

26 April 2022

CIRCULAR 04

THIS IS A CIRCULAR TO ALL THE AFFECTED PERSONS OF **SERVELEC PTY LTD** RELATING TO THE OUTCOME OF THE 1ST MEETING OF CREDITORS, HELD IN TERMS OF THE COMPANIES ACT, 71 OF 2008 AS AMENDED (THE ACT).
OUTCOME OF THE MEETING HELD IN TERMS OF SECTION 147 OF THE ACT

The business rescue practitioner wishes to advise all the affected parties the outcome of the 1st meeting of creditors held on **20th of April 2022**.

Mr Pattinson gave a brief introduction of the Business Rescue team and welcomed all of the affected persons to the meeting.

CONDITIONS FOR BUSINESS RESCUE

The practitioner explained the process of filing for business rescue and why a business would consider business rescue and the conditions of filing for business rescue.

1. The first question - Is the Company Financially distressed?

YES

1.1. Based on information at hand, yes, the business cannot pay its debts as and when they become due and payable, therefore it is clear that the business is in financial distress in terms of Section 128(1)(f) of the Companies Act and has filed for Business Rescue in terms of Section 129 of the Companies Act.

2. Second Question - Does a reasonable prospect of a rescue exist?

YES

2.1. Based on the information provided to the practitioner to date, the total debt of the business is about R 16m (127 creditors) however, the practitioners have at the date of the meeting only received 13 claims totalling R 7m.

2.2. Further, based on this information, the business will be in a position to cover its monthly expenses as well as service the historic debt if given the opportunity.

2.3. This is due to the fact that there is an excessive amount of money still due to the company from various debtors – this is not all bad debt, but this includes ALL debtors of the business – (approximately R 2,7m for debtors and work in progress of approximately R 39m). These amounts include, but are not limited to:

2.3.1. Retentions

2.3.2. Work in Progress not invoiced

2.3.3. Work Awarded, not started

2.3.4. Asset value of the business (R1 049 577) – as per the balance sheet of Feb 2022, detailed valuation of assets will still be done)

2.4. The combination of the above provides the practitioner with sufficient motivation to conclude that a “reasonable prospect” does exist to rehabilitate the business.

2.5. As a last and ultimate consideration, it is understood that the assets of the business could be sold in a more structured manner resulting in a better outcome to all affected parties than in immediate and traditional liquidation as required by the Companies Act and confirmed in the Carrol vs Michael Carrol judgement.

2.6. The wind down of the business is not a current consideration but was purely mentioned as an option.

2.7. A brief history of the business was given, and the shareholding of the business explained to the creditors. Servelec is in the business of constructing electrical panel boxes for a wide variety of customers.

2.8. A quick look at the business financials over the last 3 years shows a continued loss. However there has been significant decrease in the loss over the last 3 years.

3. Reason for Financial Distress

- 3.1. One of the more glaring reasons is the delay in commencement of projects as well as the fact that payments are being received late from clients.

- 3.2. Examples of each of these reasons was provided by the practitioner, the details of each matter were concealed in line with protecting the intellectual property of the company.

BUSINESS RESCUE PROCESS TO DATE

4. The Business became financially distressed and had no option, but to file for Business Rescue on the 29th of March 2022, the stamped confirmation was received back from the CIPC on even date. This is when the Section 133 protection takes effect.

5. The practitioner's applied to the CIPC for the confirmation of their appointment as the joint business rescue practitioners for this matter on the 5th of April 2022 and received confirmation of their appointment from the CIPC on the 7th of April 2022.

6. The first meeting of staff and creditors as well as the second creditors meeting, were all held on the 20th of April 2022.

FORMING A COMMITTEE

7. The Business Rescue Practitioner advised the attendees that they can form a committee of creditors in terms of section 147 of the Act.
 - 7.1. The attendees voted against this proposal.
 - 7.1.1. The business rescue practitioner will thus interact with all the creditors of the business directly.

7.2. The practitioner is however open to the formation of a creditors committee in the future.

REQUEST FOR AN EXTENSION

8. The plan is currently due to be published on the 17th of May 2022, but the practitioner has asked for an extension until 10 days after the next meeting to be held on the 31st of May 2022.

8.1. The reason for the publication date is as a result of the complexity of the business and all the connected entities, the practitioners will require ample time to consider all options before publishing a business rescue plan.

9. The practitioner confirmed that he will ask for an extension of the publication date, if needed, on a month-to-month basis, contrary to the traditional request by practitioner for extensions of up to a year at a time.

10. The practitioner will hold and preside over a creditor's meeting on a monthly basis where he will provide details of the progress made including but not limited to:

- 10.1. a basic summary of the Income and expenses
- 10.2. the costs of the business rescue to date
- 10.3. the collection of the debtor's book
- 10.4. and the stance on work in progress.

11. The practitioner will then at this meeting request an extension for a further month, should it be needed.

12. The attendees to the meeting discussed the matter and voted in favour of this proposal and agreed to have the next meeting on the 31st of May 2022.

12.1. There were 3 creditors who opposed the request for extension, but this vote did not hold sufficient voting interest to oppose the extension.

PROOF OF CLAIMS

13. 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.
14. No fixed deadline for these submissions was provided during the meeting, but the practitioner will provide this deadline once the publication date of the proposed plan is confirmed.
 - 14.1. It was stated that all proof of claims must be provided at least 5 days prior to the publication of the proposed business rescue plan, allowing sufficient time to incorporate all the details into the plan.

PROJECT BASED FINANCE

The practitioner gave a brief explanation of what project-based finance is and how it would work should any of the creditors wish to assist the business during the business rescue process.

15. The practitioner confirmed that the business is in a favourable position with projects and that if completed, could result in the successful rehabilitation of the business.
16. The practitioner did confirm however that co-operation from suppliers will be required for timeous and successful rehabilitation of the business.
17. The practitioner is aware that some suppliers are hesitant to continue supplying the business due to the absence of payment.
 - 17.1. The practitioner will however communicate with these key suppliers after the meeting to explore options available to all parties during business rescue such as:
 - 17.1.1. Post Commencement Finance
 - 17.1.2. Project Based Finance
 - 17.1.3. Additional securities and or sureties.

COMMENTS AND QUESTIONS FROM THE ATTENDEES

18. A question was raised regarding whether the business will continue to trade after the filing for business rescue.

18.1. It was confirmed that at the date of filing, all the historic debt of the business becomes “ringfenced”, allowing the business rescue process to deal with the payment thereof in the proposed business rescue plan.

19. A question was raised as to whether the short-term insurance is up to date, as well as the payments to SARS.

19.1. There is a small amount due to SARS at the filing of business rescue, this amount will form part of the business rescue process. All other statutory submissions are up to date. The short-term insurance is up to date as at the date of the meeting.

20. A creditor asked whether payments going forward would be guaranteed.

20.1. The practitioner confirmed that payments will not be guaranteed going forward, however, the Companies Act does make provision for this in that all debts that become due and payable after the filing for business rescue are due and payable in terms of the original agreements.

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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