Mustek
LIMITED

INTEGRATED ANNUAL REPORT 2018

CONTENTS

Welcome

WELCOME TO MUSTEK'S EIGHTH INTEGRATED ANNUAL REPORT, IN WHICH WE SHARE THE COLLECTIVE THINKING BEHIND OUR STRATEGY FOR CREATING LONG-TERM VALUE.

This report presents the holistic performance of Mustek Limited (the Group or company) and its subsidiaries for the year ended 30 June 2018 and presents information on our performance, governance and prospects. Throughout the report we address the Group's challenges, our opportunities and the external factors that impact our operational performance and forward-looking strategy.

Frameworks applied

This Integrated Annual Report has been prepared in accordance with the International Integrated Reporting Council's <IR> Framework, the Global Reporting Initiative's (GRI) G4 sustainability reporting guidelines and the Sustainability Data Transparency Index (SDTI).

The Board of directors (the Board) and management have considered the fundamental concepts, guiding principles and content elements recommended in the Framework and have endeavoured to apply these recommendations in the report. The Group's previous Integrated Annual Report (2017) included sustainable development disclosures which are comparable and consistent with specific indicator disclosures included here.

This report also accords with the parameters of the Companies Act, 71 of 2008, as amended, the JSE Listings Requirements and where possible, the recommendations of the King IV Report on Corporate Governance™ for South Africa 2016 (King IV™). The Board and company secretary implemented the principles and relevant practices of the King IV Code™* during the course of the 2018 financial year.

The Group's annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and in the manner required by the Companies Act of South Africa.

Purpose

The purpose of this report is to provide a wide range of stakeholders with concise communication regarding the Group's strategy, governance, performance and prospects, in the context of the external environment, and its creation of value over the short, medium and long term.

Primary audience

In terms of the Framework, integrated reports are prepared primarily for the providers of financial capital to help inform their decision-making regarding financial capital allocations.

Matters not related to finance or governance also impact the ability of Mustek to create value over the short, medium and long term. These matters, be they social or environmental, are of interest to other stakeholders and are also addressed in this report.

Scope and boundaries

This 2018 Integrated Annual Report presents a holistic review of Mustek Limited, its subsidiaries, joint ventures and associates, financial and non-financial performance for its financial year 1 July 2017 to 30 June 2018. Details of investments in subsidiary and associate companies appear in notes 9 and 10 of the annual financial statements.

The intention of this report is to provide information that will enable shareholders, potential investors and all stakeholders to make an accurate assessment of the value creation offered by Mustek.

Restatements or changes from the prior period

There have been no restatements made to previously reported figures referenced in this report.

Assurance

Mustek continues to develop and apply a combined assurance model, providing management and the Board with confidence regarding the information disclosed in this report. At this stage in its reporting journey, the Group has decided that it is premature to obtain independent assurance for non-financial disclosures.

The Group's annual financial statements were independently audited by Deloitte & Touche. The Group's B-BBEE contributor levels were verified by EmpowerLogic Proprietary Limited.

Board responsibility statement

The executive directors and senior management have been instrumental in the preparation of this report. The Board has applied its mind accordingly, and is of the opinion that this Integrated Annual Report addresses all material matters, and offers a balanced view of the integrated performance of the organisation and its impacts. As such, the Board has fulfilled its responsibilities in terms of the recommendations of the King IV Report™.

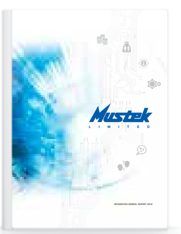
This report was approved by the Mustek Limited Board of directors (the Board) on 18 October 2018.

Forward looking statements

Many of the statements in this Integrated Annual Report constitute forward looking statements. These are not guarantees or predictions of future performance. As discussed in the report, Mustek faces risks and other factors outside its control. This may lead to outcomes unforeseen by the Group. These are not reflected in the report.

Readers are warned not to place undue reliance on forward looking statements.

Forward looking statements have not been reviewed nor reported on by the company's auditors.



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Getting your Mustek report

Download these in PDF format from **www.mustek.co.za**, or request your printed copies from: Mustek Limited, 322 15th Road, Randjespark, Midrand, 1685, South Africa Tel: +27 (0) 11 237 1000 Fax: +27 (0) 11 314 5039

Feedback on report

We welcome your feedback on this report. Please email your comments to **ltd@mustek.co.za.**

THE SIX CAPITALS

All organisations depend on various forms of capital for their value creation and commercial viability.

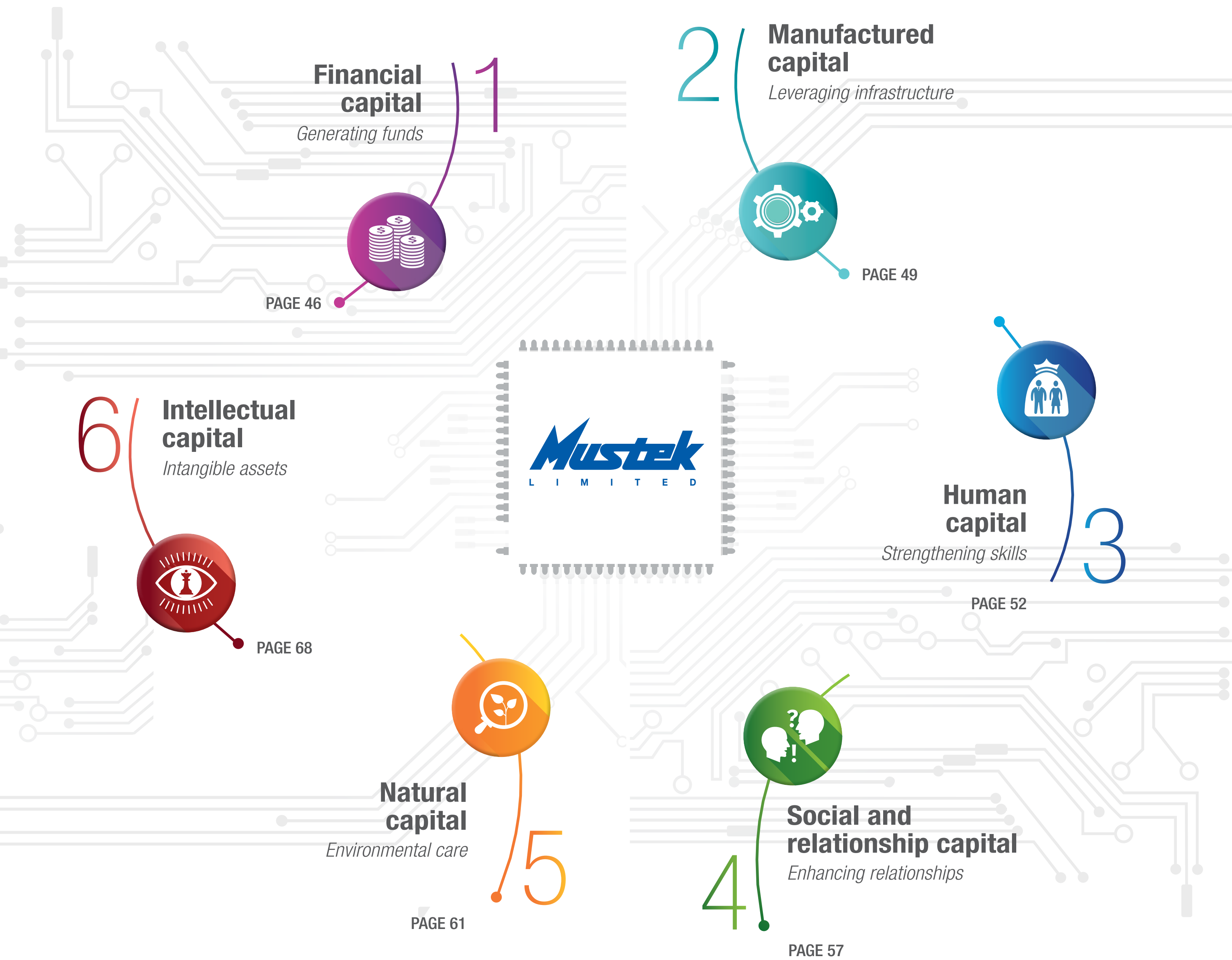
In the International Integrated Reporting <IR> Framework, these capitals are defined as financial, manufactured, human, social and relationship, natural and intellectual capital.

The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation.

For example, an organisation's financial capital is increased when it makes a profit, and the quality of its human capital is improved when employees become better trained.

CREATING VALUE THROUGH OUR SIX CAPITALS

Refer to these for further information within this report on our six capitals:



HIGHLIGHTS FOR 2018

Net cash generated from operations

R239.69 million

Increase of 4.8% from (2017: 228.78 million)

1 Financial capital

104.15 cents

- Headline earnings per share up 28.2% to 104.15 cents (2017: 81.26 cents)

1 348.54 cents

- Net asset value per share up 15.4% to 1 348.54 cents (2017: 1 169.08 cents)

22.00 cents

- Dividend per share up 37.5% to 22.00 cents (2017: 16.00 cents)

R239.69 million

- Net cash generated from operations up 4.8% to R239.69 million (2017: R228.78 million)

2 Manufactured capital

R965.97 million

- As at 30 June 2018 the Group's inventory amounted to R965.97 million 2017: R1.08 billion
- 79 923 units assembled 2017: 60 807

6.84 million

- We reached a new record of 6.84 million items sold 2017: 6.51 million

3 Human capital

100%

- The Mustek workforce receives regular performance and career development reviews

100%

- Our senior management are all hired from the local community

Headline earnings per share

↑ **104.15 cents**

Increase of 28.2% from (2017: 81.26 cents)

Net asset value per share

↑ **1 349 cents**

Increase of 15.4% from (2017: 1 169 cents)

For the purpose of integrated reporting, the factors that flow through Mustek for it to create its value are divided into six capitals, being financial, manufactured, intellectual, human, social (relationship) and natural capital. These capitals underlie much of the disclosure in this Integrated Annual Report.

4 Social and relationship capital

R1.60 million

- In the year to date, R1.60 million was spent on CSI contributions
  2017: R1.14 million
- Mustek achieved a level 1 B-BBEE rating, using the amended ICT sector codes

5 Natural capital

ISO 14001

- Mustek successfully maintained its ISO 14001 certification

1%

- Energy consumption reduced by 1% during the reporting period

6 Intellectual capital

2018

- Huawei Distributor of the Year award for the second year in a row
- APC Schneider Electric Distributor of the Year award
- Toshiba Storage Distributor of the Year award for HDD

CORPORATE PROFILE

Group profile

Founded in 1987 by its CEO, David Kan, the Mustek Limited Group was listed on the JSE Limited in 1997 and comprises the wholly owned operations of Mustek and Rectron, a controlling shareholding in Palladium, noteworthy shareholdings in complementary technology service providers Sizwe Africa IT Group and Khauleza IT Solutions, and a substantial shareholding in Yangtze Optics Africa Cable (YOAC).

From its solid foundation as the largest assembler/distributor of PCs and complementary ICT products in South Africa, Mustek has evolved into a seamless end-to-end provider of ICT solutions – from system design to supplying the hardware, implementing the solution and operating it if required.

Headquartered in Midrand, South Africa, Mustek anticipates ICT trends and adds value to imported components and finished products through planning, bulk purchasing, consolidating shipments, assembly, warehousing and after sales service and support.

The Group utilises a proven distributed sales network to distribute and maintain a wide range of ICT products across South Africa and several other African countries. These are procured through agreements with many of the world's leading brands and from Mustek's in-house Mecer brand.

Mustek continues to differentiate itself as a value added solutions provider in addition to distribution.

Our vision

Mustek aims to be South Africa's ICT supplier of choice

An objective we constantly strive for through an approachable and flexible 'can do' attitude when assisting our customers with product sourcing, specification, and solution formulation, as well as superior technical expertise, evidenced by the high level of technical support and assistance afforded to our customers.

Our core values

Mustek's Group values are underpinned by its service excellence principles:

Knowledge and attitude

Mustek takes pride in its people, its company, its products and services, and its customers.

Mustek acts professionally at all times and is proactive and passionate about what it does and how it builds the Group.

Mustek invests in the development of its staff to increase its knowledge base and ensure that it supplies its customers with the best technical service.

Mustek ensures that all its technical staff members are accredited in their fields.

Flexibility

In a constantly changing IT landscape, Mustek believes that business flexibility is vital to success. At Mustek, we have a 'can do' attitude that gives us the ability to make whatever operational or product changes are necessary to respond effectively to trends or opportunities.

This culture of flexibility allows Mustek to quickly onboard products or rejig the assembly line to offer new lines or quickly meet customers' changing requirements.

Mustek's staff are both able and eager to seek innovative solutions to new challenges.

Efficiency

Mustek strives for efficiency, since this enables the Group to do more with less, and in so doing ensure quick response times for its customers, whether these are stock turnaround times or the time taken to repair or replace a piece of hardware.

Responsibility and accountability

Mustek believes in integrity, employment equity, care for the environment, respect and human dignity for all. We reward performance and share responsibility at all levels

The Group's brand portfolio includes:

Mecer, acer, ASUS, B-Tech, eBeam, Everki, Huawei, Lenovo ThinkServer, m2fx minitex, Mustek POS Solutions, Posiflex, MST Mustek Security Technologies, NEC, NComputing, Samsung, XYZprinting, brother at your side, APC by Schneider Electric, asustor, D-Link, Epson, Fujitsu, Lenovo, Microsoft, Mustek Energy, Philips, netis, Net Trace, SanDisk a Western Digital brand, Toshiba, Apple Authorized Reseller, Cooler Master, Eaton Powering Business Worldwide, Siemon, WD Western Digital

OUR BUSINESS MODEL

Mustek's business model is based on agile and flexible management with the in-depth industry knowledge to recognise ICT trends early and react quickly in response. This enables us to identify changing or new markets and to make timely acquisitions or enter strategic partnerships.

Mustek's ability to manoeuvre and expand into adjacent distribution segments is based on:

- an outstanding reputation with international vendors
- a close watch on developing trends in digital technology, given that the 'Internet of Things' will connect a far broader range of devices than previously associated with IT
- a harmonious workforce that is constantly being upskilled and promoted through definitive career paths
- a strongly loyal reseller and solutions provider base numbering in the thousands, from large to small, that competitors cannot match. Our solutions providers and resellers extend across most ICT market segments, from SMEs up to the large corporate and public sector organisations
- a long established and efficient distribution network that extends Mustek's reach deeply into our target markets
- South Africa's most reputable ICT assembly line, well versed in customising orders on the fly
- a service department reputed as the best in South Africa's ICT sector.

Mustek's business model is based on the following key elements:

- trend spotting and innovation – we fulfil everchanging ICT needs by anticipating, identifying, procuring and delivering the right solutions, at the right time and at the right price
- smart acquisitions, shareholdings and partnerships. Mustek extends its reach into aligned business opportunities by identifying and entering into business relationships with well-positioned companies in those spaces
- a mix of direct and indirect business channels to sustain a wide combination of resellers and solution providers who supply our portfolio of products, services and solutions to all parts of the consumer, business and public sector market
- developing and incentivising an appropriately skilled workforce able to provide outstanding service, technical expertise and support
- a stockholding policy that fulfils customer orders promptly, supported by rapid processing of warranties, returns and replacements
- industry leading door-to-door delivery and logistics
- strong relationships with leading international ICT brands through licensing, agency and distribution agreements
- strong financial controls to manage working capital and realise cash
- adherence to international best practice standards such as ISO 9001 and ISO 14001, as well as the corporate reporting frameworks of King IV™, GRI, SDTI and <IR>.

ICT MARKET ENVIRONMENT

Inputs

1 Financial capital
- Shareholder funds
- Banking funds
- Accounts funding

2 Manufactured capital
- Inventory
- Premises – HO and branches
- Warehousing
- Assembly line
- Fleet

3 Human capital
- 585 Mustek South African direct employees
- 332 Rectron South African direct employees
- Management and employees of the associated companies
- Mustek's Board and executive management

4 Social and relationship capital
- Stakeholder relationships with shareholders, employees, customers, resellers, suppliers, vendors and local communities, among others
- Mecer and multinational brands

5 Natural capital
- Power
- Waste management
- Legal compliance

6 Intellectual capital
- IT trend spotting
- Distribution systems
- Retained institutional knowledge

AGREEMENTS WITH VENDORS AND RESELLERS

Business activities	Outputs	Outcomes
INNOVATION • Product knowledge and solutions expertise; ICT trends • Anticipating, identifying, procuring and delivering the right products, at the right time and at the right price • Designing and implementing solutions from software and hardware to meet specific needs	• Net cash generated from operations R239.69 million • Profit for the year R81.26 million • Revenue of R5.67 billion • Net asset value per share: 1 348.54 cents • Headline earnings per ordinary share 104.15 cents • Income tax expense R20.18 million	• Mustek's working capital is adequate • Assets exceed liabilities • Focus on optimal working capital management • Share buyback: Mustek acquired a further 10 000 000 ordinary shares in the issued share capital, funded from available cash resources • Net finance charges decreased from R87.33 million to R76.58 million
END CUSTOMER • Exceeding our customer expectations • Devising accurate solutions, delivering products quickly, offering excellent technical support and efficiently fulfilling warranties and service level agreements	• Property, plant and equipment valued at R170.48 million • Spent R24.70 million on developing new offices in Cape Town • Ability to customise products to meet customer demands • 79 923 units assembled • 6.80 million items sold • Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa	• Reduced inventory improves gross profit margins. Inventories on hand reduced by R112.06 million
RESELLER AND SOLUTIONS PROVIDER • National network of direct and indirect partners • Business model supporting resellers and solutions providers that supply solutions services, and products to all parts of the consumer, business and public sector market	• R10.00 million spent on staff development in Mustek company • R5.51 million spent on staff development in the Rectron Group • Employee turnover for Mustek for the current year amounted to 11.44% • Return to work and retention rates after parental leave is 100% • Mustek's absenteeism rate was recorded as 1.43%, and Rectron's as 1.89% for the 2018 year • 100% of Mustek's workforce receives regular performance and career development reviews	• Stable, motivated workforce • Aligned with Group objectives • Transparent career paths • ICT experience • Enhanced experience and skills • Raised service levels • Created portable skills for the ICT industry • Able to provide for families and communities
TECHNICAL EXPERTISE • Staff development and retention • In-house management of warranties and repairs • Dedicated subject matter experts for each product and technology, supported by a R&D division • Service and technical support at all levels	• Mustek achieved a level 1 B-BBEE rating, using the amended ICT sector codes • R1.60 million spent on CSI activities • Mustek won Huawei Distributor of the Year award • Strong reseller base, which between Mustek and Rectron numbers more than 10 000 resellers • Outstanding service delivery, underpinned by open channels of communication	• Enhanced reputation • Brand awareness in new segments • B-BBEE transformation • A formal CSI programme focuses on improving the quality of, and access to, education for previously disadvantaged communities and handicapped individuals
PRODUCT ACQUISITION • Assembly, production and planning • Strong relationships with vendors of leading international ICT brands through agency and distributorship agreements	• An energy management system (EnMS) based on the ISO 50001 international standard has been implemented at the Midrand facility • 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 • 160 tonnes of waste recycled • Mustek consumed 13 687 GJ of energy • Rectron consumed 6 265 GJ of energy • Replacement of ICT equipment with energy-efficient units, installing rooftop solar panels and LED lights	• Installations will pay for themselves in a relatively short time and significantly reduce our overall electricity demand and usage • Electronic waste is responsibly recycled • Reduced negative impacts on the environment
WAREHOUSING • Logistics • Stock management • One of the largest inventories in the country and reasonable stock levels across branches • An order can be fulfilled in the shortest possible time **DISTRIBUTION** • National network of branches/resellers • Door-to-door delivery and logistics service	• Mustek offers comprehensive, high value solutions • Partnerships with the best providers of forward-thinking technology solutions and services • Improving operational efficiencies and cost management • Risks identified and mitigated • Mustek Gauteng's certifications: – ISO 9001:2015 (Quality) – ISO 14001:2015 (Environment)	• Minimised obsolescence and waste • Acceleration of new technologies • Better responses to changing consumer needs • Solutions for improving South Africa's ITC landscape

FINANCIAL CONTROLS
- Working capital
- Cash generation

GOVERNANCE
- Quality control

STRATEGIC OVERVIEW

Strategy

Our business strategy is delivering results and remains essentially unchanged for the next year. The strategy is simple, though much easier said than done. It is based on anticipating and providing for trends that tech-savvy customers will pursue.

Mustek is about taking an approachable and flexible 'can do' attitude to assist our customers in identifying specifications, sourcing products and formulating solutions. We offer a wide-ranging choice of hardware, combined with superior technical expertise, service and support, to address every level of the ICT stack.

Mustek's strategy is expertly applied financial, intellectual, manufactured and human capital to the creation of value for all stakeholders.

The Group offers its goods and services through six business units, the two largest being the Mustek and Rectron divisions. These two companies engage two adjacent ICT market segments.

Mustek's 40% shareholding in Sizwe Africa IT Group supports our growth in tandem with a dynamic young IT business.

A strategic 36% shareholding in Khauleza IT Solutions further supports our objective of being recognised as the single point of contact of choice for all ICT requirements in South Africa. Khauleza provides industry-leading hardware, computing accessories, technical skills and consulting services, primarily to an expanding network of small, medium and micro-enterprises (SMMEs).

This strategy enables Mustek to perfectly match customer technology needs. These can be highly customised solutions, or mainstream packages derived through tried and trusted best industry practices and competitive pricing.

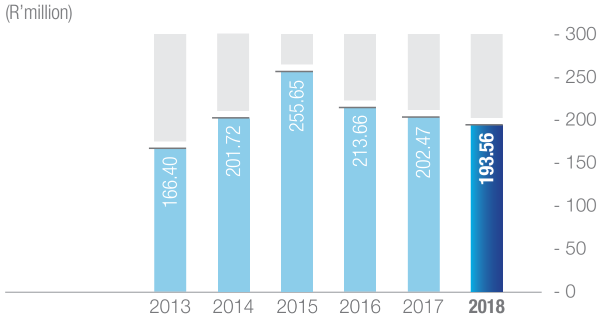
Mustek's position in the South African market has been built on an unwavering commitment to customer satisfaction, the development of some of the most sought-after relationships in the international ICT market, adherence to stringent international quality standards and a staffing policy that motivates highly trained and experienced employees to remain in the Mustek fold.

All of this culminates in Mustek being one of the most accessible and professional distributors and end-to-end solutions providers for South African corporations and enterprises of all sizes.

Key statistics

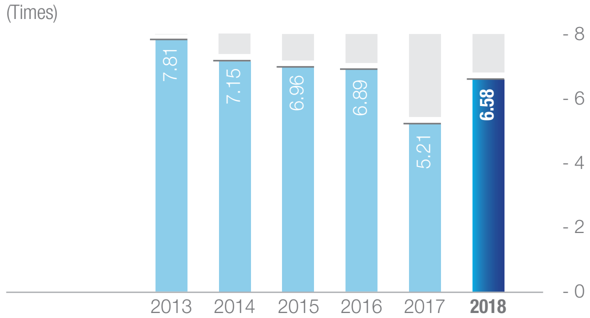
EBITDA

(R'million)

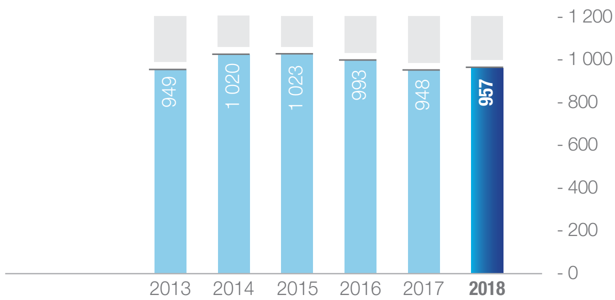


Simple price-earnings ratio using HEPS

(Times)

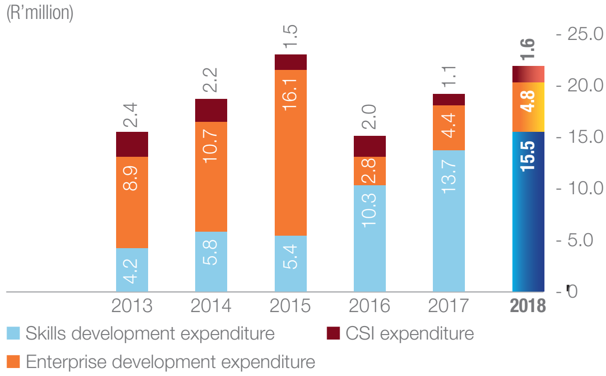


Employees



Group transformative expenditure

(R'million)



Strategic performance and goals

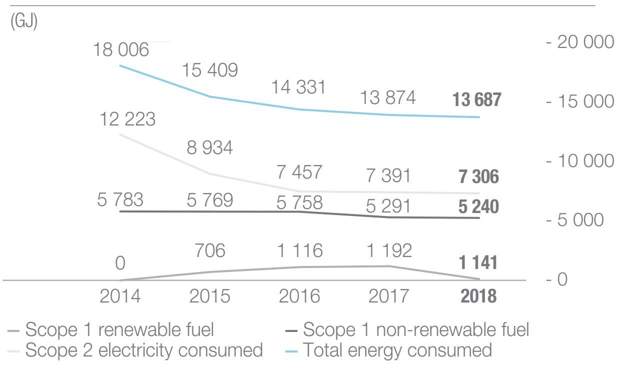
Strategic initiatives for 2018

STRATEGIC GOAL	Software portfolio enhancement	Grow our newly established training and enterprise development centre	Disposal of 'lazy' assets	Continue share buyback while earnings enhancing
PERFORMANCE THIS YEAR	Although not showing in revenue performance, a number of new products were added to the portfolio	Achieved revenue of R10.80 million	• Disposed of the investment in Zinox in Nigeria for a cash consideration of R14.4 million. • Disposed of vacant land in Midrand for a cash consideration of R17.5 million after year-end	Bought back 10.00 million shares at an average price of 548.54 cents per share.
FUTURE INITIATIVES	Continuing programme	Continuing programme	Continuing programme specifically focusing on the property in Nairobi, Kenya	Continuing programme

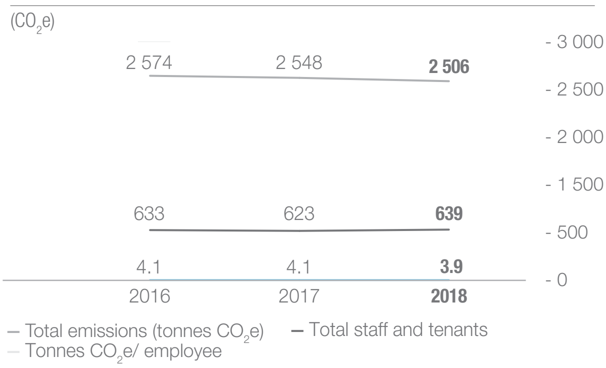
Strategic objectives for 2019

1. New product introductions aimed at diversification and vertical market reach
2. Software portfolio enhancement
3. Grow our training and enterprise development centre
4. Dispose of 'lazy' and non-core assets
5. Continue share buyback while earnings enhancing and trading at a discount to TNAV

Mustek – energy consumption



Greenhouse gas emissions intensity



RISKS AND OPPORTUNITIES

Mustek's top risks

RISK IDENTIFICATION CATEGORY	RISK DESCRIPTION	RISK ANALYSIS – IMPACTS	RISK ANALYSIS – MITIGATING CONTROLS IN PLACE
Operations	Theft of stock, including: • Armed robbery on-premise or on-vehicle • Hijacking of vehicles	Possible consequences: • Financial loss • Physical harm to staff and potential loss of life • Reputational damage • Loss in customer confidence and therefore market share • Dismissals may lead to litigation costs	Physical security: Multiple layers supported by internal and external cameras. Further anti-theft procedures: • Driver and vehicle scanning • Electric fencing, lights and biometrics • Alarm codes changed frequently • Various communications channels and procedures for specific deliveries
Strategic	Shifting macro-economic trends	Significant impacts through currency, economic and societal shifts	Practical measures taken are to: • Ensure informed and competent internal governance • Focus tightly on working capital management supported by rigorous cost control and stock management • Set and measuring targets against performance budgets
Executive Committee	Unacceptable return on capital	Possible consequences: • Loss of investor confidence • Loss of banking facilities • May impact the Group's 'going concern' status	• Establishing annual ROE targets linked to short-term incentive bonus • Monthly review of management accounts • Regular EXCO meetings for measuring performance against budgets Take practical measures to: • Ensure informed and competent internal governance • Focus tightly on working capital management supported by rigorous cost control and stock management • Set and measure targets against performance budgets
Financial	Weakening ZAR against the USD	Significant forex losses may result from major increases in USD-denominated accounts payable	Under the guidance of the CEO and FD, Mustek hedges its foreign currency liabilities through forward exchange contract (FEC) and forex options. Mitigating factors: • ICT stock is primarily traded in USD and can return higher value during weaker ZAR periods

RISK IDENTIFICATION CATEGORY	RISK DESCRIPTION	RISK ANALYSIS – IMPACTS	RISK ANALYSIS – MITIGATING CONTROLS IN PLACE
Sales	Sales fraud risk • Fraudulent orders placed on customers' accounts • Unfair competition practices • Collusion between sales people and dealers	• Reputational damage • Financial loss – despatched stock disputed by customers • Loss of customers due to broken trust in Mustek	• Dealer channel – ordering and debt limits • Employees are polygraphed on recruitment • Awareness training • Large orders verified directly with sales staff and customers • SMS to customer when order is ready • Restrictions on amending customer contact details online
Financial	Long-term significant strengthening of the ZAR against the USD	• Significant decreases in revenue and profit margins may result from lower USD-based stock prices • Pressure to decrease selling prices in line with competitors	• Structured FECs and forex options decrease the risk of buying USD at contracted values that may be significantly higher than spot rate • All competitors are exposed to the same forex risk • Reduced pricing of products should grow sales
Strategic	Increasing overlap of shared customer contribution between the Mustek and Rectron companies	• Loss of profit due to both companies offering the same product to the same target markets at differing pricing, which reduces margins • Not leveraging the advantages offered by economies of scale at Group level	• Management can develop strategies to manage potential product overlaps should these become apparent • Installing the same business software system at Mustek and Rectron provides comparable results for management analysis

MUSTEK'S MATERIAL MATTERS

Materiality

Mustek's Board and executive management present the information in this Integrated Annual Report as relevant or 'material' to its shareholders and key stakeholders for a properly informed understanding of Mustek's performance over the past year, as well as insights on its forward strategy. The Board and executive management evaluated the source information with two primary questions in mind: 'who is our reporting aimed at?' and 'what decisions will they be able to make from our reporting?'.

