

# Condensed consolidated statement of comprehensive income

R 000	Unaudited 6 months 31 Dec 2018	Unaudited 6 months 31 Dec 2017	Audited Year-end 30 Jun 2018			
Revenue	2 702 265	2 645 718	5 671 293			
Cost of sales	(2 291 738)	(2 297 374)	(4 875 873)			
Gross profit	410 527	348 344	795 420			
Foreign currency losses	(11 252)	(3 883)	(87 935)			
Distribution, administrative and other operating expenses	(282 848)	(257 569)	(544 405)			
Profit from operations	116 427	86 892	163 080			
Investment revenues	3 248	6 186	10 658			
Finance costs	(49 999)	(42 666)	(87 255)			
Other losses	-	(792)	(792)			
Share of profit of associates	6 475	9 689	15 749			
Profit before tax	76 151	59 309	101 440			
Income tax expense	(19 147)	(12 848)	(20 183)			
Profit for the period	57 004	46 461	81 257			
Other comprehensive income						
Exchange profits (losses) on translation of foreign operations	610	(2 881)	2 110			
Other comprehensive income for the period, net of tax	610	(2 881)	2 110			
Total comprehensive income for the period	57 614	43 580	83 367			
Profit attributable to:						
Owners of the parent	55 890	45 966	79 807			
Non-controlling interest	1 114	495	1 450			
	57 004	46 461	81 257			
Total comprehensive income attributable to:						
Owners of the parent	56 500	43 085	81 917			
Non-controlling interest	1 114	495	1 450			
	57 614	43 580	83 367			
Basic earnings per ordinary share (cents)	78.24	57.13	102.58			

# Condensed consolidated statement

of financial position

Retained earnings

R 000	Unaudited 6 months 31 Dec 2018	Unaudited 6 months 31 Dec 2017	Audited Year-end 30 Jun 2018
ASSETS			
Non-current assets			
Property, plant and equipment	185 713	161 648	170 478
Goodwill	55 627	55 627	55 627
Intangible assets	45 237	43 204	44 634
Investments in associates	116 957	118 395	117 328
Other investments and loans	58 212	57 795	59 928
Deferred tax asset	19 843	17 497	21 923
	481 589	454 166	469 918
Current assets			
Inventories	1 268 002	882 431	965 971
Inventories in transit	180 994	207 032	187 282
Trade and other receivables	1 016 728	1 193 916	971 403
Foreign currency assets	14 010	-	31 077
Bank balances and cash	318 125	310 506	295 376
	2 797 859	2 593 885	2 451 109
Non-current asset classified as held for sale	-	-	9 420
TOTAL ASSETS	3 279 448	3 048 051	2 930 447
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	-	-	-

# Unaudited condensed consolidated financial results for the six months ended 31 December 2018

Headline	Net asset	Basic
earnings	value per	earnings
per share	share up	per share
up 19.6%	12.9%	up 36.9%
2018: 69.49 cents	• 2018: 1 433.94 cents	2018: 78.24 cents
2017: 58.08 cents	2017: 1 270.47 cents	2017: 57.13 cents

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 changes in equity

R 000	Ordinary stated capital	Retained earnings	Foreign currency translation reserve	Attributable to owners of the parent	Non- controlling interest	Total
Balance at 30 June 2017	_	969 164	1 169	970 333	8 128	978 461
Profit for the period	-	45 966	-	45 966	495	46 461
Other comprehensive income	-	-	(2 881)	(2 881)	-	(2 881)
Dividends paid	-	(12 960)	-	(12 960)	-	(12 960)
Buy back of shares	-	(34 899)	-	(34 899)	-	(34 899)
Balance at 31 December 2017	-	967 271	(1 712)	965 559	8 623	974 182
Profit for the period	-	33 841	-	33 841	955	34 796
Other comprehensive income	-	-	4 991	4 991	-	4 991
Dividends paid	-	-	-	-	(699)	(699)
Buy back of shares	-	(19 955)	-	(19 955)	-	(19 955)
Balance at 30 June 2018	-	981 157	3 279	984 436	8 879	993 315
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	-	999 866	3 889	1 003 755	8 122	1 011 877

