
PEMBURY LIFESTYLE GROUP LIMITED
Incorporated in the Republic of South Africa
(Registration number 2013/205899/06)
Share code: PEM ISIN: ZAE000222949
(“Pembury” or “the Company” or “the Group”)

QUARTERLY PROGRESS REPORT

In terms of paragraph 1.11(c) of the JSE Listings Requirements of the JSE Limited (“JSE”) pertaining to the continuing obligations of suspended companies, shareholders are hereby provided with a quarterly progress report on the current state of affairs of the Company.

Shareholders are referred to the quarterly progress report released on SENS on 31 March 2021, which referenced previous announcements. As set out in the announcements (and using the terms defined therein unless otherwise stated) shareholders were advised, *inter alia*, that the Board had accepted an offer from Verityhurst Proprietary Limited (“Verityhurst”) to enter into a Share Subscription Agreement in terms of which Verityhurst has agreed to subscribe for 180 000 000 Subscription Shares for cash at a subscription price of 10.5 cents per share for a total consideration of R18 900 000, subject to certain suspensive conditions, which included the listing of the Subscription Shares on the JSE within five business days of the lifting of the suspension of trade in the Company’s shares. The final number of shares to be listed will only be determined on the basis of the quantum of the funds received, liabilities settled and the final pricing as determined by the JSE. The other suspensive conditions have been met.

As previously announced, the JSE advised that:

- given that the Company was suspended on 1 July 2020, the Subscription Price pertaining to the subscription of the Subscription Shares by Verityhurst was subject to discussions with the JSE in terms of the Company’s general authority; and
- with reference to paragraph 9.7 of the JSE Listings Requirements to which the disposal of the PLG Retirement Villages is subject, the JSE has, via the Designated Advisor, engaged with the Company in order to determine the categorisation of such disposal prior to the signature of the disposal agreement.

The JSE had subsequently requested that the Company provide additional motivation around the pricing of the issue of the shares, which had been provided to the JSE during March 2021.

Subsequently, the JSE requested that the Company perform a valuation of the share price to support the VWAP used in the original agreement. The valuation was submitted to the JSE in May 2021 and the Company is awaiting final feedback on the approval of the share price.

Shareholders are reminded that the Board has been restructured, and will seek to identify a suitable candidate to fulfil the role of the Chief Executive Officer once the Company has been turned around, which appointment may be aligned with new potential investor/s.

Despite having provided full IFRS compliant AFS for the Group companies, the progress with finalising the audit has been painstakingly slow and this is a key focus area for the Board and Audit Committee. The Company is now addressing the finalisation of the audit for the financial years ended 31 December 2019 and 31 December 2020, on a back-to-back basis.

Despite the efforts of the Audit and Risk Committee the progress around the completion of the audit for the financial years ended 31 December 2019 and 31 December 2020 has been slow due to cash flow constraints experienced by the Group. The Audit and Risk Committee, together with the Board is exploring every possible means to complete the audit of the 31 December 2019 financial statements and the 31 December 2020 financial statements in order to get the suspension lifted and the shares trading again. An additional injection of cash will be required in order to meet the expected audit cost, which is substantial. Capital raising is also frustrated due to the current economic environment and COVID-19.

Shareholders are reminded of the various initiatives that have been undertaken to start turning around the Company, some of which are detailed below:

