



# Mustek

L I M I T E D

UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL  
RESULTS FOR THE  
SIX MONTHS ENDED  
31 DECEMBER 2020

# HIGHLIGHTS



Revenue  
**up 23.7%**

2020: R3.72 billion  
2019: R3.01 billion

Headline  
earnings  
per share  
**up 166.7%**

2020: 202.11 cents  
2019: 75.79 cents

Net asset  
value per share  
**up 14.3%**

2020: 1 760.96 cents  
2019: 1 540.43 cents

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000	Audited year-end 30 June 2020 R 000
<b>Revenue</b>	<b>3 721 458</b>	3 007 328	6 397 419
Cost of sales	(3 205 640)	(2 575 752)	(5 487 275)
<b>Gross profit</b>	<b>515 818</b>	431 576	910 144
Foreign currency profits (losses)	21 142	(6 528)	(56 768)
Distribution, administrative and other operating expenses	(319 505)	(298 197)	(600 405)
Impairment losses on trade receivables	(2 499)	(10 386)	(52 012)
<b>Profit from operations</b>	<b>214 956</b>	116 465	200 959
Investment revenues	1 716	2 556	4 536
Finance costs	(37 385)	(58 102)	(105 409)
Other profits (losses)	–	7	(2 055)
Share of profit of associates	7 759	8 236	17 460
<b>Profit before tax</b>	<b>187 046</b>	69 162	115 491
Income tax expense	(47 349)	(15 636)	(27 441)
<b>Profit for the period</b>	<b>139 697</b>	53 526	88 050
<b>Other comprehensive (loss) income</b>			
<i>Items that will be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations	(5 924)	350	6 878
Other comprehensive (loss) income for the period, net of tax	(5 924)	350	6 878
<b>Total comprehensive income for the period</b>	<b>133 773</b>	53 876	94 928
<b>Profit attributable to:</b>			
Owners of the parent	138 135	53 004	86 837
Non-controlling interest	1 562	522	1 213
	<b>139 697</b>	53 526	88 050
<b>Total comprehensive income attributable to:</b>			
Owners of the parent	132 211	53 354	93 715
Non-controlling interest	1 562	522	1 213
	<b>133 773</b>	53 876	94 928
Basic earnings per ordinary share (cents)	<b>197.34</b>	75.72	124.05
Diluted basic earnings per ordinary share (cents)	<b>197.34</b>	75.72	124.05

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited six months 31 December 2020 R 000	Unaudited Re-presented six months 31 December 2019 R 000	Audited year-end 30 June 2020 R 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	192 412	185 242	187 939
Right-of-use assets	34 326	36 879	29 956
Goodwill	55 627	55 627	55 627
Intangible assets	78 331	55 533	71 205
Investments in associates	147 989	135 498	140 231
Other investments and loans	53 132	55 160	55 627
Deferred tax asset	23 900	21 925	30 710
	<b>585 717</b>	<b>545 864</b>	<b>571 295</b>
<b>Current assets</b>			
Inventories	1 799 100	1 426 303	1 609 086
Trade and other receivables	1 297 847	1 105 909	1 163 960
Tax assets	8 005	4 976	9 106
Contract assets	5 712	2 071	5 012
Foreign currency assets	29	–	5 063
Bank balances and cash	312 163	252 199	263 632
	<b>3 422 856</b>	<b>2 791 458</b>	<b>3 055 859</b>
<b>TOTAL ASSETS</b>	<b>4 008 573</b>	<b>3 337 322</b>	<b>3 627 154</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Retained earnings	1 229 059	1 075 291	1 109 124
Foreign currency translation reserve	3 611	3 007	9 535
<b>Equity attributable to owners of the parent</b>	<b>1 232 670</b>	<b>1 078 298</b>	<b>1 118 659</b>
<b>Non-controlling interest</b>	<b>7 578</b>	<b>7 970</b>	<b>8 012</b>
<b>Total equity</b>	<b>1 240 248</b>	<b>1 086 268</b>	<b>1 126 671</b>
<b>Non-current liabilities</b>			
Long-term borrowings	43 257	2 196	42 264
Lease liabilities	17 879	13 891	10 139
Deferred tax liabilities	7 913	8 382	6 213
Contract liabilities	35 250	15 777	17 686
	<b>104 299</b>	<b>40 246</b>	<b>76 302</b>
<b>Current liabilities</b>			
Trade and other payables	2 148 245	1 601 618	2 229 395
Tax liabilities	698	1 231	510
Foreign currency liabilities	67 199	34 635	21 529
Lease liabilities	19 486	27 046	23 670
Contract liabilities	19 232	17 624	30 245
Bank overdrafts	409 166	528 654	118 832
	<b>2 664 026</b>	<b>2 210 808</b>	<b>2 424 181</b>
<b>Total liabilities</b>	<b>2 768 325</b>	<b>2 251 054</b>	<b>2 500 483</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 008 573</b>	<b>3 337 322</b>	<b>3 627 154</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited six months 31 December 2020 R 000	Unaudited Re-presented six months 31 December 2019 R 000	Audited Year-end 30 June 2020 R 000
<b>Operating activities</b>			
Cash receipts from customers	3 587 571	2 870 565	6 203 189
Cash paid to suppliers and employees	(3 701 107)	(2 865 410)	(5 703 207)
<b>Net cash (used in) from operations</b>	<b>(113 536)</b>	5 155	499 982
Investment revenues received	1 716	2 556	4 536
Finance costs paid	(37 385)	(58 102)	(105 409)
Dividends paid	(20 196)	(21 000)	(21 649)
Income taxes paid	(38 571)	(11 012)	(37 940)
<b>Net cash (used in) from operating activities</b>	<b>(207 972)</b>	(82 403)	339 520
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	(14 346)	(9 693)	(18 663)
Proceeds from sale of property, plant and equipment	–	–	148
Decrease in investments in and loans to associates	–	–	2 571
Increase in other loans	–	(100)	(461)
Decrease in other loans	2 495	1 461	1 213
Additions to intangible assets	(9 479)	(5 248)	(23 377)
<b>Net cash used in investing activities</b>	<b>(21 330)</b>	(13 580)	(38 569)
<b>FINANCING ACTIVITIES</b>			
Increase in long-term borrowings	–	–	40 000
Repayment of lease liabilities	(12 501)	(8 703)	(24 382)
Increase (decrease) in bank overdrafts	290 334	135 166	(274 656)
<b>Net cash from (used in) financing activities</b>	<b>277 833</b>	126 463	(259 038)
<b>Net increase in cash and cash equivalents</b>	<b>48 531</b>	30 480	41 913
Cash and cash equivalents at beginning of the period	263 632	221 719	221 719
<b>Cash and cash equivalents at the end of the period</b>	<b>312 163</b>	252 199	263 632

