

IMBALIE BEAUTY LIMITED

"Imbalie Beauty" or "the Company" or "the Group"

(Incorporated in the Republic of South Africa)

(Registration number 2003/025374/06)

JSE code: ILE

ISIN: ZAE000165239

REVIEWED PROVISIONAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2020

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Reviewed 29 February 2020 R'000	Audited 28 February 2019 R'000
Revenue	33 578	41 809
Cost of sales	(10 183)	(16 098)
Gross profit	23 395	25 711
Other income	2 527	2 822
Operating expenses	(24 043)	(29 921)
Operating profit/(loss) before interest, taxation, depreciation and amortisation	1 879	(1 388)
Depreciation and amortisation	(1 502)	(1 283)
Profit/(Loss) before interest and taxation	377	(2 671)
Investment income	62	117
Finance costs	(1 935)	(2 397)
Loss before taxation	(1 496)	(4 951)
Taxation	(674)	1 655
Loss attributable to ordinary shareholders	(2 170)	(3 296)
Revaluation surplus/(deficit) net of taxation	(438)	223
Total comprehensive loss for the year	(2 608)	(3 073)
Attributable to:		
Equity holders of the company	(2 608)	(3 073)
Weighted and fully diluted average shares in issue ('000)	1 384 039	1 377 428
Loss per share attributable to equity holders of the Group (Note 1):		
Loss per share (cents)	(0.16)	(0.24)
Headline loss per share (cents)	(0.27)	(0.24)
Fully diluted loss per share (cents)	(0.16)	(0.24)
Fully diluted headline loss per share (cents)	(0.27)	(0.24)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Reviewed 29 February 2020 R'000	Audited 28 February 2019 R'000
ASSETS		
Non-Current Assets		
Property, plant and equipment	1 420	16 143
Right-of-use assets	290	-
Goodwill	3 560	3 560
Intangible assets	15 669	13 905
Other financial assets	-	476
Deferred tax	22 975	23 985
	<u>43 914</u>	<u>58 069</u>
Current Assets		
Inventory	5 510	5 901
Trade and other receivables	4 233	7 389
Other financial assets	66	714
Cash and cash equivalents	47	131
	<u>9 856</u>	<u>14 135</u>
Non-current assets held for sale and assets of disposal groups	<u>13 549</u>	
Total Assets	<u>67 319</u>	<u>72 204</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	113 732	113 732
Reserves	596	1 034
Accumulated loss	(75 041)	(72 871)
	<u>39 287</u>	<u>41 895</u>
Liabilities		
Non-Current liabilities		
Other financial liabilities	143	7 807
Deferred tax	-	479
	<u>143</u>	<u>8 286</u>
Current Liabilities		
Trade and other payables	9 100	10 263
Other financial liabilities	335	7 583
Lease liabilities	316	-
Operating lease liabilities	-	240
Bank overdraft	4 021	3 937
	<u>13 772</u>	<u>22 023</u>
Liabilities of disposal groups	<u>14 117</u>	
Total Liabilities	<u>28 032</u>	<u>30 309</u>

Total Equity and Liabilities	67 319	72 204
Number of ordinary shares in issue at year end	1 384 039 225	1 384 039 225
Net asset value per share (cents)	2.84	3.03
Net tangible asset value per share (cents)	1.45	1.77

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Share premium R'000	Total Share capital R'000	Revaluation reserve R'000	Accumulated Loss R'000	Total equity R'000
Balance at 28 February 2019	52 119	61 613	113 732	1 034	(72 871)	41 895
Total comprehensive loss for the year	-	-	-	(438)	(2 170)	(2 608)
Balance at 29 February 2020	52 119	61 613	113 732	596	(75 041)	39 287

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Reviewed 29 February 2020 R'000	Audited 28 February 2019 R'000
Cash flow from operating activities		
Cash generated from operations	2 994	2 533
Investment income	62	117
Finance costs	(1 935)	(2 397)
Cash flows from operating activities	1 121	253
Cash flows from investing activities		
Purchase of property, plant and equipment	(73)	(18)
Proceeds from disposal of property, plant and equipment	198	59
Purchase of intangible assets	(565)	(9)
Proceeds from other financial assets	513	392
Advance of other financial liabilities	-	(397)
Cash flows from investing activities	73	27
Cash flows utilised in financing activities		
Proceeds from share issue	-	3 316
Repayment of other financial liabilities	(1 302)	(5 440)
Proceeds from other financial liabilities	300	2 000
Payment on lease liabilities	(360)	
Cash flows utilised in financing activities	(1 362)	(124)
Net (decrease)/increase in cash and cash equivalents	(168)	156
Cash and cash equivalents at beginning of the year	(3 806)	(3 962)
Cash and cash equivalents at end of the year	(3 974)	(3 806)

SEGMENTAL REPORTING

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specific criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker.

