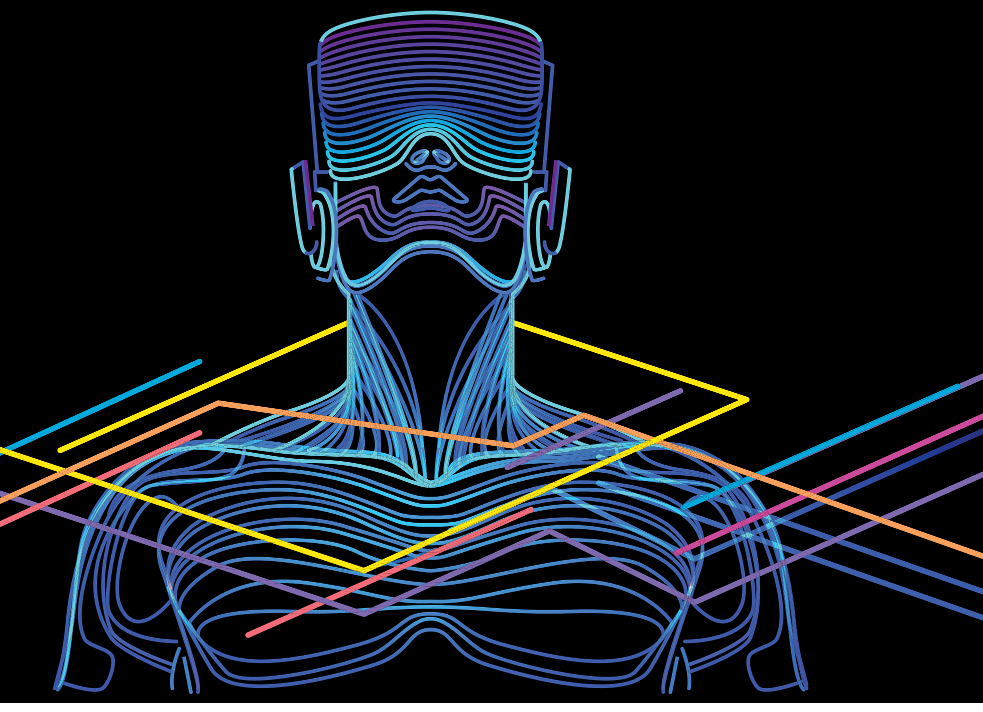

Mustek LIMITED

Unaudited condensed consolidated financial results for the six months ended 31 December 2019

Revenue up 11.3%
2019: R3.01 billion
2018: R2.70 billion

Headline earnings per share up 9.1%
2019: 75.79 cents
2018: 69.49 cents

Net asset value per share up 8.0%
2019: 1 540.43 cents
2018: 1 426.38 cents

Commentary

Corporate information

Mustek is a public company incorporated and domiciled in South Africa. The main business of Mustek, its subsidiaries and associates is the assembling, marketing and distribution of Information Communication Technology (ICT) products and services.

Basis of preparation

The unaudited condensed consolidated financial results for the period ended 31 December 2019 has been prepared in accordance with the framework concepts and measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and as a minimum contain the information 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, has been prepared using accounting policies and methods of computation that comply with IFRS.

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.

The accounting policies are consistent with those applied in the consolidated financial statements for the year ended 30 June 2019, except for the adoption of IFRS 16 Leases on 1 July 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – ie it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative standalone prices.

B. As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – ie these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (eg IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The carrying amounts of right-of-use assets are as below.

	R000
Balance at 1 July 2019	49 641
Balance at 31 December 2019	36 879

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Transition

Previously, the Group classified property leases as operating leases under IAS 17.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at the amount equal to the lease liability adjusted for lease smoothing balances as at 30 June 2019.

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 9.25%.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. Impacts on financial statements

i. Impacts on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities. The impact on transition is summarised below.

