



Pembury Lifestyle Group

PEMBURY LIFESTYLE GROUP LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2013/205899/06)
("PL Group" or "the Company")
ISIN Code: ZAE000222949 JSE Code: PEM

GENERAL UPDATE ANNOUNCEMENT

Shareholders are advised that the Company has received various requests for information regarding operational, regulatory and corporate governance matters, as well as an update on the Verityhurst transaction, and accordingly an update and analysis of queries raised has been prepared and set out below:

UPDATE ON VERITYHURST

Subscription

The Verityhurst subscription of R18.9m provided for 180 000 000 shares to be issued at 10.5 cents following the lifting of the suspension. Some loan funding, interest free, is being injected or creditors' claims are being acquired. This will be capitalised in due course. R2.0m had been injected during 2020 by way of a loan by Verityhurst towards operational costs. Following a temporary halt in the inflow of funds as previously announced on SENS, Verityhurst has recommenced payments during January 2021, with R200k being injected into the Company, R100k being paid to the former auditor and R100k being paid to the controlling shareholder. Further funding will be forthcoming in February 2021, although Verityhurst is preferring funding requirements of the Company, the former auditor and the Rental Creditor above payments to the controlling shareholder in the interests of all stakeholders. See below. The Company is still waiting for the JSE ruling on the pricing of the General Authority as previously announced.

Former auditor and application for liquidation

The former auditor, Moore Stephens, was engaged on a constructive basis and agreed to halt the liquidation proceedings, with the acquisition of their claim, which payments commenced. R900k has been paid to date by Verityhurst out of R2.5m and the Board has approved the issue of 5 000 000 shares at 10.5 cents. An addendum is currently being negotiated to settle the claim and/or extend the payment timeframe. The debt will form part of the R18.9m capitalisation. The auditor has agreed to release the opening balance workings to the new auditors, which was previously a big stumbling block with the current audit. The former auditor has also provided workings to management for the 2019 audit. The Board thanks the former auditor for its assistance.

Provider of temporary classrooms to some of the schools ("Rental creditor")

Discussions are ongoing with the largest creditor of the group, for the acquisition and settlement of their claim.

Acquisition of controlling shareholders shares

Thus far, Verityhurst has only acquired 8 million of the 100 million shares that were supposed to be acquired and there is an opportunity for one or more parties, to acquire some of these shares. The Board has interest from a couple of parties, one in writing subject to a limited due diligence.

OPERATIONS

Cost cutting measures

Various cost cutting measures have been introduced and legal matters are being settled or resolved amicably. The cost cutting steps include the following:

- the disposal of PLG Retirement Villages (saving of R700k per month);
- the salaries associated with the former related parties (close to R250k per month saving);
- relocating the head office to one of the schools from October (saving of R50k per month);
- reduced legal fees (saving of more than R100k per month).
- two rental units were removed from Mellow Oaks Academy.

Operational matters

The board has held a day session with the headmasters to listen to concerns, as well as opportunities, and actions have commenced, within the constraints of the tight cash flow. This engagement has resulted in a positive attitude. Two letters from the Board have been addressed to staff and parents, communicating the board changes and some of the steps that have been taken.

Additional costs have been incurred to put proper registered security at the schools, including alarm systems, which is being implemented on a phased basis, in house marketing and HR appointments, and to get the remaining schools registered with the GDE. Also, costs will be incurred to finalise some of the property rezoning. Intercom systems will need to be purchased for the schools. Also, a number of once off costs have been or will be incurred. Refer to Properties section below.

The Company still has a historical cash deficit, which is in the process of being addressed, primarily in order to transfer properties acquired into the books of PLG and settle the major creditors as mentioned earlier.

Credit Intel has been appointed to collect the old debtors' book – some R10m is due from leavers, handed over, etc. Around R6m is owed by current learners. The Board is reaching out to parents and collections are improving.

Headmasters, staff, pupils and parents are apparently much happier with the changes and actions being taken, albeit slow.

