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MUSTEK LIMITED – Abridged unaudited financial results for the six months ended 31 December 2012

MST 201302210015A

Abridged unaudited financial results for the six months ended 31 December 2012

MUSTEK LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1987/070161/06)

Share code: MST

ISIN: ZAE000012373

(Mustek or the Group or the Company)

Abridged unaudited financial results for the six months ended 31 December 2012

- Revenue from continuing operations up 10%
- Headline earnings per ordinary share up 137%
- Net asset value of 712 cents per share

Condensed consolidated statement of comprehensive income

	Unaudited 6 months 31 Dec 2012 R000	Unaudited 6 months 31 Dec 2011 R000 (Restated)	Audited Year-end 30 Jun 2012 R000
Continuing operations			

Revenue	1 806 727	1 646 714	3 502 543
Cost of sales	(1 569 033)	(1 400 092)	(3 002 190)
Gross profit	237 694	246 622	500 353
Other income	2 037	14 078	17 980
Foreign currency losses	(14 964)	(64 071)	(47 813)
Distribution, administrative and other operating expenses	(174 291)	(156 449)	(333 591)
Profit from operations	50 476	40 180	136 929
Investment revenues	2 280	2 043	4 668
Finance costs	(12 954)	(10 593)	(25 337)
Other losses	–	–	(5 613)
Share of profit of associates	2 674	155	1 686
Profit before tax	42 476	31 785	112 333
Income tax expense	(10 738)	(7 920)	(32 515)
Profit for the period from continuing operations	31 738	23 865	79 818
Discontinued operations			
Profit (loss) for the period from discontinued operations	1 773	(1 094)	(2 019)
Profit for the period	33 511	22 771	77 799
Other comprehensive income			
Exchange profits on translation of foreign operations	1 605	9 707	7 883
Other comprehensive income for the period, net of tax	1 605	9 707	7 883
Total comprehensive income for the period	35 116	32 478	85 682
Profit (loss) attributable to:			
Owners of the parent	34 158	23 010	80 181
Non-controlling interest	(647)	(239)	(2 382)
	33 511		

		22 771	77 799
Total comprehensive income attributable to:			
Owners of the parent	35 032	30 969	86 196
Non-controlling interest	84	1 509	(514)
	35 116	32 478	85 682
Earnings and dividend per share (cents)			
Weighted number of ordinary shares in issue	108 436 464	108 849 751	108 831 677
Ordinary shares in issue	108 433 165	108 677 165	108 469 165
Dividend per ordinary share	17,00	17,00	17,00
From continuing and discontinued operations			
Headline earnings per ordinary share	31,75	13,40	70,15
Basic earnings per ordinary share	31,50	21,14	73,67
From continuing operations			
Headline earnings per ordinary share	29,52	14,18	71,37
Basic earnings per ordinary share	29,27	21,92	74,89
From discontinued operations			
Headline earnings per ordinary share	2,23	(0,79)	(1,22)
Basic earnings per ordinary share	2,23	(0,79)	(1,22)
Reconciliation between basic and headline earnings			
Basic earnings attributable to owners of the parent	34 158	23 010	80 181
Group’s share of loss (profit) on disposal of property, plant and equipment	274	(8 427)	(7 762)
Impairment of distribution right	–	–	3 445
Non-controlling interest in impairment of distribution right	–	–	(1 688)
Impairment of associate and other loans	–	–	2 168
Headline earnings from continuing and discontinued operations	34 432	14 583	76 344
Less Group’s share of (profit) loss for the period from discontinued operations	(2 420)	855	1 325

Headline earnings from continuing operations	32 012	15 438	77 669
Basic earnings attributable to owners of the parent	34 158	23 010	80 181
Less Group’s share of (profit) loss for the period from discontinued operations	(2 420)	855	1 325
Basic earnings from continuing operations	31 738	23 865	81 506
Net asset value per share (cents)	712,07	645,72	696,73