	R000
Right-of-use assets	49 641
Lease liabilities	53 290

Reconciliation between the operating lease commitments disclosed in the Group's 30 June 2019 annual financial statements and the amount of lease liabilities at 1 July 2019:

	R000
Operating lease commitment at 30 June 2019 as disclosed in the Group's consolidated financial statements	55 474
Discounted using the incremental borrowing rate at 1 July 2019	(2 184)
Lease liabilities recognised as at 1 July 2019	53 290

ii. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised right-of-use assets of R36,9 million and lease liabilities of R40,9 million at 31 December 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 31 December 2019, the Group recognised R12,8 million of depreciation charges and R2,2 million of interest costs from these leases.

The Group did not early adopt any other standard, interpretation or amendment that have been issued but are not yet effective.

Re-presentation of the December 2018 statement of financial position and statement of comprehensive income

In the previous financial period, tax assets were included as part of trade and other receivables. During the current financial period, tax assets were reclassified and presented in a separate line item on the face of the statement of financial position, in line with guidance received from the JSE.

In the previous financial period, tax liabilities were included as part of trade and other payables. During the current financial period, tax liabilities were reclassified and presented in a separate line item on the face of the statement of financial position, in line with guidance received from the JSE.

In the previous financial period, impairment losses on trade receivables were included as part of distribution, administrative and other operating expenses. During the current financial period, impairment losses on trade receivables were reclassified and presented in a separate line item on the face of the statement of comprehensive income.

Restatement of the 31 December 2018 statement of financial position – prior period error

The 31 December 2018 statement of financial position was restated in order to recognise the cumulative effect of adopting IFRS 9 by adjusting the opening balance of retained earnings at 1 July 2018.

	Group December 2018		
	As previously reported R000	Restated R000	Impact R000
Investments in associates	116 957	116 905	(52)
Other investments and loans	58 212	57 131	(1 081)
Deferred tax asset	19 843	21 513	1 670
Trade and other receivables	1 016 728	1 008 506	(8 222)
Tax assets	–	2 398	2 398
Retained earnings	999 866	994 579	5 287
Trade and other payables	1 645 655	1 640 259	5 396
Tax liabilities	–	5 396	(5 396)
Net impact			–

Headline earnings and dividend per ordinary share	Unaudited six months 31 December 2019	Unaudited six months 31 December 2018	Audited year-end 30 June 2019
Weighted number of ordinary shares in issue	70 000 000	71 432 953	70 722 365
Ordinary shares in issue	70 000 000	70 000 000	70 000 000
Dividend per ordinary share – paid (cents)	30.00	22.00	22.00
Headline earnings per share (cents)	75.79	69.49	139.32
Diluted headline earnings per share (cents)	75.79	69.49	139.32
Reconciliation between basic and headline earnings (R000)			
Basic earnings attributable to owners of the parent	53 004	55 890	104 598
Group's share of loss (profit) on disposal of property, plant and equipment	47	(6 253)	(6 068)
Headline earnings	53 051	49 637	98 530
Net asset value per share (cents)	1 540.43	1 426.38*	1 494.21

** Restated*

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).

Financial assets and liabilities	Level	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000	Audited year-end 30 June 2019 R000
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	–	14 010	297
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	34 635	–	9 823

Operating results

The Group's revenue increased by 11.3% to R3.01 billion (31 December 2018: R2.70 billion) mainly as a result of strong growth in the Mecer brand and new products and services added to the Group's portfolio over the last six years. The strong trading performance demonstrated Mustek's resilience and the defensive nature of the markets in which the Group trades.

The gross profit percentage was lower compared to the comparative period at 14.4% (31 December 2018: 15.2%), but higher than the 14.0% achieved for the year ended 30 June 2019, predominantly as a result of product mix.

The ZAR/USD exchange rate was extremely volatile during the period and the Group's hedging policy proved effective as forex losses was limited to R6.5 million (31 December 2018: R11.3 million).

Distribution, administrative and other operating expenses increased by 7.8%. Excluding the profit on the sale of property in the comparative period, the increase is 4.8%.