Education standards have been maintained at a high level. Some learners and teachers that previously left the school have returned, for example at Mellow Oaks. Class sizes remain small between 4 to 20 pupils. Online learning has also been provided and discussions are underway to expand this offering as a growth strategy. Health and safety standards have been maintained and the COVID-19 requirements are in place.

With the appointment of a new marketing and IT person, the marketing initiatives of the schools has improved, with a higher number of hits on the website, which is resulting in growth in pupil numbers. The schools are still enrolling new pupils with further enquiries being received. Schools opened on schedule on 1 February 2021, with online learning also being provided, where needed.

School registrations

The full board met with representatives from the Gauteng Department of Education ("GDE"), who have assisted with the resubmission of the applications of 3 schools for registration in 2021. Four schools are registered with the GDE and the 3 remaining schools have been inspected and registration will be given, subject to tax clearances, which is being worked on and is a priority. However, engagement with SARS has been problematic due to an ongoing problem with the tax profile. The various submissions have been brought up to date by way of submissions through a tax practitioner. A meeting is being held with SARS on 15 February 2021 to try to resolve the profile difficulties, finalise a payment plan and secure the required tax clearance certificate.

Health and safety inspection and fire inspections have been conducted at all 8 schools, where necessary, and matters identified have been or are being addressed.

Legal cases

A number of legal actions had been launched against the Company in 2020 prior to the change in the Board, including by the former auditors and the Rental Creditor, which amount to over R4m and R9m respectively. Following the resignation of the former CEO, both parties have agreed to halt the legal proceedings and are engaging with the new Board.

A number of settlement agreements had also been entered into (by the previous Board), which are being settled or renegotiated.

The Board is aiming to settle all matters in an amicable manner to avoid substantial legal costs, which exceeded over R2m for FY2019 and over R1m for FY2020.

New legal matter

The former attorney, who resigned as attorney of record in July 2020, has applied for the liquidation of the company, claiming an amount of around R450k, which has been disputed and opposed. A full analysis of the invoices levied in FY2020 has been prepared, with reallocations, credits or peer review requested. The Company is prepared to pay the attorney in the event that it is determined that an amount is in fact owed.

Creditors

A full list of all creditors has been prepared, the largest of which are the Rental Creditor, the former auditors, SARS and property related obligations. These are being steadily reduced, acquired, settled and/or payment arrangements made.

AUDIT AND INTERIM RESULTS

The subsidiary AFS have been prepared and reviewed by the Company's own IFRS specialist per a request from the current auditor before they will recommence with the audit work. The subsidiary AFS have been provided to the auditors in January 2021 and an updated audit plan has been received and is being considered.

The audit will be a key focus in the first quarter of 2021, including the Annual Report. The interim results for June will then require publication. Thereafter, the company will apply for the lifting of the suspension. The JSE are expected to do a detailed review to ensure that all the JSE LR are in compliance.

An additional temporary financial resource has been sourced to work on the audit preparation for FY2020.

PROPERTIES

PLG Properties has acquired certain properties from which the schools operate, with the most recent property being transferred towards the end of 2020. The Certificate of Compliance is still required from the Seller and the Company is trying to assist with this process.

Five properties have been acquired (of which two still have to be transferred). The Board has resolved to authorise one of its shareholders, BMF-I, to facilitate the transfer of the two remaining properties, which have not been transferred by the seller, which went into business rescue in early 2020.

PLG Properties needs around R7.5 million to be able to transfer two properties, namely Willow View (in Pomona) and Northriding (in Randburg) into the books of the Company. The purchase price of R69m has already been settled by PLG but monies are owed for very old occupational rent, overdue rates and taxes, conveyancing and transfer costs. Once transferred, the 2 properties will be unencumbered. The Board is engaging with a couple of parties to secure the above funding but would also welcome approaches from interested funders.

The Company currently has very low gearing of R1.6m against one of the school properties.

