Mustek Limited

Unaudited condensed consolidated financial results for the six months ended 31 December 2016

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

www.mustek.co.za

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 6 months 31 December 2016 R000	Unaudited 6 months 31 December 2015 R000	Audited year-end 30 June 2016 R000
ASSETS			
Non-current assets			
Property, plant and equipment	151 233	149 628	152 458
Intangible assets	64 640	67 710	67 059
Investments in associates	101 313	67 093	84 848
Other investments and loans	80 490	76 897	67 809
Deferred tax asset	15 961	19 937	17 312
	413 637	381 265	389 486
Current assets			
Inventories	1 056 957	1 320 835	1 111 929
Inventories in transit	70 305	113 539	95 753
Trade and other receivables	1 168 883	1 280 130	1 074 823
Foreign currency assets	24	32 247	3 059
Tax assets	13 725	8 978	14 219
Bank balances and cash	142 552	196 558	383 613
Short-term loans	–	–	12 676
	2 452 446	2 952 287	2 696 072
Assets classified as held-for-sale	–	164 427	–
Total assets	2 866 083	3 497 979	3 085 558
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	14 690	62 458	50 531
Retained earnings	948 803	911 374	927 669
Non-distributable reserve	809	809	809
Foreign currency translation reserve	3 980	8 831	8 909
Equity attributable to owners of the parent	968 282	983 472	987 918
Non-controlling interest	(614)	14 302	(581)
Total equity	967 668	997 774	987 337
Non-current liabilities			
Long-term borrowings	2 764	1 464	499
Deferred tax liabilities	4 504	4 571	4 504
Deferred income	13 284	13 706	12 632
	20 552	19 741	17 635
Current liabilities			
Short-term borrowings	1 041	752	555
Trade and other payables	1 595 487	1 647 127	1 670 595
Foreign currency liabilities	5 621	–	10 031
Deferred income	14 022	16 382	19 284
Tax liabilities	2 216	4 749	2 408
Bank overdrafts	259 476	674 393	377 713
	1 877 863	2 343 403	2 080 586
Liabilities directly associated with assets classified as held-for-sale	–	137 061	–
Total liabilities	1 898 415	2 500 205	2 098 221
TOTAL EQUITY AND LIABILITIES	2 866 083	3 497 979	3 085 558

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months 31 December 2016 R000	Unaudited 6 months 31 December 2015 R000	Audited year-end 30 June 2016 R000
Revenue	2 607 254	2 468 276	5 286 384
Cost of sales	(2 278 185)	(2 113 411)	(4 605 634)
Gross profit	329 069	354 865	680 750
Other income	2 606	2 354	3 465
Foreign currency losses	(2 970)	(6 857)	(11 784)
Distribution, administrative and other operating expenses	(239 331)	(242 262)	(483 603)
Profit from operations	89 374	108 100	188 828
Investment revenues	8 791	6 864	19 278
Finance costs	(54 083)	(46 960)	(109 950)
Share of profit of associates	3 375	7 586	15 352
Profit before tax	47 457	75 590	113 508
Income tax expense	(12 406)	(19 383)	(28 753)
Profit for the period from continuing operations	35 051	56 207	84 755
Discontinued operations			
Loss for the period from discontinued operations	–	(2 225)	(5 811)
Profit for the period	35 051	53 982	78 944
Other comprehensive income			
Exchange (losses) profits on translation of foreign operations	(4 929)	3 882	4 262
Other comprehensive income for the period, net of tax	(4 929)	3 882	4 262
Total comprehensive income for the period	30 122	57 864	83 206
Profit attributable to:			
Owners of the parent	35 084	52 343	74 630
Non-controlling interest	(33)	1 639	4 314
	35 051	53 982	78 944
Total comprehensive income attributable to:			
Owners of the parent	30 155	56 225	78 590
Non-controlling interest	(33)	1 639	4 616
	30 122	57 864	83 206
Earnings and dividend per share (cents)			
Weighted number of ordinary shares in issue	94 200 535	102 005 806	100 674 409
Ordinary shares in issue	90 700 000	100 000 000	98 000 000
Dividend per ordinary share	15.00	35.00	35.00
From continuing and discontinued operations (cents)			
Headline earnings per ordinary share	37.34	51.67	76.88
Basic earnings per ordinary share	37.24	51.31	74.13
From continuing operations (cents)			
Headline earnings per ordinary share	37.34	53.54	80.07
Basic earnings per ordinary share	37.24	53.19	79.59
From discontinued operations (cents)			
Headline losses per ordinary share	–	(1.87)	(3.20)
Basic losses per ordinary share	–	(1.87)	(5.46)
Reconciliation between basic and headline earnings			
Basic earnings attributable to owners of the parent	35 084	52 343	74 630
Group's share of loss on disposal of property, plant and equipment	93	362	488
Group's share of loss from disposal of shares in subsidiary	–	–	2 278
Headline earnings from continuing and discontinued operations	35 177	52 705	77 396
Group's share of loss for the period from discontinued operations	–	1 909	3 217
Headline earnings from continuing operations	35 177	54 614	80 613
Basic earnings attributable to owners of the parent	35 084	52 343	74 630
Group's share of loss for the period from discontinued operations	–	1 909	3 217
Basic earnings from continuing operations	35 084	54 252	77 847
Net asset value per share (cents)	1 067.57	983.47	1 008.08