# Condensed segmental analysis

	Tot	al	Mus	stek	Rec	tron	Gro	up	Elimina	ations
R 000 Business segments	Unaudited 6 months 31 Dec 2018	Unaudited 6 months 31 Dec 2017								
Revenue	2 702 265	2 645 718	1 751 646	1 730 974	1 111 392	1 088 758	-	-	(160 773)	(174 014)
EBITDA*	130 917	101 237	107 509	81 624	34 776	31 339	(11 368)	(11 726)	-	-
Depreciation and amortisation	(14 490)	(15 137)	(9 411)	(9 834)	(5 079)	(5 303)	-	-	-	-
Profit (loss) from operations	116 427	86 100	98 098	71 790	29 697	26 036	(11 368)	(11 726)	-	-
Investment revenues	3 248	6 186	2 876	1 993	1 434	5 244	463	1 155	(1 525)	(2 206)
Finance costs	(49 999)	(42 666)	(34 868)	(26 494)	(15 131)	(16 172)	(1 525)	(2 206)	1 525	2 206
Share of profit of associates	6 475	9 689	-	-	-	-	6 475	9 689	-	-
Profit (loss) before tax	76 151	59 309	66 106	47 289	16 000	15 108	(5 955)	(3 088)	-	-
Income tax (expense) benefit	(19 147)	(12 848)	(18 294)	(12 244)	(4 333)	(4 182)	3 480	3 578	-	-
Profit (loss) for the period	57 004	46 461	47 812	35 045	11 667	10 926	(2 475)	490	-	-
Attributable to:										
Owners of the parent	55 890	45 966	47 784	35 070	10 581	10 406	(2 475)	490	-	-
Non-controlling interest	1 114	495	28	(25)	1 086	520	-	-	-	-
	57 004	46 461	47 812	35 045	11 667	10 926	(2 475)	490	-	-

\* Earnings before interest, taxation, depreciation and amortisatio

	Total		Total		Total South Africa		Mustek East Africa		Mecer Technology (Taiwan)	
R 000 Geographical segments	Unaudited 6 months 31 Dec 2018	Unaudited 6 months 31 Dec 2017								
Revenue	2 702 265	2 645 718	2 682 789	2 623 885	19 152	21 086	324	747		
Profit before tax	76 151	59 309	73 127	57 861	113	1 045	2 911	403		
ncome tax (expense) benefit	(19 147)	(12 848)	(18 299)	(12 778)	(353)	71	(495)	(141)		
Profit (loss) for the period	57 004	46 461	54 828	45 083	(240)	1 116	2 416	262		
Attributable to:										
Owners of the parent	55 890	45 966	53 714	44 588	(240)	1 116	2 416	262		
Non-controlling interest	1 114	495	1 114	495	-	-	-	-		
	57 004	46 461	54 828	45 083	(240)	1 116	2 416	262		

## Commentary

## Corporate information

Mustek is a public company incorporated and domiciled in South Africa. The main business of Mustek, its subsidiaries, joint oution of In

Distribution, administrative and other operating expenses increased by 9.8%. The cost of credit insurance increased sharply until the end of September 2018 where after it reduced to be in line with the budgeted expense. An increase of R4.0 million in the provision for bad debts also contributed to the increase.

Net finance charges increased from R36.5 million to R46.8 million predominantly as a result of the increase in inventory levels al management continues to be a driver of profitability and is currently receiving management's full attention

Foreign currency translation reserve	3 889	(1 712)	3 279
Equity attributable to owners of the parent	1 003 755	965 559	984 436
Non-controlling interest	8 1 2 2	8 623	8 879
Total equity	1 011 877	974 182	993 315
Non-current liabilities			
Long-term borrowings	7 005	4 729	6 251
Deferred tax liabilities	8 616	10 336	8 898
Deferred income	15 466	13 779	15 788
	31 087	28 844	30 937
Current liabilities			
Trade and other payables	1 645 655	1 499 328	1 625 054
Foreign currency liabilities	-	66 252	12 668
Deferred income	13 999	12 219	13 817
Bank overdrafts	576 830	467 226	254 656
	2 236 484	2 045 025	1 906 195
TOTAL LIABILITIES	2 267 571	2 073 869	1 937 132
TOTAL EQUITY AND LIABILITIES	3 279 448	3 048 051	2 930 447