Net finance charges increased from R46.8 million to R55.5 million predominantly as a result of the increase in average inventory levels and the adoption of IFRS 16 that resulted in additional finance charges of R2.2 million being recognised. Working capital management continues to be a driver of profitability and will continue receiving management's full attention.

YOA, an associate company that manufactures fibre optic cable, contributed positively to the Group's share of profit from associates.

Although Rectron's contribution was down from the comparative period, their prospects remain positive after they added HP Printers, Zebra and DJI Enterprise to their range of products after the period end.

Inventory days improved to 91.4 days (31 December 2018: 101.8 days).

Trade and other receivable days improved to 67.7 days (31 December 2018: 68.7 days).

Mustek's headline earnings per share is 9.1% higher at 75.79 cents (31 December 2018: 69.49 cents) and basic earnings per share is 3.2% lower at 75.72 cents (31 December 2018: 78.24 cents). In the comparative period, basic earnings included a non-headline profit of R6.3 million on the sale of vacant land in Midrand.

Cash flow

The R5.2 million cash from (31 December 2018: R194.0 million cash used in) operations was mainly due to a reduction in inventory levels. Management continues to focus on optimal working capital management.

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, while continuing to ensure 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.

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.

Group prospects and industry outlook

The Group is currently managing the risks associated with the Coronavirus and will continue to monitor the situation closely.

Our investments in new product lines such as networking equipment, sustainable energy and fibre are starting to contribute meaningfully to both revenue and profit. The growth in fibre to the home is not only assisting our fibre sales, but also increasing the demand for new devices in order to fully benefit from the faster internet speeds. 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 are expected to continue growing and although the gross profit margin might be lower for these products, net profit should increase.

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.

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

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.

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 CA(SA)
Financial director (preparer of Group results)

28 February 2020

Midrand

Condensed consolidated statement of comprehensive income

	Unaudited six months 31 December 2019 R000	Unaudited Re-presented six months 31 December 2018 R000	Audited year-end 30 June 2019 R000
Revenue	3 007 328	2 702 265	5 845 907
Cost of sales	(2 575 752)	(2 291 738)	(5 028 353)
Gross profit	431 576	410 527	817 554
Foreign currency losses	(6 528)	(11 252)	(19 880)
Distribution, administrative and other operating expenses	(298 197)	(276 569)	(573 374)
Impairment losses on trade receivables	(10 386)	(6 279)	(6 771)
Profit from operations	116 465	116 427	217 529
Investment revenues	2 556	3 248	8 035
Finance costs	(58 102)	(49 999)	(112 289)
Other profits	7	–	70
Share of profit of associates	8 236	6 475	19 688
Profit before tax	69 162	76 151	133 033
Income tax expense	(15 636)	(19 147)	(26 498)
Profit for the period	53 526	57 004	106 535
Other comprehensive income			
Exchange profits (losses) on translation of foreign operations	350	610	(622)
Other comprehensive income (losses) for the period, net of tax	350	610	(622)
Total comprehensive income for the period	53 876	57 614	105 913
Profit attributable to:			
Owners of the parent	53 004	55 890	104 598
Non-controlling interest	522	1 114	1 937
	53 526	57 004	106 535
Total comprehensive income attributable to:			
Owners of the parent	53 354	56 500	103 976
Non-controlling interest	522	1 114	1 937
	53 876	57 614	105 913
Basic earnings per ordinary share (cents)	75.72	78.24	147.90
Diluted basic earnings per ordinary share (cents)	75.72	78.24	147.90