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited 6 months 31 December 2016 R000	Unaudited 6 months 31 December 2015 R000	Audited year-end 30 June 2016 R000
Operating activities			
Cash receipts from customers	2 513 194	2 527 970	5 563 726
Cash paid to suppliers and employees	(2 507 326)	(2 946 674)	(5 388 679)
Net cash from (used in) operations	5 868	(418 704)	175 047
Investment revenues received	8 791	6 867	19 281
Finance costs paid	(54 083)	(47 803)	(110 793)
Dividends paid	(13 950)	(35 605)	(35 605)
Income taxes paid	(11 068)	(20 153)	(34 697)
Net cash (used in) from operating activities	(64 442)	(515 398)	13 233
Net cash used in investing activities	(25 944)	(23 490)	(56 949)
Net cash (used in) from financing activities	(150 675)	276 886	(32 503)
Net decrease in cash and cash equivalents	(241 061)	(262 002)	(76 219)
Cash and cash equivalents at the beginning of the period	383 613	459 832	459 832
Cash and cash equivalents at the end of the period	142 552	197 830	383 613

Revenue from continuing operations up

5.6%

2016: R2.61 billion

2015: R2.47 billion

Net asset value per share up

8.6%

2016: 1 067.57 cents

2015: 983.47 cents

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 2016 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 (JSE) 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 2016.

Audit report

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.

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 6 months 31 December 2016 R000	Unaudited 6 months 31 December 2015 R000	Audited year-end 30 June 2016 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 is included in foreign currency losses.	2	24	32 247	3 059
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 is included in foreign currency losses.	2	5 621	–	10 031
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	18 741	18 741	18 741

Operating results

The Group's revenue from continuing operations increased by 5.6% to R2.61 billion (31 December 2015: R2.47 billion). The major reason for the slowdown in growth was the reduction in the spend from the government sector.

The gross profit percentage from continuing operations reduced from 14.4% to 12.6% and was marginally down from the 12.9% reported for the year ended 30 June 2016, predominantly as a result of a strengthening Rand and the drive to reduce inventory levels. Although the gross profit percentages achieved by products such as Huawei Enterprise Solutions and Microsoft Volume Licensing are lower, their contributions to profit are expected to continue growing.

The Group's hedging policy proved effective, as forex losses from continuing operations, which includes the cost of forward points, was R3.0 million compared to R6.9 million in the comparative period.

Distribution, administrative and other operating expenses from continuing operations were well controlled, decreasing by 1.2%. This is despite a once-off R3.7 million spent on retrenchment costs.

Although the Group has been negatively affected by an increase in net finance charges from continuing operations from R40.1 million to R45.3 million, it was an improvement when compared to the R50.6 million incurred during the second half of the 2016 financial year. 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 R9.9 million (31 December 2015: R7.0 million) was classified as finance costs, as opposed to forex losses.

The contribution from our associates decreased mainly due to the pre-production expenses incurred at Yangtze Optics Africa Holdings Proprietary Limited (YOA). The Group's share of losses equity accounted amounted to R2.0 million. All the required manufacturing equipment was completely installed and commissioned during November 2016 and core employees based both in South Africa and China are now fully trained. YOA already secured supply contracts in the fibre-to-the-home (FTTH) market amid a global shortage of cable as demand increases. YOA forecasts that approximately 50% of its production capacity will be utilised within the first year of operation, which equates to a market share of around 30% in this niche sector.

As a result, Mustek's headline earnings per share is 27.7% lower at 37.34 cents (31 December 2015: 51.67 cents) and basic earnings per share is 27.4% lower at 37.24 cents (31 December 2015: 51.31 cents).

Cash flow

The R5.9 million cash generated from operations is a significant improvement on the R418.7 million cash used in operations reported at 31 December 2015.

Inventory days improved by 25.7% to 85.4 days (31 December 2015: 115.0 days).

