MAZOR GROUP

UNAUDITED CONDENSED CONSOLIDATED **INTERIM FINANCIAL RESULTS**

FOR THE SIX MONTHS ENDED 31 AUGUST 2020

STEEL ALUMINIUM GLASS

Mazor Group Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2007/017221/06)
JSE share code: MZR
ISIN: ZAE000109823
("Mazor" or "the company" or "the group")

SALIENT FEATURES

- Deteriorating national economy
- Construction industry in crisis
- Revenue reduction 48.2%
- Increased group losses

Ronnie Mazor, CEO: *"The interim period has been challenging for Mazor, the construction industry and the South African economy as a whole."*

CONSOLIDATED STATEMENT
OF FINANCIAL POSITION

AS AT 31 AUGUST 2020

	Unaudited as at 31 August 2020 R	Unaudited as at 31 August 2019 R	Audited as at 29 February 2020 R
Assets			
Non-current assets			
Property, plant and equipment	**62 053 040**	78 275 677	72 093 709
Right-of-use asset	**57 695 669**	74 422 140	74 786 639
Intangible asset	**13 500 000**	14 500 000	14 000 000
Deferred tax	**14 688 554**	11 842 424	13 230 391
	147 937 263	179 040 241	174 110 739
Current assets			
Inventories	**95 373 482**	105 494 534	116 182 831
Contract assets and receivables	**14 292 091**	19 625 550	9 225 041
Other financial assets	**287 946**	277 340	274 010
Current tax receivable	**416 890**	506 187	807 309
Trade and other receivables	**22 544 335**	35 251 328	28 958 905
Cash and cash equivalents	**28 951 153**	32 893 425	21 730 208
	161 865 897	194 048 364	177 178 304
Total assets	**309 803 160**	373 088 605	351 289 043
Equity and liabilities			
Equity			
Stated capital	**41 060 154**	41 060 154	41 060 154
Retained income	**145 416 717**	192 797 373	169 558 077
Equity attributable to shareholders of Mazor Group Limited	**186 476 871**	233 857 527	210 618 231
Non-controlling interests	**(83 940)**	(114 009)	(144 097)
	186 392 931	233 743 518	210 474 134
Liabilities			
Non-current liabilities			
Lease liabilities	**53 103 043**	64 237 166	67 814 051
Other financial liabilities	**5 946 449**	9 638 707	8 242 607
Deferred tax	**1 346 917**	1 248 742	1 384 389
	60 396 409	75 124 615	77 441 047
Current liabilities			
Lease liabilities	**14 573 430**	16 159 126	15 333 950
Other financial liabilities	**6 748 263**	6 196 022	6 920 736
Current tax payable	**35 550**	540 049	35 550
Trade and other payables	**34 244 151**	41 307 185	35 335 529
Contract liabilities	**7 412 426**	–	4 422 426
Bank overdraft	**–**	18 090	1 325 671
	63 013 820	64 220 472	63 373 862
Total liabilities	**123 410 229**	139 345 087	140 814 909
Total equity and liabilities	**309 803 160**	373 088 605	351 289 043

CONSOLIDATED STATEMENT
OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 AUGUST 2020

	Unaudited six months as at 31 August 2020 R	Unaudited six months as at 31 August 2019 R	Audited 12 months as at 29 February 2020 R
Revenue from contracts with customers	**113 303 580**	218 905 399	366 476 705
Cost of sales	**(97 638 029)**	(161 756 485)	(276 515 616)
Gross profit	**15 665 551**	57 148 914	89 961 089
Other income	**410 775**	826 866	1 869 577
Operating expenses	**(36 880 464)**	(59 717 105)	(114 328 065)
Operating loss	**(20 804 138)**	(1 741 325)	(22 497 399)
Investment revenue	**128 028**	885 597	1 649 412
Finance costs	**(4 483 237)**	(5 165 049)	(9 993 237)
Loss before taxation	**(25 159 347)**	(6 020 777)	(30 841 224)
Taxation	**1 078 144**	1 127 440	2 678 503
Total comprehensive loss for the period	**(24 081 203)**	(4 893 337)	(28 162 721)
Total comprehensive loss for the period attributable to:			
Shareholders of Mazor Group Limited	**(24 141 360)**	(4 825 692)	(28 064 988)
Non-controlling interests	**60 157**	(67 645)	(97 733)
	(24 081 203)	(4 893 337)	(28 162 721)
Basic and diluted loss per share (cents)	**(23.1)**	(4.6)	(26.9)

