,58
<b>Cost of Sales</b>	R1 630 175,20	R3 919 980,45	R3 299 277,89	R1 638 480,16	R10 487 913,70	R2 621 978,43
<b>Gross Profit</b>	<b>-R559 525,86</b>	R576 127,20	R224 884,09	R239 931,19	R481 416,62	R120 354,16
<b>Other Income</b>	R75 535,47	R110 174,53	R45 132,70	R35 991,29	R266 833,99	R66 708,50
<b>Expense</b>	R150 228,25	R155 201,60	R193 871,40	R145 997,27	R645 298,53	R161 324,63
<b>Finance Cost</b>	R96 271,25	R86 423,28	R92 364,37	R70 096,22	R345 155,12	R86 288,78
<b>Profit Before Tax</b>	<b>-R730 489,89</b>	R444 676,85	-R16 218,98	R59 828,99	<b>-R242 203,04</b>	<b>-R60 550,76</b>

The practitioner confirmed that at the time of the meeting, the May month details were not all complete and therefore not included in the above. Going forward, the practitioner will also attempt to provide as accurately as possible, projections for these profit and loss statements.

It is clear from the above that the business does in fact turn a profit and that the only reason why this business struggles in paying its debts as and when they are due is as a result of mistakes in processes that are causing the actual losses experienced by the business.

## Creditors Information

<b>Trade Creditors</b>	: R16 m (127 Creditors/37 claims received)
Secured Claims (9)	: R 5 144 319,01
Concurrent Claims	: R 2 659 028,72
Disputed Claims	: R 3 061 650,51
(Wrong entity – not secured – amounts don't correspond – claiming for additional and "potential" debt)	

As shown above, the accounts of the company reflect roughly 127 creditors of the business. We have however, only received proof of claims from 37 of these creditors totalling R10 864 998.24. Secured and concurrent claims are as per the above table.

Disputed claims are claims that the business or the business rescue practitioners are disputing as inaccurate, incomplete or factually wrong. The reason for the disputed claims being such a high percentage for this business rescue is as a result of the interconnected companies.

Servelec is a group of companies and only Servelec Pty Ltd with registration number 1965 / 006007 / 07 is in business rescue. We have received multiple proof of claims for the interconnected companies such as Servelec Electrical Assemblies amongst others. Please confirm the registration number of the business when you submit your proof of claim as claims due by the other entities will simply not be dealt with in terms of the business rescue process of Servelec Pty Ltd.

Specific mention must also be made of the difference between Security and Surety. Many people mistake personal sureties signed by directors of the business with actual securities over assets of the business. Only actual securities will be dealt with in the business rescue process and any sureties that creditors may have must be dealt with outside of the parameters of the business rescue.

## Debtors Information

<b>Debtors</b>	
Retentions - Was	: R 2 694 566 (16 Retentions)
Retentions - Now	: R2 718 848 (18 Retentions)
Debtors	: R 3 084 486
Quotes and tenders	: R 369 357 619 (Trends no less than R 129 m)
<b>Work in Progress not invoiced</b>	: R 39 016 750 (13 Projects)
<b>Assets</b>	: R 1 049 577 (Balance sheet as at Feb 2022)

The progress on the debtor's side of the business is slightly slower than expected, also as a result of the interconnected parties and companies of the business, it complicates the matter slightly as information is difficult to come by.

As you can see there is a large amount of tenders that are out for consideration and based on the previous hit ratio of the business, we can state that the trends show we will receive a large portion of these tenders as per the projection above. None of this is of course guaranteed but based on historical data and hit ratios on previous tenders that have been done, we expect similar figures as per the above table.

There is a large amount of work in progress that has not yet been invoiced. The reason for this is that many of these projects take a long time to complete and the invoices are raised on an ongoing basis (mainly for labour related expenses as and when they arise). These projects are not invoiced once off at the start or end of the project but rather on an ongoing basis.

As per the above table, the assets of the business are valued at R1 049 577 according to the last set of annual financial statements. We have not yet compiled a detailed analysis of the assets yet, but one will be done before the drafting of the business rescue plan.

