Audited summarised consolidated financial results for the year ended 30 June 2019

Basic earnings per share up 44.2%
2019: 147.90 cents
2018: 102.58 cents

Headline earnings per share up 33.8%
2019: 139.32 cents
2018: 104.15 cents

Dividend per share up 36.4%
2019: 30.00 cents
2018: 22.00 cents

www.mustek.co.za

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 audited summarised consolidated financial results for the year ended 30 June 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. The audited consolidated financial statements and this set of summarised financial information, which are based on reasonable judgements and estimates, have been prepared using accounting policies and methods of computation that comply with IFRS. The accounting policies are consistent with those applied in the consolidated financial statements for the year ended 30 June 2018, except for new standards adopted as of 1 July 2018.

IFRS 9 Financial Instruments (IFRS 9)

The Group applied IFRS 9 on 1 July 2018, using the modified retrospective approach. The cumulative effect of adopting IFRS 9 was recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 with no restatement of comparative information. The reclassification into the new measurement categories of IFRS 9 did not have a significant impact on the Group.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

The modified retrospective approach was used in the adoption IFRS 15. There was, however, no material impact on the opening retained earnings. The impact of IFRS 15 has resulted in contract assets and liabilities for refund obligations and expected discounts.

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

Re-presentation of 2018 statement of financial position

In the previous financial year, tax assets were included as part of trade and other receivables. During the current financial year, 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 year, tax liabilities were included as part of trade and other payables. During the current financial year, 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.

Restatement of 2018 statement of cash flows – prior period error

The 2018 statement of cash flows was restated in order to correctly classify operating activities previously classified as financing activities.

	Group 2018		
	Audited As previously reported R000	Audited Restated R000	Impact R000
Net cash from operating activities	138 571	149 281	10 710
Net cash used in financing activities	(28 559)	(39 269)	(10 710)
Net cash flow impact			0

Audit report

Mustek's independent auditor, Deloitte & Touche, has issued an unmodified audit report on the consolidated financial statements and this set of summarised consolidated financial statements for the year ended 30 June 2019. The audit was conducted in accordance with International Standards on Auditing. The directors take full responsibility for the preparation of this provisional report and the financial information has been derived from the consolidated financial statements and are consistent in all material aspects with the consolidated financial statements. Their unmodified audit report for this set of summarised consolidated financial statements and the consolidated annual financial statements are available for inspection at the company's registered office. The auditor's report does not necessarily report on the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a full copy of the auditor's report, together with the accompanying financial information from the issuer's registered office. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the company's auditors.

Headline earnings and dividend per ordinary share	Audited 30 June 2019	Audited 30 June 2018
Weighted number of ordinary shares in issue	70 722 365	77 802 385
Ordinary shares in issue	70 000 000	73 000 000
Dividend per ordinary share – paid (cents)	22.00	16.00
Dividend per ordinary share – declared (cents)	30.00	22.00
Headline earnings per share (cents)	139.32	104.15
Reconciliation between basic and headline earnings (R000)		
Basic earnings attributable to owners of the parent	104 598	79 807
Group's share of (profit) loss on disposal of property, plant and equipment	(6 068)	434
Group's share of loss on disposal of investment	–	792
Headline earnings	98 530	81 033
Net asset value per share (cents)	1 494.21	1 348.54

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	Audited 30 June 2019 R000	Audited 30 June 2018 R000
Fair value through profit or loss: 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	297	31 077
Fair value through profit or loss: 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	9 823	12 668

Operating results

The Group's revenue increased by 3.1% to R5.85 billion (2018: R5.67 billion) mainly as a result of strong growth in new products and services added to the Group's portfolio over the last six years.

The gross profit percentage was stable at 14.0% (2018: 14.0%) as the Group continued to grow its market despite subdued spend from the government sector.

The ZAR/USD exchange rate was extremely volatile during the year and the Group's hedging policy proved effective as forex losses were limited to R19.9 million (2018: R87.9 million).

Distribution, administrative and other operating expenses increased by 6.1%. This increase was driven by the impairment of a debtor of R17.5 million after the High Court ruled that a guarantee issued by an insurance company was not enforceable.