# 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
<b>Balance at 1 July 2019</b>	–	1 043 287	2 657	1 045 944	7 448	1 053 392
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)
<b>Balance at 31 December 2019</b>	–	1 075 291	3 007	1 078 298	7 970	1 086 268
Profit for the period	–	33 833	–	33 833	691	34 524
Other comprehensive income	–	–	6 528	6 528	–	6 528
Dividends paid	–	–	–	–	(649)	(649)
<b>Balance at 30 June 2020</b>	–	1 109 124	9 535	1 118 659	8 012	1 126 671
Profit for the period	–	<b>138 135</b>	–	<b>138 135</b>	<b>1 562</b>	<b>139 697</b>
Other comprehensive loss	–	–	<b>(5 924)</b>	<b>(5 924)</b>	–	<b>(5 924)</b>
Dividends paid	–	<b>(18 200)</b>	–	<b>(18 200)</b>	<b>(1 996)</b>	<b>(20 196)</b>
<b>Balance at 31 December 2020</b>	–	<b>1 229 059</b>	<b>3 611</b>	<b>1 232 670</b>	<b>7 578</b>	<b>1 240 248</b>

# CONDENSED SEGMENT ANALYSIS

Business segments	Total		Mustek		Rectron		Group		Intersegment	
	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000
	<b>Revenue</b>	3 721 458	3 007 328	2 494 838	2 041 434	1 327 227	1 074 716	–	–	(100 607)
<b>EBITDA *</b>	236 246	141 583	189 704	123 295	46 542	34 656	(8 145)	(16 388)	8 145	–
Depreciation and amortisation	(21 291)	(25 098)	(19 355)	(18 514)	(4 941)	(6 584)	–	–	3 005	–
<b>Profit (loss) from operations</b>	214 956	116 485	170 350	104 781	41 601	28 072	(8 145)	(16 388)	11 150	–
Investment revenues	1 716	2 556	1 870	1 003	862	1 278	1 397	275	(2 413)	–
Finance costs	(37 385)	(58 102)	(29 149)	(39 478)	(11 831)	(18 624)	–	–	3 595	–
Other profits	–	7	–	–	–	–	–	7	–	–
Share of profit of associates	7 759	8 236	–	–	–	–	7 759	8 236	–	–
<b>Profit (loss) before tax</b>	187 046	69 182	143 072	66 306	30 632	10 726	1 011	(7 870)	12 332	–
Income tax (expense) benefit	(47 349)	(15 636)	(40 834)	(17 358)	(8 404)	(2 790)	1 889	4 512	–	–
<b>Profit (loss) for the period</b>	139 697	53 526	102 238	48 948	22 228	7 936	2 900	(3 358)	12 332	–
<b>Attributable to:</b>										
Owners of the parent	138 135	53 004	102 238	48 948	20 666	7 414	2 900	(3 358)	12 332	–
Non-controlling interest	1 562	522	–	–	1 562	522	–	–	–	–
	139 697	53 526	102 238	48 948	22 228	7 936	2 900	(3 358)	12 332	–