Condensed consolidated statement of financial position

	Unaudited 6 months 31 Dec 2012 R000	Unaudited 6 months 31 Dec 2011 R000 (Restated)	Audited Year-end 30 Jun 2012 R000
ASSETS			
Non-current assets			
Property, plant and equipment	119 702	119 884	122 625
Intangible assets	60 656	63 513	60 240
Investments in associates	6 262	10 207	8 737
Other investments and loans	31 770	31 735	31 733
Deferred tax asset	14 333	16 458	15 666
	232 723	241 797	239 001
Current assets			
Inventories	843 863	692 722	773 619
Trade and other receivables	709 823	707 649	596 447
Foreign currency assets	–	7 505	14 389

Tax assets	11 018	8 818	666
Bank balances and cash	95 847	111 081	224 413
	1 660 551	1 527 775	1 609 534
Assets classified as held for sale	307 719	274 308	268 664
TOTAL ASSETS	2 200 993	2 043 880	2 117 199
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	868	870	868
Ordinary share premium	117 048	118 495	117 257
Retained earnings	655 379	582 484	639 655
Non-distributable reserve	809	809	809
Foreign currency translation reserve	(1 983)	(913)	(2 857)
Equity attributable to owners of the parent	772 121	701 745	755 732
Non-controlling interest	18 510	20 449	18 426
Total equity	790 631	722 194	774 158
Non-current liabilities			
Long-term borrowings	6 670	240 426	4 712
Deferred tax liabilities	2 320	4 787	2 409
	8 990	245 213	7 121
Current liabilities			
Short-term borrowings	287 047	1 110	143 160
Trade and other payables	775 298	664 649	930 255
Provisions	7 910	8 375	13 593
Foreign currency liabilities	8 206	3 625	2 585
Deferred income	29 116	25 521	28 078

Tax liabilities	4 446	6 598	3 963
Bank overdrafts	58 995	164 600	20 055
	1 171 018	874 478	1 141 689
Liabilities directly associated with assets classified as held for sale	230 354	201 995	194 231
Total liabilities	1 410 362	1 321 686	1 343 041
TOTAL EQUITY AND LIABILITIES	2 200 993	2 043 880	2 117 199

Condensed consolidated cash flow statement

	Unaudited 6 months 31 Dec 2012 R000	Unaudited 6 months 31 Dec 2011 R000	Audited Year-end 30 Jun 2012 R000
Operating activities			
Cash receipts from customers	2 025 874	1 678 544	3 983 731
Cash paid to suppliers and employees	(2 300 666)	(1 959 239)	(3 863 800)
Net cash (used in) from operations	(274 792)	(280 695)	119 931
Investment revenues received	2 921	2 916	5 591
Finance costs paid	(16 667)	(14 844)	(34 241)
Dividends received	–	–	788
Dividends paid	(18 434)	(18 623)	(18 623)
Income taxes paid	(19 555)	(6 662)	(28 844)
Net cash (used in) from operating activities	(326 527)	(317 908)	44 602

Net cash used in investing activities	(2 360)	(23 291)	(37 188)
Net cash from financing activities	199 119	304 665	65 196
Net (decrease) increase in cash and cash equivalents	(129 768)	(36 534)	72 610
Cash and cash equivalents at beginning of the period	268 397	195 787	195 787
Cash and cash equivalents at the end of the period	138 629	159 253	268 397

Condensed consolidated statement of changes in equity

	Ordinary share capital R000	Ordinary share premium R000	Retained earnings R000	Non-distributable reserve R000	Foreign currency translation reserve R000	Attributable to owners of the parent R000	Non-controlling interest R000	Total R000
Balance at 30 June 2011	877	122 823	576 181	2 725	(8 872)	693 734	18 940	712 674
Profit for the period	–	–	23 010	–	–	23 010	(239)	22 771
Other comprehensive income	–	–	–	–	7 959	7 959	1 748	9 707
Recognition of share-based payments	–	26	–	–	–	26	–	26
Dividends paid	–	–	(18 623)	–	–	(18 623)	–	(18 623)
Realisation of non-distributable reserve on disposal of fixed assets	–	–	1 916	(1 916)	–	–	–	–
Buy back of shares	(7)	(4 354)	–	–	–	(4 361)	–	(4 361)
Balance at 31 December 2011	870	118 495	582 484	809	(913)	701 745	20 449	722 194
Profit for the period	–	–	57 171	–	–	57 171	(2 143)	55 028
Other comprehensive income	–	–	–	–	(1 944)	(1 944)	120	(1 824)
Recognition of share-based payments	–	27	–	–	–	27	–	27