NOTES
TO THE CONDENSED RESULTS

Reconciliation between earnings and headline earnings:	**Unaudited six months as at 31 August 2020 R**	Unaudited six months as at 31 August 2019 R	Audited 12 months as at 29 February 2020 R
Loss attributable to ordinary shareholders	**(24 141 360)**	(4 825 692)	(28 064 988)
Adjusted for:			
Impairment of property, plant and equipment	**–**	–	4 328 046
Tax effect thereof	**–**	–	(1 211 853)
Loss on disposal of property, plant and equipment	**142 080**	(30 552)	643 191
Tax effect thereof	**(39 782)**	8 555	(180 093)
Headline earnings	**(24 039 062)**	(4 847 689)	(24 485 697)
Basic and diluted headline loss per share (cents)	**(23.0)**	(4.6)	(23.4)

CONSOLIDATED STATEMENT
OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 AUGUST 2020

	Unaudited six months as at 31 August 2020 R	Unaudited six months as at 31 August 2019 R	Audited 12 months as at 29 February 2020 R
Cash flows from operating activities			
Cash generated from operations	**16 597 336**	27 253 198	30 509 569
Interest income	**128 028**	885 597	1 649 412
Finance costs	**(4 483 237)**	(5 165 049)	(9 993 237)
Tax paid	**(27 072)**	(872 988)	(1 379 866)
Net cash flow from operating activities	**12 215 055**	22 100 758	20 785 878
Cash flows from investing activities			
Purchase of property, plant and equipment	**(223 492)**	(914 671)	(2 076 185)
Proceeds from disposal of plant and equipment	**6 408 516**	224 974	567 244
Repayment of loan	**(13 936)**	–	3 330
Net cash flow from investing activities	**6 171 088**	(689 697)	(1 505 611)
Cash flows from financing activities			
Repayment of lease liabilities	**(7 370 897)**	(7 839 289)	(15 629 459)
Repayment of other financial liabilities	**(2 468 630)**	(3 400 861)	(5 950 695)
Net cash flow from financing activities	**(9 839 527)**	(11 240 150)	(21 580 154)
Increase/(decrease) in cash and cash equivalents for the period	**8 546 616**	10 170 911	(2 299 887)
Cash and cash equivalents at the beginning of the period	**20 404 537**	22 704 424	22 704 424
Cash and cash equivalents at the end of the period	**28 951 153**	32 875 335	20 404 537

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 AUGUST 2020

	Stated capital R	**Retained income R**	**Total R**	**Non-controlling interests R**	**Total equity R**
Balance at 1 March 2019	41 060 154	197 623 065	238 683 219	(46 364)	238 636 855
Changes in equity					
Loss for the period		(4 825 692)	(4 825 692)	(67 645)	(4 893 337)
Balance at 31 August 2019	41 060 154	192 797 373	233 857 527	(114 009)	233 743 518
Changes in equity					
Loss for the period		(23 239 296)	(23 239 296)	(30 088)	(23 269 384)
Balance at 29 February 2020	41 060 154	169 558 077	210 618 231	(144 097)	210 474 134
Changes in equity					
Loss for the period		(24 141 360)	(24 141 360)	60 157	(24 081 203)
Balance at 31 August 2020	**41 060 154**	**145 416 717**	**186 476 871**	**(83 940)**	**186 392 931**

CONDENSED
SEGMENT REPORT

FOR THE SIX MONTHS ENDED 31 AUGUST 2020

	Unaudited six months as at 31 August 2020 R	Unaudited six months as at 31 August 2019 R	Audited 12 months as at 29 February 2020 R
Segment revenue – contract revenue			
– Aluminium	**5 146 304**	36 432 109	55 869 354
– Steel	**26 815 875**	38 848 943	60 177 560
– Glass	**–**	–	–
– Corporate	**–**	–	–
	31 962 179	75 281 052	116 046 914
Segment revenue – sale of goods			
– Aluminium	**38 516 446**	70 458 184	118 280 167
– Steel	**–**	–	–
– Glass	**33 324 955**	73 166 164	132 149 624
– Corporate	**9 500 000**	–	–
	81 341 401	143 624 347	250 429 791
Segment revenue – internal			
– Aluminium	**433 811**	210 625	2 847 153
– Steel	**–**	–	–
– Glass	**4 708 329**	12 209 898	23 731 479
– Corporate	**1 358 620**	2 776 441	5 432 883
	6 500 760	15 196 964	32 011 515
Segment result – operating profit/(loss)			
– Aluminium	**(11 059 200)**	139 454	(9 187 029)
– Steel	**(5 030 930)**	(1 860 076)	(7 255 812)
– Glass	**(5 074 642)**	(1 025 851)	(8 024 470)
– Corporate	**360 634**	1 005 148	1 969 912
	(20 804 138)	(1 741 325)	(22 497 399)
Segment assets			
– Aluminium	**121 023 501**	163 163 275	130 406 688
– Steel	**36 800 743**	50 288 497	32 941 577
– Glass	**106 040 049**	129 345 469	132 081 935
– Corporate	**45 938 867**	30 291 364	55 858 843
	309 803 160	373 088 605	351 289 043
Segment liabilities			
– Aluminium	**54 964 579**	59 746 783	53 991 255
– Steel	**25 560 958**	23 610 940	19 499 972
– Glass	**32 985 237**	48 841 570	56 308 602
– Corporate	**9 899 455**	7 145 794	11 015 078
	123 410 229	139 345 087	140 814 909