When deciding what information should be included, the leadership considered the relative importance of each matter in terms of the known or potential effects of these on Mustek's ability to continue creating value. These were prioritised for relevance to the report users, so that non-pertinent information could be set aside, or shared through other channels.

Our stakeholder engagement activities are aimed at identifying and responding to all reasonable and legitimate expectations of shareholders, investors and stakeholders. We report on financial, commercial and sustainable development issues that could impact our ability to create value now and in the future.

Mustek's potential material matters emerge through our risk management process and shareholder feedback. The Board's Audit and Risk Committee meets at least once a quarter to review all risk management processes, procedures and outcomes. When necessary, external experts facilitate the identification of risks and how these should be mitigated. Risk is discussed in the corporate governance section of this report.

Once identified, these potentially material issues are subjected to a materiality process that considers:

- a topic's qualitative and quantitative aspect
- the influence, legitimacy and urgency of the stakeholder raising the topic
- the boundary of the topic
- Mustek's ability to effect change with regard to its impact on the topic.

The materiality process involves getting the Board and executive management to workshop and prioritise identified issues. Ultimately the decision to report a topic as a material matter is based on the Board and management's view of the topic.

Mustek's most material matters

Financial	Social	Strategic	Environmental
• South Africa's economy and the Rand exchange rate • Profitability and cash flow	• Preserving key relationships • Attract, develop and retain adequately skilled employees • Transformation and maintaining our social licence to operate • Ethical behaviour and governance	• Anticipate ICT trends internationally and locally • Positioning Mustek as a value added solutions provider, not merely a distributor	• Energy and waste management • Legal compliance

South Africa's economy and the Rand exchange rate

The ZAR/USD exchange rate is a defining factor in the information and communication technology (ICT) industry, as the bulk of ITC inventory is USD based.

Mustek is exposed to events that occur in the markets from where it acquires products and to the South African and other markets to which it offers products and services.

Exchange rate fluctuations affect prices, and the Rand's propensity for sharp movements against other major currencies is an ongoing challenge. Financial results will naturally be impacted.

Mustek cannot influence broader economics, but does apply a hedging policy to minimise foreign currency exchange risk and retain a broad spread of suppliers. Suppliers may be temporarily or permanently lost in the event of a natural disaster, bankruptcy, or being found to employ dubious practices such as child labour or forced labour.

Mustek's Board and management annually review the Group's strategy, budgets and risks in light of prevailing and predicted macro-economic conditions. However, they cannot assure that adverse local and international macro-economic conditions will not materially impact Mustek's financial results.

Preserving key relationships

A breakdown in relationships with key suppliers and resellers would negatively affect Mustek's profitability. Maintaining strong relationships with both suppliers and resellers is fundamental to the Groups' ongoing success. Underpinning this is Mustek's overall commitment to meeting ever-changing ICT needs by delivering the right products and services, at the right time, at the right price and by the right people.

Accomplished product and brand managers are tasked with adding value and building strong relationships with Mustek and Rectron's diverse range of international and local suppliers, while key account managers are expected to deliver excellent service to resellers and corporate clients.

We ensure that our employees are well equipped to deliver excellent service. They are, in turn, supported by processes and systems aimed at ensuring seamless transactions.

Mustek's product portfolio is among the broadest in South Africa, incorporating client computing, networking, data centre computing, security, software, peripherals and numerous specialist market segments.

Mustek and Rectron continually seek means for enhancing our service offering to resellers, including:

- keeping abreast of global ICT trends and consistently delivering innovative and fairly priced products
- expanding our footprint throughout South Africa and ensuring Mustek and Rectron sales teams are readily available in all regions
- continually improving our online sales and support portals
- actively supporting SMME resellers to grow through enterprise development support
- instituting incentive and rewards programmes
- ensuring consistent quality of products by vetting all existing and incoming products in the Mustek and Rectron stables.

MUSTEK'S MATERIAL MATTERS (CONTINUED)

Anticipate ICT trends internationally and locally

Mustek aims to be South Africa's ICT supplier of choice by providing end-to-end products and solutions. The Group must therefore remain competitive in one of the quickest evolving industries in the world by responding swiftly to local and global trends.

The world's biggest technology brands will obviously adapt their offerings to fit global trends, therefore Mustek must assess whether the African market will adopt specific products or platforms before adding these to our inventory.

Mustek regularly monitors trends such as South Africa's digital transformation efforts and how the Internet of Things will reshape organisations, people and hardware.

Positioning Mustek as a value-added solutions provider, not merely a distributor

Although founded in 1987 as primarily a distributor of PCs and ICT products, Mustek's current strategy is to add value through new services and solutions, while broadening its range of brands and products.

As a value-added distributor at the centre of the technology supply chain, Mustek is ideally positioned to enable both IT vendors and solution providers to most effectively reach and support businesses of all sizes in any industry.

Profitability and cash flow

Growing sustainable profits year by year to generate cash is the Group's primary objective. Cash generation enables Mustek to create and develop value in all parts of its business. The resilience of our earnings is founded on the relationships with both vendors and resellers. Earnings growth is achieved through acting on opportunities created by technology and the collective skills of our workforce.

Profitability and cash flow are the two most visible indicators of the Group's financial performance and the primary indicators of management's success. Overall profitability comprises a variety of elements, from sales volumes, gross profit percentages, operating expenses, finance costs and tax rates. The importance of the Group's profitability cannot be understated and almost every Group activity is directed towards improving either profitability or cash flow. Profits, especially cash profits, allow the Group to pay dividends to its shareholders, meet its obligations and reinvest in the future of the business.

Attract, develop and retain adequately skilled employees

Information communication and technology (ICT) is the basis upon which our industry is built. Adequate skills and experience are in demand, which must balance with optimum empowerment of the previously disadvantaged. Besides offering market-related remuneration, Mustek fosters an empowering work environment that supports a culture of learning and development.

Mustek enables individual career path choices, supported by skills development programmes and prioritising internal transfers and promotions. Preference is given to employees from previously disadvantaged backgrounds.

Transformation and maintaining our social licence to operate

Mustek's divisions readily accept their responsibility to address the imbalances of the past by working to continually improve their B-BBEE scores in terms of the ICT sector codes, while also meeting and exceeding the requirements of related legislation, such as the Employment Equity and Skills Development Acts.

For decades, Mustek has been renowned for training previously disadvantaged persons to participate in the ICT industry, with its previous employees contributing throughout the sector. As a responsible corporate citizen, we contribute year after year to educating South Africa's learners through school support programmes and dedicated technology.

Ethical behaviour and governance

Corporate failures, environmental and social challenges, as well as increasing white collar crimes, are motivating companies to embed strict corporate governance and ethics policies.

Over the past three years, all the Group's governance structures and policies have been reviewed against best practice for ethics and whistle-blowing.

Energy consumption and GHG emissions

Mustek continually focuses on operational efficiencies and cost management. Becoming more energy efficient is a win-win situation, as it reduces environmental impacts while delivering measurable cost reductions.

Mustek installed solar panels on the roofs of its Midrand and Cape Town premises, with Rectron following suit by installing solar panels on the roofs of its Midrand and Port Elizabeth premises.

During 2016, Mustek implemented an energy management system (EnMS) to reduce energy consumption and costs further.

Mustek has become an industry leader in mitigating environment impacts through solar power.

(See more information in the natural capital section on page 61.)

PERFORMANCE

Six-year financial review

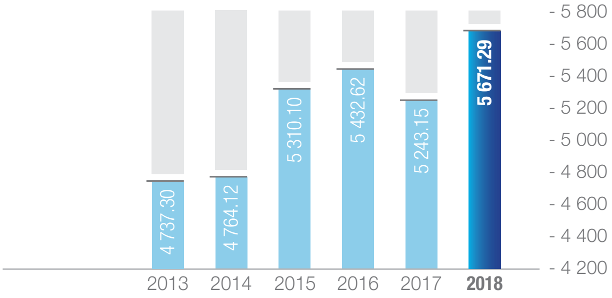
for the year ended 30 June 2018

	2018 R000	2017 R000	2016 R000	2015 R000	2014 R000	2013 R000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Revenue	**5 671 293**	5 243 147	5 432 617	5 310 102	4 764 123	4 737 304
Cost of sales	**(4 875 873)**	(4 581 639)	(4 737 192)	(4 624 183)	(4 109 007)	(4 101 167)
Gross profit	**795 420**	661 508	695 425	685 919	655 116	636 137
Distribution, administrative and other operating expenses	**(601 857)**	(459 043)	(481 764)	(430 273)	(453 398)	(469 754)
EBITDA	**193 563**	202 465	213 661	255 646	201 718	166 383
Headline earnings	**81 033**	73 950	77 396	132 838	108 032	78 996
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
Assets	**2 930 447**	2 980 199	3 085 558	3 458 183	2 701 180	2 233 319
Property, plant and equipment	**170 478**	156 237	152 458	174 709	160 029	120 462
Intangible assets	**100 261**	93 516	67 059	62 843	60 032	57 489
Investments and loans	**177 256**	180 926	152 657	139 131	122 483	39 250
Deferred tax asset	**21 923**	16 572	17 312	29 593	29 164	17 487
Current assets	**2 451 109**	2 532 948	2 696 072	3 051 907	2 329 472	1 934 043
Assets classified as held for sale	**9 420**	–	–	–	–	64 588
Equity and liabilities	**2 930 447**	2 980 199	3 085 558	3 458 183	2 701 180	2 233 319
Equity attributable to equity holders of the parent	**984 436**	970 333	987 918	993 748	916 052	826 365
Minority interest	**8 879**	8 128	(581)	19 268	18 461	12 546
Long-term borrowings	**6 251**	5 637	499	23 127	34 788	6 837
Deferred tax liability	**8 898**	10 617	4 504	4 576	–	2 324
Non-current deferred income	**15 788**	13 215	12 632	15 627	14 725	16 650
Current liabilities	**1 906 195**	1 972 269	2 080 586	2 401 837	1 717 154	1 341 703
Liabilities directly associated with assets classified as held for sale	**–**	–	–	–	–	26 894

Performance indicators over time

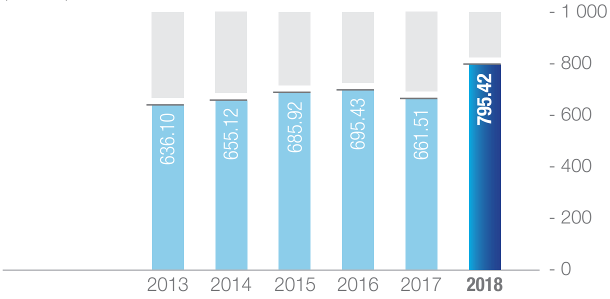
Revenue

(R'million)



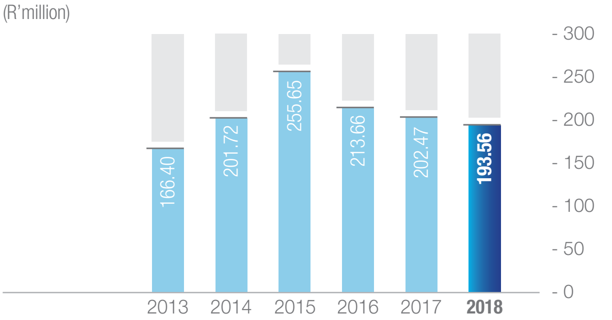
Gross profit

(R'million)



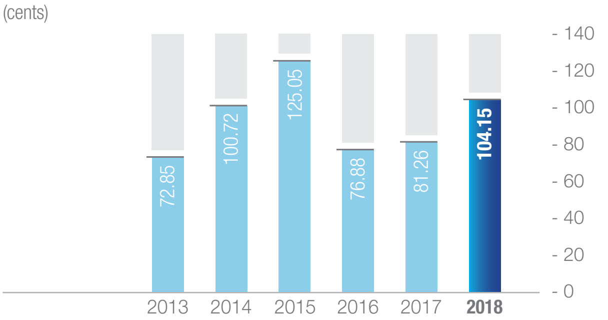
EBITDA

(R'million)



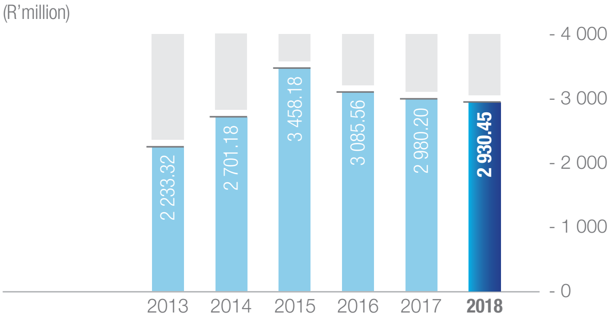
Headline earnings per share

(cents)



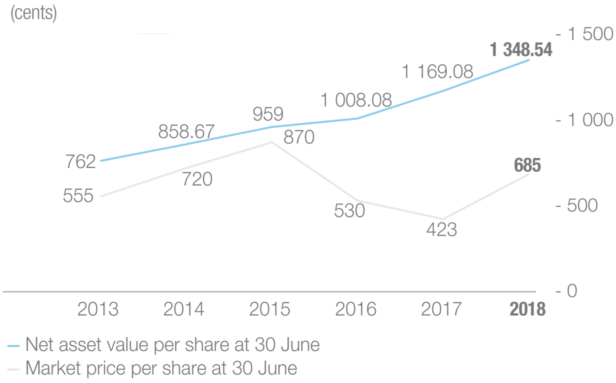
Total assets

(R'million)



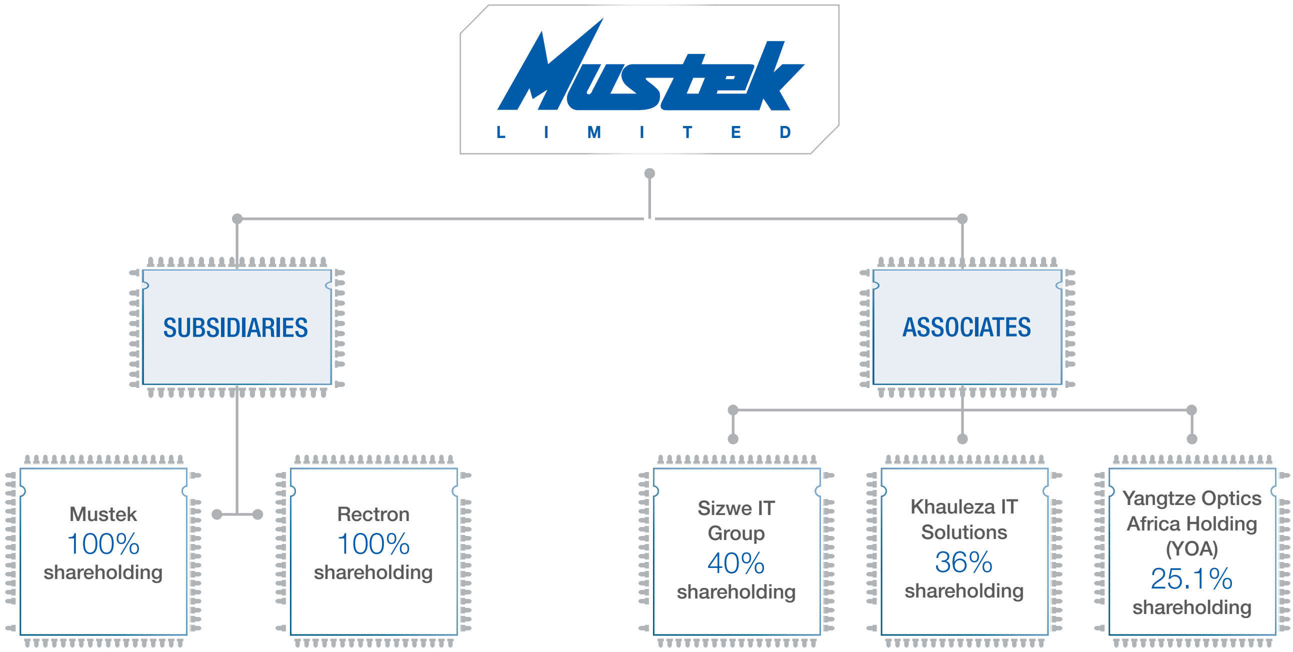
Share price versus NAV at 30 June

(cents)

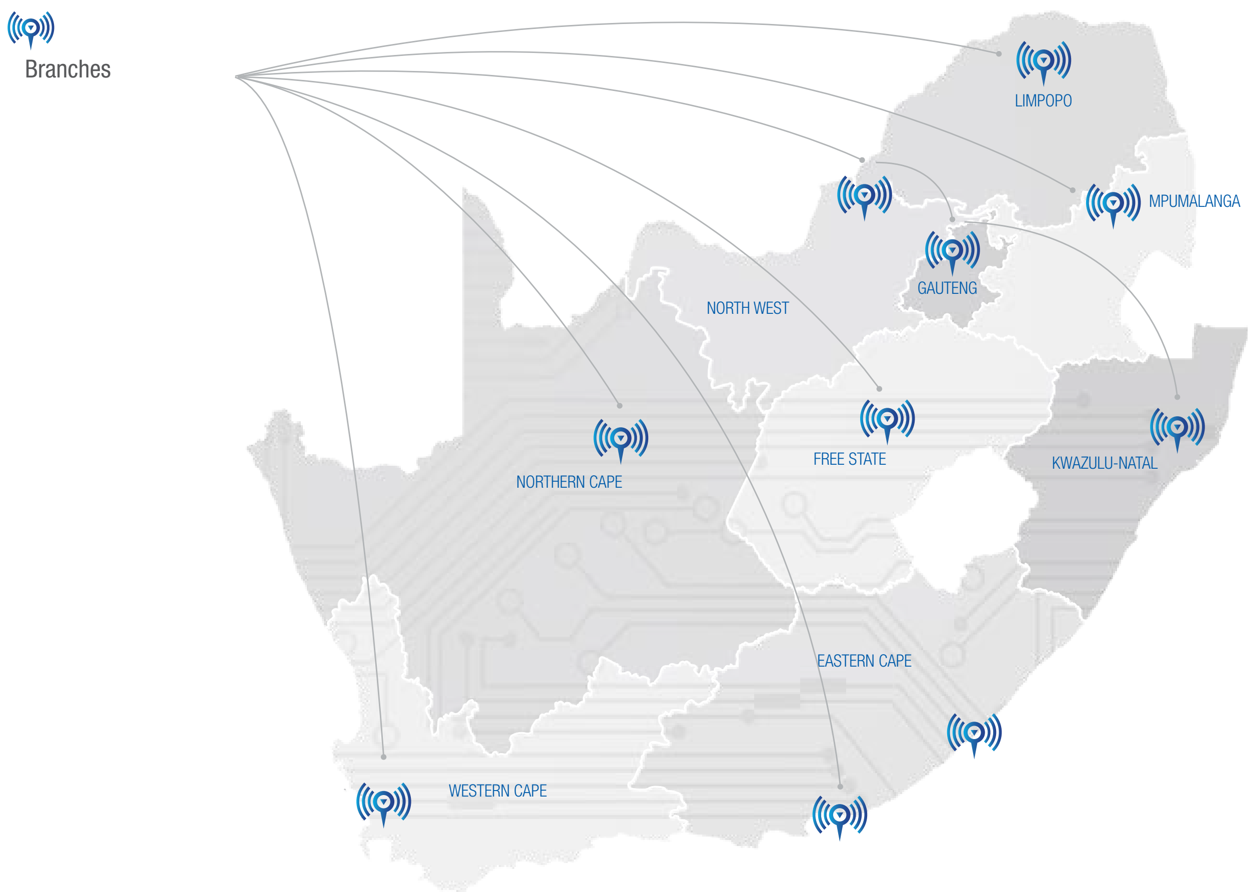


MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION

Group structure



Mustek branch locations



Mustek

Mustek introduction

THE MUSTEK GROUP WAS BUILT ON THE MECER BRAND ESTABLISHED IN THE 1980s.

Ongoing demand for Mecer branded hardware enabled Mustek to develop South Africa's largest and most versatile ICT assembly line and a service department, with a reputation second to none in the country.

Following a major shift in business strategy in 2007, Mustek has strategically added international brands across the IT hardware universe as the components of an endless variety of ICT solutions for end-users.

What Mustek does

Mustek meets the ICT requirements of a wide range of end-users through its distributed sales network. It procures, assembles, distributes and services a comprehensive range of ICT products to a network of more than 3 600 resellers.

In recent years, Mustek has been adding in specific ICT services to complement its hardware, in recognition that clients increasingly prefer a single point of contact for all their ICT requirements.

The Mecer range

Mustek's proprietary brand, Mecer, has remained at the forefront of technology by offering superior quality custom-designed computing solutions for all sectors of the South African market. All Mecer desktops and notebooks incorporate the required local and international IT standards. Mecer has been one of South Africa's top-selling PCs over the past three decades.

The Group's modern computerised assembly line is the largest semi-automated computer assembly line in South Africa and has the flexibility for build-to-order and/or customisation. The assembly line allows individual units to be tagged, linking back to the original case serial number as well as a configuration management database that records all date and time stamps.

A portfolio of international brands

The Mecer brand is complemented by a stable of quality imported brands. Other divisions within Mustek support the PC assembly operation by importing and distributing components and peripherals, or providing networking and specialised services. Mustek's strategic position between international manufacturers and the local market adds considerable value to the regional ICT industry through local assembly, branding and marketing. This value chain is supported by competitive pricing due to Mustek's ability to finance deals at attractive rates and obtain bulk discounts on consolidated shipments.

Through the supply of configuration and customisation, tried and trusted best industry practices and competitive pricing, Mustek is positioned to service a wide range of technology needs.

B-BBEE status and human development

Mustek is a level 1 B-BBEE contributor with ongoing skills development and training recognised as a business imperative. Its B-BBEE status and HR policies are covered in more detail in the human capital section on page 52 of this report.

Recent financial performance/overview

Mustek's financial performance can be comprehensively reviewed in the financial statements provided with this report from page 108.

Future prospects and forward planning

South Africa is a developing nation with an ever-growing demand for new technology. With its broad product offering and in-depth understanding of its value proposition, Mustek continues to secure a sustainable future for the Group and its stakeholders.

Read more on **www.mustek.co.za**

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Rectron

Rectron's portfolio of brands

End-to-end customer solutions

- Aorus
- Thecus
- GIGABYTE
- intel
- MakerBot
- PNY
- RCT
- poslab
- RICOH
- Seagate
- Transcend
- VIVOTEK
- acer
- TYAN
- D-Link
- palladium
- EVERKI
- Acronis
- HUAWEI
- iEi
- Lenovo
- onapp
- Microsoft
- SAMSUNG
- AIC
- ASUS
- KASPERSKY
- Hisense
- wePresent
- Canon
- ADVANTECH
- CHENBRO
- logitech
- Cooler Master
- pqi
- CORSAIR
- Synology
- Bitdefender
- ekwb
- dji
- ATEN
- Norton
- hp
- MAKEN
- ZEBRA
- macally
- Windows IoT
- Mellanox
- plantronics

In 2007, Rectron was acquired by Mustek Limited as a wholly owned subsidiary

Rectron at a glance

MAJOR ACTIVITIES /

Rectron is an ICT distributor that provides services through a reseller channel to southern African end-customers

MARKETS SERVED /

Southern African consumers, small to medium-sized enterprises (SMEs), businesses, government and academic institutions, served indirectly through a reseller and retail channel

CORE BUSINESS VALUE /

To be an innovative, customer needs-led organisation, delivering value to our stakeholders

FOCUS /

Developing a breadth of customers, with a particular emphasis on SMEs

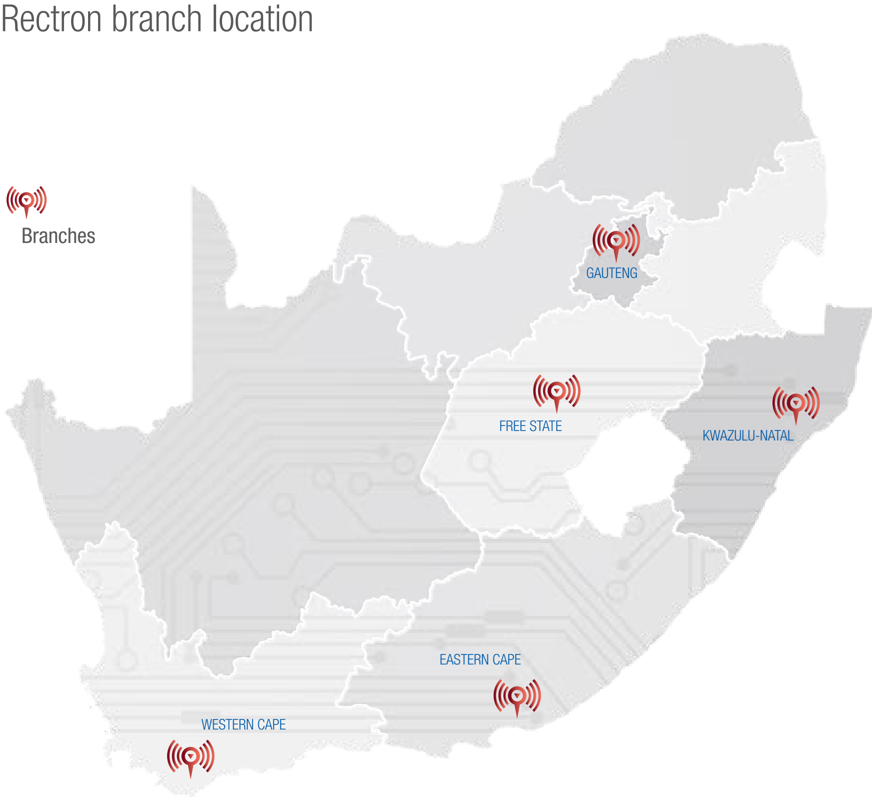
PRIMARY PRODUCTS /

Components, mobile solutions, software, printing solutions, consumer products, cloud solutions, point of sale, surveillance, as well as enterprise solutions

BRANCHES /

Five branches, based in Midrand, Cape Town, Durban, Port Elizabeth and Bloemfontein

Rectron branch location



Rectron introduction

RECTRON IS A PROUDLY SOUTH AFRICAN COMPANY AND ONE OF THE POWERHOUSES IN THE SOUTH AFRICAN IT DISTRIBUTION LANDSCAPE. WE EMBRACE DIGITAL TRANSFORMATION AND ARE FULLY COMMITTED TO GROWING AND EMPOWERING THE INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) CHANNEL IN SOUTH AFRICA.

We offer best of breed hardware and software services and solutions to our core customer base comprising resellers, system integrators, managed services providers, e-tailers and retailers across southern Africa. The kingpin of our organisation is innovation, and we are driven by customer needs and the objective to deliver value to our stakeholders.

Rectron's biggest asset is its passionate and loyal staff. We have developed a diverse and productive culture that celebrates and values accountability, respect, team work and trust. As testament to this, 37% of our entire staff complement has been with the company for over 10 years.

Rectron sells indirectly through a large and varied customer base. We pride ourselves on being southern Africa's leading distributor to small and medium enterprise resellers. Our strategy of digital transformation is driving our efforts to make doing business with Rectron transparent and easy. We recently upgraded our online platforms and automated messaging services to enhance logical and intuitive business interaction.