Buy back of shares	(2)	(1 265)	—	—	—	(1 267)	—	(1 267)
Balance at 30 June 2012	868	117 257	639 655	809	(2 857)	755 732	18 426	774 158
Profit for the period	—	—	34 158	—	—	34 158	(647)	33 511
Other comprehensive income	—	—	—	—	874	874	731	1 605
Dividends paid	—	—	(18 434)	—	—	(18 434)	—	(18 434)
Buy back of shares	—	(209)	—	—	—	(209)	—	(209)
Balance at 31 December 2012	868	117 048	655 379	809	(1 983)	772 121	18 510	790 631

Condensed segment analysis

	Total		Mustek		Rectron		Comztek		Group		Eliminations	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	6 months	6 months	6 months	6 months	6 months	6 months	6 months	6 months	6 months	6 months	6 months	6 months
	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	R000	R000	R000	R000	R000	R000	R000	R000	R000	R000	R000	R000
Business segments		(Restated)		(Restated)		(Restated)		(Restated)				(Restated)
Revenue	1 806 727	1 646 714	1 095 439	1 093 614	827 645	606 447	—	—	—	—	(116 357)	(53 347)
EBITDA*	59 213	49 895	39 339	37 608	27 457	17 680	—	—	(7 583)	(5 393)	—	—
Depreciation and amortisation	(8 737)	(9 715)	(5 548)	(5 916)	(3 189)	(3 799)	—	—	—	—	—	—
Profit (loss) from operations	50 476	40 180	33 791	31 692	24 268	13 881	—	—	(7 583)	(5 393)	—	—
Investment revenues	2 280	2 043	3 224	4 427	1 530	1 185	—	—	427	194	(2 901)	(3 7

63)

Finance costs	(12 954)	(10 593)	(7 516)	(4 750)	(5 438)	(5 843)	—	—	(2 901)	(3 763)	2 901	3 763
Share of profit of associates	2 674	155	—	—	—	—	—	—	2 674	155	—	—
Profit (loss) before tax	42 476	31 785	29 499	31 369	20 360	9 223	—	—	(7 383)	(8 807)	—	—
Income tax (expense) benefit	(10 738)	(7 920)	(7 861)	(9 361)	(5 693)	(1 025)	—	—	2 816	2 466	—	—
Profit (loss) for the period from continuing operations	31 738	23 865	21 638	22 008	14 667	8 198	—	—	(4 567)	(6 341)	—	—
Discontinued operations												
Profit (loss) for the period from discontinued operations	1 773	(1 094)	—	—	(413)	(443)	2 186	(651)	—	—	—	—
Profit (loss) for the period	33 511	22 771	21 638	22 008	14 254	7 755	2 186	(651)	(4 567)	(6 341)	—	—
Attributable to:												
Owners of the parent	34 158	23 010	21 638	22 008	14 460	7 977	2 627	(634)	(4 567)	(6 341)	—	—
Non-controlling interest	(647)	(239)	—	—	(206)	(222)	(441)	(17)	—	—	—	—
	33 511	22 771	21 638	22 008	14 254	7 755	2 186	(651)	(4 567)	(6 341)	—	—

*Earnings before interest, taxation, depreciation and amortisation.

Geographical segments	Total		South Africa		Mustek East Africa		Rectron Australia		Comztek Africa	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	6 months	6 months	6 months	6 months	6 months	6 months	6 months	6 months	6 months	6 months
	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011

