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MUSTEK LIMITED – Provisional audited financial results for the year ended 30 June 2013

MST 201308280003A

Provisional audited financial results for the year ended 30 June 2013

Mustek Limited

(Incorporated in the Republic of South Africa) (Registration number 1987/070161/06)

Share code: MST ISIN: ZAE000012373 (Mustek or the Group)

Provisional audited financial results for the year ended 30 June 2013

Revenue from continuing operations up 16%

2013 R4,072 billion

2012 R3,503 billion

Cash from operations up 226%

2013 R145,5 million

2012 R 44,6 million

Dividend per share up 18%

2013 20 cents

2012 17 cents

Net asset value per share up 9%

2013 762 cents

2012 697 cents

Summarised consolidated statement of comprehensive income

2013

2012

R 000

R 000

Continuing operations

Revenue 4 072 274 3 502 543

Cost of sales (3 517 496) (3 002 190)

Gross profit 554 778 500 353

Other income 4 489 17 980

Foreign currency losses (50 521) (47 813)

Distribution, administrative and other operating expenses (371 497) (333 591)

Profit from operations 137 249 136 929

Investment revenues 4 384 4 668

Finance costs (38 196) (25 337)

Other gains (losses) 12 012 (5 613)

Share of profit of associates 4 290 1 686

Profit before tax 119 739 112 333

Income tax expense (37 847) (32 515)

Profit for the year from continuing operations 81 892 79 818

Discontinued operations

Loss for the year from discontinued operations (661) (2 019)

Profit for the year 81 231 77 799

Other comprehensive income

Exchange profits on translation of foreign operations 6 553 7 883

Other comprehensive income for the year, net of tax 6 553 7 883

Total comprehensive income for the year 87 784 85 682

Profit attributable to:

Owners of the parent 85 049 80 181

Non-controlling interest	(3 818)	(2 382)	
	81 231	77 799	
Total comprehensive income attributable to:			
Owners of the parent	90 255	86 196	
Non-controlling interest	(2 471)	(514)	
	87 784	85 682	
Earnings and dividend per share (cents)			
Weighted number of ordinary shares in issue	108 436 464	108 831 677	
Ordinary shares in issue	108 433 165	108 469 165	
Dividend per ordinary share – paid	17,00	17,00	
Dividend per ordinary share – proposed	20,00	17,00	
From continuing and discontinued operations			
Headline earnings per ordinary share	72,85	70,15	
Basic earnings per ordinary share	78,43	73,67	
From continuing operations			
Headline earnings per ordinary share	71,50	71,37	
Basic earnings per ordinary share	77,08	74,89	
From discontinuing operations			
Headline earnings per ordinary share	1,35	(1,22)	
Basic earnings per ordinary share	1,35	(1,22)	
Reconciliation between basic and headline earnings			
Basic earnings attributable to owners of the parent	85 049	80 181	
Groups share of after tax profit on sale of shares in joint venture	(8 247)	–	
Groups share of loss (profit) on disposal of property, plant and equipment	437	(7 762)	
Impairment of distribution right	3 445	3 445	
Non-controlling interest in impairment of distribution right	(1 688)		

(1 688)

Impairment of associate and other loans — 2 168

Headline earnings from continuing and discontinued operations 78 996 76 344

Less Groups share of (profit) loss for the year from discontinued operations (1 469) 1 325

Headline earnings from continuing operations 77 527 77 669

Basic earnings attributable to owners of the parent 85 049 80 181

Less Groups share of loss (profit) for the year from discontinued operations (1 469) 1 325

Basic earnings from continuing operations 83 580 81 506

Net asset value per share (cents) 762,10 696,73

Summarised consolidated statement of financial position

	2013	2012
	R 000	R 000
ASSETS		
Non-current assets		
Property, plant and equipment	120 462	122 625
Intangible assets	57 489	60 240
Investments in associates	7 795	8 737
Other investments and loans	31 455	31 733
Deferred tax asset	17 487	15 666
	234 688	239 001
Current assets		
Inventories	688 851	673 009
Inventories in transit	101 681	100 610
Trade and other receivables	679 114	596 447
Foreign currency assets	8 825	14 389
Tax assets	—	666
Bank balances and cash	455 572	224 413
	1 934 043	1 609 534
Assets classified as held for sale	64 588	268 664
TOTAL ASSETS	2 233 319	2 117 199

EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary share capital	117 916	868
Ordinary share premium	—	117 257
Retained earnings	706 140	639 655
Non-distributable reserve	809	809
Foreign currency translation reserve	1 500	(2 857)
Equity attributable to owners of the parent	826 365	755 732
Non-controlling interest	12 546	18 426
Total equity	838 911	774 158
Non-current liabilities		
Long-term borrowings	6 837	4 712
Deferred tax liabilities	2 324	2 409
	9 161	7 121
Current liabilities		
Short-term borrowings	181	143 160
Trade and other payables	1 095 091	943 848
Foreign currency liabilities	3 223	2 585
Deferred income	34 616	28 078
Tax liabilities	8 653	3 963
Bank overdrafts	216 589	20 055
	1 358 353	1 141 689
Liabilities directly associated with assets		
classified as held for sale	26 894	194 231
Total liabilities	1 394 408	1 343 041
TOTAL EQUITY AND LIABILITIES	2 233 319	2 117 199

Summarised consolidated cash flow statement

	2013	2012
	R 000	R 000
Operating activities		
Cash receipts from customers	4 642 832	3 983 731
Cash paid to suppliers and employees	(4 405 388)	(3 863 800)
Net cash from operations	237 444	119 931
Investment revenues received	5 529	5 591

Finance costs paid	(46 072)	(34 241)
Dividends received	—	788
Dividends paid	(18 434)	(18 623)
Income taxes paid	(32 954)	(28 844)
Net cash from operating activities	145 513	44 602
Net cash from (used in) investing activities	895	(37 188)
Net cash from financing activities	51 795	65 196
Net increase in cash and cash equivalents	198 203	72 610
Cash and cash equivalents at beginning of the year	268 397	195 787
Cash and cash equivalents at end of the year	466 600	268 397

Summarised consolidated statement of changes in equity

	Ordinary share capital	Ordinary share premium	Retained earnings	Non-distributable reserve	Foreign currency translation reserve	Attributable to owners of the parent	Non-controlling interest	Total
	R 000	R 000	R 000	R 000	R 000	R 000	R 000	R 000
Balance at 30 June 2011	877	122 823	576 181	2 725	(8 872)	693 734	18 940	712 674
Net profit for the year	—	—	80 181	—	—	80 181	(2 382)	77 799
Other comprehensive income	—	—	—	—	6 015	6 015	1 868	7 883
Realisation of non-distributable reserve on disposal of fixed assets	—	—	1 916	(1 916)	—	—	—	—
Recognition of share-based payments	—	53	—	—	—	53	—	53
Dividends paid	—	—	(18 623	—	—	(18 623)	—	(18 623)
Buy back of shares	(9)	(5 619)	—	—	—	(5 628)	—	(5 628)
Balance at 30 June 2012	868	117 257	639 655	809	(2 857)	755 732	18 426	774 158
Net profit for the year	—	—	85 049	—	—	85 049	(3 818)	81 231
Other comprehensive income	—	—	—	—	5 206	5		

206 1 347 6 553

Disposal of joint venture — — (130) — (849) (
979) (3 409) (4 388)

Dividends paid — — (18 434) — — (18
434) — (18 434)

Buy back of shares — (209) — — — (
209) — (209)