- The losses of the retirement villages are no longer being incurred by the Group from mid-2020. These amounted to more than R700 000 per month.
- Costs have been cut, where possible, primarily at head office, and the head office has been relocated to one of the schools, with a current saving of over R250 000 per month.
- Legal costs have been substantially reduced and the Company is seeking negotiated solutions, where possible.
- Key appointments were made at an HR and Marketing/IT level, both of which have been positive. All contracts are being reviewed for possible savings.
- Settlement agreements have been entered into, where possible, and previous settlement agreements which had not been fully complied with are being caught up or renegotiated.
- The Company has approached certain key creditors, with a view to settling a portion of their debt in shares. These discussions have been taking time and the Board appreciates the patience and ongoing support of such creditors. However, the Board is pleased to advise that an agreement has been signed between Abacus Solutions and Verityhurst for the acquisition of the debt by way of an issue of shares under the Verityhurst subscription agreement, which will address the largest creditors of the Group. An addendum to the previously signed agreement with the second largest creditor is also being finalised, with key terms being agreed. This obviously remains subject to the JSE approving the issue price as previously announced.
- A certificate of compliance on the property acquired in Limpopo has recently been acquired. This is one of the items that is required for the school registration with the Limpopo Education Department.
- Health and safety and fire audits have been conducted at each of the schools.
- Town planners completed the dolomite and flood line studies at two of the schools to secure the rezoning of the properties.
- The Company has been notified that the Gauteng Department of Education (“**GDE**”) will be paying a final visit to Raslouw, Carlswald and Greenhills at any date after 15 March 2021 for the purpose of receiving the school registrations. All required documents were resubmitted during February 2021 after the full Board met with two representatives of the GDE following inspections in late 2020 and 2021. A further announcement will be made in due course. The Company is unsure of the inspection date due to continuing delays due to Covid-19.
- The old “leavers” debtors’ book, amounting to more than R7m, has been handed over to a professional debt collection agency during November 2020, which collection will be at no cost to the Company. The first proceeds were received in December 2020 and collections are ongoing. The proceeds are being allocated to Abacus Solution, the provider of prefab units at some of the schools, and the Company’s intention is to rebuild the relationship with Abacus over time. Communication remains open.
- The Company has also handed over 120-day accounts, unless parents have approached the school and made arrangements. Collection rates have started to improve consistently from January 2021 but collections still remain a problem due to Covid-19 and the impact of the economy.
- Property condition audits are being done at all the schools and repairs and maintenance at certain of the properties have commenced within the current cash flow constraints. Some of the improvements are immediately visible.
- A new lease agreement has been signed with Mellow Oaks.
- Capital projects will commence once the various settlement agreements come to an end, older creditors have been settled and free cash flow improves.
- Pupil numbers have increased in January, February and March of 2021 and remain stable. The quality of the education remains good and turnover of staff at the schools has stabilised over the past 12 months.
- The Company is still looking at property funding as it has extremely low gearing of R1.6m of bond finance against a property portfolio in excess of R100m. This property funding may come from existing shareholders or new interested investors as opposed to banks, although the Company continues to wait for a response from the banks. Progress remains slow due to COVID-19 and banking staff working from home. The Company’s existing property funder had also been approached in March 2021 but similarly the process is slow.

- The Board has appointed The Learning Studio to introduce online learning into the Group during 2021, including Tutor online and training has commenced during March 2021.
- A strategy session was held during March 2021 and strategic objectives, both short term and long term, are being set. This includes the consideration of options around the property portfolio, growing revenue, containing costs and setting key performance goals for the executives and principals of the schools. Recently, the Board appointed a turnaround committee to focus on key initiatives and opportunities, which include approaching existing and new shareholders with proposals. A further announcement will be made in due course.
- Discussions continue to be held at a shareholder level in the interests of the Company following the SENS announcements published on 25 February 2021, 4 March 2021 and 17 March 2021. Obviously, there is some impatience at the pace of the turnaround of the Group, but the environment remains difficult.
- Reduction in the number of temporary classrooms used at various sites has reduced the monthly costs substantially, which costs were in excess of R500 000 per month. The Company is looking to other permanent building solutions for the Group.

Whilst a number of claims and surprises keep appearing, these are less frequent and are being managed as they arise. Certain liabilities are disputed or are not those of the holding company and its remaining subsidiaries, but the Company or the Group have been cited. It is expected that all these matters will be settled in due course.

As a result of the above Board interventions, five of the schools are now at a positive or breakeven EBITDA level, before allocation of head office costs and the impact of collections. Improving collections and pupil numbers, whilst containing the costs, remain a key driver for the turnaround of the Group. The Group still need to raise additional capital in the interim and efforts are ongoing. Interest from third parties in acquiring a shareholding in the Company remains.

Shareholders are reminded that it takes time to turn a business around, particularly during a period where the economic environment is tough due to COVID-19, the various lockdowns, the economic impact on the country and some of the schools' parents, through job losses or salary cuts. The turnaround is still expected to take another 12 to 18 months. However, the recent resolution of the Abacus creditor (details of which will be separately announced) has been a substantial milestone as this posed a major threat to the Group. We extend our thanks to Abacus Solutions for their patience in trying circumstances, Verityhurst in being part of the solution, as well as the landlord at Mellow Oaks for their constructive approach.

We also want to extend our thanks to all our stakeholders and specifically suppliers of the Group for showing patience and understanding during this turnaround phase. Furthermore, we extend thanks to our parents, pupils and staff for the loyalty and resilience during this period.

Shareholders are reminded that the Company remains under cautionary until further announcements have been made.

Johannesburg
5 July 2021

Designated Adviser
Merchantec Capital