## Operational Improvements

Costing Errors in Formulas	:	Rent Reduction
Quotation process	:	Log-Books
Purchasing Control	:	Progress reports
Post Project Analysis	:	Site Visits
Sub-Contractors control	:	Operations meeting
Termination of Subcontractors	:	Human Recourses Plan (Melanie Fouche)
Stock Returned for Credit	:	Section 189 Retrenchment process
Separation of entities	:	Reorganization of Staff
Terminating loan habits	:	Salary Reduction by Directors
Reduction in Secured Debt	:	Fixed overhead control

The list of operational improvements above was discussed in the meeting, only briefly touching on each topic. The main points of focus from the practitioner were the following:

- Quotes and costing = as there is a major flaw in the way the business does its quotes and costing, the business makes a loss because of simple mistakes in calculations.
- Control of the subcontractors = allowing for Servelec to phase out certain contractors and rather do projects with their own staff thereby increasing turnover and profit, especially for those projects that are mostly labour related.
- Terminating of loan habits = the business would write off certain loans as “bad debt” but then continue to loan money to these same entities/persons who were unable to pay back original loans granted – this behaviour has come to an immediate end.
- The business has also provided staff with Section 189 retrenchment letters, not that the business intends on immediately retrenching anyone but the formality has been completed and should retrenchments become necessary, the staff are aware that it is a possibility.
- Some senior management have also taken salary reductions (approximately 24% on average) to assist the business with liquidity.
- Not all the topics listed in the table above were discussed at the meeting but should any of the creditors have questions regarding any of the operational improvements, they are welcome to contact the practitioner directly.

## **Potential Investors**

There have been 7 verifiable investors who have genuine interest in potentially investing in the future of Servelec. There have of course been many chancers who have just been trying to get information on Servelec and not genuinely interested in investing in the business.

The difficulty here is again regarding the spiderweb of interconnected parties/companies within the Servelec group. It is very difficult for an investor to accurately ascertain what they will be investing in and what they will receive for their investment.

It is therefore one of the priorities of the practitioner to investigate the spiderweb of interconnected parties and to in fact separate them to make it easier for potential investors to do an accurate due diligence. It will also allow for transactions between these companies to be done at an arm's length going forward.

## **Request for an extension**

The current due date for the publication of the business rescue plan, should an extension not be given, is the 14th of June 2022.

Based on the discussions had in this meeting, it is proposed that another meeting similar to this one is held on the 4<sup>th</sup> of July 2022 so that we can provide further feedback to assist in the drafting of a business rescue plan.

At this meeting, if required, the practitioner will ask for further extension on the publication date for the business rescue plan. Should that extension not be granted, the business rescue plan will be due for publication no later than 10 days after the meeting

A unanimous vote was achieved in this regard and therefore the next meeting will be on the 4<sup>th</sup> of July 2022 where a further update will be given.

## Questions and Comments

- How many interconnected parties/companies/individuals are there?
  - o The practitioner is aware of at least 6 interconnected parties. Many of them are on the AFS and can be noted there. There are, in the opinion of the practitioner, some of these interconnected parties that should not exist and the practitioners will deal with this accordingly.
- The SARS pre and post business rescue returns
  - o The business debt is not increasing during the business rescue process, these ongoing returns are to be paid as and when they become due. These will be paid as soon as there is funding available – the practitioner will revert to SARS
- How much of the money owed by the interconnected parties is recoverable
  - o There is approximately R10m (as per the AFS) that is due by these interconnected parties but it is the opinion of the practitioner that the recoverability of this debt is highly questionable.
  - o These loans have already been impaired/written off and therefore will make them very difficult if not impossible to recover
  - o The business continued to loan money to these parties even after loans were impaired, hence why the accountant will be approached to explain the processes followed.

All forms and circulars relating to the Business Rescue process for Servelec Pty Ltd can be accessed at <https://pattinson.biz/document-library>

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