Mission

- Rectron strives to be an innovative, customer needs-led organisation, delivering value to our stakeholders

Vision

- Rectron aims to be the partner of choice by delivering innovative, end-to-end solutions that enable successful, profitable partnerships

Philosophy

- Our main priority is to become one of the world's greatest ICT distribution companies, through the partnerships we have with our valued vendors, customers and our employees alike. By working together, sharing tools, ideas, trust and respect, we are on track to reach greatness

Technology

- We will continue to source and supply the best quality solutions and services to channel for customers to build sustainable businesses that will thrive well into the future

Culture

- We believe that our open and developmental approach to staff empowerment has played a pivotal role in developing the expert management team Rectron has today. Our unique employee-defined culture celebrates teamwork, trust, accountability and respect. We will continue to leverage off this culture to build a positive working environment that promotes internal growth

Promise

- Pursuing excellence

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Rectron (continued)

What Rectron does

With one of the most comprehensive ICT product and service portfolios in southern Africa, Rectron imports and distributes to computer resellers, retailers and systems integrators.

We are rapidly expanding the business into new offerings such as cloud services, enterprise solutions and licensing, while maintaining our position as the leading distributor of components in South Africa. By offering innovative solutions and services, we endeavour to make our channel a leader in technologies.

Rectron recognises that our customers' experiences are key to our success, and that these experiences define how we move forward. Leading with a customer-oriented mindset sees effective decision-making across each functional area of our business, ensuring we maintain a positive customer journey. Our customers rely on us to keep them ahead of the technology curve, contributing to our ever-increasing expertise in supporting our customers and identifying their next layer of opportunities. With the rapid pace of change, particularly in the information technology sector, we partner with our customers to help them retain long-term relevancy, while building a mutually profitable relationship. We aspire to push the boundaries in our product and services offering.

Rectron distributes some of the world's most renowned technology brands through an end-to-end portfolio that includes:

- scalable networking products
- mobility solutions
- cloud services and solutions
- components
- consumer electronics
- peripherals
- 3D printing
- gaming
- managed print services
- software solutions
- storage solutions
- point of sale solutions
- Internet of Things (IoT) products
- build-to-order PCs and servers
- surveillance
- security solutions
- vertical solutions, such as large format displays
- consumer and industrial drones.

In the 2017/2018 financial year, we strengthened our offering through onboarding new brands such as:
Security solutions: Bitdefender, Symantec and Kaspersky
Storage solutions: Synology, PQI and AIC
Networking solutions: Mellanox
Cloud offerings: OnApp cloud management platform
Consumer hardware: Logitech PC peripherals, Plantronics audio solutions and DJI drones
Consumer electronics: AOC
Gaming: EKWB liquid cooling
Surveillance: RBH access control management system
Point of sale solutions: Zebra printers and MAKEN

In the prior year, Rectron acquired a majority stake in Palladium, a proudly South African software vendor. Palladium has developed an accounting package for small to mid-sized businesses that is well suited to many of our customers and will generate additional revenue streams for Rectron.

In the course of 2017, Microsoft appointed Rectron as a cloud solutions provider, and Rectron was awarded Microsoft Consumer Distributor Partner of the Year.

Rectron was also appointed the official distributor for DJI drones in South Africa. The addition of this well-known and industry leading brand to our portfolio will assist in cultivating new opportunities within the mining, agricultural, security and construction industries.

Rectron's evolving business model

We are developing a business model that will transfigure traditional software distribution in 2017/2018 by reducing financial risk and the administration burden for customers.

Digital transformation is key and we are investing heavily in developing tools and processes to streamline our accessibility to customers. Our website has been upgraded into a 24/7 terminal for self-help and online ordering, and customers are encouraged to move business interactions online.

Rectron's five strategically sited branches around South Africa are a crucial asset. Each branch is fully equipped for personal and world-class service. Rectron's walk-in support service is distinguished for its accuracy and speedy turnaround times. We save customers time through a 'while you wait' testing and exchange service. Fast-moving devices and components are stocked onsite to further decrease the average turnaround time of such exchanges to less than 10 minutes.

Rectron is authorised to repair Gigabyte, Acer and Asus notebooks, Hisense TVs, RCT, Poslab Point of Sale and Vivotek surveillance cameras.

Performance

Financial performance in 2018

Rectron underwent an unusually tough year due to a general industry slowdown and several of our largest vendors shifting their distribution strategies. As a result, Rectron fell short of our top-line target, although increasing our overall gross profit margin from 9.86% to 10.50%.

Our investment into new product verticals and the Enterprise Development category, as well as our bedrock approach of being a customer needs-led organisation, allows us to efficiently adapt to industry needs and changes. This investment will position Rectron for long-term sustainability.

B-BBEE status and human capital development

Rectron is a certified level 2 contributor and supports local SMEs through products, training and services. We give back to communities by providing much needed technology to previously disadvantaged schools and community institutions.

We adhere to strict guidelines set by the ICT charter surrounding employment equity, enterprise development and purchasing

Our journey to fundamental digital transformation requires new skill sets for our employees. Each staff member is receiving specific job-related training to close skills gaps and prepare them for enhanced customer engagement.

The Microsoft Student to Business internship programme, in the field of licensing and cloud solution sales, saw yet another successful year, with three interns enrolled and one full-time employment commencing.

We continue supporting young learners around South Africa through the Torque IT learnership programme. In this past financial year, Rectron sponsored 140 learners in technical support and systems support training. Once training is complete, Torque IT creates employment opportunities for the learners at different companies.

Corporate social responsibility

Our Group corporate and social responsibility programme is geared towards driving educational activities and opportunities within the ICT sector. Our focus has shifted from once-off requests to supporting sustainable projects, with longer-term partnerships and measurable results.

Code for Change, previously Change the World Trust, partnered with Rectron in 2007. This non-profit organisation (NPO) provides an eco-system of coding skills and digital entrepreneurs in secondary schools to establish the new South African economy. The NPO believes that South Africa's youth possess the idealism, enthusiasm, energy and intellect needed to transform today's society; however, they simply need the tools to do so. Rectron provides various schools and facilities around the country with these tools, in the form of notebooks.

Future prospects and forward planning

Products

Rectron's long-term sustainability relies on the company moving beyond its traditional base of being an ICT distributor.

While the SME sector remains our primary focus, our e-commerce offering is gaining traction as the online shopping trend continues to grow.

Our specific focus on enterprise solutions and IoT is attracting larger value and system integration resellers into the Rectron stable. During the 2017/2018 year, we grew our enterprise solutions offering to account for 15% of our overall business. Investments in new product lines will continue growing this offering.

BECOMING A CUSTOMER NEEDS-LED ORGANISATION /

- Customer needs drive decision-making
- Understand existing needs
- Be quick to spot latest needs for future growth
- Develop end-to-end customer solutions

Rectron continually seeks out innovative products that can attract new business and niches to grow our customer base and create new revenue streams.

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Rectron (continued)

Customers

Investing in customer relationship management (CRM) tools has improved business planning and allowed us to align with our customers' business needs. We also implemented whitespace functionality into CRM, which has helped cross-selling within our existing reseller base. An investment into PowerBI, Microsoft's analytics tool, provides greater insight into business trends.

Our daily monitoring of customer service has resulted in remarkably positive feedback. During the reporting period, we received a total of 834 comments, with an average rating of 4.8 out of 5. An outbound customer survey is conducted every six months and the findings drive our decision-making.

What customers are saying:

> *"Their passion for service excellence and prompt response to our specific tailor-made requests contributed to a highly valued trust relationship."*
>
> **Rihan Grobler** – IP Dimension

> *"Well done – great to deal with Rectron."*
>
> **Malcolm Block** – Liv Green Electronics

> *"Rectron is possibly the best supplier South Africa has. My supplier of choice for many years."*
>
> **Reena Singh** – Brint Technologies cc

> *"I have been your customer since the inception of Rectron. Good dealing with everyone."*
>
> **Morgan Govender** – SKL Computers

People

Rectron's greatest asset is its people and has worked relentlessly to drive a positive culture that fosters employees' personal development through upskilling within the digital transformation of the business. We pay close attention to our own unwritten ground rules set by the staff, driving culture from the ground up. Our movement towards driving a more confident and dynamic, high performance culture is one that has been many years in the making. Rectron's executive team is committed to the journey of becoming a customer needs-led organisation. Decisions made across the business reflect this core priority and staff performance is measured against total customer experience.

Rectron executive team

Spencer Chen
Managing director

Martin Roets
Operations director

Christiaan Engelbrecht CA(SA)
Financial director

Matthew Hall
Product director

Elaine Wang
Cloud and Software Solutions director

Michael Turetz
National sales manager

FY19 priorities

Financial capital

- 10% gross profit (GP) growth
- Maintain 10% return on equity (ROE)
- Maintain BEE level 2
- New business growth – Palladium
- Significant growth in contribution for business-to-business (B2B) and software portfolio
- Working capital management

Go to market

- Re-energise high GP brands
- Accelerate migration to CSP
- Grow software portfolio and market share
- Explore hardware service offering
- Segmented marketing
- Focus on B2B solution sales

Customer focus

- Continued focus on superior customer experience
- Customer needs drive decision-making
- Customer experience always on – new face of customer portal
- Improve customer experience (segmented marketing/phone system)

Human capital

- Drive a culture of 'We Serve' in all departments
- Workplace Forum/Social Committee to create and monitor culture
- High performance – drive accountability through managers and supervisors
- Reset key performance indicators (KPIs) and commission structures to drive business strategy

Read more on **www.rectron.co.za**

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Sizwe IT Group

Mustek owns 100% of Zatophase Proprietary Limited, an investment company that owns 40% of Sizwe.

Sizwe at a glance

MAJOR ACTIVITIES /

Comprehensive ICT service solutions provider

MARKETS SERVED /

Public and private sector clients

CORE BUSINESS VALUE /

Cost saving and user productivity

FOCUS /

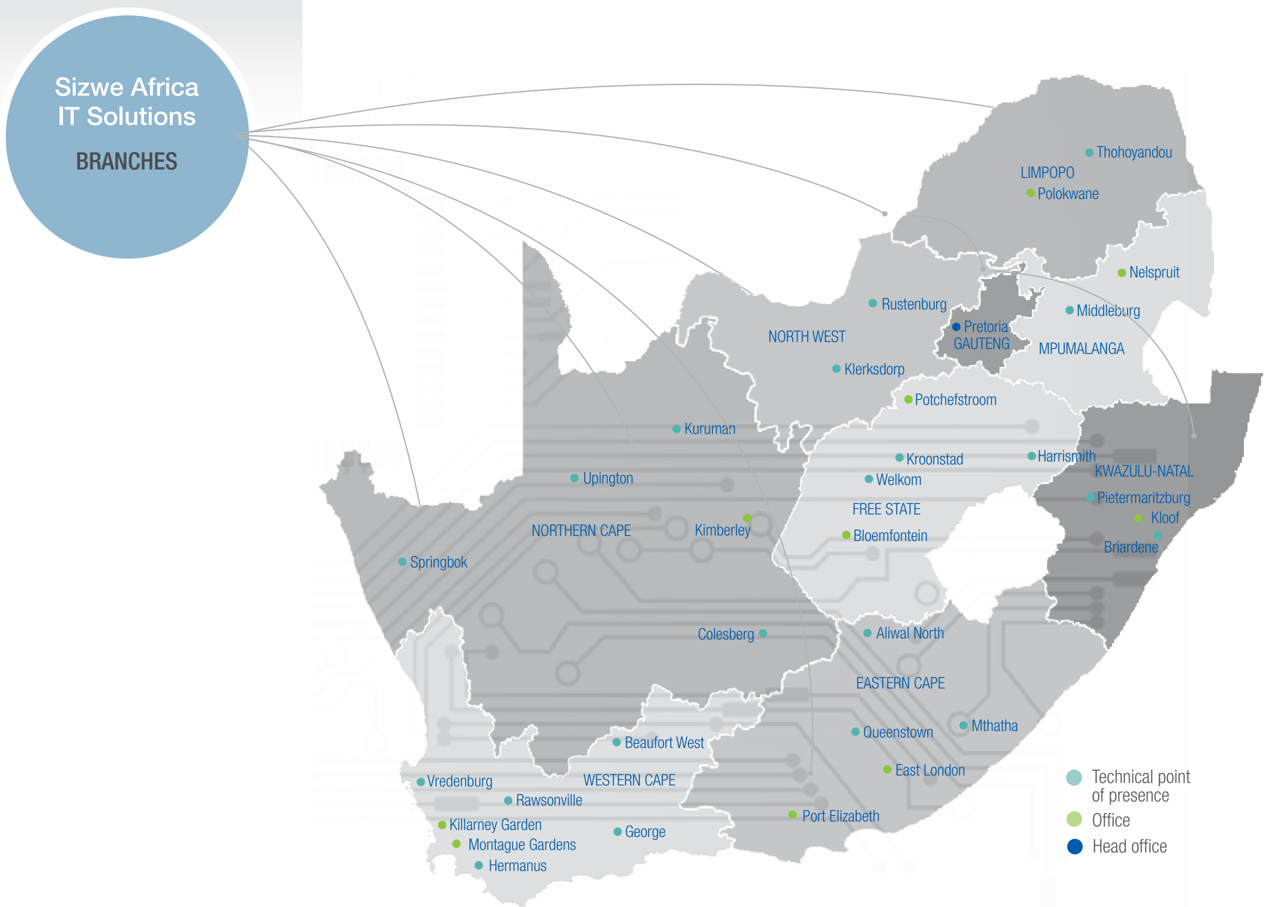
Integrated ICT solutions

PRIMARY SOLUTIONS /

- Managed services
- Unified network solutions
- Fibre and facilities management
- Systems integration

BRANCHES /

- Head office in Pretoria
- Regional offices in all nine provinces
- Technical points of presence across the country



Who we are

Sizwe Africa IT Group is among South Africa's leading integrated ICT solutions providers. Driven by passion and skill, we are a rapidly expanding, innovative partner of choice for many leading organisations. Our holistic approach ensures that our clients benefit from the value we contribute across the entire ICT value chain.

Since 2013, Sizwe has seen transformations in ownership, board, management, process and structure. As a result, our stakeholders benefit from improved client service delivery, optimised solutions and continuous quality management.

Sizwe has a level 2 B-BBEE rating and we are completely committed to transformation as the route to innovation and diversity in sustaining our fast expanding business.

Sizwe continually builds partnerships with local black-owned small, medium and micro-sized enterprises (SMMEs) to contribute to South Africa's economic wellbeing. This undertaking is managed through the Sizwe supplier development programme, which capacitates and upskills existing and potential suppliers.

Suite of offerings

MANAGED SERVICES

- 24/7 National Call Centre
- IT Remote Management
- End User Computing Devices
- Managed Print Services
- Hosting
- Enterprise Processing
- Security
- Server Management
- Cloud and SAAS
- Automated Workforce Management
- Rental Solutions
- Maintenance and Support of Servers and End User Devices

UNIFIED NETWORK SOLUTIONS

- Data Communication
- Enterprise Networking (Routing/ Switching/Wireless)
- Unified Communications and Collaboration (Voice and Video Conferencing)
- Client Contact Centres
- Physical Security (firewalls)
- Professional Services (Design, Implementation, Optimisation, Maintenance, and Support on UNS)
- IT Management Services (Project Management)

FIBRE AND FACILITIES MANAGEMENT

- Fire Detection and Suppression
- Network Cabling
- Tower Maintenance
- Facility Management
- LAN (Copper) Reticulation
- Repair/Maintenance of Generators
- HVAC (Heating, Ventilation, Air handling, Cooling)
- Civil Infrastructure
- Backup and Redundant Power Management (Generators and UPS)
- Data Centre Design, Implementation and Maintenance
- Diesel Replenishment
- Alternative Energy
- Inside / Outside Plant Optic Fibre
- CCTVs
- Access Control

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Sizwe IT Group (continued)

The Sizwe approach

Sizwe Africa IT Group offers the full spectrum of IT services and solutions required by modern enterprises. These range from a dedicated solutions architecture division, physical networking and data centre services, to desktop and cloud-based services.

Our services are provided directly or as part of a managed services contract, supported by the 24-hour Sizwe service desk. Sizwe's managed services are custom built for each client through a five-step process:

- Requirements specification
- Planning and design
- Implementation and integration
- Operations and management
- Optimisation

Financing

Ever-changing technological environments, converging technologies and increasing business demand for information availability are persuading companies to make costly acquisitions of systems and hardware. Outright purchases may require substantial capital outlay. On the other hand, standard finance lease and asset purchase facilities are recorded in balance sheets as financial debt, which potentially drains credit facilities that could be used more optimally for other purposes.

A viable option is the Sizwe Rental Solution, which can be positioned as an operating expense that allows predicted operating payments. Our Sizwe Rental Solution removes the inherent costs and risks associated with ownership from the equation. Traditional credit providers tend to focus on assessing and managing client credit risk, whereas the Sizwe Rental Solution is an authentic rental service that can manage a company's entire technology asset risk.

Three reasons for our success

A history of excellence

Sizwe has grown from a small consumables operation to one of South Africa's leading ICT solutions providers to the public and private sectors. We are one of a select few companies listed as a direct acquisition company in the government IT supply channel.

A countrywide reach

Sizwe has expanded to include a network of SMMEs and associated businesses in each province. This robust and inclusive growth has enabled Sizwe to take holistic ICT solutions to clients' doors across South Africa.

Sizwe's SMME support model ensures continuous support for big and smaller businesses alike. Our Sizwe SMME development programmes, which particularly emphasise women and youth-owned business, are targeted at preparing them for sub-contracted work.

A partnership-driven approach

Our close professional partnerships with multinational manufacturers, suppliers and sub-contractors allow us to maintain the highest standards of quality in service delivery and trust established with our clients, based on a workforce trained in best practice processes. We have gained in-depth expertise through strategic technology partnerships with Cisco, HP, Mustek, Epson, Samsung, Microsoft, Kaseya, Kyocera and Huawei.

Socio-economic development

Sustainable community investment (SCI) is woven into the very fabric of what Sizwe is, what we do and what we stand for as an organisation. Our initiatives are aligned with our longstanding commitment to touch communities in ways that respond to tangible social needs.

Sizwe's SCI approach

Focus areas

Education

At Sizwe Africa IT Group, our dream is that with access to technology, the solution to education challenges could be fast tracked on a path towards quality education and learning achievement, and as such, we continually pursue key strategic programmes that align with our vision of bridging the digital divide. Our holistic CSI approach seeks to touch on all aspects of education, ensuring that scholars are equipped with basic material and a suitable educational infrastructure.

Currently we support schools in three provinces with:

- computer labs
- wireless connectivity
- school shoes for those learners being supported by the schools.

School shoes drive

Sizwe donates hundreds of new school shoes to learners from previously disadvantaged schools. Our initial beneficiaries were from Bana Ba Kgosi Children's Home in Winterveldt, Pretoria, and learners from Bloekombos Primary School in Kraaifontein, Western Cape.

Together with our subsidiaries, we extended this programme to donate shoes to recipients countrywide.

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Sizwe IT Group (continued)

Entrepreneurship

We support initiatives that develop women and youth entrepreneurs in ICT ready to exploit opportunities available in the fastest growing industry.

Step Up 2 A Start Up entrepreneurial development programme

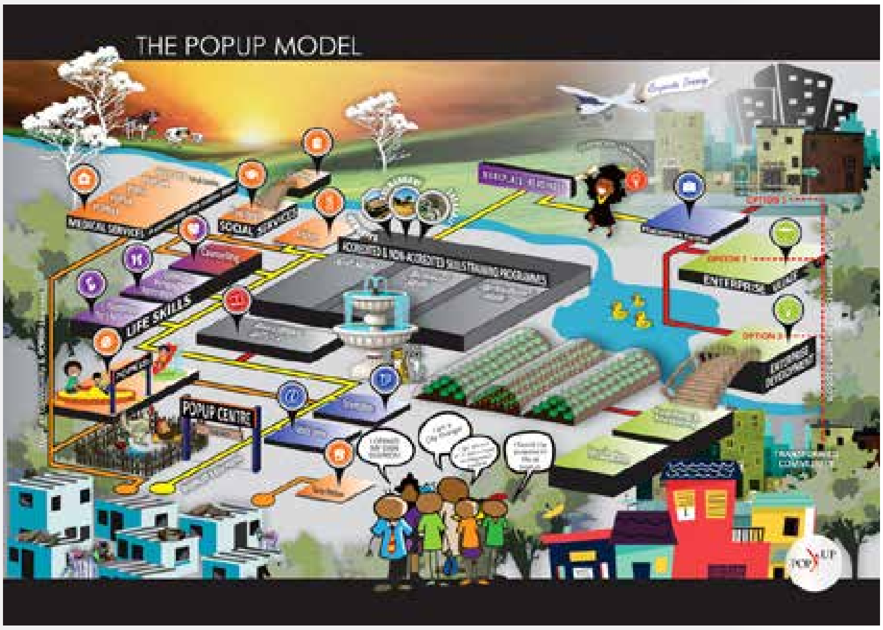
In an effort to cultivate a culture of entrepreneurship among the young people of South Africa, Sizwe IT partners with Primestars Marketing and other major organisations to sponsor the Step Up 2 A Start Up programme, which seeks to create a conducive environment for young entrepreneurs to access relevant entrepreneurial skills, knowledge and values. More than 15 000 learners participated in this programme in 2017.

How does this work?

An educational movie, designed specifically for the Step Up 2 A Start Up programme, is screened to participating high school students by Ster-Kinekor. Sizwe IT features in the movie as an Internet of Things (IoT) adviser. After viewing, entrepreneur toolkits are distributed to learners and educators, detailing a step-by-step guide on getting started as an entrepreneur.

Learners are given the chance to showcase their business ideas at the Step Up 2 A Start Up national youth competition. Winners of this competition are sent to a Step Up 2 A Start Up entrepreneurs bootcamp where they receive further mentorship on the full particulars of entrepreneurship.

Sizwe's enterprise development programme is in partnership with POPUP (People Upliftment Programme), which adopts a holistic approach to uplifting underprivileged communities. Learners of the Step Up 2 A Start Up programme will be incubated into POPUP's holistic model.



Environmental

Sizwe Africa IT Group is committed to reducing greenhouse gas emissions (GHG) emissions, diminishing South Africa's load on the electricity grid and motivating demand for solar solutions. We have therefore introduced comprehensive solar solutions to our portfolio.

We plan, design and implement solar solutions to fit each individual client's requirements. Our solar solutions are fitted by expert technicians and we offer superior after-sales support.

Solar parking at Sizwe head office

Leading by example, Sizwe has erected a grid-tied solar car park structure at our head office to incorporate solar energy into our power consumption approach. As with any office environment, our highest electricity usage is from 08:00 to 17:00, fitting perfectly with solar production hours. We are advising clients of the proven cost benefits of these considerable electricity savings.

New generation data centre installed

Sizwe has installed a Huawei FusionModule800 Smart Small Data Centre. This revolutionary data centre solution contributes simplicity, efficiency and reliability in reducing power consumption and saving considerable space.

Certifications

BS OHSAS 18001 – Occupational Health And Safety
ISO 14001 – Environmental Management System (EMS)
ISO 27001: 2013 – Information Security Management System (ISMS)
ISO 9001: 2015 – Quality Management System (QMS)

Partner certifications

Cisco Gold Partner
Cisco Internet of Things Manufacturing
HP Partner First Gold Partner
Huawei Value Added Partner

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Khauleza IT Solutions

Khauleza IT at a glance

MAJOR ACTIVITIES /

Provider of ICT products and services to national customers

MARKETS SERVED /

Public and private sectors

FOCUS /

Providing ICT-related skills and services through a single interface

PRIMARY BRANDS /

Apple, Acer, APC, Brother, Dell, D-Link, Eaton, Epson, Enterasys, Fujitsu, HP, Juniper, Lenovo, Lexmark, Mecer, Microsoft, NEC, Posifex, Proline, Toshiba, X-treme Huawei, 3M, Molex and Krone, Zebra, Sagem, Symbol, Godex, and Futronic

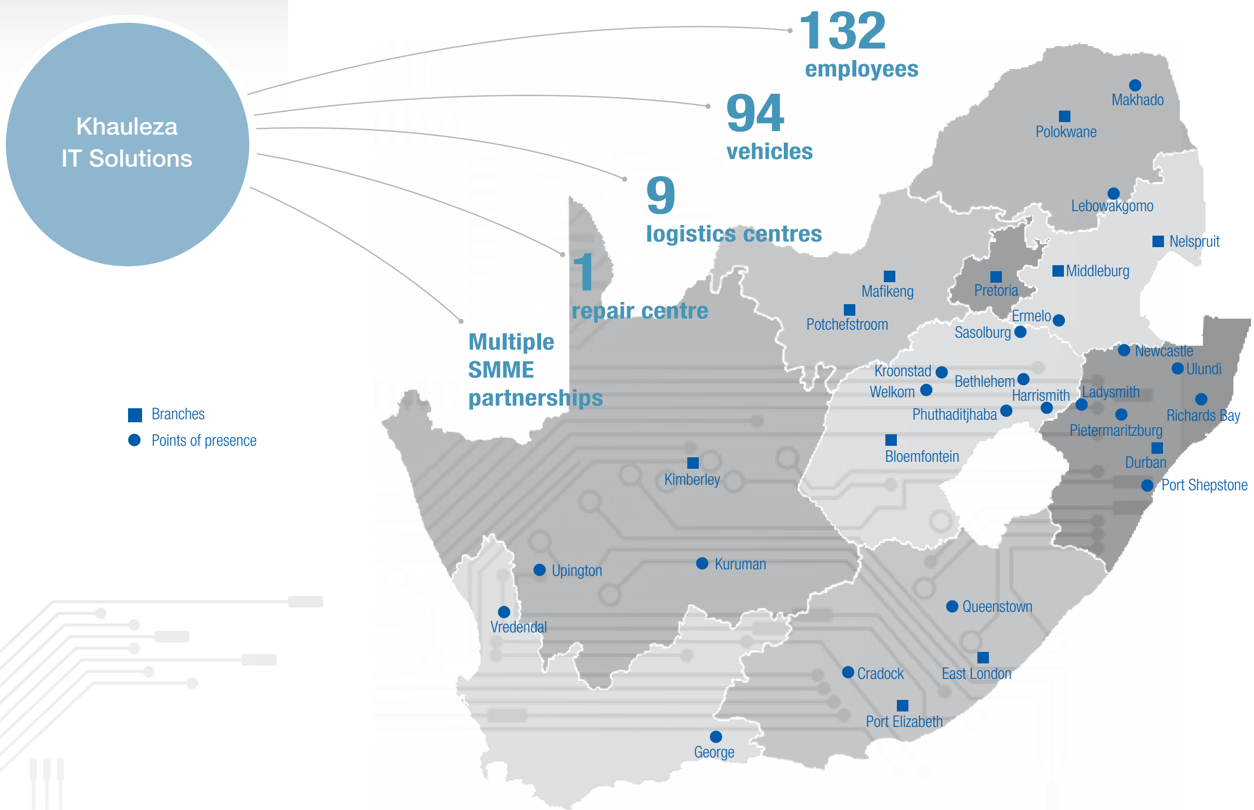
PRIMARY PRODUCTS /

ICT services and alternative energy solutions

BRANCHES /

Pretoria, Kloof KZN, Cape Town, Bloemfontein, East London, Port Elizabeth, Kimberley, Nelspruit, Middelburg, Polokwane and Potchefstroom

Geographical representation



Who we are

Khauleza IT Solutions Proprietary Limited is a national information and communication technology (ICT) provider with a level 1 broad-based black economic empowerment (B-BBEE) status. Our commitment to B-BBEE and enterprise, supplier development and learning is clearly visible at all organisational levels, from our 53% black-owned shareholding through to our operations, employees and executive management.

Khauleza boasts a proven track record of delivering a specialised suite of services to our loyal client base through annuity income contracts and ad hoc engagements, with several annuity contracts currently in third iterations.

Our services are controlled and managed through our established client interface system (Helpdesk), following our national service delivery management model, that incorporates new clients into Khauleza's system with minimum effort. Using our system expertise, we provide clients with a standard service management report set, but customised reports are provided on request.

Sustaining our business is imperative to Khauleza's strategic objectives. Hence, we constantly review the technology and service delivery industries to remain ahead of the game, allowing us to consistently innovate and create value for our stakeholders.

Our employees are technically skilled to deliver services in all ICT disciplines and we partner with selected technology firms, vendors and small, medium and micro-sized enterprises (SMMEs) to enhance our service offering.