Net finance charges increased from R76.6 million to R104.3 million predominantly as a result of the increase in inventory levels. Working capital management continues to be a driver of profitability and will continue receiving management's full attention.

An improved performance from Sizwe Africa IT Group Proprietary Limited saw the contribution from associates increase.

Rectron produced a solid performance with the increase in profitability mainly due to an improvement in the gross profit margin.

In line with Mustek's policy to dispose of underperforming assets with low growth potential, vacant land in Midrand was disposed for R17.5 million, realising an after tax, non-headline profit of R6.3 million. As a result, Mustek's headline earnings per share is 33.8% higher at 139.32 cents (2018: 104.15 cents) and basic earnings per share is 44.2% higher at 147.90 cents (2018: 102.58 cents).

Cash flow

The R16.3 million cash used in (2018: R250.4 million cash generated from) operations was mainly due to increased inventory levels. The higher levels were caused by project delays and a conscious decision to increase holdings of products threatened by a worldwide supply shortage. Management continues to focus on optimal working capital management and is confident that cash from operations will return to positive as and when inventory levels normalise.

Inventory days increased by 30.1% to 94.1 days (2018: 72.3 days).

Trade and other receivable days improved by 2.8% to 60.5 days (2018: 62.2 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, 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.

Corporate activities

On 24 July 2018, the Group disposed of land in Midrand for a cash consideration of R17.5 million, realising an after tax profit of R6.3 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

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.

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"
Company secretary: Sirkien van Schalkwyk Office C0101b, Elarduspark Shopping Centre, 837 Barnard Street, Elarduspark, 0181 PO Box 4896, Rietvalleirand, 0174 Telephone: +27 (0) 12 751 6000
Transfer secretaries: Computershare Investor Services Proprietary Limited Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196. PO Box 61051, Marshalltown, 2107, South Africa Telephone: (011) 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

Share repurchase programme

Mustek acquired 3 000 000 ordinary shares of its issued share capital on the open market for a purchase consideration in aggregate of R21 267 415. The general repurchase commenced on 30 August 2018 and continued on a day-to-day basis as market conditions allowed and in accordance with the JSE Limited (JSE) Listings Requirements until 18 October 2018.

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 year to 30 June 2020. This programme will be effected in accordance with the terms of the authority granted by shareholders at the annual general meeting held on 29 November 2018. It is currently intended that any shares purchased will be cancelled and delisted. 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. To this end, the Board has declared a final dividend of 30 cents (2018: 22 cents) per ordinary share for the financial year ended 30 June 2019.

Notice is hereby given that a final dividend of 30 cents per ordinary share for the year ended 30 June 2019 is declared, payable to shareholders recorded in the books of the company at the close of business on the record date appearing below. This dividend is declared out of income reserves. The company's income tax reference number is 9550081716 and the company has 70 000 000 ordinary shares in issue and ranking for dividend at the date of this declaration. The South African dividend tax rate is 20% resulting in a net dividend of 24.00 cents per ordinary share to shareholders who are not tax exempt.

The salient dates applicable to the final dividend are as follows:

Last day of trade cum dividend	Tuesday, 8 October 2019
First day to trade ex dividend	Wednesday, 9 October 2019
Record date	Friday, 11 October 2019
Payment date	Monday, 14 October 2019

No share certificates may be dematerialised or rematerialised between Wednesday, 9 October 2019 and Friday, 11 October 2019, both days inclusive.

Where applicable, payment in respect of certificated shareholders will be transferred electronically to shareholders' bank accounts on the payment date. In the absence of specific mandates, payment cheques will be posted to certificated shareholders at their risk on the payment date. Shareholders who have dematerialised their shares will have their accounts at their Central Securities Depository Participant or broker credited on the payment date.

Post balance sheet events

On 29 July 2019, judgment was handed down in the legal dispute with an insurance company that related to the validity and enforceability of a guarantee issued by an insurance company in favour of Mustek and the High Court ruled in favour of the insurance company. The after tax effect of R12.6 million was fully provided for in the 30 June 2019 financial statements.