Transformation

Following an audit by an accredited verification agency, Mustek retained its Level 2 BBBEE rating, using the ICT sector codes.

Management has continued to meaningfully extend its initiatives in employment equity, skills development and corporate social investment (CSI) 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 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.

Environmental, social and governance aspects

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.

Mustek is committed to transparent and integrated reporting in the spirit of King III and the Global Reporting Initiative (GRI). We are accordingly continuously reviewing our corporate governance practices and are enhancing our internal information gathering systems to provide the quality and type of information required for authentically integrated annual reports.

Mustek has successfully maintained its ISO 14001 certification since 2004 and has not been sanctioned or fined for non-compliance with environmental laws and regulations.

Mustek has a consistent record in community support and CSI. The Group focuses its CSI efforts on children's needs – in particular, their education – but also supports charities, sporting events and community facilities.

For more than a decade, we have conducted a comprehensive HIV/Aids strategy and programme that also provides antiretroviral drugs to HIV-positive staff.

Company and industry outlook

According to the International Data Corporation, ICT spending in South Africa will top USD26.6 billion in 2017 as organisations increasingly embrace digital transformation initiatives in a bid to streamline their costs and bolster their flexibility. It is expected that communication, finance, and government will be the biggest-spending verticals in 2017, but healthcare, transportation, and utilities are expected to be the fastest growing over the five-year forecast period.

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 a number of best in class brands and products to service the mobility market including Lenovo, Acer, Asus and Toshiba. Our Renewable Energy division is showing good, steady growth and newest addition to our portfolio is the world's number one solar panel player, GCL. Our fibre-optic cabling partner, YOA, officially opened its manufacturing plant in KwaZulu-Natal in January. This comes amid a global shortage of cabling as demand for FTTH increases.

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 positive 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% between 2016 and 2020 and we are excited to support our partners, Epson, Brother and Fujitsu, to take advantage of this growth.

It is clear that the Internet of Things, including home automation, security, personal/medical health and fitness, self-driving cars, etc are getting major coverage at the moment. We at Mustek are carefully seeking alliances with the players that will translate to our unique geography and provide appropriate opportunities.

Although economic and market conditions are expected to remain difficult into the second half of the financial year, net finance costs should reduce in line with lower inventory levels at both Mustek and Rectron. Lower inventory levels should also have a positive effect on gross profit margins.

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

Share repurchase programme

Mustek acquired 7 300 000 ordinary shares of its issued share capital on the open market for a purchase consideration in aggregate of R35 840 617. The general repurchase commenced on 1 September 2016 and continued on a day-to-day basis as market conditions allowed and in accordance with the JSE Listings Requirements until 7 December 2016.

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 2017. This programme will be effected in accordance with the terms of the authority granted by shareholders at the annual general meeting held on 8 December 2016. 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)

23 February 2017

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary stated capital 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 2015	93 354	894 636	809	4 949	993 748	19 268	1 013 016
Net profit for the period	–	52 343	–	–	52 343	1 639	53 982
Other comprehensive income	–	–	–	3 882	3 882	–	3 882
Dividends paid	–	(35 605)	–	–	(35 605)	–	(35 605)
Buy-back of shares	(30 896)	–	–	–	(30 896)	–	(30 896)
Investment in subsidiary	–	–	–	–	–	(6 605)	(6 605)
Balance at 31 December 2015	62 458	911 374	809	8 831	983 472	14 302	997 774
Net profit for the period	–	22 287	–	–	22 287	2 675	24 962
Other comprehensive income	–	–	–	78	78	302	380
Buy-back of shares	(11 927)	–	–	–	(11 927)	–	(11 927)
Acquisition of additional shareholding in a controlled entity	–	–	–	–	–	(17 860)	(17 860)
Premium on acquisition of additional shareholding in a controlled entity	–	(5 992)	–	–	(5 992)	–	(5 992)
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