Transfer to no par value

share capital 117 048 (117 048) — — —
— — —

Balance at 30 June 2013 117 916 — 706 140 809 1 500 826
365 12 546 838 911

Summarised segment analysis

	Total		Mustek		Rectron	
Comztek Group Eliminations						
Business segments	2013	2012	2013	2012	2013	2012
2013 2012 2013 2012 2013 2012						
	R 000	R 000	R 000	R 000	R 000	R 000
R 000 R 000 R 000 R 000 R 000 R 000						
Revenue	4 072 274	3 502 543	2 632 306	2 317 393	1 754 816	1 401 274
— — — — (314 848) (216 124)						
EBITDA*	155 125	155 830	111 214	128 734	59 084	40 440
— — (15 173) (13 344) — —						
Depreciation and amortisation	(17 876)	(18 901)	(11 462)	(11 335)	(6 414)	(7 566)
— — — — — —						
Profit (loss) from operations	137 249	136 929	99 752	117 399	52 670	32 874
— — (15 173) (13 344) — —						
Investment revenues	4 384	4 668	6 808	8 899	2 606	1 706
— — 705 835 (5 735) (6 772)						
Finance costs	(38 196)	(25 337)	(22 738)	(13 205)	(15 458)	(12 132)
— — (5 735) (6 772) 5 735 6 772						
Other gains (losses)	12 012	(5 613)	—	(3 445)	—	—
— — 12 012 (2 168) — —						
Share of profit of associates	4 290	1 686	—	—	—	—
— — 4 290 1 686 — —						
Profit (loss) before tax	119 739	112 333	83 822	109 648	39 818	22 448
— — (3 901) (19 763) — —						
Income tax (expense) benefit	(37 847)	(32 515)	(24 349)	(33 665)	(11 900)	(4 249)
— — (1 553) 5 399 — —						
Profit (loss) for the year						
from continuing operations	81 892	79 818	59 428	75 983	27 918	18 199
— — (5 454) (14 364) — —						
Discontinued operations						
(Loss) profit for the year						

from discontinued operations (661) (2 019) — — (3 786) (1 392)
3 125 (627) — — — —

Profit (loss) for the year 81 231 77 799 59 428 75 983 24 132 16 807
3 125 (627) (5 454) (14 364) — —

Attributable to:

Owners of the parent 85 049 80 181 59 428 75 983 25 993 17 590
3 394 (716) (3 766) (12 676) — —

Non-controlling interest (3 818) (2 382) — — (1 861) (783)
(269) 89 (1 688) (1 688) — —

81 231 77 799 59 428 75 983 24 132 16 807
3 125 (627) (5 454) (14 364) — —

*Earnings before interest, taxation, depreciation and amortisation.

	Total		South Africa		Mustek East Africa		Rectron Australia	Comztek Africa	
Geographical segments	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	R 000	R 000	R 000	R 000	R 000	R 000	R 000	R 000	R 000	R 000
Revenue	4 072 274	3 502 543	4 019 361	3 458 745	52 913	43 798	—	—	—	—
Profit before tax	119 739	112 333	118 397	110 193	1 342	2 140	—	—	—	—
Income tax expense	(37 847)	(32 515)	(37 580)	(31 833)	(267)	(682)	—	—	—	—
Profit for the year from continuing operations	81 892	79 818	80 817	78 360	1 075	1 458	—	—	—	—
Discontinued operations										
(Loss) profit for the year from discontinued operations	(661)	(2 019)	(722)	(2 651)	—	—	(3 786)	(1 392)	3 847	2 024
Profit (loss) for the year	81 231	77 799	80 095	75 709	1 075	1 458	(3 786)	(1 392)	3 847	2 024
Attributable to:										
Owners of the parent	85 049	80 181	81 984	77 469	1 075	1 458	(1 925)	(609)	3 915	1 863
Non-controlling interest	(3 818)	(2 382)	(1 889)	(1 760)	—	—	(1 861)	(783)	(68)	161
	81 231	77 799	80 095	75 709	1 075	1 458	(3 786)	(1 392)	3 847	2 024

Commentary

Corporate information

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

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

Technology) products and services.

Basis of preparation

The provisional audited financial information for the year ended 30 June 2013 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 Counsel, the information as 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

financial statements and this set of abridged financial information, which are based on reasonable judgements and estimates,

have been prepared using accounting policies that comply with IFRS. These are consistent with those applied in the

annual financial statements for the year ended 30 June 2012.