Therefore, the Group determines and presents its operating segments based on the information that is internally provided to the Chief Executive Officer, who is the chief operating decision maker.

Furthermore, a segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of the other segments.

The Group does not report on its different operating segments. The business is conducted in South Africa and through South African companies operating cross border and is managed at a central head office with no branches. The Group is managed as one operating unit.

All revenues from external customers originate in South Africa or through South African companies operating cross border.

NOTES TO THE FINANCIAL INFORMATION

1. Reconciliation of headline loss

	Reviewed 29 February 2020	Audited 28 February 2019
	R'000	R'000
Reconciliation of headline loss:		
Loss attributable to ordinary shareholders	(2 170)	(3 296)
Adjusted for:		
IAS 16 Loss on disposal of PPE	-	1
IAS 38 Impairment reversal of trademarks	(1 459)	-
IAS 16 Gain on disposal of PPE	(138)	-
Total tax effects of adjustments	39	-
Headline loss attributable to ordinary shareholders	<u>(3 728)</u>	<u>(3 295)</u>
Weighted and fully diluted average shares in issue ('000)	1 384 039	1 377 428
Loss per share (cents)	(0.16)	(0.24)
Headline loss per share (cents)	(0.27)	(0.24)
Fully diluted loss per share (cents)	(0.16)	(0.24)
Fully diluted headline loss per share (cents)	(0.27)	(0.24)

OVERVIEW

The directors of Imbalie Beauty herewith present the Group's annual financial results for the year ended 29 February 2020 ("the 2020 year" or "2020"). Imbalie Beauty is a leading and desirable beauty and wellness solutions group in South Africa. Its focus is primarily on the

development, growth and innovation of our own skin care product brands and treatments through a franchise salon footprint through the following franchise salon chains: Placecol Skin Care Clinics, Perfect 10 and Dream Nails Beauty Salons. The Group's skin care brands are available to consumers in its own salon footprint, large retail groups, pharmacies, independent salon outlets and on various on-line platforms.

The Group's underlying salon footprint experienced continued difficult trading conditions during 2020, which resulted in the closure of unprofitable salons during the year and subsequent to the year end. On 27 March 2020, our beauty salons went into the Government-imposed lockdown ("lockdown") as a result of the Covid-19 pandemic, with the majority of our salons only re-opening for business on 1 July 2020.

One day prior to the national lockdown, the Group received an order for our Placecol skin care brand from a pharmacy group for 93 new pharmacy outlets. During lockdown, our one strategic business partner, Edcon, announced that it filed for Business Rescue and it has since been announced that Edcon will be taken over by new owners. We applied for various relief measures during lockdown as promulgated by Government and are grateful for the UIF Covid-19 Temporary Employee Relief Scheme (TERS) measures announced and implemented by Government to assist businesses.

We are further appreciative of all the varied rent relief offers that our Franchise Partners have received for April, May and June 2020, granted by Landlords. Due to the rules implemented by the South African Reserve Bank and as Imbalie Beauty is a listed entity, the Group is not eligible to apply for Covid-19 SARB Guaranteed loans, even though our company was severely affected by the Covid-19 pandemic. This resulted in the Group being unable to obtain much needed working capital for our business during this lockdown period.

This very challenging lockdown period afforded us, as a management team, time to scrutinize our future strategy, current business processes and business models and provided us with the opportunity to re-position the Group into the future. We established and launched our new Customer Solutions Division on 3 August 2020 to focus on direct sales to the end consumer as referred to in the Subsequent Events paragraph.

Our first focus during lockdown was to enable our footprint, which employs over 400 women, with new skills, new on-line capabilities, the implementation of growth teams (to create new revenues for their existing businesses) and finally the implementation of Covid-19 readiness training prior to the re-opening of our salon doors. Training initiatives were implemented during lockdown by our Imbalie Beauty Wellness Academy.

As a Group we introduced the required branded Personal Protective Equipment ("PPE"), training and safety videos to our footprint to ensure the continued safety of our employees and customers in the workplace.