CONDENSED SEGMENT ANALYSIS

Business segments	Total: Unaudited 6 months 31 December 2016 R000	Total: Unaudited 6 months 31 December 2015 R000	Mustek: Unaudited 6 months 31 December 2016 R000	Mustek: Unaudited 6 months 31 December 2015 R000	Rectron: Unaudited 6 months 31 December 2016 R000	Rectron: Unaudited 6 months 31 December 2015 R000	Group: Unaudited 6 months 31 December 2016 R000	Group: Unaudited 6 months 31 December 2015 R000	Eliminations: Unaudited 6 months 31 December 2016 R000	Eliminations: Unaudited 6 months 31 December 2015 R000
Revenue	2 607 254	2 468 276	1 514 800	1 523 663	1 259 733	1 099 630	–	–	(167 279)	(155 017)
EBITDA*	106 413	121 584	72 821	82 047	42 168	48 062	(8 576)	(8 525)	–	–
Depreciation and amortisation	(17 039)	(13 483)	(11 991)	(9 714)	(5 048)	(3 769)	–	–	–	–
Profit (loss) from operations	89 374	108 101	60 830	72 333	37 120	44 293	(8 576)	(8 525)	–	–
Investment revenues	8 791	6 864	4 300	6 213	5 360	1 101	2 173	2 779	(3 042)	(3 229)
Finance costs	(54 083)	(46 960)	(27 631)	(28 188)	(26 452)	(18 772)	(3 042)	(3 229)	3 042	3 229
Share of profit of associates	3 375	7 586	–	–	–	–	3 375	7 586	–	–
Profit (loss) before tax	47 457	75 591	37 499	50 358	16 028	26 622	(6 070)	(1 389)	–	–
Income tax (expense) benefit	(12 406)	(19 383)	(10 465)	(13 646)	(4 586)	(7 346)	2 645	1 609	–	–
Profit (loss) for the period from continuing operations	35 051	56 208	27 034	36 712	11 442	19 276	(3 425)	220	–	–
Discontinued operations										
Loss for the period from discontinued operations	–	(2 225)	–	–	–	(2 225)	–	–	–	–
Profit (loss) for the period	35 051	53 983	27 034	36 712	11 442	17 051	(3 425)	220	–	–
Attributable to:										
Owners of the parent	35 084	52 344	27 034	36 712	11 442	17 367	(3 392)	(1 735)	–	–
Non-controlling interest	(33)	1 639	–	–	–	(316)	(33)	1 955	–	–
	35 051	53 983	27 034	36 712	11 442	17 051	(3 425)	220	–	–

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

Geographical segments	Total: Unaudited 6 months 31 December 2016 R000	Total: Unaudited 6 months 31 December 2015 R000	South Africa: Unaudited 6 months 31 December 2016 R000	South Africa: Unaudited 6 months 31 December 2015 R000	East Africa: Unaudited 6 months 31 December 2016 R000	East Africa: Unaudited 6 months 31 December 2015 R000	Taiwan: Unaudited 6 months 31 December 2016 R000	Taiwan: Unaudited 6 months 31 December 2015 R000
Revenue	2 607 254	2 468 276	2 585 573	2 443 342	21 681	24 934	747	11 034
Profit (loss) before tax	47 457	75 591	48 662	80 673	(1 205)	(5 082)	1 500	6 680
Income tax (expense) benefit	(12 406)	(19 383)	(12 767)	(21 314)	361	1 931	(255)	(961)
Profit (loss) for the period from continuing operations	35 051	56 208	35 895	59 359	(844)	(3 151)	1 245	5 719
Discontinued operations								
Loss for the period from discontinued operations	–	(2 225)	–	(2 225)			–	–
Profit (loss) for the period	35 051	53 983	35 895	57 134	(844)	(3 151)	1 245	5 719
Attributable to:								
Owners of the parent	35 084	52 344	35 928	55 495	(844)	(3 151)	1 245	5 719
Non-controlling interest	(33)	1 639	(33)	1 639	–	–	–	–
	35 051	53 983	35 895	57 134	(844)	(3 151)	1 245	5 719

CORPORATE INFORMATION: **Company Secretary:** Sirkien van Schalkwyk. 1 Carlsberg, 430 Nieuwenhuyzen Street, Erasmuskloof Extension 2, 0181. Postal address: PO Box 4896, Rietvalleirand, 0174, South Africa. Telephone: +27 (0) 12 751 6000. **Directors:** Rev Dr VC Mehana# (Chairman), DC Kan (Chief Executive Officer), CJ Coetzee (Financial Director), H Engelbrecht, LL Dhlamini*, Dr ME Gama*, RB Patmore* *#Non-executive Director *Independent Non-executive Director* **Transfer secretaries:** Computershare Investor Services Proprietary Limited. Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196, South Africa. Postal address: PO Box 61051, Marshalltown, 2107, South Africa. Telephone: +27 (0) 11 370 5000. **Registered office:** 322 15th Road, Randjespark, Midrand, 1685. Postal address: PO Box 1638, Parklands, 2121. **Contact numbers:** Telephone: +27 (0) 11 237 1000 Facsimile: +27 (0) 11 314 5039 Email: ltd@mustek.co.za. **Sponsor:** Deloitte & Touche Sponsor Services Proprietary Limited.

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Mustek LIMITED

BASTION GRAPHICS