There have been no other 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
Chief executive officer

Neels Coetzee CA(SA)
Financial director (preparer of provisional Group results)

6 September 2019
Midrand

Summarised consolidated statement of comprehensive income

	Audited 30 June 2019 R000	Audited 30 June 2018 R000
Revenue	5 845 907	5 671 293
Cost of sales	(5 028 353)	(4 875 873)
Gross profit	817 554	795 420
Foreign currency losses	(19 880)	(87 935)
Distribution, administrative and other operating expenses	(573 374)	(540 556)
Impairment losses on trade receivables	(6 771)	(3 849)
Profit from operations	217 529	163 080
Investment revenues	8 035	10 658
Finance costs	(112 289)	(87 255)
Other profits (losses)	70	(792)
Share of profit of associates	19 688	15 749
Profit before tax	133 033	101 440
Income tax expense	(26 498)	(20 183)
Profit for the year	106 535	81 257
Other comprehensive income		
Exchange profits on translation of foreign operations	(622)	2 110
Other comprehensive income for the year, net of tax	(622)	2 110
Total comprehensive income for the year	105 913	83 367
Profit attributable to:		
Owners of the parent	104 598	79 807
Non-controlling interest	1 937	1 450
	106 535	81 257
Total comprehensive income attributable to:		
Owners of the parent	103 976	81 917
Non-controlling interest	1 937	1 450
	105 913	83 367
Basic earnings per ordinary share (cents)	147.90	102.58
Diluted basic earnings per ordinary share (cents)	147.90	102.58

Summarised 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 2017	–	969 164	1 169	970 333	8 128	978 461
Net profit for the year	–	79 807	–	79 807	1 450	81 257
Other comprehensive income	–	–	2 110	2 110	–	2 110
Dividends paid	–	(12 960)	–	(12 960)	(699)	(13 659)
Buy back of shares	–	(54 854)	–	(54 854)	–	(54 854)
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 01 July 2018 restated	–	975 870	3 279	979 149	8 879	988 028
Net profit for the year	–	104 598	–	104 598	1 937	106 535
Other comprehensive income	–	–	(622)	(622)	–	(622)
Dividends paid	–	(15 914)	–	(15 914)	(3 368)	(19 282)
Buy back of shares	–	(21 267)	–	(21 267)	–	(21 267)
Balance at 30 June 2019	–	1 043 287	2 657	1 045 944	7 448	1 053 392

Summarised consolidated statement of financial position

	Audited 30 June 2019 R000	Audited Re-presented 30 June 2018 R000
ASSETS		
Non-current assets		
Property, plant and equipment	184 981	170 478
Goodwill	55 627	55 627
Intangible assets	53 167	44 634
Investments in associates	127 262	117 328
Other investments and loans	56 514	59 928
Deferred tax asset	25 478	21 923
	503 029	469 918
Current assets		
Inventories	1 296 368	965 971
Inventories in transit	97 024	187 282
Trade and other receivables	969 146	967 188
Tax assets	6 055	4 215
Contract assets	3 685	–
Foreign currency assets	297	31 077
Bank balances and cash	221 719	295 376
	2 594 294	2 451 109
Non-current asset classified as held for sale	–	9 420
TOTAL ASSETS	3 097 323	2 930 447
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary stated capital	–	–
Retained earnings	1 043 287	981 157
Foreign currency translation reserve	2 657	3 279
Equity attributable to owners of the parent	1 045 944	984 436
Non-controlling interest	7 448	8 879
Total equity	1 053 392	993 315
Non-current liabilities		
Long-term borrowings	8 684	6 251
Deferred tax liabilities	8 103	8 898
Contract liabilities	17 514	15 788
	34 301	30 937
Current liabilities		
Trade and other payables	1 583 866	1 624 019
Tax liabilities	1 004	1 035
Foreign currency liabilities	9 823	12 668
Contract liabilities	21 449	13 817
Bank overdrafts	393 488	254 656
	2 009 630	1 906 195
Total liabilities	2 043 931	1 937 132
TOTAL EQUITY AND LIABILITIES	3 097 323	2 930 447