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

# CONDENSED SEGMENT ANALYSIS continued

	Total		South Africa		East Africa		Taiwan	
	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000	Unaudited six months 31 December 2020 R 000	Unaudited six months 31 December 2019 R 000
<b>Geographical segments</b>								
<b>Revenue</b>	3 721 458	3 007 328	3 703 890	2 985 776	17 104	19 987	464	1 565
Profit before tax	187 046	69 162	186 226	66 245	436	1 909	384	1 008
Income tax expense	(47 349)	(15 636)	(46 105)	(14 102)	(1 157)	(1 312)	(87)	(222)
<b>Profit (loss) for the period</b>	139 697	53 526	140 121	52 143	(721)	597	297	786
<b>Attributable to:</b>								
Owners of the parent	138 135	53 004	138 559	51 621	(721)	597	297	786
Non-controlling interest	1 562	522	1 562	522	—	—	—	—
	139 697	53 526	140 121	52 143	(721)	597	297	786



# COMMENTARY

## Headline earnings and dividend per ordinary share

	Unaudited Six months 31 December 2020	Unaudited Six months 31 December 2019	Audited year-end 30 June 2020
Weighted number of ordinary shares in issue	70 000 000	70 000 000	70 000 000
Ordinary shares in issue	70 000 000	70 000 000	70 000 000
Dividend per ordinary share – paid (cents)	26.00	30.00	30.00
<b>Headline earnings per share (cents)</b>	<b>202.11</b>	75.79	127.13
<b>Diluted headline earnings per share (cents)</b>	<b>202.11</b>	75.79	127.13
<b>Reconciliation between basic and headline earnings (R000)</b>			
Basic earnings attributable to owners of the parent	138 135	53 004	86 837
Group's share of loss on disposal of property, plant and equipment	380	47	274
Group's share of loss on disposal of investment	2 965	–	–
Group's share of impairment of associate	–	–	1 881
<b>Headline earnings</b>	<b>141 480</b>	53 051	88 992
<b>Net asset value per share (cents)</b>	<b>1 760.96</b>	1 540.43	1 598.08

## Operating results

The Group had an exceptional trading performance over the six months to December 2020 with our diversified portfolio of products and services providing a clear advantage in the marketplace. Revenue continued the growth trajectory that started during the previous financial year due to surging demand sparked by remote working requirements.

The Group's revenue increased by 23.7% to R3.72 billion (31 December 2019: R3.01 billion). It is pleasing to note that the revenue growth was across the board with the Group's two largest segments Mustek and Rectron growing their revenue by 22.2% and 23.5% respectively.

The gross profit percentage was lower compared to the comparative period at 13.9% (31 December 2019: 14.4%), predominantly as a result of product mix and a stronger ZAR/USD exchange rate that leads to downward pressure on selling prices.

The ZAR/USD exchange rate strengthened during the period and the Group managed to earn foreign currency profits of R21.1 million compared to foreign currency losses of R6.5 million in the comparative period.

Distribution, administrative and other operating expenses increased by 7.1%, mainly as a result of higher commissions paid on the increased gross profit.

Net finance charges decreased from R55.5 million to R35.7 million, predominantly as a result of lower interest rates.

## COMMENTARY continued

### Operating results continued

The contribution from associates decreased slightly from R8.2 million to R7.8 million. The contribution from Sizwe was negatively impacted by a loss on the sale of an investment in a subsidiary and the Group's share of this loss of R3.0 million is added back in the calculation of headline earnings. The Group owns 25.1% of YOA, an associate company that manufactures fibre optic cable and contributed R5.9 million towards associate income.

Rectron benefited from the surge in demand for its products, and the addition of HP Printers, Zebra and DJI Enterprise to its range of products during the second half of the 2020 financial year, assisted its growth.

Inventories include goods in transit of R294.8 million (December 2019: R146.5 million). Inventory days (excluding inventories in transit) improved to 86.3 days (December 2019: 91.4 days).

Trade receivable days improved to 53.4 days (December 2019: 54.5 days).