The Group received a prestigious industry award from Pharmaceutical and Cosmetic Review in October 2019 on its new Placecol Excellence skin care range launched in June 2019, which offers skin care solutions for skin on a biological level. Placecol skin care clinics were recognised for the fifth year in a row by Best of Bloemfontein, reinforcing our beauty salons as the consumer's preferred choice, in this region.

BASIS OF PREPARATION

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards

Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements except for the adoption of the new standards effective as disclosed in the First Time adoption note below.

The provisional condensed consolidated financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets where required or permitted by IFRS.

These provisional condensed consolidated financial statements incorporate the financial results of the Company and its subsidiaries.

The preparation of the provisional condensed consolidated financial statements for the year ended 29 February 2020 was supervised by Imbalie Beauty's Chief Executive Officer, Esna Colyn CA (SA). The directors take full responsibility for the preparation of these provisional condensed consolidated financial statements for the year ended 29 February 2020.

These condensed consolidated financial statements for the year ended 29 February 2020 have been reviewed by Nexia SAB&T, who expressed an unmodified review conclusion. The auditor's report contained the following going concern paragraph:

Material uncertainty related to going concern

We draw attention to the statement of going concern paragraph to the condensed consolidated financial statements contained in the accompanying provisional report, which indicates that the Group incurred a net loss of R2.1 million during the year ended 29 February 2020; and as of that date, the Group's current liabilities exceeded its current assets by R3.9 million. As stated in the statement of going concern paragraph, Covid-19 affects the Group, and may result in certain material uncertainties for the future financial position, performance and cash flows of the Group. These events or conditions, along with the other matters set forth in the statement of going concern paragraph indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our review conclusion is not modified in respect of this matter.

A copy of the auditor's review report is available for inspection at the Company's registered office.

FIRST TIME ADOPTION OF NEW ACCOUNTING STANDARD

IFRS 16 - Leases

The standard sets out requirements for identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. This standard replaces IAS 17: Leases and its associated interpretative guidance.

In applying IFRS 16, the Group assessed whether its existing contracts contain a lease; recognises right-of-use assets and lease liabilities in the statement of financial position, initially at the present value of the future lease payments; recognises depreciation of right-of-use assets based on the lease contract term; recognises interest on the lease liabilities based on the incremental interest rate; and splits cash paid in respect of lease contracts into principal and interest portions, presented in the consolidated statement of cash flows as financing activities

As part of the modified retrospective transition approach, the Group has elected to apply the practical expedient which allows a single discount rate to be applied to a portfolio of leases with reasonably similar characteristics.

At transition date, the adoption of IFRS 16 resulted in the recognition of right-of-use assets to the value of R676 000 and lease liabilities of R676 000. This had no impact on retained earnings on 1 March 2019.

Impact on profit or loss	R'000
Increase in depreciation expense	(386)
Increase in interest expense	(90)
Decrease in rental paid (operating expenses)	450
Decrease in profit before taxation	(26)
Decrease in profit after taxation	(26)
Impact on assets, liabilities and equity	
Increase in right of use asset	290
Increase in lease liability	(316)
Decrease in retained earnings	(26)

FINANCIAL RESULTS

The Group's revenue decreased by 19.7% to R33.6 million (2019: R41.8 million) mainly due to the closure of corporate and franchised salons, a reduction in new salon openings and the Group focusing on the distribution of own brands to our footprint versus third party brands. Gross profit has decreased by 9.0% to R23.4 million (2019: R25.7 million) and gross profit margins increased to 69.7% (2019: 61.5%), due to the Group focusing on the distribution of its own product brands.

The Group is a brand owner of the trusted 40-year-old Placecol skin care brand and franchisor of leading and trusted South African salon brands and as a result of an independent valuation received on its trademarks, management re-instated previously impaired trademarks to the value of R1.4 million, which is included in other income.

Operating expenses decreased by 19.6% to R24 million (2019: R29.9 million) as a result of cost saving measures implemented as part of the Group's turnaround strategy.

Loss per share decreased to a loss of 0.16 cents (2019: loss of 0.24 cents) and the headline loss per share increased to 0.27 cents (2019: loss 0.24 cents).

An independent best estimate valuation was performed by a property expert on the Group's property and was valued for R13.5 million which led to a revaluation deficit of R438 000 (net of taxation).