Condensed consolidated statement of changes in equity

	Ordinary stated capital R000	Retained earnings R000	Foreign currency translation reserve R000	Attributable to owners of the parent R000	Non-controlling interest R000	Total R000
Balance at 30 June 2018	–	981 157	3 279	984 436	8 879	993 315
Adjustment from adoption of IFRS 9 (net of taxation)	–	(5 287)	–	(5 287)	–	(5 287)
Balance at 1 July 2018 as restated	–	975 870	3 279	979 149	8 879	988 028
Net profit for the period	–	55 890	–	55 890	1 114	57 004
Other comprehensive income	–	–	610	610	–	610
Dividends paid	–	(15 914)	–	(15 914)	(1 871)	(17 785)
Buy back of shares	–	(21 267)	–	(21 267)	–	(21 267)
Balance at 31 December 2018 as restated	–	994 579	3 889	998 468	8 122	1 006 590
Net profit for the year	–	48 708	–	48 708	823	49 531
Other comprehensive loss	–	–	(1 232)	(1 232)	–	(1 232)
Dividends paid	–	–	–	–	(1 497)	(1 497)
Balance at 30 June 2019	–	1 043 287	2 657	1 045 944	7 448	1 053 392
Net profit for the period	–	53 004	–	53 004	522	53 526
Other comprehensive income	–	–	350	350	–	350
Dividends paid	–	(21 000)	–	(21 000)	–	(21 000)
Balance at 31 December 2019	–	1 075 291	3 007	1 078 298	7 970	1 086 268

Condensed segment analysis

	Total		Mustek		Rectron		Group		Eliminations	
Business segments	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000
Revenue	3 007 328	2 702 265	2 041 434	1 751 646	1 074 716	1 111 392	–	–	(108 822)	(160 773)
EBITDA*	141 563	130 917	123 295	107 509	34 656	34 776	(16 388)	(11 368)	–	–
Depreciation and amortisation	(25 098)	(14 490)	(18 514)	(9 411)	(6 584)	(5 079)	–	–	–	–
Profit (loss) from operations	116 465	116 427	104 781	98 098	28 072	29 697	(16 388)	(11 368)	–	–
Investment revenues	2 556	3 248	1 003	2 876	1 278	1 434	275	463	–	(1 525)
Finance costs	(58 102)	(49 999)	(39 478)	(34 868)	(18 624)	(15 131)	–	(1 525)	–	1 525
Other profits	7	–	–	–	–	–	7	–	–	–
Share of profit of associates	8 236	6 475	–	–	–	–	8 236	6 475	–	–
Profit (loss) before tax	69 162	76 151	66 306	66 106	10 726	16 000	(7 870)	(5 955)	–	–
Income tax (expense) benefit	(15 636)	(19 147)	(17 358)	(18 294)	(2 790)	(4 333)	4 512	3 480	–	–
Profit (loss) for the period	53 526	57 004	48 948	47 812	7 936	11 667	(3 358)	(2 475)	–	–
Attributable to:										
Owners of the parent	53 004	55 890	48 948	47 784	7 414	10 581	(3 358)	(2 475)	–	–
Non-controlling interest	522	1 114	–	28	522	1 086	–	–	–	–
	53 526	57 004	48 948	47 812	7 936	11 667	(3 358)	(2 475)	–	–

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

	Total		South Africa		East Africa		Taiwan	
Geographical segments	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000
Revenue	3 007 328	2 702 265	2 985 776	2 682 789	19 987	19 152	1 565	324
Profit before tax	69 162	76 151	66 245	73 127	1 909	113	1 008	2 911
Income tax expense	(15 636)	(19 147)	(14 102)	(18 299)	(1 312)	(353)	(222)	(495)
Profit (loss) for the year	53 526	57 004	52 143	54 828	597	(240)	786	2 416
Attributable to:								
Owners of the parent	53 004	55 890	51 621	53 714	597	(240)	786	2 416
Non-controlling interest	522	1 114	522	1 114	–	–	–	–
	53 526	57 004	52 143	54 828	597	(240)	786	2 416

CORPORATE INFORMATION
www.mustek.co.za
Incorporated in the Republic of South Africa, Registration number: 1987/070161/06, JSE share code: MST
ISIN: ZAE000012373, "Mustek" or "the Group"
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Transfer secretaries: Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196. PO Box 61051, Marshalltown, 2107, South Africa. Telephone: +27 (0)11 370 5000
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Sponsor: Deloitte & Touche Sponsor Services Proprietary Limited