Social responsibility

At Khauleza IT Solutions, we strive for good corporate citizenship and take our social responsibility seriously. During the year under review, we initiated two corporate social investment (CSI) initiatives:

- A learnership in Ga-Rankuwa, Pretoria for 25 post-matric learners, 60% of which are female as required by the Media, Information and Communication Technologies Authority (MICT SETA). This NQF level 5 learnership will run from 1 May 2018 to 30 April 2019 and involves four months of theory learning and eight months of workplace placements for the learners, commencing at the end of August 2018. Learners are provided with a monthly stipend during the 12-month learnership
- A sponsorship for the development of ICT infrastructure at Dr AT Moreosele Secondary School, aiding 100% black beneficiaries.

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Khauleza IT Solutions (continued)

Services and products

Khauleza's suite of services and products has been developed to provide the best alignment of our capabilities and our customers' needs. We continually improve and expand our service suite, while optimising current offerings to enhance dynamic and consistent delivery.

ICT distributed services

HELPDESK	Managing, coordinating and resolving support requests using a mobile support application to enhance service-level agreement (SLA) efficiency
MAINTENANCE SERVICES	On-site or off-site remedial maintenance and support services for IT hardware are available through our national infrastructure and strategic partners
IN-HOUSE REPAIRS	Fully functional in-house repair workshop for all IT-related equipment
DEPLOYMENT SERVICES	Pre-staging, configuring, transporting and installing new systems and equipment
IMACD AND END-USER EQUIPMENT	Managing installations, moves, additions, changes or decommissions of our customers' equipment
PROCUREMENT	Procuring and delivering selected distributed computing equipment
SERVER SERVICES	Supplying, installing and maintaining leading-brand servers
INFRASTRUCTURE SERVICES	Supplying, installing and maintaining a range of network, IT hardware, security and alternative power products
CABLING SERVICES	Installing network cabling infrastructure for Molex, Krone and 3M
WAN AND LAN DESIGN	Analysing client requirements and designing network solutions based on Cisco, Huawei and HP equipment
PRINT MANAGEMENT SOLUTIONS	Assessing and providing third-party print management solutions

Extended services and products

RENEWABLE ENERGY SOURCES	Assessing and developing DC power solutions and executing preventive maintenance
ALTERNATIVE ENERGY, SOLAR POWER AND GRID-INTERACTIVE SYSTEMS	Installing and maintaining alternative energy solutions
ENERGY CONSULTING AND SITE ASSESSMENTS	Consulting service offered to clients aimed at assessing sites and advising on appropriate energy solutions thereof

Leadership team

The management team is deeply experienced in servicing public and private sector ICT needs.

Raymond Risk
Chief executive officer (CEO)

Siyabonga Maclean
Executive director: Strategy and Finance

David Kan
Non-executive director

Read more on **www.khauleza.co.za**

Mustek Security Technologies (MST)

Mustek Security Technologies at a glance

MAJOR ACTIVITIES /

Security solutions

MARKETS SERVED /

National key points and corporate environments throughout South Africa

FOCUS /

Turnkey security solutions that addresses client-specific requirements through needs analysis, detailed system designs, implementation and maintenance

PRIMARY PRODUCTS /

Security hardware, software and solutions customised to client requirements, including SASSETA accredited training courses

BRANCHES /

10

STANDARDS /

ISO 14000; 9000; OHSAS 18001; PSIRA, National Key Point, Rotakin

Compliance with all relevant legislation such as national key point regulations and the incoming Protection of Personal Information (POPI) Act

What MST does

MST provides product-agnostic turnkey security solutions aimed mainly at the national key point and corporate sectors. Guarantees and repairs are performed by Mustek service centres.

Customers can focus on core business while MST takes care of security assets.

Products and services

PRODUCTS

- Wide range of CCTV cameras
- Access control systems
- IP surveillance systems
- Digital video recorder (DVR) and network video recorder (NVR) systems
- Accessories
- Video wall solutions
- Facial recognition
- Number plate recognition
- High-sensitivity cameras
- Advanced Video Analytics
- Perimeter protection systems
- Accredited training services
- Solar solutions
- Communication infrastructure solutions

SERVICES

- End-to-end security solutions
- Systems and equipment component testing
- CCTV laboratory testing and rotakin certification
- Project management in line with Project Management Body of Knowledge (PMBok) Fourth Edition
- Systems auditing and security surveys
- Detailed system designs, including specifications
- MST system integration through approved Mustek partners
- System maintenance through Mustek's call centre and service division
- Advanced control room design and implementation
- Advanced video wall solutions
- Advanced green power solutions such as transmission systems (microwave, wireless mesh, etc)
- Traditional electronic security systems such as electrified fencing
- Advanced IT and security training
- Perimeter protection solutions
- Advanced occupational health and safety services

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Mustek Security Technologies (MST) (continued)

Standards

MST adheres to all relevant international and South African standards such as:

- ISO 14001
- ISO 9001
- OHSAS 18001
- Private Security Industry Regulatory Authority (PSIRA) Act
- PMBok Fourth Edition Best Practices.

At end-2016, MST obtained BS OHSAS 18001 certification, which recognises the provision and installation of surveillance equipment such as CCTV and access control.

MST is committed to the highest level of health, safety and environment (HSE) protection standards. The HSE goals of all MST projects are:

- no time lost due to injury
- maintenance of an accident-free environment
- zero environmental damage.

Future prospects and forward planning

South Africa's sharply increasing security requirements have highlighted the lack of suppliers with high-level accreditation and work processes.

MST is ideally positioned in the security market to provide customers with high-quality security solutions that are compliant with all statutory requirements. We offer leading edge products that are unmatched in the South African security market, with technologies going beyond surveillance video footage that can produce prosecutable evidence.

Advanced technology is the foundation of MST's value offering and MST invests heavily in training, research and development in support of prevention and prosecution through latest technologies.

Read more on **www.mst.mustek.co.za**

Yangtze Optics Africa Cable (YOAC)

YOAC at a glance

MAJOR ACTIVITIES /	MARKETS SERVED /
Optical fibre cable manufacturer	South African information and communications technology (ICT) and broadband market
FOCUS /	**PRIMARY PRODUCTS /**
New generation optical fibre cable	Optical fibre and cable products
BRANCHES /	**STANDARDS /**
Dube TradePort's Special Economic Zone in KwaZulu-Natal	IEC/ISO standards, ITU-T, ISO 9001

The YOAC optical fibre cable factory was established to address South Africa's exponential demand for broadband. It could expand into the largest optical fibre producer in the country. Situated at Dube TradePort outside Durban, YOAC supplies optical fibre cable to telecommunications operators, public network operators and the distribution market.

The YOAC facility was financed by a USD10 million investment from Yangtze Optical Fibre and Cable Joint Stock Limited Company (YOFC), from the People's Republic of China, as well as by Mustek Limited. As the largest optical fibre and cable manufacturer in the optical communications industry worldwide, YOFC offers a globally integrated supply line, while Mustek offers distribution and marketing in southern Africa.

The YOAC facility became operational in December 2016, after just six months of construction, and started trading in the South African market from February 2017.

What Yangtze Optics Africa Cable does

YOAC manufactures a range of new, innovative optical fibre cable products for the South African ICT market, with an envisaged manufacturing capacity of more than a million kilometres of optical fibre annually.

YOAC will play a significant role in enabling a future of affordable broadband access for all in South Africa.

YOAC also supplies associated hardware and connectivity products to enable an end-to-end solution for private fibre to the home (FTTH) network operators and the distribution market.

MUSTEK'S CORE OPERATIONS AND GEOGRAPHICAL REPRESENTATION (CONTINUED)

Yangtze Optics Africa Cable (YOAC) (continued)

Performance

YOAC implemented several systems in the second half of 2017, most notably an enterprise resource planning (ERP) and material requirements planning (MRP) system to facilitate business-to-business interaction.

In September 2017, the company obtained its ISO 9001:2015 accreditation from UKAS, the United Kingdom accreditation organisation. YOAC was the first manufacturing facility in the YOFC Group to be awarded this latest ISO accreditation. YOAC was also accredited with a level 4 B-BBEE rating in February 2018 under the new, more stringent requirements.

In the first quarter of 2018, the company secured 50% of the Vumatel micro-cable requirement for 2018.

Employment and skills development

YOAC employs 76 people from the surrounding communities of Inanda, KwaDabeka, KwaMashu, Phoenix, Ottawa and Waterloo. More than 34% of staff members across all disciplines are female. YOAC is committed to empowering women and people from previously disadvantaged backgrounds.

Sixteen unemployed youths were recruited into an NQF 2 Plastics Manufacturing Learnership, which equipped them with the necessary skills to work in YOAC operations. These youths were absorbed into the company after successful completion of the programme. A further 10 employees have been enrolled in an NQF 4 Supervisory Programme. YOAC has also partnered with a local university and is hosting and providing exposure and workplace learning to four interns in their specific fields.

YOAC employees continue to benefit from the company's skills development and skills transfer programmes. Various international experts visit the YOAC plant and provide input.

Corporate social responsibility

The company's corporate social responsibility programmes are centred on education. Community members have benefited as follows:

- YOAC sponsored back-to-school stationery for more than 25 children in January 2018.
- YOAC sponsored 100 pairs of school shoes for vulnerable children in the Jericho (Brits) community in May 2018.
- YOAC handed over a new, modern computer lab to Mariannpark Primary School, in partnership with Councillor Zandile Gumede (Mayor of eThekwini Municipality), in July 2018 as part of the Mandela Day drive.

Future prospects and forward planning

YOAC looks forward to supplying optical fibre cable and FTTH solutions to national telecommunication carriers as well as emerging solutions providers. YOAC will compete on delivery, quality, price and complementary solutions.

The intention is to significantly reduce the cost of optical fibre cable in South Africa through local manufacture and an established distribution chain. Should fibre uptake across South Africa and the broader continent be sufficient, YOAC plans to broaden its range of products and increase manufacturing volumes.

CHAIRMAN'S LETTER

South Africa's fibre market has taken off, spreading exponentially through suburbs and cities. Fast and cheap broadband will drive demand for more powerful devices. Mustek is well positioned to gain from selling the fibre cable and the hardware that utilises it.

Rev Dr Vukile Mehana
Chairman

Operating environment

South African economy

Business and consumer confidence has risen and fallen regularly since President Cyril Ramaphosa's election to highest office, but the overall trend has been positive. Much will depend on the incoming leadership turning the economy around relatively quickly, which is a major challenge. Therefore, recent steps taken by President Ramaphosa, including the Jobs Summit and national economic stimulus plan announced in late September 2018, are welcome and practical.

International

Economies around the world are re-emerging from the 10-year doldrums following the global economic crisis. At the same time, rising political tensions between the USA, China – and Russia to a degree – are manifesting in trade tariffs, or threats of these, as world powers jockey for position. Although a potential 'trade war' may not affect South Africa directly, all emerging market currencies will feel these impacts.

Digital trends

Despite the notion in recent years that PC may be dying, the reality is, in fact, the opposite. The smartphone market has matured and steadied, while tablets are being squeezed out as 'a device too far'. While mobile devices enable ease of use in an 'on the go' business world, these do not yet match up to the ease of productivity offered by standard personal computers.

In this year, South Africa's fibre market took off, with commercial and residential installations spreading exponentially through suburbs and cities. Fast and cheap broadband will drive demand for more powerful devices that can leverage higher speeds, which should generate higher sales.

CHAIRMAN'S LETTER (CONTINUED)

Transformation, career development and benefits

Mustek's current level 1 B-BBEE rating was awarded by an accredited agency using the amended ICT sector codes.

The Board, guided by our Social and Ethics Committee, continues monitoring Mustek's management initiatives in employment equity, skills development and corporate social investment. The Group is committed to continually transforming internally and empowering our stakeholders, while ensuring that Mustek's unique advantages aren't compromised in the highly competitive ICT market.

Most Group employees belong to the Mustek Group Retirement Fund – a defined contribution fund. Mustek does not offer any other post-retirement benefits.

Compliance and stakeholder relations

The Board regularly reviews and manages regulatory compliance. We are satisfied that Mustek has met all necessary legislation requirements. Mustek stands behind sound ethical practices and total transparency, supported by a 24/7 whistle-blower line open to employees and other interested parties. We communicate with our customers daily and each key shareholder is visited at least twice annually.

Employee engagement is of paramount importance to Mustek. No concern is too big or too small – within reason. From moving an entire production line to providing a specific type of coffee in the coffee lounges, we will address these issues to ensure our employees remain motivated and productive in their work spaces.

Each quarter, senior management embarks on a walk around at Mustek's main premises, during which people from every department are invited to share their suggestions, feedback and complaints.

Sustainability

Mustek is regularly audited for ISO14001 compliance, which we have successfully retained now for many years.

Ethics, leadership and corporate governance

The Board pays specific attention to preventing fraud and corruption, while ensuring that our corporate governance processes were updated in terms of King IV™ and any other applicable regulations. The personnel making up the Board and executive management remained unchanged during the period of review.

Dividend

The declaration of cash dividends is contemplated by the Board in conjunction with probable current and future funding requirements. Declarations are adjusted to levels considered appropriate at the time of declaration. To this end, the Board declared a final dividend of 22 cents (2017: 16 cents) per ordinary share for the financial year ended 30 June 2018. Dividends will be paid from income reserves.

Shareholders who are not tax exempt will receive a net dividend of 17.60 cents per share.

Prospects – company and industry outlook

As the ICT industry continues to expand, we find ourselves perfectly positioned once again to achieve profitable returns. We carefully select those products and services which provide the greatest value-add to incorporate into our existing range.

South Africa's ICT industry remains hindered through regulation and high barriers to entry. Mustek survives and thrives through calculated risk-taking and investments into products that are forecast to grow volumes significantly in years to come. We view our investments into the fibre market, security and networking as investments that will open up and flourish.

Gratitude

Once again, Mustek has proved itself a highly professional company representing a widespread portfolio of top-end ICT brands. Low turnover levels throughout the Group – from employees to the Board – show Mustek's internal stability. It is my pleasure chairing a Group of this calibre. I wish to extend my deep gratitude to all Mustek stakeholders for their continued loyalty and belief in Mustek to deliver on its promises. We look forward to many more years of success and strength to come.

Rev Dr Vukile Mehana
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

To our stakeholders

Our growth strategy of the past five years remains largely unchanged. We diversify and build market reach by continually integrating new brands, product lines and services into the Group portfolio.

David Kan
Chief executive officer

As we enter our fourth decade in information and communications technology (ICT), Mustek will continue materialising the opportunities that sustain the Mustek business vision and provide income and benefits to our stakeholder communities.

Comprising the Mustek and Rectron distribution divisions, along with selected associated businesses, Mustek Group performed satisfactorily throughout the 2018 financial year. We recorded pleasing growth in both revenue and profit streams.

Operating results

Group revenue increased by 8.2% to R5.67 billion (2017: R5.24 billion), mainly as a result of strong growth from new products and services added over the last five years.

Our gross profit percentage improved to 14.0% (2017: 12.6%), predominantly due to lower volume sales to mass discounters and smaller sells of aged and lower-margin stock.

The Rand depreciated by 16.7% (or R1.96) against the Dollar during the last quarter of the financial year. This sudden movement negatively impacted our results, with unrealised forex losses of R42.7 million (2017: R3.5 million) added to our foreign currency losses.

CHIEF EXECUTIVE OFFICER'S REVIEW (CONTINUED)

Our revalued share appreciation rights required a share-based payment expense of R6.7 million (2017: R1.4 million income) to be included in distribution, administrative and other operating expenses, with these increasing by 11.7%. Bonuses amounting to R7.0 million (2017: Rnil) also contributed to this increase.

Net finance charges decreased from R87.3 million to R76.6 million, largely due to reduced inventory and accounts receivable levels.

Contributions from our associate companies improved, with Sizwe Africa IT Group Proprietary Limited (Sizwe) raising its results, and the recently opened Yangtze Optics Africa Holdings Proprietary Limited (YOAC) reducing its losses as it ramped up production towards break-even volumes. Our financial forecasting shows that YOAC will become profitable in the 2019 financial year, particularly after commencing supply for a major local fibre company.

The Group's headline earnings per share improved 28.2% to 104.15 cents (2017: 81.26 cents), with basic earnings per share 27.7% higher at 102.58 cents (2017: 80.32 cents).

Cash flow

Working capital is a key management priority. Improved flows contributed to cash generated from operations of R239.7 million (2017: R228.8 million).

Inventory days improved by 15.8% to 72.3 days (2017: 85.9 days), while trade and other receivable days improved 17.9% to 62.5 days (2017: 76.1 days).

Corporate activities

On 5 October 2017, Mustek disposed of its 20% investment in Zinox Technologies Limited (Zinox) for R14.4 million cash. Zinox is incorporated in Nigeria and had declared a dividend of R3.5 million payable to Mustek prior to the transaction.

In the previous financial year, Mustek had obtained a 99-year notarial lease on land in Cape Town for siting its Western Cape office. After paying R9.6 million for the property, Mustek spent a further R24.7 million on developing the site. Completing the development should cost a further R10.3 million and Mustek intends occupying the premises in November 2018.

Mustek's 2018 performance

The Mustek division recorded solid growth and revenue earned through its ever-improving product and service portfolio.

The Rectron division's results took a significant knock due to its largest client liquidating at the end of 2017. Fortunately, Rectron was able to reduce bottom line exposure through tightened credit controls and comprehensive insurance on credit.

Sizwe and Khauleza IT Solutions Proprietary Limited (Khauleza) met their budgets, both recording appreciable improvements in their financial results. Both these ICT service providers added blue chip customers to their portfolios and Sizwe successfully shifted its business focus from the public to the private sector.

Share repurchase programme

We continued our buyback programme as it is earnings enhancing and improving net asset value (NAV) per share for existing shareholders. The Group repurchased 10 000 000 shares during this period.

Our current policy is to cancel and delist any repurchased shares. We will continue notifying the investor universe of Mustek share buybacks in accordance with JSE and applicable regulations.

New partnerships

Mustek continually seeks new collaborations, most recently partnering with Siemon to distribute Category 5 and 6 copper cable – considered the 'Rolls Royce' of copper cabling – to banks and other high-end users. As a new category for Mustek, sales volumes of these cables will guide our way forward.

In August 2017, Mustek was officially appointed as an Apple business-to-business partner and device enrolment programme (DEP) reseller for South Africa. These accreditations open up a speedier and more streamlined way to deploy customers' corporate-owned Macs, Apple televisions or iOS devices.

Acronis backup software solutions also came on board to fill a crucial gap in our software portfolio. Acronis is strongly reputed as an innovative and reliable hardware backup solution.

Later in the year, Mustek joined forces with the ASUS South Africa Republic of Gamers (ROG) business to distribute its industry-leading gaming components. This partnership brings a renowned PC gaming brand into our stable and will help grow the Group's presence in the fast-growing gaming industry.

Our strategy

Mustek's growth and sustainability strategy of the past five years remains largely unchanged, with the Group continuing to build diversification and market reach by integrating new brands, product lines and services to the Group portfolio.

We recognised that our software range lacks sufficient choices for end-to-end solutions, so have prioritised bringing relevant and class leading software packages to fill the gaps.

This strategy is rounded out by selling off non-contributing assets such as our stake in Zinox, vacant land in Midrand and our property in Kenya to free up cash.

Legal dispute

In the latter part of 2017, one of Mustek's biggest debtors went into business rescue, with an amount of R20.0 million still outstanding after an initial settlement from the credit insurer. The R20.0 million portion is now being disputed by the insurance company guarantor. After obtaining a legal opinion from senior counsel, Mustek has not raised a provision against the R20.0 million as we regard the amount as recoverable.

Post-balance sheet events

On 24 July 2018, the Group disposed of vacant development land in Midrand for R17.5 million, with an indicative pre-tax capital profit of R8.1 million not included in this set of results. The asset is disclosed as being held for sale in the audited financials.

Material matters

Recognising that this Integrated Annual Report is a primary source of information for shareholders, potential investors and our wider network of stakeholders, Mustek's leadership decides annually on the 'materiality' of information to be published. To prevent clutter and confusion in the report, Mustek publishes all the information – positive and negative – that will enable readers to make fully informed decisions about Mustek.

All supporting content is placed on Mustek's website and in other documents and presentations made available publicly.

Looking ahead

Mustek Group's untiring search for aspirational, niche or complementary products, services and channels provides counter-cyclic protection in flat or diminishing markets. While our traditional PC hardware market may currently be slow, we are seeing returns from investments made in other areas, particularly in the connectivity space. The Group also seeks out new products and services to market and sell through our industry-leading distribution network.

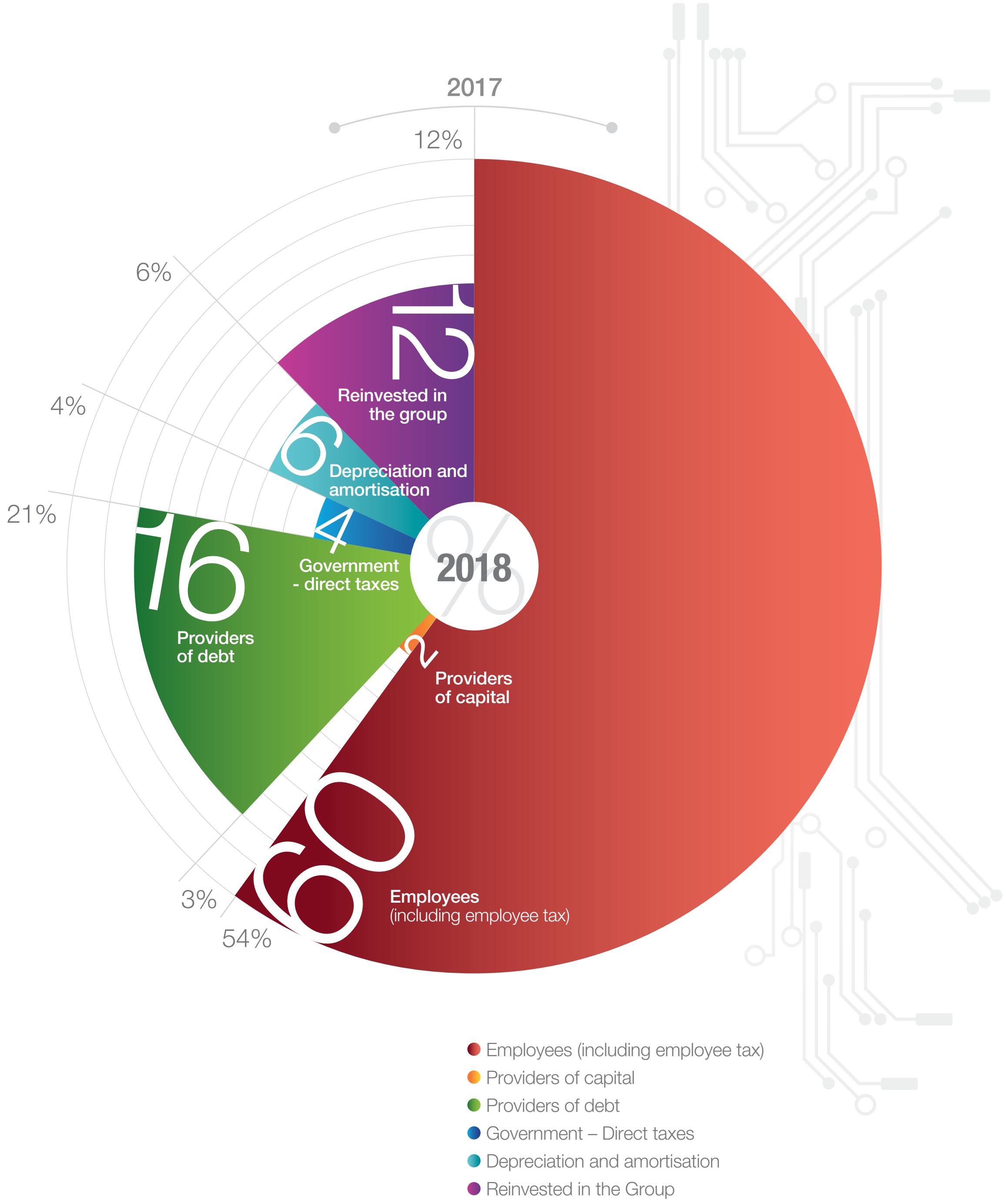
Thanks

We take this opportunity to extend a heartfelt gratitude to all our stakeholders and shareholders. To our investors and customers, your unwavering faith and support in the Mustek Group to deliver on its promises is what fuels us to continually add value to our offerings and ensure profitable returns. To our employees, Mustek would not be what it is today without your relentless hard work and dedication to the Group.

David Kan
Chief executive officer

SUSTAINABLE VALUE CREATION

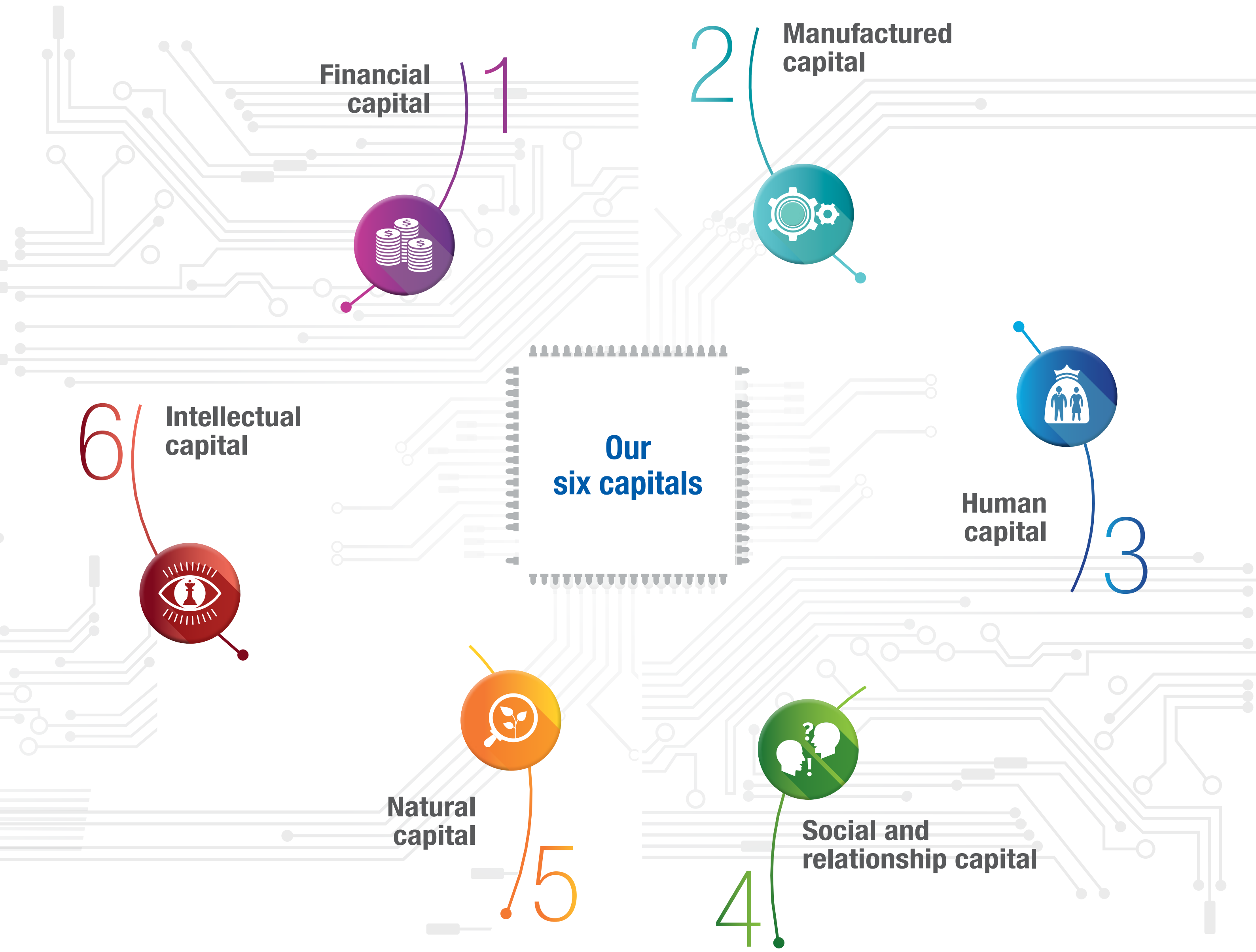
Value created



OUR CAPITALS

For the purpose of integrated reporting, the factors that flow through Mustek for it to create its value are divided into six capitals, being financial, manufactured, intellectual, human, social (relationship) and natural capital. These capitals underlie much of the disclosure in this Integrated Annual Report.

In the following sections we use the concept of the framework's capitals to anchor our disclosure and demonstrate the integration of strategy and sustainable development issues, how we manage each capital and its material aspects and how we have performed.



OUR CAPITALS (CONTINUED)

1

Financial capital

Financial capital is the pool of funds that is:

- Available to a business to produce goods or provide services
- Obtained through financing, such as debt, equity or grants, or generated through operations or investments

Profitability and cash flow are the two most visible indicators of Mustek's financial performance.

