

14 September 2022

CIRCULAR 13

THIS IS A CIRCULAR TO ALL THE AFFECTED PERSONS OF **SERVELEC PTY LTD** RELATING TO THE OUTCOME OF THE 6TH MEETING OF CREDITORS, HELD IN TERMS OF THE COMPANIES ACT, 71 OF 2008 AS AMENDED (THE ACT).

OUTCOME OF THE 6TH MEETING OF CREDITORS

The business rescue practitioner wishes to advise all the affected parties of the outcome of the 6th meeting of creditors held on **7th of September 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

Account	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	July 2022	Tot Actual
Total Revenue	1 070 649,34	4 496 107,65	3 524 161,98	1 878 411,35	2 631 324,99	1 553 518,33	2 830 652,83	17984826,47
Total Cost of Sales	1 630 175,20	3 919 980,45	3 087 413,77	1 465 651,31	1 977 374,16	1 203 393,99	2 366 379,31	15650368,19
Gross Profit	-559 525,86	576 127,20	436 748,21	412 760,04	653 950,83	350 124,34	464 273,52	2334458,28
Gross Profit %	-52%	13%	12%	22%	25%	23%	16%	13%
Total Other Income	75535,47	110174,53	46541,03	37424,36	11722,95	121191,35	15000,00	417589,69
Total Other Expense	176703,35	184368,67	395076,24	409343,60	364037,77	358854,25	411134,68	2299518,56
Total Finance Cost	96271,25	86423,28	74603,94	52916,35	52889,87	47253,84	36713,48	447072,01
Profit / (Loss) Before Tax	-R756 964,99	R415 509,78	R13 609,06	-R92 380,62	R151 496,14	-R70 718,40	R27 925,36	-R311 523,67

The practitioner confirmed that at the time of the meeting, the business is still going through the one profit, one loss cycle. This is due to the problem explained – the fact that the business is buying on COD basis and is selling on payment terms. This means that even though the business invoices more in a single month, the cash flow only becomes available 30-60 days later. Then the profits shown in the next month are used to generate new business and in turn generate more profits.

This is illustrated above by means of the months showing profit, and the next showing a loss. We are however happy to note that the months where the business is still showing a loss, that these losses have become smaller.

This is due to the implementation of various corrective measures and improvements to standard operating procedures.

Creditors Information

Position Shortly after filing for rescue (Only some adjudication done)

SUMMARY BY CREDITOR ACRONYM		Count	Amount Due	%
SC	Secured Creditors	9	R 5 144 319,01	33,09%
CC	Concurrent Creditors	32	R 7 053 932,84	45,38%
PC	Post Commencement Finance	-	R -	0,00%
D-SC	Disputed Secured Creditors	6	R 3 346 128,89	21,53%
D-CC	Disputed Concurrent Creditors	-	R -	0,00%
D-PC	Disputed Post Commencement Finance	-	R -	0,00%
TOTAL		47	R 15 544 380,74	100,00%

Position Shortly after filing for rescue (More adjudication and the decrease of the secured creditors claim shown [due to the cession])

SUMMARY BY CREDITOR ACRONYM		Count	Amount Due	%
SC	Secured Creditors	9	R 2 659 122,49	31,06%
CC	Concurrent Creditors	32	R 3 501 029,70	40,89%
PC	Post Commencement Finance	-	R -	0,00%
D-SC	Disputed Secured Creditors	6	R 2 402 083,65	28,05%
D-CC	Disputed Concurrent Creditors	-	R -	0,00%
D-PC	Disputed Post Commencement Finance	-	R -	0,00%
TOTAL		47	R 8 562 235,84	100,00%

As shown above, the original claims received against the business were in the region of R16 million, but this has been reduced to the R15 544 380.74 as above due to the scrutinization of the creditor's claims and the adjudication process.

The amount has also been further reduced as illustrated in the second image above, by the cession of funds to Standard Bank in terms of their cession agreement and therefore this cannot be construed as a prejudice in favour of one creditor.

It must also be noted that the shareholders loans have also been excluded from this list as these loans will be subordinated to the rest of the creditors claims and will not paid as part of the initial repayment schedule.

Since the Filing for Business Rescue: Debtors vs Creditors

Since the business has commenced business rescue, the creditors amount has raised by R466 246 (these are creditors who have provided post commencement funding or project-based finance) – therefore not as a result of non-payment. The worrisome element is the debtors. Since the filing for business rescue, the business has raised R4 322 802 worth of invoices for which it is still awaiting payment. This just adds to the confirmation of the fact that the business is really struggling with a cash flow problem.

The largest creditors affected by this cash flow problem is the directors of the business, who have not taken full salaries since June 2022, the practitioner has also not taken full fees since then. To be noted as well, SARS payments have not been made in full, but the practitioner is in communication with SARS to arrange repayment terms etc.

Possible Investors:

As confirmed in the previous meeting, the business is actively looking for an investor as an ordinary organic turnaround will simply take too long. One investor has officially commenced with a due diligence and others are awaiting some more information. We need to remain patient with the investors so that they are able to make an informed decision with regards to investing in the business.

Request for an extension

Based on the discussions had in this meeting, it is proposed that another meeting similar to this one is held on the 7th of November 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 business days after the meeting

A unanimous vote was achieved in this regard and therefore the next meeting will be on the 7th of November 2022 where a further update will be given.

Questions and Comments

1. A question was raised regarding access to the financial information of the business and whether this will be made available to all creditors.
 - a. The practitioner confirmed that all the financial info and projections will be contained in the proposed business rescue plan. The practitioner does not want to give away all the intellectual property of the business before publishing a rescue plan. Should any creditor want this information for the purpose of possibly investing in the business, the information will be made available subject to the signing of non-disclosure documents etc.

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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