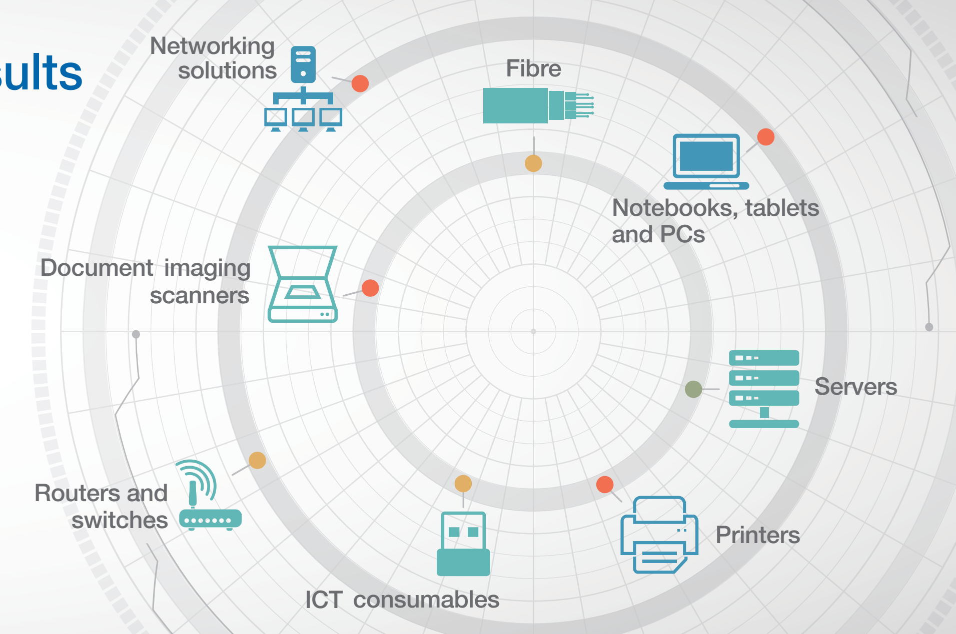
Mustek Limited

Unaudited condensed consolidated financial results for the six months ended 31 December 2017

Headline earnings per share
↑ 55.5%
2017: 58.08 cents
2016: 37.34 cents

Net asset value per share
↑ 19.0%
2017: 1 270.47 cents
2016: 1 067.57 cents

Inventory days
↓ 17.2%
2017: 70.7 days
2016: 85.4 days



Incorporated in the Republic of South Africa Registration number: 1987/070161/06 Share code: MST ISIN: ZAE000012373 "Mustek" or "the Group"

rectron

www.mustek.co.za

Condensed consolidated statement of comprehensive income

R000	Unaudited 6 months 31 Dec 2017	Unaudited 6 months 31 Dec 2016	Audited year-end 30 Jun 2017
Revenue	2 645 718	2 607 254	5 243 147
Cost of sales	(2 297 374)	(2 278 185)	(4 581 639)
Gross profit	348 344	329 069	661 508
Foreign currency losses	(3 883)	(2 970)	(464)
Distribution, administrative and other operating expenses	(257 569)	(236 725)	(487 352)
Profit from operations	86 892	89 374	173 692
Investment revenues	6 186	8 791	20 937
Finance costs	(42 666)	(54 083)	(108 266)
Other losses	(792)	–	(468)
Share of profit of associates	9 689	3 375	7 956
Profit before tax	59 309	47 457	93 851
Income tax expense	(12 848)	(12 406)	(20 131)
Profit for the period	46 461	35 051	73 720
Other comprehensive income			
Exchange losses on translation of foreign operations	(2 881)	(4 929)	(7 740)
Other comprehensive income for the period, net of tax	(2 881)	(4 929)	(7 740)
Total comprehensive income for the period	43 580	30 122	65 980
Profit attributable to:			
Owners of the parent	45 966	35 084	73 091
Non-controlling interest	495	(33)	629
	46 461	35 051	73 720
Total comprehensive income attributable to:			
Owners of the parent	43 085	30 155	65 351
Non-controlling interest	495	(33)	629
	43 580	30 122	65 980
Earnings and dividend per share (cents)			
Weighted number of ordinary shares in issue	80 454 825	94 200 535	91 003 326
Ordinary shares in issue	76 000 000	90 700 000	83 000 000
Dividend per ordinary share	16.00	15.00	15.00
Basic earnings per ordinary share	57.13	37.24	80.32