COMMENTARY

INTRODUCTION

It has been a challenging six months with the impact of the Covid-19 pandemic following an already weak economy. South Africa's economy suffered a significant contraction during the first half of the year due to the country operating under widespread lockdown restrictions in response to the pandemic. The construction sector continued its decline for the reporting period, which led to industry-wide job losses. The constrained infrastructure spend by the government also attributed to the poor financial results for the six months ended 31 August 2020.

Our main focus during the period was to ensure business sustainability in an environment with low demand and low market confidence. We have successfully renegotiated some of our lease agreements with the property owners and continue to look for other cost cutting opportunities to safeguard liquidity. This included rationalisation and retrenchments. Our cost reduction process was started two years ago ensuring that we have already taken most of the punishment.

All our divisions have been affected by the adverse trading conditions, notwithstanding the closure of the Gauteng branch of our ***Glass*** division during the period.

Growth is currently constrained and thus prompting a delicate balance between liquidity and maintaining stock levels to meet demand.

BASIS OF PREPARATION

The unaudited interim financial statements for the group for the period contain the information required by IAS 34 Interim Financial Reporting, and have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA financial reporting guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the Companies Act, No. 71 of 2008, and the JSE Listings Requirements.

The accounting policies and methods of computation applied in the preparation of these unaudited interim financial results are in terms of IFRS and are consistent with those applied in the most recently issued audited annual financial statements.

The group adopted IFRS 16 Leases in the previous financial period for the first time on the mandatory adoption date. No standard, amendment or interpretation has been early adopted by the group.

The unaudited interim results have been prepared under the supervision of the financial director, Ms L Mazor CA (SA), and the directors take full responsibility for the preparation of the unaudited interim results.

GROUP PROFILE

The ***Steel*** division comprises Mazor Steel, which designs, supplies and erects structural steel frames. The ***Aluminium*** division comprises Mazor Aluminium, which designs, manufactures and installs aluminium structures such as doors, windows, shop fronts, facades and balustrades and includes the HBS range of fenestration systems and accessories. The ***Glass*** division comprises the Compass Glass businesses, which manufactures and distributes laminated and toughened safety glass and double-glazed units.

The group has a strong national presence through its Aluminium division across Gauteng and KwaZulu-Natal in addition to its historical base in the Western Cape.

FINANCIAL RESULTS AND REVIEW OF OPERATIONS

Mazor's revenue decreased year-on-year by 48.2% to R113.3 million (August 2019: R218.9 million). The group operating expenses decreased year-on-year by 38.2% to R36.9 million (August 2019: R59.7 million). The operating loss increased year-on-year by 1 094.7% to R20.8 million (August 2019: R1.7 million).

All segments recorded increased losses due to reduced revenue. The aluminium segment was the hardest hit with operating losses of R11.1 million (August 2019: operating profit of R0.1 million). Steel losses increased by 170.5% to R5 million (August 2019: R1.9 million) and losses in the Glass division increased by 394.7% to R5.1 million (August 2019: R1 million). Operating losses can be attributed to the impact of the Covid-19 hard lockdown coupled with pressures in the low-growth construction sectors.

Mazor's headline loss increased year-on-year by 395.9% to R24 million or a loss of 23 cents per share (August 2019: headline loss of R4.8 million or loss of 4.6 cents per share).

Property, plant and equipment decreased to R62.1 million from R78.3 million in August 2019 due to the disposal of assets as part of the closure of the Gauteng branch of the Glass division.

The reduction in inventory from R105.5 million in the prior year to R95.4 million is as a result of the sale of the land previously held for future development in Bellville.