The Group had no material capital commitments for the purchase of property, plant and equipment as at 29 February 2020.

Property, plant and equipment has reduced from R16.1 million in 2019 to R1.4 million in 2020 as the Company entered into an agreement on 31 July 2020 to dispose of its property company and therefore was reclassified as non-current assets held for sale and assets of disposal groups. The transaction simultaneously reduces the non-current other financial liabilities by R7.7 million and current other financial liabilities by R7.2 million, which liabilities were reclassified as liabilities of disposal groups.

Trade and Other Receivables reduced by R3.2 million to R4.2 million in 2020 as a result of bad debts written off of R1.9 million and an increase in the provision for expected credit loss allowance at year end. The provision for expected credit loss allowance amounts to 35% of the debtor's book (27% in 2019).

Other non-current financial assets reduced by R476 000 as a result of the loan written off as a bad debt. Other current financial assets reduced by R647 000 as a result of loan amounts being repaid and written off during the year.

STATEMENT OF GOING CONCERN

The financial statements have been prepared based on accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

While management and the directors are aware of the cash-flow pressures and significant liquidity uncertainty at year-end and subsequent to year end as a result of the difficult trading conditions and the imposed lockdown of the Group's beauty salons for 87 days as a result of Covid-19, they continue to assess the situation as one whereby the Group is able to service its debts that will become due in the next 12 months and also fund operational losses that may arise. The Group incurred a net loss of R2.1 million during the financial year, and the current liabilities exceed the current assets by R3.9 million as at 29 February 2020, which indicates that a material uncertainty exists regarding the Group's ability to continue as a going concern.

The Directors have developed, and in the process of implementing, a strategy to address the liquidity and cash flow constraints - which includes:

- The finalisation and implementation of a partially underwritten rights offer for Imbalie Beauty of R7 million during August 2020.
- The launch of the Group's new Direct Sales Division in August 2020 to increase overall revenue.
- The Group is in the process to digitise its training Academy to generate new revenue for the Group.

The board of directors and the management team are actively engaged with financial institutions and funders to obtain funding to alleviate the much-needed short-term liquidity requirements of the Group. Refer to the Prospects Paragraph.

SHARE CAPITAL

There has been no change in the share capital during 2020.

The reconciliation of shares issued is shown below:

	Reviewed 29 February 2020	Audited 28 February 2019
	R	R
Opening balance	1 384 039 225	1 205 715 185
General issue of shares	-	-
Rights issue	-	178 324 043
	1 384 039 225	1 384 039 225

DIVIDEND POLICY

The Group will not pay a dividend for the 2020 year.

CONTINGENCIES AND COMMITMENTS

The Group has various contingent liabilities in terms of head leases entered into with various landlords on behalf of its franchise operators nationally. The exposure of the Group is monitored on an ongoing basis with a plan to actively reduce the Group's exposure to head leases. The Group's exposure to head leases reduced from 28 head leases in 2019 to 7 head leases as at July 2020.

The Group entered into a business continuation agreement with GetBucks to provide funding to certain of its franchise operators and the Group's exposure to GetBucks is currently under negotiation.

LAND AND BUILDINGS - FAIR VALUE

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group only carries land and buildings at revalued amounts.

Assets measured at fair value (Level 3)

	Carrying Value	Fair Value
As at 28 February 2019	13 151 550	14 311 667
Revaluation		(565 000)
Depreciation	(116 150)	(246 667)
As at 29 February 2020	<u>12 035 400</u>	<u>13 500 000</u>

	Carrying Value	Fair Value
As at 28 February 2018	13 267 700	14 258 333
Revaluation		300 000
Depreciation	(116 150)	(246 666)
As at 29 February 2019	<u>13 151 550</u>	<u>14 311 667</u>

Type	Valuation technique
Land and buildings	The fair value of land and buildings has been determined based on an independent estimate which incorporates current market conditions and the market history of similar properties in the same location.

FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated annual financial statements for the year ended 28 February 2019.

The carrying amount of all significant financial instruments approximates their fair value.