Condensed consolidated statement of financial position

R000	Unaudited 6 months 31 Dec 2017	Unaudited 6 months 31 Dec 2016	Audited year-end 30 Jun 2017
ASSETS			
Non-current assets			
Property, plant and equipment	161 648	151 233	156 237
Goodwill	55 627	48 018	55 627
Intangible assets	43 204	16 622	37 889
Investments in associates	118 395	103 313	103 006
Other investments and loans	57 795	78 490	77 920
Deferred tax asset	17 497	15 961	16 572
	454 166	413 637	447 251
Current assets			
Inventories	882 431	1 056 957	1 078 035
Inventories in transit	207 032	70 305	128 375
Trade and other receivables	1 193 916	1 182 608	1 093 565
Foreign currency assets	–	24	2 602
Bank balances and cash	310 506	142 552	230 371
	2 593 885	2 452 446	2 532 948
TOTAL ASSETS	3 048 051	2 866 083	2 980 199
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	–	14 690	–
Retained earnings	967 271	948 803	969 164
Non-distributable reserve	–	809	–
Foreign currency translation reserve	(1 712)	3 980	1 169
Equity attributable to owners of the parent	965 559	968 282	970 333
Non-controlling interest	8 623	(614)	8 128
Total equity	974 182	967 668	978 461
Non-current liabilities			
Long-term borrowings	4 729	2 764	5 637
Deferred tax liabilities	10 336	4 504	10 617
Deferred income	13 779	13 284	13 215
	28 844	20 552	29 469
Current liabilities			
Trade and other payables	1 499 328	1 598 744	1 715 277
Foreign currency liabilities	66 252	5 621	4 481
Deferred income	12 219	14 022	13 233
Bank overdrafts	467 226	259 476	239 278
	2 045 025	1 877 863	1 972 269
TOTAL LIABILITIES	2 073 869	1 898 415	2 001 738
TOTAL EQUITY AND LIABILITIES	3 048 051	2 866 083	2 980 199

Condensed consolidated cash flow statement

R000	Unaudited 6 months 31 Dec 2017	Unaudited 6 months 31 Dec 2016	Audited year-end 30 Jun 2017
Operating activities			
Cash receipts from customers	2 532 624	2 513 194	5 251 783
Cash paid to suppliers and employees	(2 581 207)	(2 507 326)	(5 023 008)
Net cash (used in) from operations	(48 583)	5 868	228 775
Investment revenues received	6 186	8 791	20 937
Finance costs paid	(42 666)	(54 083)	(108 266)
Dividends paid	(12 960)	(13 950)	(13 950)
Income taxes (received) paid	2 487	(11 068)	(27 637)
Net cash (used in) from operating activities	(95 536)	(64 442)	99 859
Net cash used in investing activities	(16 258)	(25 944)	(52 354)
Net cash from (used in) financing activities	191 929	(150 675)	(200 747)
Net increase (decrease) in cash and cash equivalents	80 135	(241 061)	(153 242)
Cash and cash equivalents at the beginning of the period	230 371	383 613	383 613
Cash and cash equivalents at the end of the period	310 506	142 552	230 371

CORPORATE INFORMATION
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Telephone: +27 (0) 11 370 5000
Registered office: 322 15th Road, Randjespark, Midrand, 1685
Postal address: PO Box 1638, Parklands, 2121
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Sponsor: Deloitte & Touche Sponsor Services Proprietary Limited