	R000	R000	R000	R000	R000	R000	R000	R000	R000	R000
		(Restated)		(Restated)				(Restated)		(Restated)
Revenue	1 806 727	1 646 714	1 784 133	1 627 570	22 594	19 144	–	–	–	–
Profit (loss) before tax	42 476	31 785	42 763	32 033	(287)	(248)	–	–	–	–
Income tax (expense) benefit	(10 738)	(7 920)	(10 958)	(7 994)	220	74	–	–	–	–
Profit (loss) for the period from continuing operations	31 738	23 865	31 805	24 039	(67)	(174)	–	–	–	–
Discontinued operations										
Pofit (loss) for the period from discontinued operations	1 773	(1 094)	(194)	(623)	–	–	(413)	(443)	2 380	(28)
Profit (loss) for the period	33 511	22 771	31 611	23 416	(67)	(174)	(413)	(443)	2 380	(28)
Attributable to:										
Equity holders of the parent	34 158	23 010	31 955	23 429	(67)	(174)	(207)	(221)	2 477	(24)
Minority interest	(647)	(239)	(344)	(13)	–	–	(206)	(222)	(97)	(4)
	33 511	22 771	31 611	23 416	(67)	(174)	(413)	(443)	2 380	(28)

Commentary

1. Corporate information

Mustek is a limited liability company incorporated and domiciled in South Africa. The main business of Mustek, its

subsidiaries, joint ventures and associates is the assembling, marketing and distribution of ICT (Information Communication

Technology) products and services.

2. Statement of compliance

These abridged financial statements for the six months ended 31 December 2012 are prepared in accordance with

International Financial Reporting Standards (IFRS) applicable to interim financial reporting (IAS 34), the Listings

Requirements of the JSE Limited and the Companies Act of South Africa.

3. Accounting policies

The accounting policies applied in the preparation of these abridged unaudited financial results, which are based on reasonable judgements and estimates, are in accordance with IFRS. These are consistent with those applied in the annual

financial statements for the year ended 30 June 2012.

4. Audit report

Neither the consolidated financial results for the six months ended 31 December 2012, nor this set of summarised

financial information has been audited by the Groups auditors, and thus no audit report was issued.

5. Corporate governance

The Group subscribes to and complies in all material aspects with the Code on Corporate Governance Practices and

Conduct as contained in the King III Report on Corporate Governance.

6. Transformation

Management has continued to meaningfully extend its initiatives in employment equity, skills development and corporate

social investment during the period. The Group is committed to a process of further transformation and economic

empowerment of its stakeholders, such that an acceptable balance between the operatives and commercial benefits of such a

process can be achieved, thereby ensuring the sustainability of the Group in a competitive market sector.

7. Board of directors

In order to comply with rule 3.84(j) of the Listings Requirements of the JSE Limited, which requires an arms-length

relationship between the company secretary and the board of directors, Neels Coetzee relinquished the role of company

secretary with effect from 1 November 2012 and the board appointed Sirkien van Schalkwyk as the company secretary with

effect from 1 November 2012.

No other changes were made to the board during the period under review. Total remuneration paid to directors for the

six months under review amounted to R4,1 million (31 December 2011: R3,8 million) and share-based payments of R0,8

million (31 December 2011: Rnil) were expensed relating to directors.

8. Discontinued operations

The comparative figures have been restated to show the results of the discontinued operations separately. On 28 August

2012, management reported that it is their intention to dispose of land in KwaZulu-Natal, the Groups share in Comztek

Holdings (Proprietary) Limited (Comztek) and Rectron Australia BV within the next 12 months. The sale of Comztek to

Datatec Limited was announced on 30 November 2012 subject to certain conditions precedent. Shareholders will be informed

as soon as the transaction becomes unconditional. The land in KwaZulu-Natal was disposed for its book value of R11,9

million and is in the process of being transferred.

The profit (loss) for the period from discontinued operations is as follows:

	31 Dec 2012	31 Dec 2011
Revenue	373 343	317 126
Cost of sales	(327 334)	(275 622)
Gross profit	46 009	41 504
Other income		379
Foreign currency profits	2 350	1 206
Distribution, administrative and other operating expenses	(40 011)	(40 439)
Profit from operations	8 348	2 650
Investment revenue	641	873
Finance cost	(3 713)	(4 252)
Profit (loss) before tax	5 276	(729)
Income tax expense	(3 503)	(365)
Profit (loss) for the period	1 773	(1 094)
Plus loss attributable to outside shareholders	647	239
Groups share of profit (loss) for the period from discontinued operations	2 420	(855)

9. Cash flow

Inventory and receivables increased in line with historic trends while revenue growth and the weaker Rand also

contributed to the R274,8 million cash used in operations (31 December 2011: R280,1 million). This was funded by our long-term

borrowing facilities and is expected to reverse in the period through to June 2013, in line with historic trends.