HIGHLIGHTS /

- Net asset value per share: R13.49 (2017: R11.69)
- Headline earnings per share: 104.15 cents (2017: 81.26 cents)
- Net cash generated from operations: R239.69 million (2017: R228.78 million)
- Banking facilities: R2 182.1 million, with 52.4% utilised at 30 June 2018 (2017: R2 525.8 million, 39.5% utilised at 30 June 2017)

What it is

- Access to funding and credit is a critical element of the Group's business model. Financial capital is fundamental to Mustek being able to grow and create wealth, procure, assemble, warehouse and distribute products and services
- The bulk of the Group's financial capital is applied to its inventory holdings, customer credit and fixed assets
- Mustek invests financial capital in cash reserves to meet day-to-day operating expenses, financial liabilities, as and when these fall due, and as a contingency for unexpected events
- The providers of financial capital include the Group's shareholders, bankers and suppliers, all of whom are considered to be important and influential stakeholders.

How we manage and allocate it

Managing and allocating financial capital is a priority for Group governance, the Board and management.

Financial capital management includes:

- budgetary controls and monthly management accounts
- delegation of authority from the Board to management, departments and individuals
- access and authority controls embedded in accounting and operating software
- compliance with banking covenants
- working capital controls, including stock, debtors (credit limits) and creditors management
- cash flow and liquidity management
- exchange rate risk management
- internal and external audits.

The executive management is responsible for allocating financial capital, in terms of various parameters and decisions such as:

- Board-approved budgets
- macro-economic outlook, both locally and internationally
- sales forecasts
- product availability and costs, including shipping
- market penetration and revenue growth targets
- the current and anticipated availability of credit
- physical warehousing capacity and current inventory levels
- ruling and anticipated exchange rates
- credit exposure
- ability to comply with banking covenants
- introduction of new products
- targeted customer service levels.

Foreign exchange risk management

The bulk of Mustek's inventory is imported from other countries, with purchases predominantly in US Dollars (USD). Significant and/or abrupt changes in the value of the South African Rand (Rand) against the USD can impact the Group's financial results in various ways.

Management believes the impact of a strengthening Rand would be greater than a weakening Rand. As such, the Group uses a combination of forward exchange contracts and option structures to manage its foreign currency exposure. This approach, although costly, provides greater predictability to the Group's earnings.

Working capital management

The Group's business is working capital intensive and accounts receivable and inventories are both financed. The Group relies largely on revolving credit and vendor financing for its working capital needs.

Inventory control is a central element of the Group's day-to-day activities. Mustek's inventory management system provides it with a variety of indicators relating to inventory ageing and stock turnover. Also critical to inventory management is the procurement process, which is based on extensive research and development of ICT trends, both internationally and in South Africa. This focus on procurement minimises the risk of obsolete inventory.

OUR CAPITALS (CONTINUED)

Financial capital (continued)

The Group's trade receivables are ceded as security against a revolving credit facility. The pricing of this facility is intended to reduce the Group's overall cost of funding. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Mustek performs ongoing credit valuations of the financial condition of customers and, where appropriate, credit insurance is purchased for 85% of the value of individual trade receivables, subject to an insurance deductible.

Monitoring and reporting on the quality of the trade receivables book are activities demanded by both the third-party insurer and the provider of funding. Details of the Group's trade receivables can be found in note 13 of the annual financial statements.

Performance

Profitability

- The Group's revenue increased by 8.2% to R5.67 billion (2017: R5.24 billion), mainly as a result of strong growth in new products and services added to the Group's portfolio over the last five years
- The gross profit percentage increased from 12.6% to 14.0% predominantly due to reduced sales to mass retailers and a reduction in aged stock that sells at lower margins
- The Rand depreciated by 16.7% or R1.96 against the Dollar during the last quarter of the financial year. This sudden movement negatively impacted the results and unrealised forex losses of R42.7 million (2017: R3.5 million) were recorded and included as part of foreign currency losses
- Distribution, administrative and other operating expenses increased by 11.7%. Share appreciation rights are revalued at each reporting period and a share-based payment expense of R6.7 million (2017: R1.4 million income) was included in distribution, administrative and other operating expenses. Bonuses amounting to R7.0 million (2017: Rnil) also contributed to the increase
- Net finance charges decreased from R87.3 million to R76.6 million and the reduction in inventory and accounts receivable levels contributed to this saving
- An improved performance from Sizwe Africa IT Group Proprietary Limited and a reduced loss from Yangtze Optics Africa Holdings Proprietary Limited (YOA) saw the contribution from associates increase. YOA should be profitable in the 2019 financial year after securing and starting to supply a leading fibre company towards the end of the 2018 financial year
- Mustek's headline earnings per share are 28.2% higher at 104.15 cents (2017: 81.26 cents) and basic earnings per share are 27.7% higher at 102.58 cents (2017: 80.32 cents).

Return on equity

- 8.1% (2017: 7.5%).

Inventory

- Group inventory days: 72 days (2017: 86 days)
- At year-end, R105.9 million (2017: R69.0 million) of inventory was carried below its cost at net realisable value. This represents 11.0% (2017: 6.4%) of the Group's total inventory
- Current ratio – 1.3 times (2017: 1.3 times).

Group debtor's days

- 63 days (2017: 76 days).

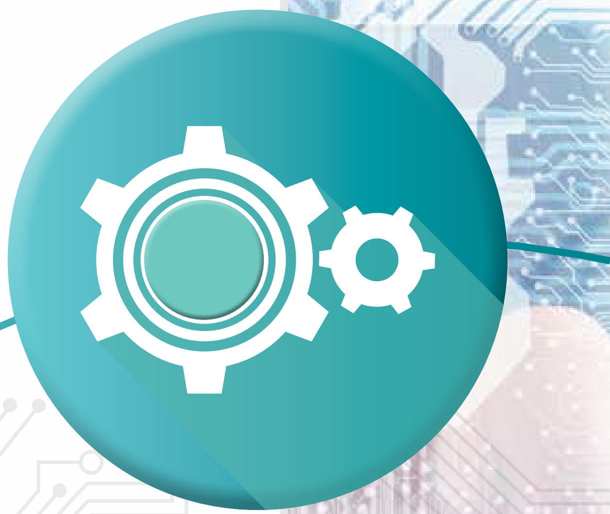
More information regarding the Group's operational and geographical segment performance can be found in note 1 to the annual financial statements.

Strategy and prospects

- The finance function will continue to focus on the matrix of products and vendors' contribution to both revenue and gross profit
- Supply chain management, especially foreign exchange exposure and the matching of working capital terms, will continue
- Opportunities for efficiencies and synergies within the Group to control cost increases will continue to be investigated
- The implementation of a new enterprise resource planning (ERP) system at both Mustek and Rectron will create opportunities to improve synergies between the two operations and will receive considerable attention in the 2019 financial year.

2

Manufactured capital



Manufactured capital consists of the constructed physical objects (as distinct from natural ones) that are available to Mustek for use in the production of goods or the provision of services, including:

- buildings
- equipment
- infrastructure

OUR CAPITALS (CONTINUED)

Manufactured capital (continued)

Included in Mustek's manufactured capital are:
- assembled and purchased inventory
- owned and leased offices and branch facilities
- warehousing
- logistics fleet (owned and outsourced).

The Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa. It has the flexibility to assemble, asset tag and image customised orders according to customer needs without delaying production.

Rectron's automated warehouse is rated among the most efficient in South Africa. The line has a configuration management data base (CMDB) which records all date and time stamps based on the unit's serial number. It also details the picker, builder, tester and packer.

Assets and products

The Group's financial capital is invested in a combination of manufactured capital and financial assets (accounts receivable and cash). The single largest investment in manufactured assets, and indeed in all assets, is represented by the inventories of finished goods and goods in transit.

At 30 June, the Group's inventory amounted to R965.971 million (2017: R1.078 billion).

Mustek's local stockholding policy is a competitive differentiator for ordering and delivering stock to customers and in processing warranties, returns and replacements of faulty technology. By maintaining healthy inventory levels at each regional head office, Mustek ensures that warranties, returns and replacements of faulty technology are dealt with quickly and efficiently.

Most of the Group's manufactured capital of offices, warehouses, branches, plant, equipment and motor vehicles are situated within South Africa, with the Midrand head offices of Rectron making up the bulk of the Group's net investment in property, plant and equipment.

The governance and management of the Group's physical assets is like that of its financial capital.

Mustek applies its knowledge and understanding of information and communications technology (ICT) trends to a formal procurement process to ensure that the correct products, in the right quantities, are procured at the right time, thus mitigating the risk of obsolescence. Important aspects of this process are logistical planning, bulk buying and consolidation of shipments.

Product managers focus on selling slow-moving or older inventory items before the demand for the product lines declines significantly.

Mustek and Rectron delivery and logistics teams value their distributor, reseller and customer relationships and track inventory through their integrated reseller inventory software. They add value by remitting orders along with delivery notes to customers, thus simplifying the work of the reseller.

The Group uses both its in-house vehicle fleet and an outsourced courier service to maximise customer service as well as fleet utilisation while minimising costs.

The Group's ability to customise products to meet customer demand means that much of its stock is procured on a back-to-back basis for a specific customer order.

Mustek's research and development (R&D) department performs a critical role in managing the risks inherent in the assembly of a diverse range of components. The department ensures the compatibility of components and the evaluation of products prior to their being assembled.

Mustek achieved certification to ISO 9002 in 1997, and converted to ISO 9001 in 2003. All its business processes are included in the scope of its quality management system (QMS) and technological standards, these being the import, sales, assembly, testing, distribution, installation and servicing of computer-related equipment.

Other aspects of the Group's asset management are:
- access control
- regular stock counts
- physical controls in terms of the Occupational Health and Safety Act, 1993 (OHS)
- adequate insurance of assets
- maintaining and reviewing a complaints register.

The Group's assembly and inventory performance:

- 79 923 units assembled (2017: 60 807 units)
- 6.800 million items sold (2017: 6.512 million)
- 88 complaints logged (2017: 105)
- ISO 9001 certification verified by BSI
- inventory days 72 (2017: 86 days).

Supply chain

The Group's supply chain is extremely simple. It procures information technology (IT) components and finished products from a diverse range of suppliers, internationally and locally. Components are sold by Rectron or assembled by Mustek into Mecer desktop personal computers (PCs) and laptops. The multinational brands are sold through resellers or directly to corporate clients. Mustek's assembly line is used to provide value-added services to corporate clients such as mass setup and image loading. It holds distribution rights and authorised service agent agreements with most of its brands.

Mustek's vendors are primarily international brands who report in depth on the sources of their components acquired through their own supply chains. We also conduct regular due diligence and quality checks on our own suppliers of ICT components.

The future

For 2019 and beyond, Mustek's management and personnel are committed to providing computer-related equipment and services of the highest quality.

Both Mustek and Rectron pride themselves on their broad product ranges and ability to identify and procure developing technologies in a timely fashion to meet the ever-changing thirst for technology.

The Group's broad range of products (multinational brands and the Mecer brand) and its reseller base enable market-share growth in an expanding market. With Huawei, NEC, Lenovo ThinkServer and Asus Networking, Mustek can target the growing market for servers and networking.

In addition to multinational ICT brands, the Group is diversifying into sectors such as cloud computing services, security surveillance equipment, Microsoft volume licensing and networking equipment.

International expansion into the African continent is challenging at present due to inadequate infrastructure such as roads, electricity and networks. However, the Group is actively growing its export business into mainly neighbouring countries.

The Group will continue to pursue solutions to enhance education and distance learning.

OUR CAPITALS

3 Human capital

Our people's competencies, capabilities and motivation, including their:

- Alignment with and support for Mustek's governance and ethics
- Ability to understand and implement Mustek's strategy
- Drive to improve processes, goods and services through leadership and collaboration

Our workforce

Mustek's permanent workforce

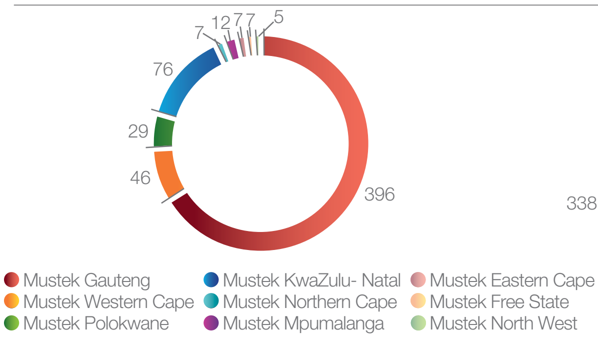
Headcount at 30 June 2018

Site	Number of employees	% breakdown
Mustek Gauteng	396	67.69
Mustek KwaZulu-Natal	46	7.86
Mustek Eastern Cape	29	4.96
Mustek Western Cape	76	12.99
Mustek Northern Cape	7	1.20
Mustek Free State	12	2.05
Mustek Limpopo	7	1.20
Mustek Mpumalanga	7	1.20
Mustek North West	5	0.85
Total	585	100.00

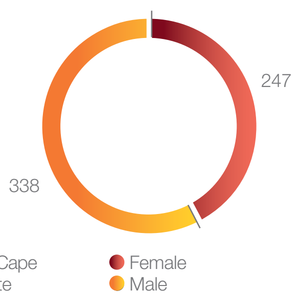
South African national employee diversity statistics

Race	Total	Race %	Female	Female %	Male	Male %
African	350	59.83	150	60.73	200	59.17
Coloured	67	11.45	28	11.34	39	11.54
Indian	48	8.21	10	4.05	38	11.24
Black sub-total	465	79.49	188	76.11	277	81.95
White	120	20.51	59	23.89	61	18.05
Total	485	100.00	247	100.00	338	100.00

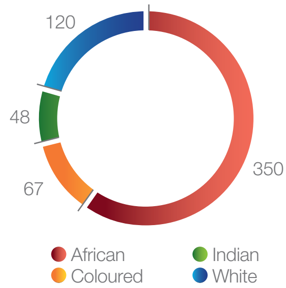
Staff count per region



Staff gender split



Demographic split



Rectron's permanent workforce

National employee diversity statistics

Race	Total	Race %	Female	Female %	Male	Male %
African	162	49.69	101	59.41	61	39.10
Coloured	38	11.66	12	7.06	26	16.67
Indian	49	15.03	23	13.53	26	16.67
Black sub-total	249	76.38	136	80.00	113	72.44
White	77	23.62	34	20.00	43	27.56
Grand total	326	100.00	170	100.00	156	100.00

In total, 331 employees including five foreign nationals.

OUR CAPITALS (CONTINUED)

Human capital (continued)

Mustek's human capital philosophy

Management fosters a transparent and accessible relationship with its employees to support a harmonious working environment. The Group's mature and well-entrenched range of effective human resource policies and procedures is introduced to new employees during their induction. Mustek complies with the Labour Relations Act and all associated labour legislation, as amended, in the spirit of freedom of association.

Currently 19.76% (2017: 18%) of our employees are trade union members. None of the trade unions in our sector have reached the 30% hurdle membership percentage for formal recognition, therefore collective bargaining agreements are not presently applicable to the Mustek or Rectron workforces.

Ongoing skills development and training are recognised as business imperatives and Mustek is committed to developing skills and talent from within the ranks of employees – striving, concurrently, to develop the industry leaders of the future. Employee development aligns the Group with national directives by prioritising skills development for previously disadvantaged individuals (PDIs).

We work continuously to align the Group's diversity with South Africa's economically active population (EAP), racial and cultural demographics.

Mustek's core values embody respect, dignity and fair treatment and the Group adopts a zero-tolerance policy for any form of discrimination or unfair treatment.

Mustek conforms to all applicable health and safety legislation. Temporary staff do not qualify for membership of the pension fund or medical aid.

Career development – the Mustek way

Mustek's entire workforce receives annual performance and career development reviews, with a succession planning programme in place. These reviews inform the development of employees identified as having the potential to fill business leadership positions in time. Their capabilities and readiness are mapped against management positions that are or may become available.

Meeting the individual training needs of employees requires focused interventions and development. Specific training interventions are instrumental to constructing career paths and for succession planning. These create an environment that attracts new recruits and retains current employees.

Mustek is a fully accredited member of the Media, Information and Communications Technologies Sector Education and Training Authority (MICT SETA) and reclaims its full development levies every year. Mustek's training and development programmes are registered with MICT SETA and the Safety and Security (SAS) SETA, so that they can provide National Qualifications Framework (NQF) accredited courses in these areas. These courses are also extended to external trainees.

The Mustek Training Centre offers technical and business-related training to employees and external applicants. Training programmes include technical support, system support, end user computing and soft skills training programmes. Technical employees are encouraged to obtain certifications in fields ranging across Microsoft engineering, A+, Server+ and Microsoft Certified IT Professional (MCITP).

Employees are matched with training programmes that will support their anticipated progression through the Group.

Bursary options are also made available to employees wishing to better establish themselves within the business. Applications are considered on a case-by-case basis.

Internships are accommodated within the Group in conjunction with Microsoft. This combination provides the individual with both formal training and job experience.

Life skills training and wellness

Life skills training is a critical element of our overall development programme and contributes to the Group's financial performance through reducing risk by:

- reducing stress-related absenteeism
- better skills retention as fewer staff resign due to external financial pressures
- improved staff morale
- reduced number of external financial deductions
- a more focused, safer and productive workforce.

The Group implements a comprehensive HIV/Aids strategy and programme, based on the core value that the human rights and dignity of any employee infected by the virus should, at all times, and under all circumstances, be upheld. The approach also recognises the need to educate all employees regarding HIV/Aids to empower them to protect themselves and their loved ones from the disease. Antiretroviral drugs are provided to HIV positive staff as needed.

Mustek continues to fund this programme in its entirety, with none of the costs passed onto employees.

Health and safety

Mustek adheres to all applicable health and safety legislation and conducts its business within the parameters of a Group safety, health, environmental and quality (SHEQ) manual. The Group's focus on health and safety is driven by staff volunteers, elected by their peers onto various health and safety committees. These committees meet quarterly to assess company performance regarding health, safety and related issues.

Minor first aid incidents are recorded and reported by our First Aiders to the Safety, Health and Environmental (SHE) Officer. Moderate to serious injuries are reported to Mustek's payroll function and to the Commissioner for Workmen's Compensation, who has the authority to award workmen's compensation.

Lost time injuries (LTIs) causing at least one lost day are reported to payroll and injuries resulting in three or more days lost from work are reported to the Commissioner for Workmen's Compensation.

The Group's total investment in the training and development of employees during the 2018 financial year amounted to R15.51 million (2017: R13.67 million)

Rectron's training spend as at end-June 2018 was R5.51 million (2017: R5.05 million)

100% of senior management is hired from the local community

Employee turnover for Mustek for the current year amounted to 11.44% (2017: 17.0%)

Employee turnover for Rectron for the current year amounted to 12.00% (2017: 16.81%)

Return to work and retention rates at Mustek after parental leave is 100%

Mustek's absenteeism rate was recorded as 1.43% (2017: 1.45%), and Rectron's as 1.89% (2017: 2.06%) for the 2018 year

In total, 16 injuries were recorded, of which 13 injuries were recorded by Mustek, and three injuries were recorded by Rectron during the year

During FY18 Mustek lost 2 145 productivity/working days due mainly to sick leave taken by staff nationally (2017: 2 139)

Mustek was involved in three CCMA cases during the year (2017: two) and Rectron had one CCMA case (2017: two):
- no grievances about labour practices have been filed
- no incidents of discrimination or corrective actions taken

100% of national staff trained on anti-corruption policies and procedures no incidents of corruption

Performance

Mustek's health and safety statistics

Occupational injuries on duty are recorded as follows:

	Mustek		Rectron	
Health and safety indicator	**2018**	2017	**2018**	2017
Fatalities (ie injuries on duty leading to death, ie excluding the deaths of workers not occurring 'at work')	**0**	0	**0**	0
First aid cases (FACs, ie injuries on duty leading to minor treatments, such as a plaster or a pain tablet)	**28**	98	**98**	31
Medical treatment cases (MTCs, ie injuries on duty leading to medical treatment, but no lost days)	**1**	2	**2**	0
Lost time injuries (LTIs, ie injuries on duty leading to at least one lost day)	**12**	8	**1**	1
Lost time injury frequency rate (LTIFR, ie number of LTIs per 200 000 person hours worked)	**2.4**	1.7	**0.4**	0.3
Total number of recordable injuries, including MTCs and LTIs	**13**	10	**3**	1
Total recordable injury frequency rate (TRIFR)	**2.6**	2.1	**1.0**	0.3

OUR CAPITALS (CONTINUED)

Human capital (continued)

Rectron's human capital

Rectron manages its own human capital, and in some instances, results are reported differently to Mustek. We are, however, moving towards adopting GRI and SDTI indicators into our reporting systems.

Rectron human capital vision

Rectron's HR and development programmes are important in keeping employee's competencies aligned with the overall strategic plans and goals of the organisation. Employees are valued and are an asset to the Company, and we are committed to making sure Rectron is considered the best place to work for all employees. Under the various pillars of the human capital framework, we continued to drive and create a positive workforce by implementing the following measures.

Talent development

We supported the talent development of our employees through professional development, career development, and improved performance management. We invested in advanced development programmes that improved overall leadership capabilities, job skills, and employee productivity.

Employee wellness

We promoted the achievement of work-life balance and wellness. We used our employee wellness programme to create awareness on the potential benefits to employees for improved physical and mental health. Rectron aids, supports and funds a comprehensive HIV/Aids programme through Kaelo Xelus, our wellness service provider, ensuring that confidentiality is maintained, and employees receive needed benefits monthly.

Diversity

We foster a diverse, inclusive employee community with a positive work environment by conducting regular organisational climate surveys and use the information to collaborate with managers to make necessary changes. We educate employees on the prevention of harassment and discrimination and consider productive ways to resolve conflict through our employment equity channel. We also ensure we promote our commitment to diversity and non-discrimination through our outreach programmes and employee recruitment efforts.

Skills development

Effectiveness of training is critical to Rectron's success. Our key focus is to enable employees to deliver products and services that meet the ever-changing needs of our customers. To do this, employees must be competent in their work and capable of adapting to change brought about by advancement in processes and technology. Promoting a culture of 'We Serve' requires that employees are properly equipped to meet and exceed customer standards. Rectron's training is also mapped to the skills development plans of each employee and is aimed at closing the gap on the skills needed for their job competencies.

Rectron's human capital highlights

- We upskilled employees with relevant skills in each area of the business, in accordance with each employee's personal development plan
- Completion of the Torque IT Learnership programme and Microsoft internship programme resulting in a pool of experienced candidates
- We onboarded a new wellness service provider and conducted an annual wellness day focusing on the wellbeing of all our employees
- We successfully filled recruitment gaps with the right calibre of candidates in line with our EE recruitment policy
- Our diversity campaign continued to contribute towards a diverse harmonious workplace
- We held celebrations for all employee's country wide celebrating their 10 and 20 years of service

OUR CAPITALS

4

Social and relationship capital

Engaging with people, groups and businesses to strengthen our network.

Social and relationship capital includes:

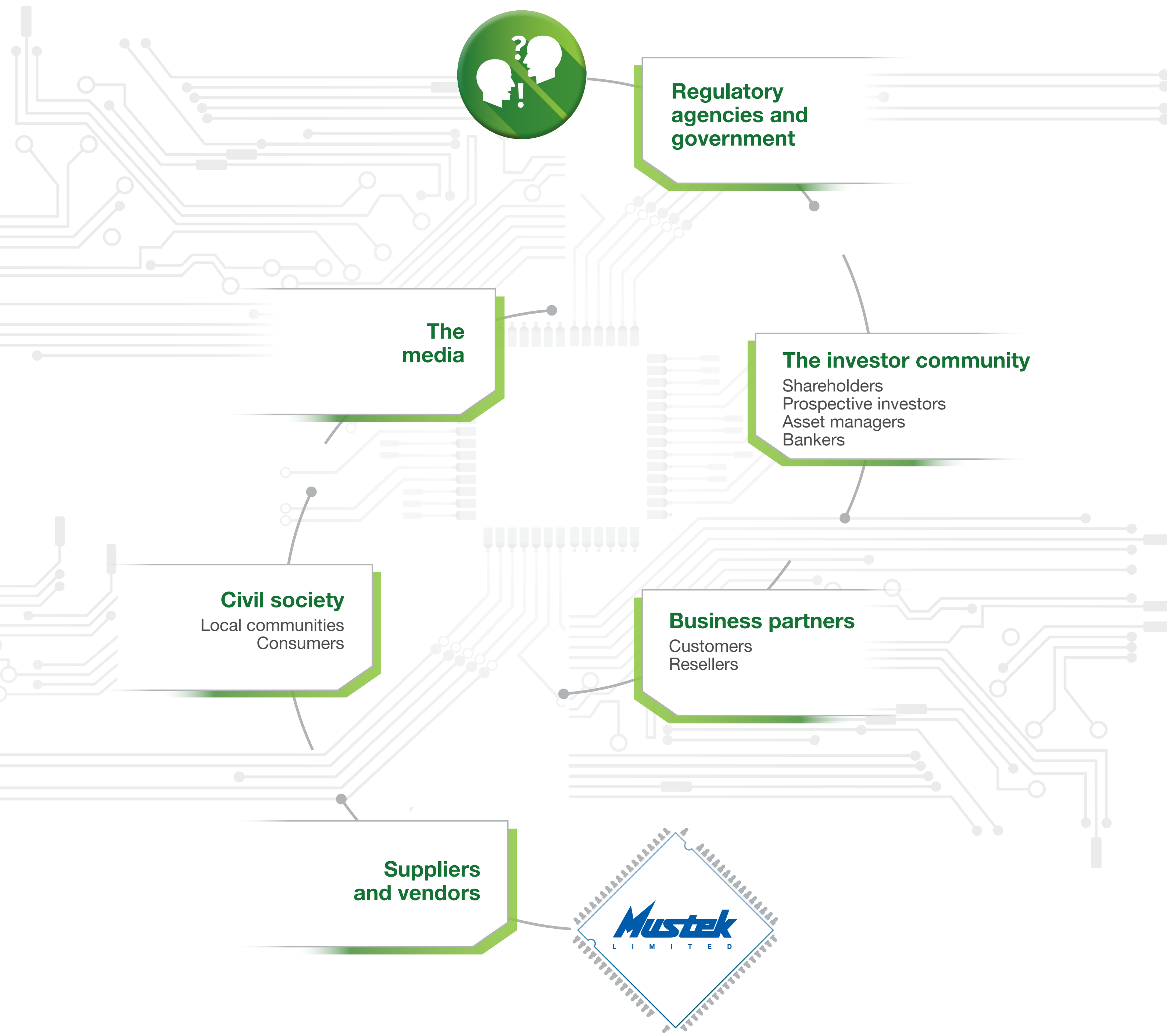
- Shared norms, and common values and behaviours
- Key stakeholder relationships, based on interactions and trust developed over years
- Intangibles associated with the brand and reputation that Mustek has developed
- Our social licence to operate

OUR CAPITALS (CONTINUED)

Social and relationship capital (continued)

Mustek's stakeholders

Our stakeholders are people, groups or organisations with a direct interest in the Mustek Group that can affect, or be affected by, our operations, policies and procedures. Stakeholders are identified through operational interactions and by Mustek's governance structures. Our key stakeholders include:



Stakeholder engagement

Mustek encourages proactive and sincere stakeholder engagement as the foundation of preserving and building on our social and relationship capital and in conducting sustainable business.

Stakeholder engagement is based on inclusiveness, materiality and responsiveness. Mustek's financial director, Neels Coetzee, is the Group's stakeholder relations officer.

Stakeholder engagement is conducted in one of two ways:
- direct engagement through verbal, direct written or visual communication with stakeholder groupings
- indirect engagement in the form of compliance with regulations and standards.

Investors are directly engaged through regular presentations and road shows. These include:
- operational visits
- communication through the Securities Exchange News Service (SENS)
- one-on-one communication with executive management and members of the Board
- the publication of interim and full-year financial results and an Integrated Annual Report
- the provision of financial information demonstrating conformance with debt covenants.

Direct engagement with our employee stakeholder grouping is conducted through supervisory and disciplinary structures. Means of communication include:
- scheduled meetings
- briefings
- emails and posters
- standard policy and procedures documents
- one-on-one supervision and instruction
- performance discussions.

A key stakeholder grouping is our reseller base, which between Mustek and Rectron numbers more than 10 000 resellers. Constant feedback from our resellers is invaluable for remaining abreast with consumer trends and demands. Mustek and Rectron remain constantly engaged with our resellers through:
- customer surveys
- roadshows
- personal meetings
- incentive schemes
- digital email service
- web-based reseller portal.

Indirect engagement with a variety of stakeholders, in particular those in society and community groupings, is achieved by complying with regulations and guidelines.

Stakeholder issues

Key stakeholder issues raised through our engagement processes include:
- profitability
- good governance
- job security
- product quality, availability and after sales support (lifecycle management)
- customer service
- remuneration
- financial stability
- compliance with legislation and regulations
- corporate citizenship – social investment and transformation
- environmental impacts and 'green products'.

These issues have been responded to throughout the body of this report.