Bastion

Condensed consolidated statement of changes in equity

R000	Ordinary stated capital	Retained earnings	Non-distributable reserve	Foreign currency translation reserve	Attributable to owners of the parent	Non-controlling interest	Total
Balance at 30 June 2016	50 531	927 669	809	8 909	987 918	(581)	987 337
Net profit for the period	–	35 084	–	–	35 084	(33)	35 051
Other comprehensive income	–	–	–	(4 929)	(4 929)	–	(4 929)
Dividends paid	–	(13 950)	–	–	(13 950)	–	(13 950)
Buy-back of shares	(35 841)	–	–	–	(35 841)	–	(35 841)
Balance at 31 December 2016	14 690	948 803	809	3 980	968 282	(614)	967 668
Net profit for the period	–	38 007	–	–	38 007	662	38 669
Other comprehensive income	–	–	–	(2 811)	(2 811)	–	(2 811)
Dividends paid	–	–	–	–	–	–	–
Buy-back of shares	(14 690)	(18 455)	–	–	(33 145)	–	(33 145)
Acquisition of subsidiary	–	–	–	–	–	8 080	8 080
Non-distributable reserves recycled to retained earnings	–	809	(809)	–	–	–	–
Balance at 30 June 2017	–	969 164	–	1 169	970 333	8 128	978 461
Net profit for the period	–	45 966	–	–	45 966	495	46 461
Other comprehensive income	–	–	–	(2 881)	(2 881)	–	(2 881)
Dividends paid		(12 960)	–	–	(12 960)	–	(12 960)
Buy-back of shares	–	(34 899)	–	–	(34 899)	–	(34 899)
Balance at 31 December 2017	–	967 271	–	(1 712)	965 559	8 623	974 182

Condensed segmental analysis

R000 Business segments	Total: Unaudited 6 months 31 Dec 2017	Total: Unaudited 6 months 31 Dec 2016	Mustek: Unaudited 6 months 31 Dec 2017	Mustek: Unaudited 6 months 31 Dec 2016	Rectron: Unaudited 6 months 31 Dec 2017	Rectron: Unaudited 6 months 31 Dec 2016	Group: Unaudited 6 months 31 Dec 2017	Group: Unaudited 6 months 31 Dec 2016	Eliminations: Unaudited 6 months 31 Dec 2017	Eliminations: Unaudited 6 months 31 Dec 2016
Revenue	2 645 718	2 607 254	1 730 974	1 514 800	1 088 758	1 259 733	–	–	(174 014)	(167 279)
EBITDA*	101 237	106 413	81 624	72 821	31 339	42 168	(11 726)	(8 576)	–	–
Depreciation and amortisation	(15 137)	(17 039)	(9 834)	(11 991)	(5 303)	(5 048)	–	–	–	–
Profit (loss) from operations	86 100	89 374	71 790	60 830	26 036	37 120	(11 726)	(8 576)	–	–
Investment revenues	6 186	8 791	1 993	4 300	5 244	5 360	1 155	2 173	(2 206)	(3 042)
Finance costs	(42 666)	(54 083)	(26 494)	(27 631)	(16 172)	(26 452)	(2 206)	(3 042)	2 206	3 042
Share of profit of associates	9 689	3 375	–	–	–	–	9 689	3 375	–	–
Profit (loss) before tax	59 309	47 457	47 289	37 499	15 108	16 028	(3 088)	(6 070)	–	–
Income tax (expense) benefit	(12 848)	(12 406)	(12 244)	(10 465)	(4 182)	(4 586)	3 578	2 645	–	–
Profit (loss) for the period	46 461	35 051	35 045	27 034	10 926	11 442	490	(3 425)	–	–
Attributable to:										
Owners of the parent	45 966	35 084	35 070	27 067	10 406	11 442	490	(3 425)	–	–
Non-controlling interest	495	(33)	(25)	(33)	520	–	–	–	–	–
	46 461	35 051	35 045	27 034	10 926	11 442	490	(3 425)	–	–

** Earnings before interest, taxation, depreciation and amortisation.*

R000 Geographical segments	Total: Unaudited 6 months 31 Dec 2017	Total: Unaudited 6 months 31 Dec 2016	South Africa: Unaudited 6 months 31 Dec 2017	South Africa: Unaudited 6 months 31 Dec 2016	East Africa: Unaudited 6 months 31 Dec 2017	East Africa: Unaudited 6 months 31 Dec 2016	Taiwan: Unaudited 6 months 31 Dec 2017	Taiwan: Unaudited 6 months 31 Dec 2016
Revenue	2 645 718	2 607 254	2 623 885	2 584 826	21 086	21 681	747	747
Profit (loss) before tax	59 309	47 457	57 861	47 162	1 045	(1 205)	403	1 500
Income tax (expense) benefit	(12 848)	(12 406)	(12 778)	(12 512)	71	361	(141)	(255)
Profit (loss) for the period	46 461	35 051	45 083	34 650	1 116	(844)	262	1 245
Attributable to:								
Owners of the parent	45 966	35 084	44 588	34 683	1 116	(844)	262	1 245
Non-controlling interest	495	(33)	495	(33)	–	–	–	–
	46 461	35 051	45 083	34 650	1 116	(844)	262	1 245

Commentary

Corporate information
Mustek is a public 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 Information Communication Technology (ICT) products and services.