Condensed consolidated statement of financial position

	Unaudited six months 31 December 2019 R000	Unaudited Restated six months 31 December 2018 R000	Audited year-end 30 June 2019 R 000
ASSETS			
Non-current assets			
Property, plant and equipment	222 121	185 713	184 981
Goodwill	55 627	55 627	55 627
Intangible assets	55 533	45 237	53 167
Investments in associates	135 498	116 905	127 262
Other investments and loans	55 160	57 131	56 514
Deferred tax asset	21 925	21 513	25 478
	545 864	482 126	503 029
Current assets			
Inventories	1 279 842	1 268 002	1 296 368
Inventories in transit	146 461	180 994	97 024
Trade and other receivables	1 105 909	1 008 506	969 146
Tax assets	4 976	2 398	6 055
Contract assets	2 071	–	3 685
Foreign currency assets	–	14 010	297
Bank balances and cash	252 199	318 125	221 719
	2 791 458	2 792 035	2 594 294
TOTAL ASSETS	3 337 322	3 274 161	3 097 323
EQUITY AND LIABILITIES			
Capital and reserves			
Retained earnings	1 075 291	994 579	1 043 287
Foreign currency translation reserve	3 007	3 889	2 657
Equity attributable to owners of the parent	1 078 298	998 468	1 045 944
Non-controlling interest	7 970	8 122	7 448
Total equity	1 086 268	1 006 590	1 053 392
Non-current liabilities			
Long-term borrowings	16 087	7 005	8 684
Deferred tax liabilities	8 382	8 616	8 103
Contract liabilities	15 777	15 466	17 514
	40 246	31 087	34 301
Current liabilities			
Trade and other payables	1 628 664	1 640 259	1 583 866
Tax liabilities	1 231	5 396	1 004
Foreign currency liabilities	34 635	–	9 823
Contract liabilities	17 624	13 999	21 449
Bank overdrafts	528 654	576 830	393 488
	2 210 808	2 236 484	2 009 630
Total liabilities	2 251 054	2 267 571	2 043 931
TOTAL EQUITY AND LIABILITIES	3 337 322	3 274 161	3 097 323

Condensed consolidated cash flow statement

	Unaudited six months 31 December 2019 R000	Unaudited six months 31 December 2018 R000	Audited year-end 30 June 2019 R 000
OPERATING ACTIVITIES			
Cash receipts from customers	2 870 565	2 652 725	5 838 314
Cash paid to suppliers and employees	(2 865 410)	(2 846 724)	(5 854 606)
Net cash from (used in) operations	5 155	(193 999)	(16 292)
Investment revenues received	2 556	3 248	8 035
Finance costs paid	(58 102)	(49 999)	(112 289)
Dividends paid	(21 000)	(17 785)	(19 282)
Income taxes paid	(11 012)	(11 029)	(31 524)
Net cash used in operating activities	(82 403)	(269 564)	(171 352)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(9 693)	(25 168)	(32 998)
Proceeds from sale of property, plant and equipment	–	17 500	17 545
Decrease in investments in and loans to associates	–	6 846	9 741
Increase in other loans	(100)	–	(1 386)
Decrease in other loans	1 461	1 716	3 750
Additions to intangible assets	(5 248)	(4 693)	(15 882)
Net cash used in investing activities	(13 580)	(3 799)	(19 230)
FINANCING ACTIVITIES			
Buy back of ordinary shares	–	(21 267)	(21 267)
(Decrease) increase in long-term borrowings	(9 253)	432	–
Increase (decrease) in short-term borrowings	550	(5 227)	(640)
Increase in bank overdrafts	135 166	322 174	138 832
Net cash from financing activities	126 463	296 112	116 925
Net increase (decrease) in cash and cash equivalents	30 480	22 749	(73 657)
Cash and cash equivalents at beginning of the period	221 719	295 376	295 376
Cash and cash equivalents at the end of the period	252 199	318 125	221 719

Bastion