Transformation and maintaining our social licence to operate

Underlying Mustek's transformation objectives is its commitment to provide historically disadvantaged South Africans with necessary training and development opportunities, empowering them to transform not only their own lives but those of their families and communities.

Mustek Limited Group achieved a level 1 B-BBEE contributor status. The consolidated Group scorecard includes, among other subsidiaries, Mustek and Rectron. The Mustek division achieved level 1 B-BBEE contributor status and Rectron received an improved level 2 B-BBEE rating.

Employment equity and workplace skills plans are submitted annually and Mustek is fully compliant with the Employment Equity Act, 55 of 1998 and the Skills Development Act, 97 of 1998.

During the 2018 financial year, Mustek spent R10.35 million on staff training and skills development (2017: R13.67 million).

OUR CAPITALS (CONTINUED)

Social and relationship capital (continued)

Corporate social investment (CSI)

The cornerstone of Mustek Group's CSI programme is contributing to sustainable development through education, training, community development and support. The programme seeks to improve the quality of, and access to, education for previously disadvantaged communities, as well as support and facilitate the implementation of IT laboratories in selected schools.

In this reporting period, the Group spent approximately R2.25 million on CSI initiatives (2017: R1.14 million). Our CSI programme is directed at enabling people to gain access to opportunities in the mainstream economy.

Our contributions were allocated to:
- resources and grants to previously disadvantaged schools and organisations for people with disabilities
- skills programmes and bursaries
- grants for sector specific projects
- 'pro bono' professional services and HR support.

Procurement

Mustek procures goods and equipment that are not readily available in South Africa, mainly from overseas manufacturers. These imports are excluded from the Group's total procurement spend in terms of the B-BBEE ICT sector code.

Mustek meets the definition of a level 1 B-BBEE contributor in terms of its preferential procurement. We aim to secure full B-BBEE certificate compliance for all suppliers including EME, QSE, black-owned and black women-owned enterprises. For the past three years, we have reached the 80% target for preferential procurement with BEE compliant suppliers. Approximately 89.5% (2017: 47%) of the total procurement spend is with local suppliers.

Mustek's weighted B-BBEE procurement spend constituted 89.5% of our total measured procurement spend (excluding imports).

We procure significant input quantities from internationally recognised manufacturers in the Far East. Mustek does not negate the possibility that imports may be produced under unsatisfactory employment conditions, therefore we only procure from accredited vendors. Vendor premises are inspected by Mustek personnel to monitor conditions under which their workers operate.

Protection of customer data

Our customers are self-registered with us through a website portal. Protecting customer-related data is of utmost importance to Mustek and we adhere to strict protection policies. In the year under review, no complaints related to breach of privacy and loss of customer data were reported.

Although Mustek deals primarily with resellers, we will assist consumers directly when so warranted. Customers are requested to back up their devices before repair as part of our terms and conditions.

Sensitive information, such as passwords and credit card details, is not stored. Customer information that is kept by us is stored on a secure SQL server with firewall protection and requires rigorous authentication for local network access. Databases are physically located in a secure location on Mustek premises. We have not yet received any complaints regarding breaches of customer privacy or loss of customer data.

Rectron frequent buyer rewards

The Rectron Rewards incentive programme is proving highly successful in retaining reseller loyalty. Rectron Rewards enables resellers to seamlessly order online, check stock availability and review their account balances. Online product training is also available to them.

The Rectron Rewards programme is evolving into a key Rectron platform for growing small businesses and adding value to their upstream and downstream commercial transactions.

Mustek's awards

FY18

- Huawei – Mustek Distributor of the Year
- APC Schneider Electric – Mustek Distributor of the Year
- Zebra Technologies – 'Cross Sell' Award 2017 in recognition of excelling in sales of solutions.

FY17

- Toshiba Storage – Mustek Distributor of the Year for Toshiba HDD
- Huawei – Mustek Distributor of the Year
- NEC – Mustek EMEA Smart Government Solution Partner of the Year.

OUR CAPITALS

5 Natural capital

All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation. Relevant environmental considerations include:

- Climate
- Existing contamination
- Air quality
- Natural resource availability
- Water quality
- Biodiversity
- Use of land

OUR CAPITALS (CONTINUED)

Natural capital (continued)

What we use

- Mustek's biggest natural resource input is coal-based electricity sourced from Eskom
- Direct energy in the form of petrol and diesel is used to fuel vehicles and generators
- Solar energy contributes to running buildings and reduces Mustek's emissions and the overall cost of electricity, including the 'demand charge' from municipal authorities
- Manufactured components for Mecer hardware
- Packaging material.

Sustainability and the environment

Sustainability involves cultivating a balance between the environment, the economy and society. To foster true environmental sustainability, we need to ensure that we are consuming natural resources at a sustainable rate and in such a way that demands placed on the environment can be met without reducing its capacity to allow all people to live well, now and in the future. Environmental sustainability is the critical foundation on which social and economic life depends on.

Management approach

Along with increasingly stringent legislation, society has increased its demand for sustainable development, transparency and accountability. In response, Mustek has made environmental performance a strategic initiative and has utilised the systematic approach of ISO 14001 and ISO 50001 to improve environmental management and energy usage. Environmental goals are incorporated into routine operations, procedures and processes and are integrated into employee training. Environmental impacts are monitored and reported.

ISO 14001 has been revised and Mustek Gauteng has been recertified according to the updated version. In revising the standard, the technical committee considered 'future challenges' for environmental management, including:

- being part of sustainability and social responsibility
- linking to strategic business management
- engaging stakeholders
- managing parallel systems, such as greenhouse gas and energy.

Mustek's environmental management goals are to:

- comply with legislation and any compliance obligations
- protect the environment and prevent pollution, with emphasis on waste and energy management
- procure and utilise energy efficient products and services.

Our internal processes ensure compliance with local, provincial and national environmental legal requirements. Our reporting includes electricity purchased from the municipality, photovoltaic (PV) energy generated and usage of fuel.

Our primary environmental impacts are waste in the form of packaging materials, electronic waste from redundant components and office waste, such as paper. Mustek works with ISO 14001 service providers to recycle waste in a legally compliant manner.

We are also reducing our carbon emissions by cutting down on electricity and using clean energy in the form of solar power. The integration of an energy management system (EnMS), based on ISO 50001, into Mustek's existing environmental management system, has enabled a consistent approach to energy management and further reductions in energy consumption.

Mustek's precautionary approach

The key element of a precautionary approach, from a business perspective, is to prevent rather than cure. Precaution involves the systematic application of risk assessment, management and communication.

Mustek's defensive approach is to maintain ISO 14001. A requirement of the standard is to identify whether there are any activities, products, or services that interact or can interact with the environment and whether any of these environmental 'aspects' can cause an impact on the environment, beneficial or adverse.

Environmental key performance GRI indicators

- No incidents of non-compliance were reported with regulations and voluntary codes concerning the health and safety impacts of products and services during their lifecycle
- All products include labelling that indicates:
  - model number
  - input rating
  - output rating (if relevant)
  - a recycling statement included on all Mecer computer boxes
- There were no issues of non-compliance with regulations and voluntary codes concerning product and service information and labelling
- Electronic waste is classified as hazardous in its waste form. It is thus collected and responsibly recycled, with 39 tonnes (2017: 40 tonnes) of e-waste recycled by Mustek and its bigger branches in this financial year

- Even though Mustek's operations increased this year, Mustek has still managed to reduce its energy consumption by a further 1% through focused operational controls
- Rectron has recycled 11 tonnes (2017: 11 tonnes) of waste and generated 1 306 GJ of energy from their national photovoltaic (solar) plants.

Energy consumption and greenhouse gas (GHG) emissions

Reducing Eskom electricity consumption lowers costs and raises Mustek's profile as a leading provider of renewable energy technology.

In 2011, the Mustek division set itself a three-year energy reduction target of 20% on the 2010 base year consumption. This target was reached through ongoing staff awareness programmes, the replacement of ICT equipment with energy-efficient units, installing thousands of LED lights and the solar panel project discussed below. These installations have significantly reduced the Group's overall electricity footprint and demonstrate the viability of renewable energy for powering corporate infrastructure.

In 2013, Mustek invested R3.9 million on the installation of 924 solar PV panels on the roof of its Midrand head office and assembly line. The panels reduce the Midrand installation's electrical consumption and its peak demand by approximately 10%, thus minimising the impact of the tariff hike. The installation has a life expectancy of 30 years with a payback period of less than five years.

Based on the success of the Mustek initiative, in 2014 Rectron installed a similar array of solar panels to reduce its energy costs and GHG emissions. This year, Mustek added another PV system to its MST building and is establishing a new home for its Cape Town office, with a PV system included as part of the building's energy-efficient design technologies.

Since the beginning of Mustek's energy-saving initiatives in 2011, Mustek Gauteng has managed to reduce emissions by 49%. In 2011, Mustek had emitted over 5 504 tonnes CO_2e for the direct and indirect energies of Scope 1 and Scope 2. In the 2018 financial year, this has reduced to 2 506 tonnes CO_2e emitted.

Waste abatement and disposal

Waste management is an environmental issue that receives considerable attention. The majority of Mustek and Rectron's waste is represented by packing materials, including wooden pallets, cardboard, plastic, polystyrene fillers and electronic waste.

Electronic waste is considered hazardous in its waste form and requires recycling or disposing of in a legally compliant manner. Mustek, therefore, utilises service providers that can demonstrate compliance and are ISO 14001 certified. Appropriate controls and procedures are in place to ensure our employees' health and safety.

At Mustek's Gauteng site, a waste management company has an onsite team to separate waste into various streams, which are collected and sent for recycling, or disposed of at a permitted landfill site. The tonnage per stream is reported back to Mustek.

Waste also contributes to the Group's emissions, although it has a far more significant impact on landfill sites and wasted resources. The Scope 3 contribution of emissions from waste is, however, not included in the emissions values reported.

The amount of waste generated this year decreased in relation to last year's figures due to improved efficiencies leveraged by Mustek Gauteng's logistics departments. During the reporting period, 172 tonnes (2017: 221 tonnes) of waste were generated, representing a decrease of 22% at the Mustek Gauteng operation.

An additional 18 tonnes of waste were recycled by the Mustek Eastern Cape, Western Cape and KwaZulu-Natal branches.

Rectron recycled 11 tonnes of waste this year through waste-recycling initiatives.

OUR CAPITALS (CONTINUED)

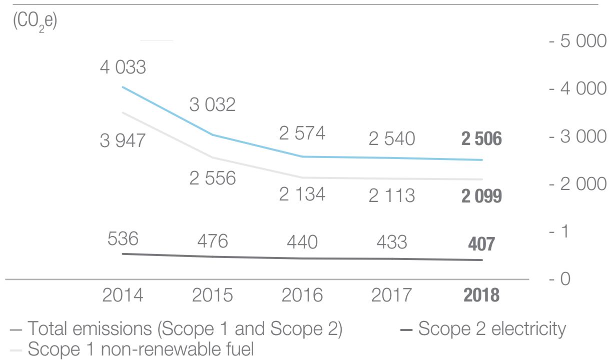
Natural capital (continued)

Emissions

Carbon emissions

Mustek	Emissions (tonnes CO_2e)	2014	2015	2016	2017	2018
Scope 1	Stationary fuels	10	15	9	8	**10**
	Company-owned vehicles	403	398	404	372	**366**
	Other fugitive emissions (tonnes CO_2e) (non-Kyoto gases)	123	63	27	53	**31**
	Total	536	476	440	433	**407**
Scope 2	Electricity emissions (tonnes CO_2e)	3 497	2 556	2 134	2 115	**2 099**
	Emissions	4 033	3 032	2 574	2 548	**2 506**

Mustek - Emissions



Rectron	Emissions (tonnes CO_2e)	2016	2017	2018
Scope 1	Stationary fuels		5	**5**
	Company-owned vehicles		195	**222**
	Total		200	**227**
Scope 2	Electricity emissions (tonnes CO_2e)	539	574	**529**
	Emissions	539	774	**756**

Percentage reduction in emissions

Mustek	Emissions (tonnes CO_2e)	2014	2015	2016	2017	2018
	Total emissions (tonnes CO_2e)	4 033	3 032	2 574	2 548	**2 506**
	Reduction of tonnes CO_2e	593	1 001	458	26	**42**
		13%	11%	11%	1%	**2%**

Emissions intensity

These values reflect emissions per person working at company premises, including temporary workers and tenants.

Mustek	Emissions (tonnes CO_2e)	2014	2015	2016	2017	2018
	Total emissions (tonnes CO_2e)	4 033	3 032	2 574	2 548	**2 506**
	Number of staff nationally	632	614	613	576	**614**
	Number of staff Comztek	175	n/a	n/a	n/a	**n/a**
	Number of tenants			20	47	**25**
		807	614	633	623	**639**
	Tonnes CO_2e/employee	5.0	4.9	4.1	4.1	**3.9**

Rectron	Emissions (tonnes CO_2e)	2016	2017	2018
	Total emissions (tonnes CO_2e)	539	774*	**756**
	Number of staff nationally	355	347	**343**
	Tonnes CO_2e/employee	1.6	2.2	**2.2**

** The emissions value for FY17 is higher as this was the first year that fuel usage was reported for Rectron.*

Waste management

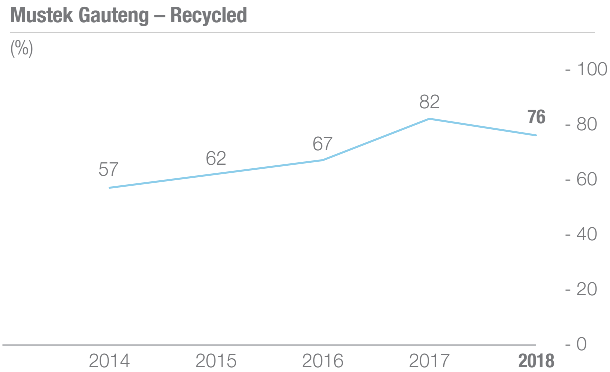
Mustek and Rectron

The following values reflect the recycling efforts of Mustek's and Rectron's Gauteng branch and Mustek's larger coastal branches:

Mustek and Rectron (tonnes)	2016	2017	2018
Mustek recycled waste (including branches)	129	206	**149**
Rectron recycled waste (only Gauteng)	13	11	**11**

Mustek Gauteng

Mustek Gauteng's ratio of recycled waste to waste being sent to landfill was 76% for this reporting period. A decrease from the previous year due to less pallets being sent for recycling.



OUR CAPITALS (CONTINUED)

Natural capital (continued)

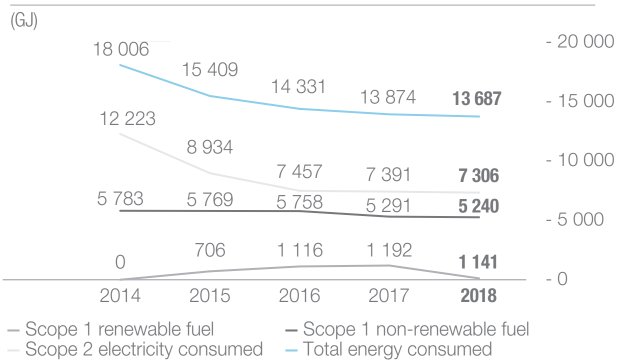
Energy consumption

Mustek utilises various forms of energy, which we manage efficiently through the ISO 50001 standard. In the 2014 and 2015 financial years, we recorded our biggest percentage drops in usage through installing solar panels and LED lighting.

Our usage of fuels, electricity and solar energy is recorded in the following table:

Mustek	Energy (GJ)	2014	2015	2016	2017	2018
Scope 1	Stationary fuels	134	198	125	113	**137**
	Company-owned vehicles (P)	3 956	3 660	3 321	2 734	**2 744**
	Company-owned vehicles (D)	1 693	1 911	2 312	2 444	**2 360**
Scope 1	Non-renewable fuel	5 783	5 769	5 758	5 291	**5 240**
	Renewable fuel (solar) (Mustek Gauteng)		706	1 116	1 192	**1 141**
Scope 2	Electricity (GJ)	12 223	8 934	7 457	7 391	**7 306**
Total	Total energy consumed	18 006	15 409	14 331	13 874	**13 687**

Mustek – energy consumption



Rectron	Energy consumed (GJ)	2015	2016	2017	2018
Scope 1	Stationary fuels			69	**67**
	Company-owned vehicles (P)			257	**316**
	Company-owned vehicles (D)			2 420	**2 726**
Scope 1	Non-renewable fuel			2 746	**3 109**
	Renewable fuel (solar)		1 355	1 220	**1 306**
Scope 2	Electricity (GJ)	1 226	1 886	2 007	**1 850**
Total	Total energy consumed	1 226	3 241	5 973*	**6 265**

** The energy consumption value for FY17 is higher as this was the first year that fuel usage was reported for Rectron.*

Energy consumption intensity

These values reflect consumption per person working at company premises, including temporary workers and tenants.

Mustek	Energy (GJ)	2014	2015	2016	2017	2018
Total	Total energy consumed	18 006	15 409	14 331	13 874	**13 687**
	Number of staff Mustek	632	614	613	576	**614**
	Number of staff Comztek	175	n/a	n/a	n/a	**n/a**
	Number of tenants			20	47	**25**
		807	614	633	623	**639**
	Energy intensity (GJ/per person)	22.3	25.1	22.6	22.3	**21.4**

Rectron	Energy (GJ)	2016	2017	2018
	Total energy consumed	3 241	5 973*	**6 265**
	Number of staff	335	347	**343**
	Energy intensity	10	17	**18**

** The energy consumption value for FY17 is higher as this was the first year that fuel usage was reported for Rectron.*

Energy saving – Mustek Gauteng

Mustek	Energy (GJ)	2014	2015	2016	2017	2018
	Energy saved	2 465	2 597	1 078	457	**187**
	Percentage energy saved year on year	12%	14%	7%	3%	**1%**

OUR CAPITALS

6

Intellectual capital

Mustek's knowledge-based intangibles include:

- Intellectual property, such as patents, copyrights, software, rights and licences
- 'Organisational capital', including tacit knowledge, systems, procedures and protocols

In this information age, intellectual capital can be the key to an enterprise prospering or failing. The intellectual capital of a company includes its systems, research and development policies, procedures and controls, patents and corporate culture. Intellectual capital dovetails with human capital through employee competence, skills, training and development, which includes knowledge of work procedures, work ethics and values, and experience.

The cumulative value of the intellectual capital that Mustek has refined over 31 years informs and drives our evolving business strategy. Building onto the other five capitals, it enables Mustek to remain sustainable and ahead of our competitors.

Mustek has become a truly complete ICT solutions provider, able to offer any corporate, office or home ICT-related solution on any scale throughout South Africa.

Mustek's intellectual capital comprises:

- ICT industry insight
- competitive intelligence
- corporate culture
- understanding our customers and markets
- assembly lines and logistics management
- our human assets.

How we utilise it

The ICT industry is fiercely competitive and fast moving. Mustek's adaptability and understanding of the industry and consumer trends are required to stay relevant in future while delivering to high standards in the present.

The Group's intellectual capital is refined through a continual improvement process based on:

- responding to changing needs
- anticipating the needs of customers in the future
- offering comprehensive, high-value solutions
- partnering with the best providers of forward-thinking technology solutions and services
- acquiring product lines in emerging technologies
- continually assessing product and service gaps, as well as identifying adjacent opportunities
- improving operational efficiencies and cost management
- identifying and mitigating risks
- upskilling and motivating our workforce.

Mustek is able to react nimbly to any market demand and can gear the assembly line to reconfigure devices in line with current consumer trends. In a constantly changing IT landscape, this flexibility is vital to the Group's success.

Moving beyond brands into solutions

In its first two decades, Mustek focused largely on Mecer, our proprietary brand of PCs, notebooks, servers and peripherals. We later started complementing the Mecer brand with certain networking services and limited distribution of printers and consumables.

Understanding that the ICT industry was evolving beyond products and brands, in 2008 Mustek decided on a strategic pivot to reposition the Group as a broad-based distributor of premium-brand ICT products and solutions. This horizontal and vertical growth strategy aggregates brands, products and in-house ICT expertise into the end-to-end solutions that clients require. Unlike earlier years, there is no particular emphasis on hardware or software, as these are integrated into the solutions specifically required by clients.

Built on our many years as an assembler and distributor of hardware products, Mustek has morphed into a complete ICT solutions provider, able to offer any corporate, office or home ICT-related solution – on whatever scale – throughout South Africa.

Excellence through international standards and awards

Mustek's awards:

2018

- Toshiba Storage – Mustek Distributor of the Year for Toshiba HDD
- Huawei – Mustek Distributor of the Year 2018
- Zebra Technologies 'Cross Sell'
- APC Schneider Electric – Mustek: Distributor of the Year 2018.

2017

- Toshiba Storage – Mustek Distributor of the Year for Toshiba HDD
- Huawei – Mustek Distributor of the Year
- NEC – Mustek EMEA Smart Government Solution Partner of the Year.

Mustek's certifications:

- ISO 9001:2015 (quality)
- ISO 14001:2015 (environment)
  - all of Mustek's business processes are included in the scope of its quality management system (QMS), these being the import, sales, assembly, testing, distribution, installation and servicing of computer-related equipment and technological standards.

GOVERNANCE

Leadership team

A diverse and effective leadership team

Each of our directors brings valuable skills and experience which contribute to the effectiveness of the Board as a whole.

David Kan

Chief executive officer

David Kan, aged 59, is the co-founder and a major shareholder of Mustek, and its CEO since the Group's inception in 1987. He holds a BSc (Eng), with a major in mechanical engineering.

Hein Engelbrecht

Managing director

Hein Engelbrecht, aged 49, holds a BCom (Hons), is a registered chartered accountant, and joined the Group in 1997 as Group financial manager. He completed his articles with Grant Thornton Kessel Feinstein and spent two-and-a-half years as financial manager of Office Directions Proprietary Limited. He was appointed to the Board on 1 September 2000.

Neels Coetzee

Financial director

Neels Coetzee, aged 43, is a registered chartered accountant and joined the Group in 2001 as Group financial manager after completing his articles with Deloitte & Touche in 2000. He was appointed to the Board as financial director on 29 August 2008.

Ralph Patmore

Independent non-executive director

Ralph Patmore, aged 66, was appointed to the Board on 16 October 2009. He holds a BCom and an MBL from Unisa's School of Business Leadership. He was the CEO of Iliad Africa Limited since inception in 1998 to retirement in September 2008. He is also a non-executive director of Unicorn Capital Partners Limited, Calgro M3 Holdings Limited and ARB Holdings Limited.

Dr Mdu Gama

Lead independent non-executive director

Dr Mdu Gama, aged 49, was appointed as a director of Mustek in 2002. He holds an MBA, a PhD (Finance) and various management qualifications from SA, US and UK universities. He is currently the CEO of Resultant Finance Proprietary Limited and a trustee of the University of Johannesburg Trust Fund.

Rev Dr Vukile Mehana

Non-executive chairman

Rev Dr Mehana, aged 65, is an ordained Minister of the Methodist Church of southern Africa who has been given permission by the church to work in the corporate world.

Dr Mehana started his business career in the human resource and organisational transformation area and progressed to strategic positions including acting CEO of a major parastatal, director on boards of listed and unlisted companies and chairman of a number of companies.

He is currently the chairman of the management consulting firm LRMG Performance Agency, the chairman of Mazwe Financial Services and has recently been appointed chairman of Community Schemes Ombud Services, an entity of the Ministry/Department of Human Settlements. He serves as a non-executive director of Sekunjalo Investments Limited, a JSE-listed BEE company, and Makana Investment Corporation. Rev Dr Mehana is the chairman of the Sizwe Africa IT Group.

Rev Dr Mehana is also the Chaplain General of the African National Congress. He has recently been appointed as an adjunct professor by the University of Cape Town Graduate School of Business where he lectures on a part-time basis.

Rev Dr Mehana holds a BTh from Rhodes University, AMP from INSEAD Business School (France), Top Management Programme Certificate on Public Enterprises from the National University of Singapore, MBA from De Montfort University (UK) and DPhil from the University of Johannesburg.

Lindani Dhlamini

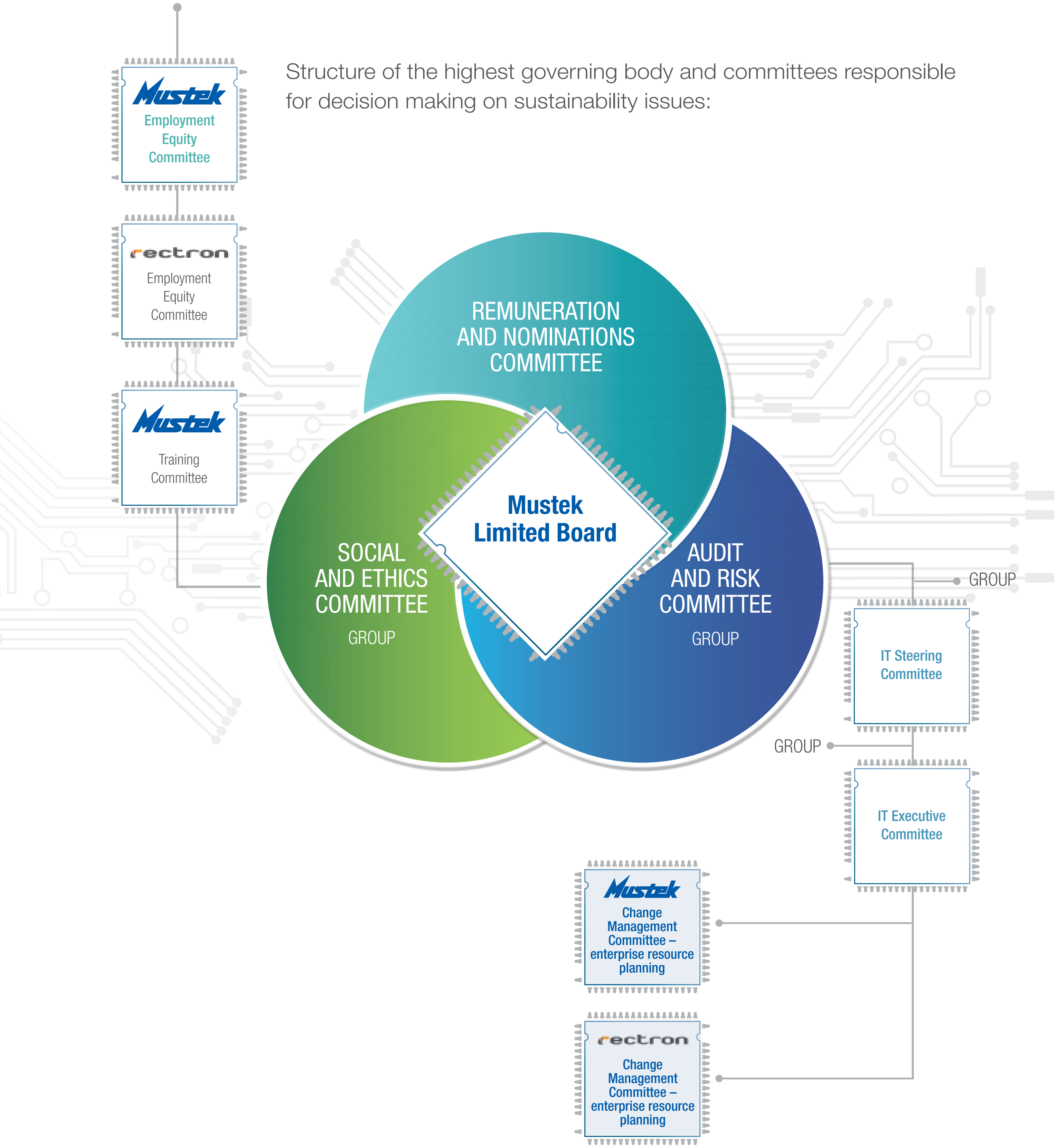
Independent non-executive director

Ms Lindani Dhlamini, aged 45, joined Mustek Limited as independent non-executive director on 4 December 2015. She is a chartered accountant with over 20 years' experience. She is the co-founder and the chief executive officer of SekelaXabiso as well as the chairperson of SkX Financial Services. She has in the past years continually entrenched herself as a seasoned entrepreneur and business leader through serving on various boards such as the Industrial Development Corporation of SA, Old Mutual Investment Group SA, Old Mutual MS Life, and Old Mutual Health. In previous years, she also served as a trustee of the South African Catering and Allied Workers' Union Provident Fund while it was under curatorship in 2007 and served on the board of the Nuclear Energy Corporation from 2002 to 2004.