## Condensed consolidated cash flow statement

R 000	Unaudited 6 months 31 Dec 2018	Unaudited 6 months 31 Dec 2017	Audited Year-end 30 Jun 2018
OPERATING ACTIVITIES			
Cash receipts from customers	2 652 725	2 532 624	5 778 409
Cash paid to suppliers and employees	(2 846 724)	(2 581 207)	(5 538 720)
Net cash (used in) from operations	(193 999)	(48 583)	239 689
Investment revenues received	3 248	6 186	10 658
Finance costs paid	(49 999)	(42 666)	(87 255)
Dividends paid	(17 785)	(12 960)	(13 659)
Income taxes paid	(11 029)	2 487	(10 862)
Net cash (used in) from operating activities	(269 564)	(95 536)	138 571
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(25 168)	(16 198)	(44 052)
Proceeds from sale of property, plant and equipment	17 500	171	526
Decrease (increase) in investments in and loans to associates	6 846	(5 700)	1 427
Decrease in investments and loans	1 716	15 846	13 713
Additions to intangible assets	(4 693)	(10 377)	(16 621)
Net cash used in investing activities	(3 799)	(16 258)	(45 007)
FINANCING ACTIVITIES			
Buy back of ordinary shares	(21 267)	(34 899)	(54 854)
Increase in long-term borrowings	432	(344)	3 187
Increase (decrease) in short-term borrowings	(5 227)	(776)	7 730
Increase (decrease) in bank overdrafts	322 174	227 948	15 378
Net cash from (used in) financing activities	296 112	191 929	(28 559)
Net increase in cash and cash equivalents	22 749	80 135	65 005
Cash and cash equivalents at beginning of the year	295 376	230 371	230 371
Cash and cash equivalents at end of the year	318 125	310 506	295 376

## **CORPORATE INFORMATION**

Bastion

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Sponsor: Deloitte & Touche Sponsor Services Proprietary Limited

products and services.

#### Basis of preparation

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The unaudited condensed consolidated financial information for the period ended 31 December 2018 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, have been prepared using accounting policies 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 the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

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

## Headline earnings and dividend per ordinary share

	6 months 31 Dec 2018	6 months 31 Dec 2017	
Weighted number of ordinary shares in issue	71 432 953	80 454 825	77 802 385
Ordinary shares in issue	70 000 000	76 000 000	73 000 000
Dividend per ordinary share – paid (cents)	22.00	16.00	16.00
Headline earnings per share (cents)	69.49	58.08	104.15
Reconciliation between basic and headline earnings (R000)			
Basic earnings attributable to owners of the parent	55 890	45 966	79 807
Group's share of (profit) loss on disposal of property, plant and equipment	(6 253)	(32)	434
Loss on sale of investment	-	792	792
Headline earnings	49 637	46 726	81 033
Net asset value per share (cents)	1 433.94	1 270.47	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).

R000 Financial assets and liabilities	Level	Unaudited 6 months 31 Dec 2018	Unaudited 6 months 31 Dec 2017	Audited year-end 30 Jun 2018
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	-	31 077
Held-for-trading: Foreign currency liabilities				
These financial liabilities consist of foreign currency forward contracts and				
options, and are measured using discounted cash flows. Future cash flows				
are estimated based on the observable yield curves of forward interest rates				
at the end of the reporting period, as well as contract interest rates. The				
revaluation of these assets are included in foreign currency losses	2	-	66 252	12 668

#### Operating results

The Group's revenue increased by 2.1% to R2.70 billion (31 December 2017: R2.65 billion) mainly as a result of growth in new products and services added to the Group's portfolio

The gross profit percentage increased to 15.2% (31 December 2017: 13.2%) reflecting the recovery of forex losses incurred in the prior year due to the Rand's depreciation

The ZAR/USD exchange rate was extremely volatile during the period under review and the Group's hedging policy proved effective as forex losses was limited to R11.3 million (31 December 2017: R3.9 million).

Despite an improved performance from Sizwe Africa IT Group Proprietary Limited, the contribution from associates decreased but should recover by year end.

In line with Mustek's policy to dispose of underperforming assets with low growth potential, vacant land in Midrand was disposed of 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 19.6% higher at 69.49 cents (31 December 2017: 58.08 cents) and basic earnings per share is 36.9% higher at 78.24 cents (31 December 2017: 57.13 cents).

#### Cash flow

Unaudited Unaudited Audited

The R194.0 million cash used in (31 December 2017: R48.6 million) operations was mainly due to an increase in inventory. This was funded by bank overdraft facilities and is expected to reverse in the period through to June 2019, in line with historic trends.

#### 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.

#### 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 period to 30 June 2019. 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 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

In line with the dividend policy, no interim dividend will be paid.

#### Legal dispute

As reported on 30 August 2018, Mustek is in a dispute with an insurance company regarding the validity of a guarantee to the value of R20 million issued by the insurance company. The matter will be heard in the High Court during May 2019. Mustek obtained a legal opinion from senior counsel and has not raised any provision against the R20 million because it is their view that the amount is recoverable.

#### 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 interim Group results)



22 February 2019 Midrand