Summarised consolidated statement of cash flows

	Audited 30 June 2019 R000	Audited Restated 30 June 2018 R000
OPERATING ACTIVITIES		
Cash receipts from customers	5 838 314	5 778 409
Cash paid to suppliers and employees	(5 854 606)	(5 528 010)
Net cash (used in) from operations	(16 292)	250 399
Investment revenues received	8 035	10 658
Finance costs paid	(112 289)	(87 255)
Dividends paid	(19 282)	(13 659)
Income taxes paid	(31 524)	(10 862)
Net cash (used in) from operating activities	(171 352)	149 281
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(32 998)	(44 052)
Proceeds from sale of property, plant and equipment	17 545	526
Decrease in investments in and loans to associates	9 741	1 427
Decrease in other investments	–	14 463
Increase in other loans	(1 386)	(1 885)
Decrease in other loans	3 750	1 135
Additions to intangible asset	(15 882)	(16 621)
Net cash used in investing activities	(19 230)	(45 007)
FINANCING ACTIVITIES		
Buy back of ordinary shares	(21 267)	(54 854)
Decrease in long-term borrowings	–	(2 250)
(Decrease) increase in short-term borrowings	(640)	2 457
Increase in bank overdrafts	138 832	15 378
Net cash from (used in) financing activities	116 925	(39 269)
Net (decrease) increase in cash and cash equivalents	(73 657)	65 005
Cash and cash equivalents at beginning of the year	295 376	230 371
Cash and cash equivalents at end of the year	221 719	295 376

Summarised segment analysis

	Total		Mustek		Rectron		Group		Intersegment	
Business segments (audited)	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Revenue	5 845 907	5 671 293	3 863 040	3 826 754	2 278 976	2 164 331	–	–	(296 109)	(319 792)
EBITDA*	243 201	193 563	185 138	166 882	83 824	50 417	(25 761)	(23 736)	–	–
Depreciation and amortisation	(25 672)	(30 483)	(17 979)	(20 055)	(7 693)	(10 428)	–	–	–	–
Profit (loss) from operations	217 529	163 080	167 159	146 827	76 131	39 989	(25 761)	(23 736)	–	–
Investment revenues	8 035	10 658	8 946	5 378	3 160	7 107	733	2 173	(4 804)	(4 000)
Finance costs	(112 289)	(87 255)	(77 368)	(60 523)	(34 921)	(26 673)	(4 804)	(4 059)	4 804	4 000
Other profits (losses)	70	(792)	–	–	–	–	70	(792)	–	–
Share of profit of associates	19 688	15 749	–	–	–	–	19 688	15 749	–	–
Profit (loss) before tax	133 033	101 440	98 737	91 682	44 370	20 423	(10 074)	(10 665)	–	–
Income tax (expense) benefit	(26 498)	(20 183)	(22 134)	(22 174)	(11 372)	(4 047)	7 008	6 038	–	–
Profit (loss) for the year	106 535	81 257	76 603	69 508	32 998	16 376	(3 066)	(4 627)	–	–
Attributable to:										
Owners of the parent	104 598	79 807	76 603	69 508	31 061	14 874	(3 066)	(4 575)	–	–
Non-controlling interest	1 937	1 450	–	–	1 937	1 502	–	(52)	–	–
	106 535	81 257	76 603	69 508	32 998	16 376	(3 066)	(4 627)	–	–

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

	Total		South Africa		East Africa		Taiwan	
Geographical segments (audited)	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Revenue	5 845 907	5 671 293	5 805 035	5 631 805	40 623	38 301	249	1 187
Profit before tax	133 033	101 440	128 054	98 014	1 280	2 171	3 699	1 255
Income tax expense	(26 498)	(20 183)	(24 890)	(19 553)	(744)	(301)	(864)	(329)
Profit for the year	106 535	81 257	103 164	78 461	536	1 870	2 835	926
Attributable to:								
Owners of the parent	104 598	79 807	101 227	77 011	536	1 870	2 835	926
Non-controlling interest	1 937	1 450	1 937	1 450	–	–	–	–
	106 535	81 257	103 164	78 461	536	1 870	2 835	926