The decrease in trade and other receivables to R22.5 million (August 2019: R35.3 million) and contract assets and receivables to R14.3 million (August 2019: R19.6 million) is reflective of the reduced levels of revenue as a result of the reduction in trading and construction contracts across all divisions.

Contract liabilities of R7.4 million (August 2019: R0) arose on the receipt of advance payments from contractors. This includes the R4.4 million received in the year ended February 2020, which has not yet been reduced due to the delay in construction caused by the Covid-19-induced lockdowns.

Right-of-use assets and lease liabilities decreased to R57.7 million and R67.7 million respectively (August 2019: R74.4 million and R80.4 million respectively). Right-of-use asset value decreases over the lease term as the lease liability decreases. These values were further decreased as some of the lease agreements were renegotiated and the area rented was reduced. The impact of these lease modifications was:

- Right-of-use asset decreased by R7.3 million;
- Lease liability decreased by R8.1 million; and
- Net profit increased by R0.8 million.

To mitigate the effects of the economic downturn and Covid-19 on revenue, the group focused on reducing rental and employment costs to match revenue demand as well as increasing liquidity through sales of assets.

The sales of PPE as part of the closure of the Gauteng branch of the Glass division generated cash flows of R6.4 million. Cash flows from operating activities were increased by R9.5 million through the sale of the land in Bellville.

The directors, having considered these cost-saving measures and the group's stringent focus on working capital management coupled with the increased liquidity generated by the above transactions, believe that the group has adequate financial resources to continue in operation for the foreseeable future, including specific consideration of the risk associated with Covid-19.

RELATED PARTY TRANSACTIONS

Directors' remuneration for the period amounted to R3.4 million (August 2019: R4.4 million).

DIVIDENDS

In line with group policy, no interim dividend was declared for the period.

DIRECTORATE

As announced on SENS on 8 September 2020, Abubaker Varachhia resigned as an independent non-executive director, chair of the audit and risk committee and a member of the social and ethics committee.

Monty Kaplan, an independent non-executive director on the Mazor Board, a member of the nomination and remuneration committee, and chair of the remuneration committee, was appointed with effect from 14 September 2020 as a member of the audit and risk committee and the social and ethics committee.

EVENTS AFTER THE REPORTING PERIOD

As previously announced, the company concluded a sale agreement in June 2020 for the sale of its property in Gauteng. The transfer was effected through the Deeds Office on 19 October 2020. Proceeds on the sale amounted to R12 million, of which R4 million has been utilised to settle the mortgage bond on the property.

The directors are not aware of any other material event which occurred after the interim reporting date and up to the date of the release of the unaudited condensed consolidated interim financial results for the six months ended 31 August 2020.

PROSPECTS

Looking ahead, we are not anticipating the position to change in the short to medium term. We believe that substantial disruptions will come from logistics as a result of material stock shortages. This will weigh further on our operational profits, bottom line and efficiencies.

In June 2020, government announced the rollout of an extensive infrastructure investment drive that would cover 55 projects across six sectors. The programme is an attempt to kick-start an economy battered by Covid-19, as well as to address a history of chronic infrastructure underspending. However, this will take time to materialise.

Covid-19 will continue to have an impact, including on particular industries such as hospitality and tourism, and we believe it is a long road to recovery.

Our focus is to ensure sustainability from the cost point of view. We are unsure whether there will be any building starts in the coming months and there have been significant liquidations within the industry from professional engineers to developers and construction companies.

FORWARD-LOOKING STATEMENTS

This announcement contains certain forward-looking statements with respect to the economy, financial condition and results of the operations of Mazor that, by their nature, involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. These may relate to future prospects, opportunities and strategies. If one or more of these risks materialise, or should underlying assumptions prove incorrect, actual results may differ from those anticipated. By consequence, none of the forward-looking statements have been reviewed or reported on by the group's auditors.

On behalf of the board

F Boner
Chairperson

R Mazor
Chief executive officer

Cape Town
30 October 2020

Directors: F Boner (chairperson)*^, R Mazor (chief executive officer), L Mazor (financial director), M Kaplan*^, S Mazor, A Groll*^

** Non-executive director ^Independent*

Company secretary: Ivor Mark Bloom

Registered office: 8 Monza Road, Killarney Gardens, 7441, (PO Box 60635, Table View, 7439)

Sponsor: Bridge Capital Advisors (Pty) Limited, 2nd Floor, 50 Smits Road, Dunkeld, 2196 (PO Box 651010, Benmore, 2010)

Transfer Secretaries: Computershare Investor Services (Pty) Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (Private Bag X9000, Saxonwold, 2132)

MAZOR GROUP

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