Basis of preparation
The unaudited condensed financial information for the period ended 31 December 2017 has been prepared in accordance with the framework concepts and measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the information at a minimum required by IAS 34 Interim Financial Reporting, the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa. This set of condensed financial information, which is based on reasonable judgements and estimates, have been prepared using accounting policies that comply with IFRS. These are consistent with those applied in the audited consolidated financial statements for the year ended 30 June 2017.

The directors take full responsibility for the preparation of this condensed report. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the company's auditors.

Headline earnings per ordinary share

	Unaudited 6 months 31 Dec 2017	Unaudited 6 months 31 Dec 2016	Audited year-end 30 Jun 2017
Headline earnings per share (cents)	58.08	37.34	81.26
Reconciliation between basic and headline earnings (R000)			
Basic earnings attributable to owners of the parent	45 966	35 084	73 091
Group's share of (profit) loss on disposal of property, plant and equipment	(32)	93	391
Group's share of loss on sale of investment	792	–	–
Group's share of loss on impairment of goodwill	–	–	468
Headline earnings	46 726	35 177	73 950
Net asset value per share (cents)	1 270.47	1 067.57	1 169.08

Fair value measurement of financial instruments
Fair value measurements of financial assets and liabilities are analysed as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

R000 Financial assets and liabilities	Level	Unaudited 6 months 31 Dec 2017	Unaudited 6 months 31 Dec 2016	Audited year-end 30 Jun 2017
Held-for-trading: Foreign currency assets These financial assets consist of foreign currency forward contracts and options, and are measured using discounted cash flows. Future cash flows are estimated based on the observable yield curves of forward interest rates at the end of the reporting period, as well as contract interest rates. The revaluation of these assets are included in foreign currency losses.	2	–	24	2 602
Held-for-trading: Foreign currency liabilities These financial liabilities consist of foreign currency forward contracts and options, and are measured using discounted cash flows. Future cash flows are estimated based on the observable yield curves of forward interest rates at the end of the reporting period, as well as contract interest rates. The revaluation of these assets are included in foreign currency losses.	2	66 252	5 621	4 481
Available-for-sale: Other investments and loans This financial asset consists of shares held in Zinox Technologies Limited. The inputs used to measure the fair value of this investment are the Group's share of the net asset value of Zinox Technologies Limited. As the fair value approximates the carrying value of this asset, no revaluation was done during the reporting periods presented.	3	–	18 742	18 742

Operating results
The Group's revenue increased by 1.5% to R2.65 billion (31 December 2016: R2.61 billion). The slowdown in growth was the result of a decision by management to reduce its supply to retailers. This decision had a positive effect on the gross profit margin that increased from 12.6% to 13.2%.

The ZAR/USD exchange rate was extremely volatile during the period under review and the Group's hedging policy proved effective as forex losses were limited to R3.9 million (31 December 2016: R3.0 million).

Distribution, administrative and other operating expenses from continuing operations were well controlled, increasing by 8.8%. The above inflation increase was mainly caused by an increase in the provision for bad debts.

Net finance charges decreased from R45.3 million to R36.5 mainly as a result of a reduction in inventory. Working capital management continues to be a driver of profitability and is currently receiving management's full attention. The Group applies hedge accounting where the requirements of IAS 39 have been met to separate the interest and spot elements from the forward contracts, and R3.1 million (31 December 2016: R9.9 million) was classified as finance costs, as opposed to forex losses.

The contribution from our associates increased mainly due to an increase in the contribution from Sizwe Africa IT Group Proprietary Limited and a reduced loss incurred at Yangtze Optics Africa Holdings Proprietary Limited (YOA). The Group's share of YOA's equity accounted loss amounted to R0.8 million (31 December 2016: R2.0 million). Management believes that this loss will be reversed in the period to June 2018.