Auditors opinion

The independent auditors, Deloitte & Touche, have issued their unmodified opinion on the Groups financial statements

and this set of provisional financial information for the year ended 30 June 2013. 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 Group financial statements and are consistent in all

material aspects with the Group financial statements. Their unmodified audit report, their unmodified audit report for

this set of provisional financial information and the annual financial statements are available for inspection at the

companys registered office. Any reference to future financial performance included in this announcement has not been

reviewed or reported on by the companys auditors.

Discontinued operations

The Group disposed of land in KwaZulu-Natal and its stake in Comztek Holdings Proprietary Limited (Comztek). Rectron

Australia BV is still classified as a discontinued operation.

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

	2013	2012
Revenue	665 030	640 479
Cost of sales	(583 671)	(559 916)
Gross profit	81 359	80 563
Other income	45	1 847
Foreign currency losses	(1 580)	(824)
Distribution, administrative and other operating expenses	(71 537)	(77 442)
Profit from operations	8 287	4 144
Investment revenues	1 145	1 711
Finance costs	(7 876)	(8 905)
Profit (loss) before tax	1 556	(3 050)
Income tax (expense) benefit	(2 217)	1 031
Loss for the year	(661)	(2 019)
Less loss attributable to outside shareholders	2 130	694
Groups share of profit (loss) for the year from discontinued operations	1 469	(1 325)

Operating results

Revenue from continuing operations increased by 16,3% to R4,072 billion (2012: R3,503 billion) and the gross profit

percentage decreased to 13,6% (2012: 14,3%). The addition of Acer and Lenovo to our product range over the past twelve

months assisted the revenue growth but negatively impacted margins as these products are typically sold at lower margins.

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

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

At 30 June 2012 the Rand traded at R8,19 against the USD and weakened to R9,96 at 30 June 2013. This represents a

21,6% devaluation and as an importer, Mustek will incur forex losses when the Rand weakens against the USD. During the year

Mustek changed its policy to cover two thirds of its USD exposure and as a result, managed to contain the forex losses

to R50,5 million (2012: R47,8 million).

As a result, Musteks headline earnings from continuing and discontinued operations is 3,9% higher at 72,85 cents per

share (2012: 70,15 cents per share) and basic earnings is 6,5% higher at 78,43 cents per share (2012: 73,67 cents per

share).

Other gains (losses) of R12,0 million (2012: R5,6 million loss) consists of a pre tax profit of R15,4 million on the

sale of Comztek and a R3,4 million impairment of distribution rights. The previous years loss consists of a R2,2 million

impairment of an associate loan and a R3,4 million impairment of distribution rights.

The improved contribution from our associates arose from higher levels of activity and continued growth. Focus on

optimal working capital management continues and inventory days reduced to 71,5 days (2012: 81,8 days).

During the year, the Group applied hedge accounting and separated the interest and spot elements of their forward

contracts, resulting in R8,2 million being classified as finance costs as opposed to forex losses.

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

with increased revenues of 25% from continuing operations. Rectron has also regained the historical profitability levels

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

Cash flow

Cash generated from operating activities of R145,5 million (2011: R44,6 million) was higher due to inventory and

receivables increasing at a significantly lower rate than accounts payable. Cash generated from the drive to improve working

capital management further will be used to reduce short-term borrowings.

Transformation

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

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

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

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

Board of directors

No changes were made to the board during the year under review. Total remuneration paid to directors fo r the year

under review amounted to R9,5 million (2012: R7,5 million) and share-based payments of R0,5 million (20 12: R1,7 million)

were expensed relating to directors.

Corporate activities

Mustek acquired a further 10% of Khauleza IT Solutions Proprietary Limited with effect from 1 July 2012 for a nominal

amount.

On 31 May 2013, the Group disposed of its 41,84% stake in Comztek for a total consideration of R39,4 mi llion through a

combination of cash and Datatec shares. Comztek also declared a dividend prior to completion which effe ctively

increased Musteks consideration to R44,4 million.