RELATED PARTY BALANCES AND TRANSACTIONS:

- Salons owned by Director E Colyn – Beauty Flagship (Pty) Limited (Placecol Skin Care Clinic Bram Fischer and Placecol Spa), previously held in Mundex (Pty) Limited; and
- Holistics Remedies (Pty) Limited – Shareholder of Amka Products (Pty) Limited

	2020	2019
	R'000	R'000
Amounts included in Trade receivables (trade payables) regarding related parties:		
Beauty Flagship (Pty) Limited	66	(367)
Amka Products (Pty) Limited	54	-
Royalties received and product purchases from related parties:		
Beauty Flagship (Pty) Limited	540	1 197
Rent received from related parties:		
Amka Products (Pty) Limited	90	-
Products bought from related parties:		
Amka Products (Pty) Limited	(36)	-
Directors Remuneration :		
	2020	2019
	R'000	R'000
E Colyn – CEO:	945	966
CW de Jager – Financial Director	814	478

There was no remuneration paid to non-executive directors during 2020 and 2019.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group acquired and disposed of property plant and equipment to the value of R258 000 and R59 000 during the year. The Group incurred R565 000 during the year on the development of its intangible assets relating to the Placecol skin care brand.

SUBSEQUENT EVENTS

The Company entered into an agreement on 31 July 2020 to dispose of its property company, holding it property which is fairly valued at R13.5 million.

Our business focuses on the selling and distribution of beauty and wellness products, the operating of beauty salons and training, which includes in excess of 400 women, has been severely impacted by the closure of our salons; only being permitted to re-open our doors 87 days into the lockdown. It is impossible to gauge our businesses returning to normal, post Covid-19. Social distancing is being imposed within our salons, which will result in less turnover per square metre and will impact the turnover of our beauty salons overall. Various strategies have been implemented to stimulate the retail sales of our beauty salons.

To prioritise the customers' wellbeing and ensure that they feel completely safe and welcome in the Group's salons, the Group has provided all franchise owners and therapists with intensive training and guidelines on Covid-19 Health and Safety Government Regulations as well as specific Imbalie Beauty customer protocols. In addition, the Group

has supplied the franchise owners with Personal Protection Equipment for therapists as well as all the essential items required for customer health and safety, including floor signage, sanitiser dispensers, Perspex shields, visors, masks and posters, to ensure that employees and customers feel safe at all times.

Throughout lockdown, the team at Imbalie Beauty has worked hard behind the scenes to stay in touch with their franchisees to keep them motivated, help them with negotiations of lease concessions and have given them tools to sell their essential skin care products as well as launch their new online skin consultations.

BOARD CHANGES

No board changes have occurred during the year and subsequent to year end.

PROSPECTS

The Board of Directors will actively pursue the successful conclusion of the disposal of its property to settle debt.

The Group' vision is to be the leading and most desirable beauty and wellness solutions group, nationally and internationally. As hard as the Covid-19 lockdown period has been it allowed the management team of Imbalie Beauty time to reset our business for the future through the implementation of various strategies to strengthen our franchise footprint.

Our Imbalie Beauty team has worked tirelessly to establish our new Customer Solutions Division during the Covid-19 lockdown period. This initiative is fresh, unique, transparent and very different from any other offering in the market place, in that our focus will be on empowering our teams, through ongoing education to offer unique beauty and wellness solutions to our customers.

We understand our market place has changed and our responsibility is to embrace this and make it easier for our customers to continue doing business with us. The Customer Solutions Division was officially launched on 3 August 2020 in conjunction with various collaborative partners in the beauty and wellness industry, to ensure that we continue to offer the best beauty and wellness solutions to our valued customers.

Statements contained in this announcement, regarding the prospects of the Group, have not been reviewed or audited by the Group's external auditors.

APPRECIATION

The directors would like to thank our non-executive directors for their valuable contribution during 2020 and especially during the lockdown period in South Africa, as well as our exceptional team, our franchise and independent partners, our valued and loyal customers, strategic business partners and our suppliers, for their continued business during the year.

By order of the Board
7 August 2020

Esna Colyn
Chief Executive Officer

CORPORATE INFORMATION

Non-executive directors: BJT Shongwe* (Chairman); WP van der Merwe; TJ Schoeman;*
GD Harlow *Independent

Executive directors: E Colyn, CW de Jager

Registration number: 2003/025374/06

Registered address: Imbalie Beauty Boulevard, 23 Saddle Drive, Woodmead Office Park,

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Postal address: P O Box 8833, Centurion, 0046, Gauteng

Company secretary: P Atkins

Telephone: (011) 086 9800

Transfer secretaries: 4Africa Exchange Registry (Pty) Limited

Designated Adviser: Exchange Sponsors (2008) (Pty) Limited