CORPORATE GOVERNANCE REPORT

Governance reporting structure

Structure of the highest governing body and committees responsible for decision making on sustainability issues:



BOARD OF DIRECTORS

Vukile Mehana	Ralph Patmore	Mdu Gama	Neels Coetzee	Lindani Dhlamini	David Kan	Hein Engelbrecht
65 Black male *Non-executive board chairman*	66 White male *Independent non-executive director*	49 Black male *Lead independent, non-executive director*	43 White male *Financial director*	45 Black female *Independent non-executive director*	59 Coloured male *Chief executive officer*	49 White male *Managing director*

SOCIAL AND ETHICS COMMITTEE

Mdu Gama	Hein Engelbrecht	Spencer Chen	Ralph Patmore	*Standing invitees*
49 Black male *Chairman*	49 White male	42 Coloured male	66 White male	*CEO, Mustek MD, Mustek FD, HR executive, Rectron FD and company secretary*

IT STEERING COMMITTEE

David Kan	Olga-Lee Levey	Dimitri Tserpes	Spencer Chen	Hein Engelbrecht	Neels Coetzee	Alan Michas
59 Coloured male *Chairman*	46 White female *Chief information officer*	53 White male *Chief technical officer*	42 Coloured male *Rectron managing director*	49 White male *Mustek managing director*	43 White male *Group financial director*	66 White male *Rectron Group IT manager*

AUDIT AND RISK COMMITTEE

Lindani Dhlamini	Ralph Patmore	Mdu Gama	*Standing invitees*
45 Black female *Chairperson*	66 White male	49 Black male	*CEO, MD, FD, internal auditor, external auditors and company secretary*

REMUNERATION AND NOMINATIONS COMMITTEE

Ralph Patmore	Mdu Gama	Vukile Mehana	*Standing invitees*
66 White male *Chairperson*	49 Black male	65 Black male	*CEO, MD, FD, HR Manager and company secretary*

CORPORATE GOVERNANCE REPORT (CONTINUED)

Commitment to corporate governance

Mustek Limited continued to apply the highest standards of corporate governance and ethical practices to ensure the sustainability of the business and to contribute to long-term value creation for shareholders.

The Board is the custodian of corporate governance and is accountable to shareholders. Management aims to promote ethical business practices across its operations while the Board's Social and Ethics Committee is responsible for monitoring ethics practices.

The Group has applied the requirements of King IV™. In line with the philosophy of King IV™, the Group's application of the 16 principles of this new code is covered in the detailed corporate governance report on the company's website www.mustek.co.za.

Primary role and responsibilities of the Board

The Group is committed to achieving its goals with integrity, high ethical standards and in compliance with all applicable laws, while being a responsible corporate citizen. The role, responsibilities and procedural conduct of the Board have been set out and approved in a Board Charter, which emphasises the Board's role as the focal point and custodian of corporate governance in the organisation. Board committee terms of reference and various formal policies reinforce this position. The Integrated Annual Report details meetings held and attendances at each, and the Board's satisfaction with meeting its responsibilities.

The directors have access to the advice and services of the company secretary. They are entitled, at the company's expense, to seek independent professional advice about the affairs of the company regarding the execution of their duties as directors.

Summarised roles and responsibilities

The Board:

- governs the Group on behalf of its shareholders
- steers the Group and sets its strategic direction
- approves policy and plans that give effect to the direction provided
- oversees and monitors the implementation and execution by management
- appoints the chief executive officer
- ensures timely and transparent communication to stakeholders
- ensures compliance with relevant legal requirements
- approves and monitors the annual budget
- guards and promotes values and ethics
- manages the Group's risk profile.

Note: The Board Charter is available on the website at ***www.mustek.co.za***

Board composition and meetings

The Board met four times during the reporting period and held a strategy workshop on 21 June 2018. The Board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

Board members as at 30 June 2018

	Meeting attendance		Meeting attendance
Independent non-executive director		**Invitees**	
Mdu Gama	5/5	***Rectron executives***	
Ralph Patmore	5/5	Spencer Chen	5/5
Lindani Dhlamini	4/5	Christiaan Engelbrecht*	2/2
Non-executive director		Gerhard Malan*	3/3
Vukile Mehana	3/5	***Company secretary***	
Executive directors		Sirkien van Schalkwyk	5/5
David Kan	5/5		
Hein Engelbrecht	5/5		

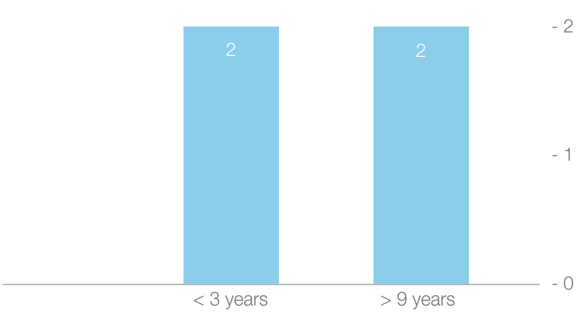
**Appointed or resigned during reporting period.*

As at 30 June 2018, the Board consisted of:
- three independent non-executive directors
- one non-executive director
- three executive directors.

The Board's composition is in accordance with the principles of King IV™, noting that a majority of directors are non-executive and the majority of non-executive directors are independent. Vukile Mehana is non-executive chairman and his role is separate from that of the chief executive officer, David Kan. Mdu Gama is the lead independent director.

The non-executive directors have the necessary skills and experience to provide judgement that is independent of management on matters relating to strategy, performance, resources, transformation, diversity, equity employment, standards of conduct and evaluation of performance. The Board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence.

Tenure of non-executive directors



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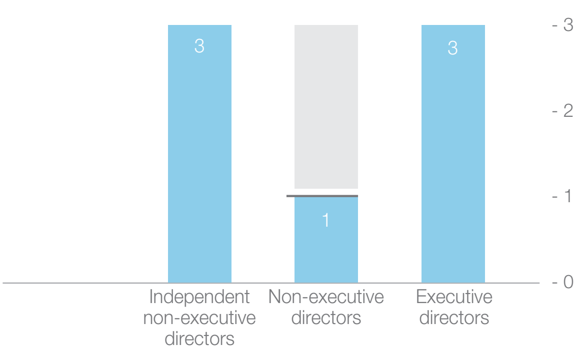
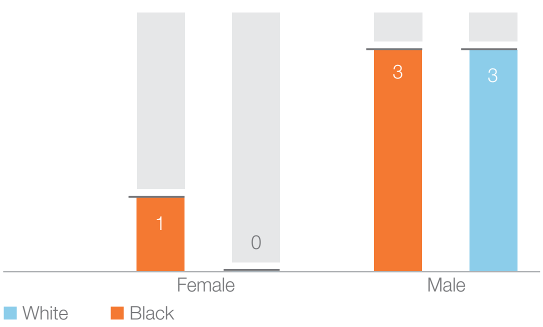


Demographics and gender



Board appointment and re-election process

The Board has a formal and transparent policy regarding the appointment of directors to the Board. While the appointments are a matter for the Board, the authority to oversee the nomination and to carry out the interview process has been delegated to the Remuneration and Nominations Committee.

Apart from a candidate's experience, knowledge, skills, availability and likely fit, the committee also considers a candidate's integrity, as well as other directorships and commitments, to ensure that the candidate will have sufficient time to discharge the role properly. The Remuneration and Nominations Committee also considers race and gender diversity in its assessment, in line with its gender diversity policy. The policy was updated to include a target for race representation in its membership.

In line with the memorandum of incorporation, one-third of the non-executive directors and executive directors are required to retire, and if available and eligible, may stand for re-election at the company's annual general meeting. Those directors who have been in office the longest, as calculated from the last re-election or appointment date, are required to stand down and may stand for re-election. At the 2018 annual general meeting, Vukile Mehana, Mdu Gama and Neels Coetzee will retire and are available for re-election. A brief professional profile of these directors can be found on page 70 of the Integrated Annual Report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Independence and conflicts

During the year ended 30 June 2018, none of the directors had a significant interest in any contract or arrangement entered into by the company or its subsidiaries, other than as disclosed in note 21 to the Annual Financial Statements.

Directors are required to inform the Board promptly of conflicts or potential conflicts of interest that they may have in relation to particular items of business. Directors are obliged to excuse themselves from discussions or decisions on matters in which they have a conflict of interest, in accordance with the conflict of interest policy that is in place. A standard agenda item is included for members to declare whether any of them have any conflict of interest in respect of a matter on the agenda and minuted accordingly.

When categorising non-executive directors as independent, the Board takes their interests, position and association or relationship with the company into consideration. On this basis, being judged from the perspective of a reasonable and informed third party, together with other indicators of substance over form, Ralph Patmore and Mdu Gama were found to be independent despite their tenure of more than nine years. The categorisation of directors can be found on page 70 of the Integrated Annual Report.

Company secretary

The company secretary plays a vital role in the corporate governance of the Group and is responsible for ensuring Board compliance with procedures and regulations of a statutory nature. The company secretary ensures compliance with the Johannesburg Stock Exchange (JSE) Listings Requirements and is responsible for the submission of the annual compliance certificate to the JSE Limited.

The company secretary ensures that, in accordance with the pertinent laws and regulatory framework, the proceedings and affairs of the Board and its members and the company itself are properly administered.

The Board satisfied itself regarding Sirkien van Schalkwyk's work experience, performance, technical skills and overall competence to fulfil her role as company secretary at an earlier meeting of the Board (during which time she was excused from the meeting). She is a consultant and maintains an arms-length relationship with the Board. She reports to the chairman on all statutory duties and functions performed relating to the governing body.

The company secretary is accountable to the Board and:

- ensures that Board procedures are followed and reviewed regularly
- ensures that conducting the affairs of the Board complies with all applicable rules and regulations
- maintains statutory records in accordance with legal requirements
- guides the Board as to how its responsibilities should be properly discharged in the best interests of the company
- keeps abreast of, and informs, the Board of current and new developments regarding corporate governance thinking and practice.

Governance framework

The Group seeks to maintain strong corporate governance structures and processes by working within a clearly defined governance framework, thus enabling the delivery of sustainable growth to all our stakeholders. The governance framework promotes the establishment of a Board committee structure to support the Board in the execution of its duties. The Board has delegated specific authority to each committee, while still enabling elective control as well as preserving its accountability. Roles and responsibilities for each committee are defined, and the Board has approved terms of reference for the various committees.

Board committees

In terms of the company's governance framework, the Board committees pay detailed attention to certain responsibilities. The committees are governed by the terms of reference approved by the Board, which outline each committee's role, authority, responsibility and accountability.

The terms of reference of committees are subject to change when required by the Board in order to accommodate the company's changing needs. Roles and associated responsibilities and the composition of membership across committees are considered holistically.

All committees have a minimum of three members and, as a whole, have the necessary knowledge, skills, experience and capacity to execute their duties effectively. The chairman of each Board committee reports at each scheduled meeting of the Board, and minutes of Board committee meetings are provided to the Board.

Executive Committee

The Executive Committee consists of the chief executive officer, financial director and operations directors. The committee meets regularly to review current operations, identify risks and how to manage them, develop strategies and recommend policies for the Board to consider, and then implement the strategy, directives and decisions of the Board.

Mustek directors and executive staff as well as operational management have clearly defined responsibilities and levels of authorisation for their respective area of the business. The delegation of these responsibilities is reviewed annually.

Audit and Risk Committee

In reviewing the committee composition during the year, it was decided that, due to the size of the company, the Audit Committee and Risk Committee would remain one committee. However, the meeting agenda is divided into two separate sections so as to ensure that both audit and risk management responsibilities are attended to.

The committee comprises two independent non-executive directors and two non-executive directors, all four complying with the definition of independent in terms of the Companies Act, 2008, as amended. The composition of the committee is annually reviewed, taking into consideration the recommendation from King IV™. The Board is satisfied that the independence, experience and qualifications of each member enables them to fulfil the committee's mandate. The chief executive officer, financial director, partner of the external auditors and the internal auditor attend meetings by invitation. In addition to scheduled meetings, the committee meets at least once a year with the company's internal and external auditors, without management being present.

The Audit and Risk Committee meets at least three times a year and more if necessary. The committee's roles and responsibilities, as well as its composition, are set out below.

Summarised roles and responsibilities

The Audit and Risk Committee:

- provides the Board with additional assurance regarding the reliability of the financial information used by the directors to assist them in the discharge of their duties
- reviews interim and Annual Financial Statements, the Integrated Annual Report and any other external reports issued by the organisation
- oversees the internal audit function
- ensures that significant business, financial and other risks have been identified and are being managed appropriately
- ensures independence of the external audit and oversees the external audit process
- ensures good standards of governance, reporting and compliance
- oversees the Group's risk management profile.

Audit and Risk Committee members and invitees as at 30 June 2018

Members	Meeting attendance	Invitees	Meeting attendance
Lindani Dhlamini (Chairman)	4/4	Chief executive officer	4/4
Mdu Gama	4/4	Managing director	4/4
Ralph Patmore	4/4	Financial director	4/4
		External auditor	4/4
		Internal auditor	4/4

The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Refer to page 100 of the annual financial statements for the Audit and Risk Committee report, which provides more information.

CORPORATE GOVERNANCE REPORT (CONTINUED)

IT Steering Committee

The IT Steering Committee governs technology and information responsibilities as recommended by King IV™. The committee met four times during the reporting period to report on their duties in accordance with its terms of reference as approved by the Board. The committee reports to the Board via the Audit and Risk Committee.

The committee is chaired by the chief executive officer. Olga-Lee Levey, a senior employee, is the chief information officer. The members represent all businesses of the Group to ensure consistency in use and application of IT systems and controls.

Summarised roles and responsibilities

The IT Steering Committee:

- adopts an IT strategy to be implemented once approved by the Board
- adopts and implements an internal IT control framework
- exploits opportunities to improve the performance and sustainability of the company through the use of IT
- oversees the value delivery of IT and monitors the return on investment of significant IT projects
- ensures that intellectual property contained in information systems is protected
- ensures that adequate business arrangements are in place for disaster recovery
- ensures that all personal information is treated by the company as an important business asset and is identified
- ensures that an information security management system is developed and implemented.

During the period under review, implementation of an enterprise resource planning (ERP) system commenced and it will be completed in the current financial year.

Social and Ethics Committee

During the reporting period, Ralph Patmore was appointed as member to align with the requirements of King IV™. At the same time Hein Engelbrecht stepped down as member of the committee, but will remain a standing invitee. The committee therefore comprises two independent non-executive directors and a prescribed officer.

During the reporting period, the committee decided to have a minimum of two meetings per annum. The Social and Ethics Committee met three times during the reporting period. The committee's roles and responsibilities as well as its composition are set out below.

Summarised roles and responsibilities

The Social and Ethics Committee:

- plans, implements and monitors the Group's strategy for transformation
- monitors compliance with legislation
- monitors employment equity and fair labour practices
- monitors good corporate citizenship and the Group's contribution to the development of the communities in which it operates.

Social and Ethics Committee members and invitees as at 30 June 2018

Members	Meeting attendance	Invitees	Meeting attendance
Mdu Gama	3/3	Chief executive officer	3/3
Ralph Patmore*	3/3	Financial director	3/3
Spencer Chen	3/3	Internal auditor	3/3
Hein Engelbrecht*	3/3	Compliance manager	3/3

**Also attended meetings as invitee when not formally a member.*

The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Refer to page 80 of the Integrated Annual Report for the Social and Ethics Committee's report.

Remuneration and Nominations Committee

In reviewing the committee composition during the year, it was decided that, due to the size of the company, the Remuneration Committee and Nominations Committee would remain one committee. The committee comprises two independent non-executive directors and a non-executive director.

The chief executive officer, managing director and financial director attend meetings by invitation, but may not participate in discussions on their own remuneration. The chairman of the Board is not eligible for appointment as chairman of the committee, but will preside as chairman when the committee fulfils its oversight responsibilities on nomination matters and interactions between the Board and directors.

The Remuneration and Nominations Committee meets at least twice a year and more if necessary. The committee's roles and responsibilities, as well as its composition, are set out on the right.

Summarised roles and responsibilities

The Remuneration and Nominations Committee:

- identifies and nominates new directors for approval by the Board
- ensures that Board members are appointed in a formal and transparent manner
- approves the classification of directors as independent
- oversees the induction and training of directors and conducts annual performance reviews of the Board and Board committees
- oversees an appropriate separation between executive, non-executive and independent directors
- ensures the proper and effective functioning of the Group's Board committees
- reviews the Board's structure and the size and composition of the various Board committees, and makes recommendations
- oversees the remuneration philosophy and practices
- oversees and monitors Mustek's share appreciation rights scheme.

Remuneration and Nominations Committee members and invitees as at 30 June 2018

Members	Meeting attendance	Invitees	Meeting attendance
Ralph Patmore (Chairman)	2/2	Chief executive officer	2/2
Vukile Mehana	2/2	Managing director	2/2
Mdu Gama	1/2	Financial director	2/2
		Company secretary	2/2

The Group's remuneration policy aims to attract, retain and motivate skilled and effective employees to execute the Group's strategy. The remuneration philosophy and framework are predominantly guided by the business strategy. During the reporting period, the remuneration policy and framework were enhanced in line with King IV™ in a concerted effort to give effect to the principles of fair, responsible and transparent remuneration.

In future the remuneration policy and implementation report will be put to shareholders as two separate non-binding advisory votes at the company's annual general meeting.

The Board has considered its remuneration policy and is satisfied that the organisation remunerates fairly, responsibly and transparently to promote sustainable value creation.

Refer to page 84 of the Integrated Annual Report for the Remuneration and Nominations Committee report, included in the remuneration policy and implementation report.

Evaluation

The Board assumes responsibility for the evaluation of its own performance and that of its committees, its chairman and its individual members. The Board conducts this evaluation every second year.

Compliance governance

The Board has set the direction for how governance and compliance should be approached and addressed though practice, Board work plans, structured agendas and reports from its committees. The monitoring of compliance has been delegated to the Social and Ethics Committee.

No material or repeated regulatory penalties, sanctions or fines have been imposed on the Group, the Board, its members or officers for any contravention of or non-compliance with statutory obligations.

SOCIAL AND ETHICS COMMITTEE REPORT

Performance for 2018

This report is prepared in compliance with the requirements of the Companies Act, 2008 as amended (the Companies Act) and describes how the committee discharged its responsibilities in respect of the financial year ended 30 June 2018 and will be presented to the shareholders at the annual general meeting to be held on 19 November 2018.

Social and Ethics Committee members

During the reporting period, Ralph Patmore was appointed as a member of the committee to align with the recommendation of King IV™, being the majority of members being Non-executive directors. At the same time, Hein Engelbrecht stepped down as member of the committee, but will remain a standing invitee.

During the reporting period, it was agreed to have a minimum of two meetings per annum. Three meetings were held during the reporting period.

The committee composition and meeting attendance are set out below:

Name	Position	Qualification	Experience	Meetings attended
Mdu Gama	Independent member	BCom (Acc), MBA, PhD (Finance)	Over 20 years' experience in financial management	3/3
Ralph Patmore*	Independent member	BCom, MBL, Stanford Executive Programme	Over 30 years' experience in management, strategy, mergers and acquisitions and accounting matters	3/3
Spencer Chen	Managing director: Rectron	Diploma	Over 20 years' experience in management, operations and procurement	3/3
Hein Engelbrecht*	Managing director: Mustek	BCom (Hons), CA(SA)	Over 20 years' experience in financial management	3/3

** Attended meetings as invitee.*

Responsibilities of the committee

The Social and Ethics Committee terms of reference were updated with the requirements of King IV™. In accordance with the terms of reference and annual work plan, the committee fulfils the functions and responsibilities assigned to it in terms of the company's compliance with the applicable requirements of Regulation 43 of the South African Companies Act, the company's activities in relation to relevant legislation and prevailing codes of best practice and such other functions as may be assigned to it by the Board from time to time in order to assist the Board in ensuring that the Group remains a responsible corporate citizen.

The key objectives and responsibilities of the committee, which are aligned with the committee's statutory functions as set out in the Companies Act, form the basis of its annual work plan, and include the following:

- social and economic development
- the Group's standing relative to the United Nations Global Compact Principles, the OECD recommendations regarding the combating of corruption and human rights
- compliance with the Employment Equity Amendment Act, 47 of 2013 and the Broad-Based Black Economic Empowerment Act, 53 of 2003 and associated codes of good practice
- good corporate citizenship, including the Group's contribution to the development of communities in which it operates or markets it goods to and the Group's record of sponsorships, donations and charitable giving
- good corporate citizenship, including the Group's positioning and efforts in promoting equality, preventing unfair discrimination and combating corruption
- promotion of equality and transformation and preventing unfair discrimination, through its Code of Conduct and Business Ethics and other social responsibility policies and strategies
- the environment, health and public safety, including the impacts of the Group's activities and products on the environment and society
- consumer relationships, including the Group's advertising, public relations and compliance with consumer protection laws
- labour and employment, including the Group's standing relative to the ILO Protocol on decent work and working conditions, and the Group's employment relationships and contribution to the educational development of its employees, and
- generally, the monitoring of the social, ethics, economic, governance, employment and environmental activities of the Group against internationally recognised human rights principles and other relevant best practice standards.

The committee is pleased to report back on its focus areas for 2018 and list its focus areas for the current financial year:

Focus areas during 2018	Delivery 2018
Develop a social media policy	• A social media policy was approved and implemented in the Group
Monitor implementation of the employment equity plan	• The targets of year two of the five-year plan were met
Maintain B-BBEE rating	• Mustek managed to retain its level 1 rating and Rectron a level 2 B-BBEE contributor
Implementation of King IV™	• The terms of reference were updated with the requirements of King IV™ and all policies falling under the ambit of the committee

2019 focus areas

- Monitor implementation of the employment equity plan
- Maintain or improve B-BBEE level ratings
- Aligning to be ready for Protection of Personal Information Act implementation once promulgated
- Compliance with new legislation on the National Environment Management: Waste Act, 2008, and
- Maturing of stakeholder engagement approach.

Ethics and business conduct

The Group's Code of Ethics and Business Conduct which embodies its guiding principles and values, was reviewed during the year, updated with the recommendations of King IV™ and confirmed to be relevant and effective. This policy deals with, inter alia, no tolerance for discrimination in whatever form, human rights, health and safety and the implementation of the Group's ethical standards to stakeholders. The Code of Ethics and Business Conduct is available on the company's website www.mustek.co.za.

The company's fraud line was reviewed during the year and confirmed to be relevant and effective, providing an appropriate balance between encouraging reporting and discouraging malicious and frivolous reporting. Feedback in terms of calls received, via the fraud line or directly with the internal auditor or human resources department, are reported on at each meeting.

Labour

Employment equity policies embody our commitment to implementing employment equity across the Group. Deviation appointments to the employment equity plan are discussed at Employment Equity Committee meetings.

Skills development remains an area of focus and the various skills development programmes that have been implemented are reported on more fully in this Integrated Annual Report.

Refer to the sustainability report on the website for more information.

Socio-economic development

The Group's commitment is to foster good relations with the communities in which we operate, and in so doing continues to pursue its business philosophy which is to draw the staff it needs from the local communities in which it operates and in so doing provides much-needed employment and other socio-economic benefits to local communities.

Transformation

Mustek remains focused on achieving its transformation goals and objectives. During the reporting period, Mustek Limited achieved a level 1 B-BBEE rating, with Rectron Proprietary Limited achieving a level 2 respectively.

SOCIAL AND ETHICS COMMITTEE REPORT (CONTINUED)

The following is the progress made against the scorecard of Mustek Limited:

Scorecard element	BEE score	Planned future focus areas
Equity ownership	25.00	• Increase black ownership by 8% to qualify as black-owned entity (more than 51% BOE)
Management control (including employment equity)	14.90	• Enforce EE plans and compliance • Align EE targets with the 'Economically Active Population' targets • Drive new recruitment adherence to reduce deviations
Skills development (SD)	18.51	• Develop subsidiary training budgets for permanent staff • Implement training to achieve African, Colored, Indian (ACI) training targets • Recruitment for training of people living with disabilities
Enterprise and supplier development: • Preferential procurement • Enterprise development • Supplier development	50.41	• Approval of Group Procurement policy, streamline procurement process and monitor procurement behaviour • Build on and improve on Group's preferred supplier list in order that all business units procure from the most B-BBEE preferred suppliers to increase procurement points • Supplier development initiatives to be developed – Support current SMMEs on our supplier register with direct and overhead costs as well as internal services rendered at no cost; training and development initiatives for these beneficiaries
Socio-economic development	12.00	• Continue to implement the CSI initiatives that will ensure achievement of all SED points of the scorecard

Stakeholder management

The stakeholder engagement framework outlines the Group's guiding principles for stakeholder engagement which are congruent with the values espoused in the Group's formal Code of Ethics and Business Conduct. Formalisation of the Group's stakeholder engagement plan remained an agenda item.

The company strives to provide an attractive return to shareholders and valid, accurate and relevant information which complies with all related legislation through the shareholders' selected channel of communication.

Stakeholder group	Key issues	Our response thereto
Shareholders and investor community	Business sustainability, share liquidity; debt-to-equity ratio; ROI	Operate with the optimal capital structure; review of debt facilities; investor presentations and road shows, face-to-face meetings; strategy execution; risk management
Customers	Legislative and regulatory landscape, Consumer Protection Act compliance	Product and service innovation, services integration; customer service; employee benefits; labour law education, business consulting, training, risk management; compliance; delayed negative decision-making by clients; credit terms

Stakeholder group	Key issues	Our response thereto
Employees	Working conditions; benefits, employee welfare, training, mentoring, succession planning, remuneration, reward and recognition, health and safety, water saving	Ongoing legal and regulatory training for sales and operational staff; line of sight for promotions, improved remuneration, clear KPIs, added benefits, improvement in health and safety, improved efficiency, training, upskilling, staff retention, lower absenteeism, awareness and education on the subject of water saving, specifically in the Western Cape
Local communities	Youth employment; training and skills development; mentoring; community leader engagement; labour desks, local recruitment, employee welfare, local vendors, CSI community support (CSI), Local school support (CSI)	Focus on youth employment; recruitment drives to source staff from local communities; trust in recruitment process; utilisation of local service providers, effective reporting, brand support, community support through CSI initiatives
Government and regulators	Compliance with industry regulation; skills development; B-BBEE; employment equity; JSE Listings requirements	Legislative and regulatory compliance; transformation and B-BBEE; risk management
Suppliers	Preferential supplier listing; products and pricing, empowerment rating; enterprise development	Underwriting tender process established; product availability; preferential supplier agreements, empowered supplier status; transformation strategy; enterprise development negotiations
Media	Results announcements, media statements, editorials, advertisements, meetings	Investor relations, public relations, communications and marketing strategy. Response to socio-economic issues

Sustainability

The Group's sustainability framework gives focus to energy and emissions, waste management, economic factors and product responsibility. These matters are elaborated upon further in this report.

Environment

The underlying philosophy of the Group's Environmental Policy is the adoption of protective strategies to manage and control the impact of Mustek's operations upon the environment, at the same time as safeguarding its extensive assets and human resources.

Refer to the sustainability report on the website for more information.

Health and safety

The Group continues with its endeavours to constantly improve its health and safety practice. These continue to improve annually and are reported on in this report.

Evaluation of committee performance

In line with King IV™, the Board and subcommittees agreed to only evaluate the Board and its subcommittees every second year. Therefore, no evaluation was conducted for the reporting period, and the results of the evaluation to be conducted during 2018 will be included in the 2019 Integrated Annual Report.

Mdu Gama
Social and Ethics Committee chairman
29 August 2018

REMUNERATION AND NOMINATIONS COMMITTEE REPORT

This report comprises three sections:

PART I: Matters considered by the Remuneration and Nominations Committee
PART II: Remuneration policies and principles for shareholders' vote at the annual general meeting
PART III: Implementation Report of the Remuneration Policy.

PART I: REPORT FROM THE REMUNERATION AND NOMINATIONS COMMITTEE

In reviewing the committee's composition during the year, it was decided that, due to the size of the company, the Remuneration Committee and Nominations Committee would remain a combined Remuneration and Nominations Committee.

Appointment of directors to the Board

Apart from a candidate's experience, availability and likely fit, the committee also considers the candidate's integrity, as well as other directorships and commitments to ensure that the candidate will have sufficient time to discharge their role properly. The Remuneration and Nominations Committee also considers race and gender diversity in line with the gender and race diversity policy. Voluntary targets were adopted during the reporting period.

Remuneration and Nominations Committee members

The committee comprises three non-executive directors, two of whom are independent. The chairman of the Board is not eligible for appointment as chairman of the committee, but will preside as chairman when the committee fulfils its oversight responsibilities on nomination matters and interactions between the Board and directors.

Two meetings were held during the reporting period. The committee composition and meeting attendance are set out below:

Name	Position	Qualification	Experience	Meetings attended
Ralph Patmore	Independent member (remuneration chairman)	BCom, MBL, Stanford Executive Programme	Over 30 years' experience in management, strategy, mergers and acquisitions and accounting matters	2/2
Mdu Gama	Independent member	BCom (Acc), MBA, PhD (Finance)	Over 30 years' experience in financial management	2/2
Vukile Mehana	Non-executive member (nomination chairman)	BTh, AMP, Top Management Programme Certificate on Public Enterprise, MBA, PhD	Over 30 years' experience in management, transformation, stakeholder relations and community development	1/2

Role of the Remuneration and Nominations Committee

The Remuneration and Nominations Committee has adopted updated formal terms of reference, approved by the Board, setting out its duties and responsibilities. The requirements of King IV™ are also included in these new terms of reference.