10. Operating results

Revenue from continuing operations improved by 10% to R1,807 billion (31 December 2011: R1,647 billion). The revenue

growth was supported mainly by the addition of the Acer and Lenovo product ranges.

The group expanded its basket of products with the introduction of multiple additions to the product portfolio

offering, including Huawei Enterprise Solutions and the Miniflex range of fibre cables, as well as solar panels.

Despite the significant depreciation in the external value of the Rand during the reporting period, foreign currency

losses reduced significantly through the adoption of an active hedging programme designed to contain severe volatilities

in the exchange rate, adding to profit from operations. The improved contribution from our associates arose from higher

levels of activity. Focus on optimal working capital management continues. Inventory build-up in anticipation of an

improved order book in the next quarter, as well as higher exchange rates, boosted the value of inventory holdings.

Musteks headline earnings from continuing operations increased to 29,52 cents per share (31 December 2011:

14,18 cents per share) and basic earnings per share from continuing operations are 29,27 cents per share

(31 December 2011: 21,92 cents per share).

The transition in the CEO leadership with the appointment of Ms Lindi Shortt at subsidiary Rectron proceeds apace,

with increased revenues of 36% from continuing operations. Rectron has also regained the historical profitability levels

previously earned, and is positioned to deliver on its continued recovery.

11. Retirement benefit plan

The Mustek Group Retirement Fund is a defined contribution fund and payments to the plan are expensed as they fall

due. The majority of the groups employees belong to this fund. The Group does not provide additional post-retirement

benefits.

12. Industry outlook

There is ongoing industry debate around the future of the desktop. Our view, premised on our ongoing interactions

with our customers and this rapidly changing industry, is that the desktop will continue to transition into different

formats based on evolving market trends and customer requirements. A manifestation of this is the increasing uptake of the

All-in-One format, proving popular in the banking and public sector markets due to its lower Total Cost of Ownership

and security benefits for the large percentage of desk bound employees in these environments.

We are also continuing with our research and development into new product offerings that have both potential markets

and growth into the foreseeable future.

13. Company outlook

The company is focusing on increasing volumes as it remains a driver of performance across our operations.

Considering vertical sector potential in 2013, significant growth opportunities lie in the education, health and

security industries, as well as the solar energy space.

For some time, skeptics have argued that the PC will be replaced with newer devices such as the tablet (mobile

device). Apple dominates this form factor and Mustek was excluded from this growth opportunity. However, statistics indicate

that the other brands are catching up and Apple is steadily losing its tablet dominance. We believe that Mustek will

become a key player in the local tablet market for the other brands. Over the next few years, this is likely to be a positive

revenue driver.

It became even more apparent that the use of tablets will play an increasing role in education in the future. Mustek

undertook considerable research into the merits of these particular devices, but also how these tools can best be used in

the classroom. Whereas tablets are taking the education world by storm outside of South Africa (and Africa), locally

there is still some work to be done to extol the value of tablets and how they can improve teaching and learning. 2013

presents a great platform to maximise this opportunity.

We recently launched a Cloud offering for the channel that includes a micro-billing system to support the transition

from a transactional sale to an annuity model.

We have also experienced another year of strengthening our strategic partner network within the industry. Mustek was

heavily involved with the Microsoft launch of Windows 8. 2013 is the year that players within this industry will be

exploring possibilities within the framework of the devices and applications spaces.

14. Dividend

The declaration of cash dividends will continue to be considered by the board in conjunction with an evaluation of

current and future funding requirements, and will be adjusted to levels considered appropriate at the t ime of declaration.

Musteks continued commitments to optimal cash utilisation will mean that cash generated by the operations will be

used to fund our growth and reduce our debt. In line with the dividend policy, no interim dividend will be paid.

15. Post balance sheet events

There have been no significant events subsequent to year-end up until the date of this report that requires adjustment

or disclosure.

On behalf of the board of directors

David Kan	Neels Coetzee	21 February 2013
Chief Executive Officer	Financial Director	
	(preparer of abridged Group results)	

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