Mustek's headline earnings per share is 55.5% higher at 58.08 cents (31 December 2016: 37.34 cents) and basic earnings per share is 53.4% higher at 57.13 cents (31 December 2016: 37.24 cents).

Cash flow
The R48.6 million cash used in (31 December 2016: R5.9 million cash from) operations was mainly due to an increase in receivables and a decrease in accounts payable. This was funded by bank overdraft facilities and is expected to reverse in the period through to June 2018, in line with historic trends.

Inventory days improved by 17.2% to 70.7 days (31 December 2016: 85.4 days).

Transformation
Following an audit by an accredited verification agency, Mustek achieved a Level 1 BBBEE rating, using the amended ICT sector codes.

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 operations and commercial benefits of such a process can be achieved, thereby ensuring the sustainability and prosperity of the Group in a competitive market sector.

Board of directors
No changes were made to the Board during the period under review.

Corporate activities
On 5 October 2017, Mustek disposed of its 20% investment in Zinox Technologies Limited (Zinox), a company incorporated in Nigeria for a cash consideration of USD1 056 526. Prior to the transaction, Zinox declared a dividend of USD257 400 to the company and the total loss on the disposal of Zinox amounted to R0.8 million.

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 Group's employees belong to this fund. The Group does not provide additional post-retirement benefits.

Company and industry outlook
The three pillars that constantly evolve and change are communications, mobility and energy and Mustek is well positioned to service and add value in those pillars with our Huawei Enterprise portfolio offering and Hytera, a provider of radio communication technology. We have several best in class brands and products to service the mobility market including Lenovo, Acer, Apple, Asus and Toshiba. Our Renewable Energy division is showing good, steady growth and our fibre-optic cabling partner, YOA, is expected to contribute meaningfully in the years ahead.

The smart education and learning market is expected to grow as more education institutions realise the importance of digitisation in the mobile and connected world. We are excited to be able to support schools and universities with digital education deployment and to assist them in taking advantage of this growth opportunity. As an early adopter of 3D printing we expect this product line to show growth in the coming years as the line-up becomes mainstream. The document scanning market is expected to grow at a compound annual growth rate of 13.85% until 2020 and we are excited to support our partners, Epson, Brother and Fujitsu, to take advantage of this growth.

The growth in PC gaming and e-sports is being carefully monitored and new brands like MSI have been added to the product portfolio to ensure we meet the needs of this market. We do however note the phenomenal rise in GPU sales based on intense interest in Crypto currency mining by the public and supply is unable to meet the demand.

Although economic and market conditions are expected to remain difficult, the increased contribution from our associates and the reduction in net finance costs as a result of lower inventory levels at both Mustek and Rectron, should contribute to higher profitability. Lower inventory levels should also have a positive effect on gross profit margins.

The Group will continue to look for opportunities to add additional products to its product offering in order to better utilise its infrastructure. The contributions from products such as Huawei Enterprise Solutions and Microsoft Volume Licensing are expected to continue growing and although the gross profit margins might be lower on these products, net profit should increase as the additional gross profit contributions from these products exceeds the additional variable costs associated with these products.

In conjunction with strategic partners from across the ICT industry, Mustek is well positioned for the forthcoming years.

Share repurchase programme
Mustek acquired 7 000 000 ordinary shares of its issued share capital on the open market for a purchase consideration in aggregate of R34.9 million. The general repurchase commenced on 30 August 2017 and continued on a day-to-day basis as market conditions allowed and in accordance with the JSE Limited (JSE) Listings Requirements until 12 December 2017.

The repurchase of shares will continue to be considered by the Board in conjunction with an evaluation of current and future funding requirements in the period to 30 June 2018. This programme will be effected in accordance with the terms of the authority granted by shareholders at the annual general meeting held on 2 November 2017. It is currently intended that any shares purchased will be cancelled and de-listed. The market will be notified in accordance with applicable listing rules and regulations if and when purchases are made.

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 opportunities to repurchase shares. It will be adjusted to levels considered appropriate at the time of declaration.

Mustek's 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.

Post-balance sheet events
There have been no significant events subsequent to period-end up until the date of this report that requires adjustment or disclosure.

On behalf of the Board of directors
David Kan *Chief Executive Officer*
Neels Coetzee *Financial Director (preparer of provisional Group results)*

22 February 2018
Midrand

Mustek Limited