

5 July 2022

CIRCULAR 10

THIS IS A CIRCULAR TO ALL THE AFFECTED PERSONS OF **SERVELEC PTY LTD** RELATING TO THE OUTCOME OF THE 4TH MEETING OF CREDITORS, HELD IN TERMS OF THE COMPANIES ACT, 71 OF 2008 AS AMENDED (THE ACT).

OUTCOME OF THE 4TH MEETING OF CREDITORS

The business rescue practitioner wishes to advise all the affected parties the outcome of the 4th meeting of creditors held on **4th of July 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	May 2022	Tot Actual	AVE
Revenue	R 1 070 649,34	R 4 496 107,65	R 3 524 161,98	R 1 878 411,35	R 2 631 325,99	R 13 600 655,31	R 2 720 313,06
Cost of Sales	R 1 630 175,20	R 3 919 980,45	R 3 299 277,89	R 1 638 480,16	R 2 176 339,78	R 12 671 339,78	R 2 534 320,56
Gross Profit	-R559 525,86	R 576 127,20	R 224 884,09	R 239 931,19	R 454 985,21	R 929 052,83	R 185 810,57
Other Income	R 75 535,47	R 1 101 74,53	R 45 132,70	R 35 991,29	R 11 106,00	R 277 939,99	R 55 588,00
Expense	R 1 502 228,25	R 1 552 01,60	R 1 938 71,40	R 1 459 97,27	R 240 681,79	R 878 631,31	R 175 726,26
Finance Cost	R 96 271,25	R 86 423,28	R 92 364,37	R 70 096,22	R 70 232,19	R 415 387,31	R 83 077,46
Profit Before Tax	-R730 489,89	R 444 676,85	-R 16 218,98	R 59 828,99	R 155 177,23	-R 87 025,80	-R 17 405,14

The practitioner confirmed that at the time of the meeting, the June details were not yet complete (as the meeting was too soon after month end). It was however committed that going forward, the practitioner will attempt to include at least the turnover for the most recent financial month.

There are some changes to the statement as compared to that of last month's meeting, however the changes are of a positive nature and show a more promising picture for the business.

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

Trade Creditors	: 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.

There have been NO NEW CLAIMS since the last creditors meeting.

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 considered in the business rescue process and any sureties that creditors may have must be dealt with outside of the parameters of the business rescue.

A circular will be sent out within the next few days confirming the claims we have received, from whom, and the quantum on said claims. Should your claim not be contained in the circular to be sent out, then you may contact the practitioner directly. More details and instructions will follow in that circular.

Connected Entities

As alluded to above, the business has/had multiple interconnected entities that negatively impacted the business. These interconnected companies owed Servelec money for a variety of reasons including but not limited to, loans provided, expenses being paid for by Servelec and shared employees etc.

The practitioner has since the commencement of business rescue cut off these entities and has refused to allow any further loans between the entities or continued payment of their expenses. The practitioner has also issued letters of demand for the repayment of the loans (even though these loans had been impaired).

The divorce from the connected entities and Servelec's ability to now be shown as an individual entity will make it easier for the practitioner to present to potential investors the opportunity to invest in the future of Servelec.

Organic turnaround vs Investor lead turnaround

Organic Turnaround	Investor Lead
The process takes substantially longer. There is a possibility for Servelec to go this route as the business has proven to be profitable, the implementation of new business practices will ensure that an organic turnaround is possible, it will however take some time.	This process is generally far quicker than an organic turnaround because the historic debt of the business may be settled, in part or in full, by an investor for a return stake in the business. This allows the business to immediately settle historic debt and "consolidate" its debts with a single investor who will form part of the new business structure.

Potential Investors

There have been 7 verifiable investors who have genuine interest in potentially investing in the future of Servelec.

Should the creditors be aware of any other potential investors into the business, please feel free to make contact with the practitioner directly.

Why request an Extension?

	CURRENT	% Improv.	IMP ROV EMENT	RESULT
TURNOVER	R 42 130 009,00		R 1 702 052,36	R 43 832 061,36
Nr of items	635	2,0%	13	648
Price per item	R 66 346,47	2,0%	R 1 326,93	R 67 673,40
COST OF SALES	R 32 964 388,00			R 32 951 202,24
Nr of items	635		13	648
Price per item	R 51 912,42	2,0%	R (1 038,25)	R 50 874,17
GROSS PROFIT	R 9 165 621,00		R 1 715 238,12	R 10 880 859,12
Gross profit %	21,8%			24,8%
EXPENSES	R 9 948 195,00	2,0%	R (198 963,90)	R 9 749 231,10
NET PROFIT	R (782 574,00)		R 1 914 202,02	R 1 131 628,02
Net profit %	-1,86%			2,58%

Turnover	40.08%
Expenses	-10.34%

May 2022

- 5 Projects
- Behind on 5

June 2022

- 7 Projects
- Behind on 1

The practitioner discussed the above table (the business improvement calculator). This calculator shows that should the business focus on an overall improvement across the board of approximately 2%, the business will be in a position to improve and trade itself out of financial distress (as discussed above under organic turnaround).

The practitioner also noted the positive changes with regards to the current projects of the business and made mention of the fact that the business is no longer behind on most of the projects. The business is operating at full capacity and the only delay on the single project is also outside the control of the business.

Request for an extension

The current due date for the publication of the business rescue plan, should an extension not be given, is the 18th of July 2022.

Based on the discussions had in this meeting, it is proposed that another meeting similar to this one is held on the 5th of August 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 5th of August 2022 where a further update will be given.

Questions and Comments

- Can the salaries paid be included as a separate line item on the statement of profit and loss?
 - o The practitioner has committed to separating that as a line item.
- Outstanding SARS returns were raised and discussed and the practitioner will address this as a matter of urgency.

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

Quinton Pattinson
patp@businessrescue360.co.za
082 749 6462

David Masterton
davidm@businessrescue360.co.za
082 569 3813

Jaco Durandt (Assistant)
jaco@pe-paralegal.co.za
076 773 4595