Two other schools have agreements in place to acquire the properties, large deposits have been paid and monthly rent is being incurred, which can be avoided if the properties are acquired. A short extension of time has been secured on the one property and the company is in the process of raising a bond for this acquisition. The second property is subject to the exercise of an option. The board has reached out to both owners, who are willing to work with the new Board.

The remaining property, Mellow Oaks, remains leased. Relationships with the former board were strained but following regular communication and a meeting with the owners, the relationship is settling down and is being rebuilt.

The town planner engaged by the company had previously resigned due to non-payment. He has been reappointed and certain of the final requirements for rezoning of some of the properties have commenced. Certain of these matters had been outstanding for over two years.

A condition audit of each property is being undertaken.

STRATEGIC INITIATIVES

Online learning partnership

The Board is pleased to announce that it has entered into an agreement with The Learning Studio to provide online learning, not only for the PLG pupils, but also in other areas. A more detailed announcement will be made in due course in this regard.

Turnaround

The main focus for the past 6 months has been stabilising the company, the staff, reducing the level of litigation, entering into arrangements with creditors and lessors, improving controls and corporate governance, and rebuilding trust with its various stakeholders. This has not been an easy process but is showing positive signs. The Company is still not out of the woods yet and requires the steps commenced in the first 6 months to be completed. These include finalising the audits and Annual Reports, raising property related funding, finalising settlement arrangements with major creditors and securing the school registrations. Relations are still strained at a shareholder level, and efforts are being made to try to settle matters at this level in order to retain stability for the Group.

WHAT IS GOOD?

Whilst the group has suffered over the past few years and is in a tough position, the following are considered positives/opportunities:

1. The group has paid for 5 properties occupied by the schools worth more than R100m, with less than 10% debt, taking into account all outstanding property related obligations.
2. There are options on two other properties, where a large portion of the purchase price has already been settled. If acquired, the rental cost will be eliminated.
3. The group operates 8 schools, that have existing capacity to grow, with some of the schools already positive in terms of EBITDA;
4. The debtors' book has been handed over in November 2020 to a professional debt collection firm at no cost to Pembury;

5. The mass loss of pupils has been halted and headmasters and staff have stabilised – the quality of the education has remained good and the class sizes are small, which is a great selling opportunity;
6. An HR person and a marketing/IT person have recently been appointed, with a positive impact already being experienced in the short term.
7. There is existing capacity at the schools to grow the pupil numbers without incurring substantially higher costs.
8. The board has been restructured and is now compliant in terms of good corporate governance and the Companies Act, with 5 non-executive directors, 4 of which are independent.
9. The Company has already gone through the cost of listing and once the business has been turned around and the share price starts recovering, it can be used for further acquisition of schools.
10. A number of cost-cutting actions have already been taken, which should lead to profitability sooner than expected, subject to increasing the pupil numbers.
11. Most of the legal action has been halted or withdrawn and settlement arrangements are being negotiated. Once the historical creditor situation has been resolved, the group will be in a solid position for growth.
12. It should be noted that if the group collected 100% of all billings, it would be profitable, but the collection rate remains a problem due partly to Covid-19.
13. The Villages subsidiary has been sold in 2020 and so the remaining group focussed on education and related property only.
14. The name PLG has already been dropped from the schools, which now operate as Willow View Academy, Carlswald Academy and so on.
15. The opportunity to rebrand the group and schools once the business has been recapitalised and turned around exists.
16. The opportunity to grow on-line learning is huge and initial discussions are already underway with The Learning Studio, who have experienced people to drive this initiative, including adult education. This is a clean canvass.
17. A new CEO will need to be appointed to grow the group – time should be spent to find the right CEO.
18. In addition to Verityhurst, the Company has attracted interest from other potential investors.
19. The Company has the solid support of the BMFI, which is the second largest shareholder in the group.
20. The group is well positioned in the education market, providing quality, affordable, private education in small classes.

By order of the board

Johannesburg

15 February 2021

Designated Advisor

Merchantec