Mustek's headline earnings per share is 166.7% higher at 202.11 cents (31 December 2019: 75.79 cents) and basic earnings per share is 160.6% higher at 197.34 cents (31 December 2019: 75.72 cents).

### Cash flow

The R113.5 million cash used in (31 December 2019: R5.2 million cash from) 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 2021, in line with historic trends. Management continues to focus on optimal working capital management.

### Group prospects and industry outlook

As an IT-focused business, the Mustek Group is ideally placed in an industry likely to benefit highly from the "new normal" that includes working from home and remote learning across Basic Education and Higher Education sectors.

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.

We have seen a marked increase in the demand for our products since the level 5 lockdown and believe that the device market size is increasing, which bodes well for future replacement cycles. The increased device market size will also drive the demand for new infrastructure in order to support these devices and will accelerate the growth of the ICT industry over the short and medium term.

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.

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## COVID-19 claim

The Group has an assets all risks policy in place, covering the physical assets of the Mustek Group. The policy includes loss of gross profit following business interruption triggered by specified perils. The business interruption section included a contagious disease extension limited to R10.0 million for Mustek and R5.0 million for Rectron. The Group's brokers believe that the extension has been triggered and have notified a claim to the underwriters. A number of recent High Court judgments found that the insurers were liable to pay similar claims. To date, the Group has not accounted for any asset relating to these claims.

## 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 2020 have 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 auditor.

The accounting policies are consistent with those applied in the consolidated financial statements for the year ended 30 June 2020.

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

## Re-presentation of December 2019 statement of financial position and statement of cash flows

For the period ended 31 December 2019, the following line items have been re-presented on the face of the statement of financial position to be in line with the presentation as at 30 June 2020:

- Inventories in transit were previously separately presented and have now been included as part of inventories.
- Right-of-use assets were previously included as part of property, plant and equipment and are now separately disclosed.
- Lease liabilities were previously included as part of long-term borrowings and trade and other payables and are now separately disclosed.

The statement of cash flows as at 31 December 2019 has been re-presented to separately disclose the cash flows relating to lease liabilities that are now separately disclosed in the statement of financial position.

## COMMENTARY continued

### 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 2020 R000	Unaudited Six months 31 December 2019 R000	Audited year-end 30 June 2020 R000
<b>Fair value through profit or loss:</b>				
<b>Foreign currency assets</b>				
<p>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 gains and losses.</p>				
	2	29	–	5 063
<b>Fair value through profit or loss:</b>				
<b>Foreign currency liabilities</b>				
<p>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 gains and losses.</p>				
	2	67 199	34 635	21 529

## Disaggregation of revenue

	Group		
	Unaudited Six months 31 December 2020 R000	Unaudited Six months 31 December 2019 R000	Audited year-end 30 June 2020 R000
<b>Sales of goods (revenue earned at a point in time)</b>	<b>3 690 207</b>	2 980 394	6 348 879
Hardware sales	<b>3 570 594</b>	2 862 976	6 103 890
Dealers	<b>2 062 318</b>	1 652 066	3 462 679
Retailers	<b>788 622</b>	564 968	1 095 084
Public sector supplies	<b>618 100</b>	540 596	1 331 861
Export	<b>101 554</b>	105 346	214 266
Software sales	<b>119 613</b>	117 418	244 989
Dealers	<b>94 640</b>	92 060	176 074
Retailers	<b>12 524</b>	10 730	34 087
Public sector supplies	<b>8 784</b>	12 329	33 102
Export	<b>3 665</b>	2 299	1 726
<b>Rendering of services (revenue earned over time)</b>	<b>24 181</b>	20 422	35 814
Maintenance and support contracts	<b>9 706</b>	4 333	11 520
Deferred revenue	<b>(4 835)</b>	2 166	(778)
Training courses	<b>19 310</b>	13 923	25 072
<b>Rendering of services (revenue earned at a point in time)</b>	<b>7 070</b>	6 512	12 726
Repair services	<b>7 070</b>	6 512	12 726
<b>Total revenue</b>	<b>3 721 458</b>	3 007 328	6 397 419

# COMMENTARY continued

## 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.

## Post-balance sheet events

There have been no significant events subsequent to period-end up until the date of this report that require adjustment or disclosure.

On behalf of the Board of directors

### David Kan

*Chief executive officer*

1 March 2021

Midrand

### Neels Coetzee CA(SA)

*Financial director (preparer of Group results)*

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# CORPORATE INFORMATION

## Mustek Limited

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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## Company secretary

Sirkien van Schalkwyk

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## Transfer secretaries

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## Sponsor

Deloitte & Touche Sponsor Services Proprietary Limited