Retirement benefit plan

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

due. The majority of the Groups employees belong to this fund. The Group does not provide additional po st-retirement

benefits.

Environmental, social and governance aspects

The Group subscribes to and complies in all material aspects with the Code on Corporate Governance Prac tices 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 Re porting

Initiative (GRI). We are accordingly updating corporate governance practices where necessary and are en hancing our internal

information gathering systems to provide the quality and type of information required for authentically integrated annual

reports. The 2013 Integrated Report will be posted to shareholders in due course.

The board appointed Neels Coetzee, the Group Financial Director, as Stakeholder Relations Officer.

Initiatives include the reduction in energy consumption after a target to reduce energy consumption by 20% was set in

2011. This target was reached through ongoing staff awareness programmes, the replacement of ICT equipm ent with

energy-efficient units and by installing hundreds of rooftop solar panels. This installation will pay for itself in a few short

years and will not only significantly reduce our overall electricity footprint, it will also demonstrate the viability

of renewable energy for powering corporate infrastructure.

Mustek has a consistent record in community support and corporate social investment (CSI). The Group focuses our CSI

efforts on childrens needs – in particular their education – but also supports charities, sporting events and

community facilities.

For a decade, we have conducted a comprehensive HIV/AIDS strategy and programme that also provides antiretroviral

drugs to HIV-positive staff.

Mustek has further maintained its ISO 14001 certification since 2004 and has received no fines or sanctions for

non-compliance with environmental laws and regulations.

Industry outlook

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

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

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

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

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

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

and growth into the foreseeable future.

Company outlook

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

The Group is placing increased focus on working capital management in order to reduce finance costs.

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

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

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

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

revenue driver.

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

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

the classroom.

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

from a transactional sale to an annuity model.

We have also experienced another year of strengthening our strategic partner network within the industr y.

Dividend

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

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

Musteks continued commitment to optimal cash utilisation will mean that cash generated by the operation s will be used

to fund growth and reduce debt. To this end, the final dividend declared by the board of directors for the financial

year ended 30 June 2013 has been increased to 20 cents (2012: 17 cents) per share.

Notice is hereby given that a final gross dividend of 20 cents per ordinary share for the year ended 30 June 2013 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 95 50081716 and has

108 433 165 ordinary shares in issue and ranking for dividend at the date of this declaration. The Sout h African dividend

tax rate is 15% and no Secondary Tax on Companies credits have been utilised, resulting in a net divide nd of 17 cents per share

to shareholders who are not exempt.

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

Last day of trade cum dividend	Friday, 27 September 2013
First day to trade ex dividend	Monday, 30 September 2013
Record date	Friday, 4 October 2013
Payment date	Monday, 7 October 2013

No share certificates may be dematerialised or rematerialised between Monday, 30 September 2013 and Friday, 4 October

2013, 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.

Annual general meeting

The notice of the annual general meeting will be included in the Integrated Report that will be posted to shareholders

in due course.

Post balance sheet events

On 9 July 2013, Zinox Technologies Limited (Zinox) disposed of its investments in Task Systems Limited and

Technology Distributions Limited in exchange for Zinox shares. As part of the transaction, the Group disposed of a portion

of its investment in Zinox for a cash consideration of USD850 000. The Group will retain a 20% investment in Zinox.

On 31 July 2013, the Group acquired vacant land in Midrand for an amount of R9,6 million.

There have been no other significant events subsequent to year end up until the date of this report that require

adjustment to or disclosure in these annual financial statements.

On behalf of the board of directors

David Kan Chief Executive Officer	Neels Coetzee Financial Director	28 August 2013
	(preparer of provisional Group results)	Midrand

CORPORATE INFORMATION:

Company secretary: Sirkien van Schalkwyk.

Transfer secretaries: Computershare Investor Services Proprietary Limited. 70 Marshall Street, Johannes burg, 2001.

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, 2 121.

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Sponsor: Deloitte & Touche Sponsor Services Proprietary Limited.

www.mustek.co.za