The committee:
- assumes responsibility for the governance of remuneration by setting the direction for how remuneration should be approached and addressed on throughout the company
- approves a remuneration policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration
- ensures that the remuneration policy and implementation report are put to non-binding advisory votes at the annual general meeting of shareholders
- considers the results of the performance evaluation of the chief executive officer, managing director and financial director, both as directors and as executives, in determining remuneration
- recommends to the Board the remuneration of non-executive directors for approval by shareholders
- determines the policy and scope of pension arrangements, service agreements, termination payments and compensation commitments and makes recommendations to the Board on these benefits for executive directors
- reviews market trends and reputable survey results to determine such packages and arrangements

- regularly reviews the incentive scheme to ensure continued contribution to shareholder value and that the scheme is administered in terms of the rules
- assumes responsibility for its composition by setting the direction and approving the process for it to attain the appropriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities
- regularly reviews the Board structure, size, composition and mix of skills and experience and makes recommendations to the Board with regard to any adjustments that are deemed necessary
- sets targets for race and gender representation in its membership
- establishes arrangements for periodic, staggered rotation of its members so as to invigorate its capabilities by introducing members with new expertise and perspectives while retaining valuable knowledge, skills and experience and maintaining continuity
- ensures that succession plans for the chief executive officer and senior managers are developed and implemented.

The committee is pleased to report back on its focus areas of 2018 and list its focus areas for the new financial year:

Focus areas in 2018	Delivery 2018
Review and update the policy on remuneration and benefits and the policy on job grading	• The policies were updated and approved
Develop the company policy on succession planning	• The policy was developed and approved
Introduce the new remuneration report to shareholders	• The remuneration report, including the remuneration policy and implementation report, is included in this Integrated Annual Report and will be tabled to shareholders for approval as two separate resolutions at the company's annual general meeting
Gender and race representation on the Board	• The committee set voluntary targets for race and gender representation on the Board and approved a policy for implementation
Implementation of King IV™	• The terms of reference were updated with the requirements of King IV™ and all policies in the ambit of the committee were updated

Focus areas in 2019

The committee will concentrate on implementing the long-term succession plan and the job grading system.

Committee evaluation

The Board agreed to adopt the King IV™ recommended practice to only evaluate the Board and committees every second year. Consequently, the committee was not evaluated during the reporting period. An evaluation will be conducted in 2019 and the results will be included in the 2019 remuneration report.

Ralph Patmore
Remuneration and Nominations Committee chairman
29 August 2018

REMUNERATION AND NOMINATIONS COMMITTEE REPORT (CONTINUED)

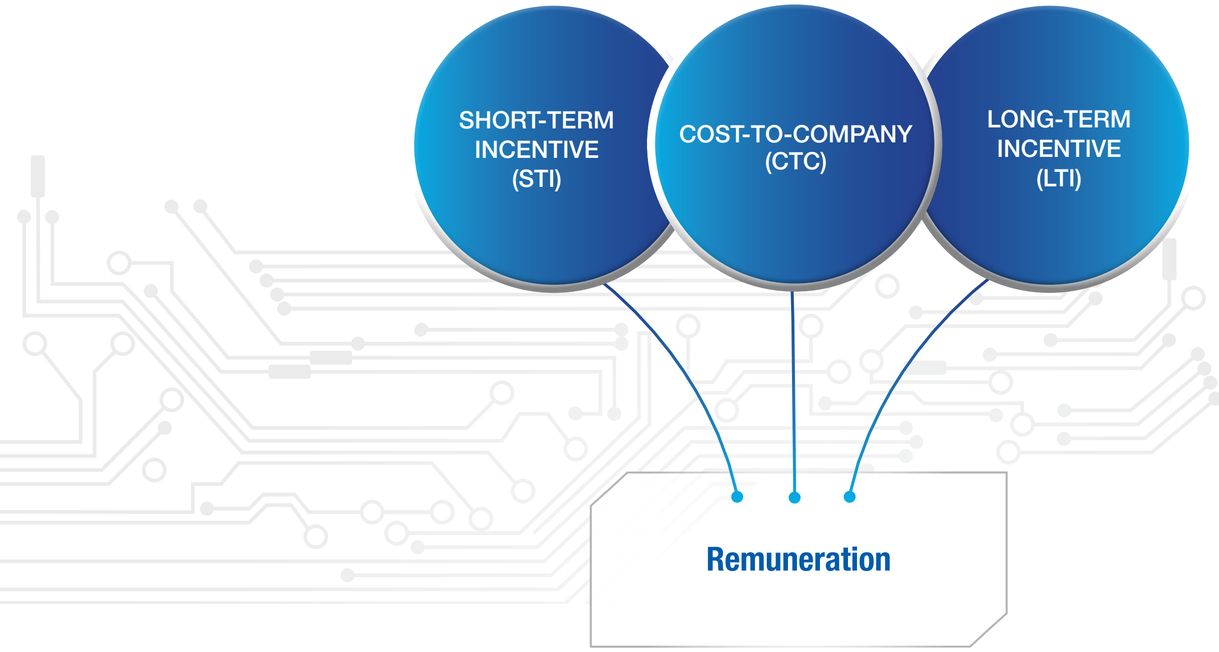
PART II: REMUNERATION POLICY

The Group's remuneration policy aims to attract, retain and motivate skilled and effective employees to execute the Group's strategy. The remuneration philosophy and framework are predominantly guided by the business strategy. During the reporting period, the remuneration policy and framework were enhanced in line with King IV in a concerted effort to give effect to the principles of fair, responsible and transparent remuneration.

Where appropriate, information for employees below executive level is included below.

Remuneration structure

The Group offers an integrated remuneration and reward model, as shown below:



The elements of the model are:

- short-term incentives (STI)
- long-term incentives (LTI)
- guaranteed pay expressed as cost-to-company remuneration (CTC)

	CTC		Variable pay	
Element	Base pay	Benefits	STI	LTI
Mustek Group	• monthly salary • hourly wage	• medical aid • provident fund • funeral benefit • travel allowance	• annual incentive • bonus scheme	• share appreciate rights • performance shares
Objective	Retention and attraction	• retention by offering comprehensive benefits • attraction by offering similar benefits to prospective employees	• rewarding company and Group performance • rewarding individual performance • retention or attraction through recognition	• rewarding company and Group performance • rewarding individual performance • retention or attraction through recognition • recognition of Group's long-term success

Guaranteed packages

Following established market practice, salaries are set with reference to the scope and nature of an individual's role and his or her performance and experience, compared with the 25th to 75th quartile pay levels of South African companies to ensure sustainable performance and market competitiveness. Mustek commissioned P E Corporate Services to benchmark executive salaries for the 2019 financial year.

Employees receive guaranteed packages which include membership of one of the Group's medical health care schemes and a travel or vehicle allowance for necessary business travel.

Employees' guaranteed remuneration is reviewed and increased annually in June by the Remuneration and Nominations Committee.

Short-term incentive

The Group awards management and salaried employees an annual performance incentive. The actual value awarded is subject to the achievement of predetermined thresholds relating to the performance and position of the Group and individual performance during the reporting period.

The executive directors are appraised against a clear set of objectives and key performance indicators to ensure they are remunerated fairly and responsibly. Executive directors and senior managers are measured and remunerated according to their alignment to the Group's strategy and their contribution to achieving the Group's financial goals.

The committee may from time to time consider discretionary short-term bonuses for individuals.

All payments in terms of the short-term incentive scheme are based on audited year-end results. The bonuses paid therefore always relate to the results of the previous year.

For the year ending 30 June 2019, the weighting for short-term incentives will be as follows:

- 20% return on equity (ROE)
- 40% profit before tax (PBT)
- 20% working capital management
- 20% discretionary.

These components will be scored as follows:

ROE:

- 15% ROE or higher: a score of 100% is achieved for this component (calculated on opening equity less dividends paid and share buybacks during the year)
- 10% ROE or lower: only the discretionary portion of the incentive will be paid.

PBT

- IFRS 2 income and expenses will be ignored since they were not budgeted for
- on budget: a score of 50%
- 5% above budget: a score of 75%
- 10% above budget: a score of 100%.

Working capital:

- if the improvement in accounts receivable and inventory is 10% or more of annualised revenue compared to the average for the previous four years, a score of 100% would be achieved for this component
- if the improvement in net working capital is between 5% and 10% of annualised revenue compared to the average for the previous four years, a score of 75% would be achieved for this component
- if the improvement in net working capital is between 0% and 5% of annualised revenue compared to the average for the previous four years, a score of 50% would be achieved for this component
- if there is no improvement in net working capital as a percentage of annualised revenue compared to the average for the previous two years, no score would be achieved for this component.

Net working capital will be calculated by adding receivables and inventory and then dividing by annualised revenue. The calculation will be done quarterly and the average score for the year will be used to determine the score for this component.

The Mustek executive directors can earn up to 100% of their annual cost-to-company guaranteed packages as bonuses. The Rectron executive directors and Mustek's Executive Committee members can earn up to 50% of their annual cost-to-company packages as bonuses.

Mustek's Executive Committee members' bonus calculation will be based on Mustek's performance, while Rectron's executive directors' bonus calculation will be based on Rectron's performance. The Mustek executive directors' bonus calculation will be based on the Group's performance.

REMUNERATION AND NOMINATIONS COMMITTEE REPORT (CONTINUED)

Long-term incentive

The long-term incentive plan forms part of variable compensation and is used to attract, retain and motivate employees who support the long-term sustainability and strategic objectives of the Group. The purpose is to foster sustainable performance and value creation over the long term, in line with the Group's strategy and enhanced stakeholder value. Long-term incentives promise to deliver value in future, once performance criteria are met or exceeded.

The directors may, on an annual basis from time to time, grant options to employees selected by the Remuneration and Nominations Committee. The committee will determine the number of phantom shares in each option. The price of the phantom shares comprising the option so granted will be the average market price of ordinary shares of the company on the JSE, as certified by the company secretary, for the 30 days immediately preceding the date on which the employee is granted the option. Options granted up to 30 June 2015 will remain in force for seven years after the date of the granting of the option. All options granted since 1 July 2015 remain in force for six months after they are granted.

An employee or retired employee may only exercise their option after achieving certain performance criteria that may be set by the directors from time to time.

For all options granted after 1 July 2015, the price of the phantom shares comprising an option exercised is the weighted average market price of ordinary shares of the company on the JSE, as certified by the company secretary, for the 30 days immediately preceding the date on which the employee exercises the option. For options granted up to 30 June 2015, the price of the phantom shares comprising the option is the closing market price of ordinary shares of the company on the JSE, as certified by the company secretary, on the trading day immediately preceding that on which the employee or retired employee exercises the option. On exercising an option, the employee will be paid the difference between the exercise price and the grant price multiplied by the number of phantom shares, less any tax that may at that time be applicable to such a cash bonus.

Details of the benefits held by the executive directors under the long-term incentive schemes are detailed in the report to directors.

Policy on directors' remuneration

The directors are appointed to the Board to bring competencies and experience appropriate to achieving the Group's objectives.

Non-executive directors

It is the Group's policy to identify, attract and retain non-executive directors who can add value to Mustek. The Board applies principles of good corporate governance to directors' remuneration and also keeps abreast of changing trends. Governance of directors' remuneration is undertaken by the Remuneration and Nominations Committee.

The committee takes cognisance of market norms and practices as well as additional responsibilities placed on the Board members by new legislation and corporate governance principles.

The fees for non-executive directors are recommended by the committee. They will be tabled for approval by the shareholders at the annual general meeting in November 2018.

Non-executive directors receive a base fee for their main Board membership and an attendance fee per meeting. Board members only receive fees for meetings they attend.

The policy on remuneration for non-executive directors is that it should:

- be market related (compared to the median fees paid and number of meetings attended by non-executive directors of companies of similar size and structure in similar sectors)
- not be linked to the share price of Mustek.

The non-executive directors' fees are benchmarked against the fee survey of 'small cap industrials' issued by PricewaterhouseCoopers annually.

Non-executive directors do not receive bonuses or share options, as it is recognised that this can create potential conflict of interest which can impair the independence that non-executive directors are expected to have in decision making by the Board.

Shareholders will be requested to approve a 6% increase for 2019, but only applicable to the Board fees and Audit and Risk Committee fees, as set out in the notice of annual general meeting on page 164 and below:

Category	Recommended remuneration 2019	Remuneration 2018
Chairman	R376 700 annual retainer	R355 400 annual retainer
Board member	R100 500 annual retainer R14 900 per meeting attended	R94 850 annual retainer R14 050 per meeting attended
Audit and Risk Committee		
Chairman	R80 350 annual retainer R18 800 per meeting attended	R75 800 annual retainer R17 750 per meeting attended
Member	R44 450 annual retainer R11 800 per meeting attended	R41 950 annual retainer R11 150 per meeting attended
Remuneration and Nominations Committee		
Chairman	R67 100 annual retainer R18 500 per meeting attended	R67 100 annual retainer R18 500 per meeting attended
Member	R51 400 annual retainer R14 575 per meeting attended	R51 400 annual retainer R14 575 per meeting attended
Employment Equity Committee		
Chairman	R29 550 annual retainer	R29 550 annual retainer
Member	R16 800 annual retainer	R16 800 annual retainer
Social and Ethics Committee		
Chairman	R25 750 annual retainer R9 550 per meeting attended	R25 750 annual retainer R9 550 per meeting attended
Member	R10 700 annual retainer R4 650 per meeting attended	R10 700 annual retainer R4 650 per meeting attended

Use of external remuneration advisers

From time to time, advice from external remuneration advisers (specified above) are obtained to ensure that the Remuneration Policy and its implementation are informed by market-related data, current industry standards and best-practice remuneration trends. The committee is satisfied that the services rendered by these external advisers were at all times independent and objective. Overall, the committee is satisfied that the remuneration policy achieved its objectives for the past year.

Results of previous voting on the remuneration policy and future voting procedures

Mustek received a 98.25% non-binding advisory vote in favour of its remuneration policy at the annual general meeting on 2 November 2017. In future the remuneration policy (as set out in Part II) and the implementation report (as set out in Part III) will be put to shareholders as two separate non-binding advisory votes.

REMUNERATION AND NOMINATIONS COMMITTEE REPORT (CONTINUED)

PART III: REMUNERATION IMPLEMENTATION REPORT

The remuneration implementation report details the outcomes of implementing the approved remuneration policy detailed on pages 86 to 89 above.

Total directors' remuneration

The table below provides an overview of the total remuneration paid to executive and non-executive directors for the financial year ending 30 June 2018:

	2018 R000	2017 R000
Executive directors	13 694	9 076
Non-executive directors	1 503	1 381
Total	15 197	10 457

Executive directors' remuneration

Executive directors	Basic salary (R000)	Expense allowances (R000)	Pension contributions (R000)	Short-term incentive bonus (R000)	Fringe benefit on low interest rate loan (R000)	Total (R000)
2018						
David Kan	2 996	281	251	512	1 667	5 707
Hein Engelbrecht	2 912	270	251	494	914	4 841
Neels Coetzee	2 346	96	118	371	215	3 146
	8 254	647	620	1 377	2 796	13 694

Executive directors	Basic salary (R000)	Expense allowances (R000)	Pension contributions (R000)	Short-term incentive bonus (R000)	Fringe benefit on low interest rate loan (R000)	Total (R000)
2017						
David Kan	2 924	240	238	–	–	3 402
Hein Engelbrecht	2 734	270	238	–	–	3 242
Neels Coetzee	2 225	96	111	–	–	2 432
	7 883	606	587	–	–	9 076

Non-executive directors' remuneration

The participation of non-executive directors in the Group is essential for the Group to achieve its strategic objectives. Non-executive directors' fees are therefore recommended with this in mind by the executive directors and Remuneration and Nominations Committee.

In accordance with the Companies Act, 2008 as amended, and the company's memorandum of incorporation, non-executive directors' fees are approved by the shareholders at the annual general meeting. The current fees, to be approved by shareholders at the annual general meeting to be held on 29 November 2018, are stated on page 164 of the notice of annual general meeting included in this Integrated Annual Report.

The total amounts spent on non-executive directors' fees for 2018 and 2017 are as follows:

Non-executive director	Fees 2018 (R000)	Fees 2017 (R000)
Vukile Mehana	436	411
Lindani Dhlamini	289	243
Mdu Gama	412	388
Ralph Patmore	366	339
	1 503	1 381

Directors' service contracts

There are no fixed-term service contracts for executive or non-executive directors. The Remuneration and Nominations Committee reviewed the employment contracts of the chief executive officer, managing director and financial director and found them to be still appropriate to meet the needs of the company. The notice period for these executive directors is three months.

GLOSSARY OF TERMS AND ABBREVIATIONS

Acquisition	The purchase of one corporation by another, through either the purchase of its shares, or the purchase of its assets.
Android	An open-source operating system used for smartphones and tablet computers.
Apple	An American multinational corporation that designs, develops, and sells consumer electronics, computer software, online services and personal computers.
Assurance	A statement or indication that inspires confidence; a guarantee or pledge.
Business model	A plan for the successful operation of a business, identifying sources of revenue, the intended customer base, products, and details of financing.
Cloud computing	The practice of using a network of remote servers hosted on the internet to store, manage, and process data, rather than a local server or a personal computer.
Compliance	The action or fact of complying with a wish or command.
Component	A part or element of a larger whole, especially a part of a machine.
Computing accessories	A peripheral device that connects to a computer system to add functionality. Examples are a mouse, keyboard, monitor, printer and scanner.
Current ratio	Current assets divided by current liabilities.
Desktop	A computer suitable for use at an ordinary desk.
E-commerce	Commercial transactions conducted electronically on the internet.
Employment equity	A policy or programme designed to reserve jobs for people formerly disadvantaged under apartheid.
End-user	The person who actually uses a particular product.
Fibre (optics)	Thin flexible fibres of glass or other transparent solids that transmit light signals.
Foreign exchange risk	A financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company.
Gross profit	A company's residual profit after selling a product or service and deducting the cost associated with its production and sale.
Hardware	The machines, wiring, and other physical components of a computer or other electronic system.

Headline earnings	A measurement of a company's earnings based solely on operational and capital investment activities.
Hedging policy	A risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies or securities.
Incentive schemes	A programme implemented by an organisation deliberately intended to induce or encourage a specific action by using incentives.
Interest cover	EBITDA divided by net interest paid.
Internet of Things	A proposed development of the internet in which everyday objects have network connectivity, allowing them to send and receive data.
Institutional knowledge	A collective set of facts, concepts, experiences and know-how held by a group of people.
King IV™	King Code of Governance Principles for South Africa.
Kyoto gases	The six greenhouse gases covered by the UNFCCC/Kyoto Protocol.
Managed services	The proactive management of an IT asset or object, by a third party on behalf of a customer.
Microsoft	An American multinational corporation that develops, manufactures, licences, supports and sells computer software, consumer electronics and personal computers and services.
Net asset value	Ordinary shareholders' equity – total assets less total liabilities.
Networking	Two or more electronic devices, connected to form a series of communication paths.
Notebook	A laptop computer, especially a small, slim one.
Obsolescence	The condition of no longer being used or useful.
Operating margin	A measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc.
Performance indicators	A set of quantifiable measures that a company uses to gauge or compare performance in terms of meeting strategic and operational goals.
Peripherals	Any auxiliary device, such as a computer mouse or keyboard, that connects to and works with the computer.

Private sector	The economy that is not state controlled, and is run by individuals and companies for profit.
Product specification	Written statement of an item's required characteristics documented in a manner that facilitate its procurement or production and acceptance.
Public sector	The part of the economy concerned with providing various government services.
Remuneration	The money paid for work or a service.
Renewable energy	Energy from a source that is not depleted when used, such as wind or solar power.
Reseller	A company or individual (merchant) that purchases goods or services with the intention of reselling them rather than consuming or using them.
Return on equity	The amount of net income returned as a percentage of shareholders' equity.
Revolving credit	Credit that is automatically renewed as debts are paid off.
Scope 3 emissions	Indirect GHG emissions from sources not owned or directly controlled by the entity but related to the entity's activities.
Shareholder	An owner of shares in a company.
Smartphone	A mobile phone that can perform many of the functions of a computer, typically having a relatively large screen and an operating system capable of running general-purpose applications.
Software	The programmes and other operating information used by a computer.
Solutions	A combination of products and services, delivered with the express purpose of causing a positive business outcome in accordance with a predetermined goal.
Stakeholder	A person with an interest or concern in something, especially a business.
Statutory	Required, permitted, or enacted by statute.
Stock turnaround	The number of times the inventory must be replaced during a given period of time, typically a year.

Subsidiary	A company controlled by a holding company.
Succession planning	A process for identifying and developing internal people with the potential to fill key business leadership positions in the company.
Sustainability	The endurance of systems and processes.
Sustainable energy	Energy obtained from non-exhaustible resources.
Tablet	A small portable computer that accepts input directly on to its screen rather than via a keyboard or mouse.
Technology	Machinery and devices developed from scientific knowledge.
Transformation	The process of demographically aligned democratisation in South Africa.
Turnkey	The provision of a complete product or service that is ready for immediate use.
Upgrade	Raise to a higher standard, in particular improve (equipment or machinery) by adding or replacing components.
Value added	The addition of features to a basic line or model for which the buyer is prepared to pay extra.
Vendor	The party in the supply chain that makes goods and services available to companies or consumers.
Warranties	A written guarantee, issued to the purchaser of an article by its manufacturer, promising to repair or replace it if necessary within a specified period.
White collar crime	Financially motivated non-violent crime committed by business and government professionals.
Volume licensing	A service offered by Microsoft for organisations that require multiple licences, but not the software media, packaging and documentation supplied with the full packaged product.

ACRONYMS

B-BBEE	Broad-based black economic empowerment
BEE	Black economic empowerment
BOE	Black-owned company
CCMA	Commission for Conciliation, Mediation and Arbitration
CCTO	Controlled costs in technology ownership
CCTV	Closed circuit television
CMDB	Configuration management data base
CRM	Customer relationship management
CSI	Corporate social investment
CSP	Cloud Service Provider
CTC	Cost-to-company
DVR	Digital video recorder
EAP	Economically active population
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EE	Employment equity
EnMS	Energy management system
EnPIs	Energy performance indicators
ERP	Enterprise resource planning
FTTH	Fibre to the home
G4	Current iteration of Global Reporting Initiative guidelines
GDP	Gross domestic product
GP	Gross profit
GHG	Greenhouse gas
GRI	Global Reporting Initiative
HO	Head office
HR	Human resources
HVAC	Heating, ventilation, air handling and cooling
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Committee
IP	Internet protocol
ISO	International Standards Organisation
<IR>	International integrated reporting framework of the IIRC
IoT	Internet of Things
IT	Information technology
JSE	Johannesburg Stock Exchange

KPI	Key performance indicator
LED	Light emitting diode
LTI	Long-term incentive
LTIFR	Lost time injury frequency rate
MICT	Media, Information and Communications
SETA	Technologies Sector Education and Training Authority
MSP	Managed service provider
MST	Mustek security division
NVR	Network video recorder
OEM	Original equipment manufacturer
OHS	Occupational Health and Safety Act
OS	Operating system
PC	Personal computer
PDIs	Previously disadvantaged individuals
PDMM	Plan, deploy, manage and maintain
PMBok	Project management body of knowledge
POPI	Protection of Personal Information
POS	Point of sale
PSIRA	The Private Security Industry Regulatory Authority
PV	Photovoltaic
QMS	Quality management system
R&D	Research and development
ROE	Return on equity
ROI	Return on investment
SAAS	Software as a service
SED	Socio-economic development
SHEQ	Safety, health, environmental and quality
SMB	Small and medium-sized business
SME	Small medium enterprise
SMME	Small, micro and medium enterprises
SPA	Service provider aggregator (operating model)
STI	Short-term incentive
TRIFR	Total recordable injury frequency rate
UPS	Uninterrupted power supply
USD	United States Dollar
WAN	Wide area network
YOAC	Yangtze Optics Africa Cable
YOFC	Yangtze Optical Fibre and Cable Joint Stock Limited Company
ZAR	South African Rand

ANNUAL FINANCIAL STATEMENTS

/ ANNUAL FINANCIAL STATEMENTS /

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 30 June 2018

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The consolidated and separate financial statements are based on appropriate accounting policies supported by reasonable and prudent judgements, with estimates that have been consistently applied and have been prepared in accordance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and in the manner required by the Companies Act of South Africa. The Group's independent external auditors, Deloitte & Touche, have audited the consolidated and separate financial statements and their unmodified report appears on pages 97 to 99.

The directors are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The consolidated and separate annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the Group and company will not remain a going concern for the foreseeable future.

The annual financial statements set out on pages 108 to 160 were approved by the Board of directors on 29 August 2018 and are signed on its behalf by:

Rev Dr VC Mehana
Chairman

DC Kan
Chief executive officer

29 August 2018

CERTIFICATION BY COMPANY SECRETARY

for the year ended 30 June 2018

In terms of section 88(2)(e) of the Companies Act of South Africa (Act 71 of 2008), as amended (the Act), I certify that for the year ended 30 June 2018, Mustek Limited has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

S van Schalkwyk
Company secretary

29 August 2018

The annual financial statements have been prepared by Zaakira Gafoor (Group Accountant, CA(SA)), under supervision of Neels Coetzee (financial director, CA(SA)).

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2018

TO THE SHAREHOLDERS OF MUSTEK LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of Mustek Limited and its subsidiaries (the Group) set out on pages 108 to 160, which comprise the statements of financial position as at 30 June 2018, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 30 June 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Valuation of inventory (consolidated and separate financial statements)	
As disclosed in note 12 of the consolidated and separate financial statements, the Group carries inventory of R1.15 billion (2017: R1.21 billion). R105.9 million (2017: R69.0 million) of the Group's inventory balance is stated at net realisable value. The Group has provided R46.71 million (2017: R42.98 million) for inventory obsolescence. Inventory carried by the Group is made up of computers, computer components and peripherals and allied products, which is subject to technological obsolescence. The multiple product types have varying lifecycles and obsolescence rates. The estimation of the net realisable value and the valuation for inventory and determination of the inventory provision is subject to significant judgement, error and potential manipulation. Accordingly, the estimation of the net realisable value of inventory and the provision for inventory obsolescence is a significant judgement area and is therefore a key audit matter. The provision for obsolete inventory is disclosed in note 12 of the consolidated and company financial statements, retrospectively.	We obtained management's calculation of the provision for obsolete inventory. We obtained an understanding of the logic applied by management in determining the provision. To address the risk we performed the following audit procedures: • We assessed the design and implementation of the control relating to the valuation of the provision for obsolete inventory. • The provision is primarily based on the ageing of the inventory items, therefore our IT audit specialists tested the accuracy of the ageing of inventory on the inventory system. No findings were noted. • We identified aged inventory that has not been provided for and obtained explanations and supporting evidence for the decision not to provide. • We performed a retrospective analysis on the prior year provision against the current sales for the provided items. • We performed analytical procedures to assess the reasonability of the provision against aged inventory and the prior period inventory provisions. • We compared the current estimated selling price of inventory, obtained from sales subsequent to year-end, to the cost of inventory at year-end as well as management's estimated net realisable values. We followed up on inventory items where the net realisable value was less than the weighted average cost. We concurred with the directors' estimate of the write down of inventory to net realisable value and provision for inventory obsolescence. The related disclosure was adequate in terms of the accounting standards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

for the year ended 30 June 2018

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the report of the directors, the Audit and Risk Committee report, the certification by company secretary, and the directors' responsibility for financial reporting as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report and the Integrated Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the company to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Mustek Limited for 22 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: Martin Bierman
Partner

29 August 2018

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee has pleasure in submitting this report, which has been approved by the Board and has been prepared in accordance with section 94(7)f of the Companies Act No 71 of 2008 (the Act) and incorporating the recommendations of the report on corporate governance for South Africa, 2016 (King IV™).

In summary, this committee assists the Board in its responsibilities and covers the:
- internal and external audit process for the Group taking into account the significant risks;
- adequacy and functioning of the Group's internal controls;
- integrity of the financial reporting; and
- risk management and information technology.

The committee has performed all the duties required in section 94(7) of the Companies Act 71 of 2008.

Due to the size of the company, the Board made a decision to combine the Audit and Risk committees and attend to both audit and risk responsibilities in one committee. However, the agenda is divided into two separate sections so as to ensure that both audit and risk management responsibilities are attended to.

MEMBERS OF THE AUDIT AND RISK COMMITTEE AND ATTENDANCE AT MEETINGS

The Audit and Risk Committee consists of three independent non-executive directors listed below. The chief executive officer, managing director, financial director, partner of the external auditors and the internal auditor attend meetings by invitation and attended all meetings held during the reporting period. The Board is satisfied that the independence, experience and qualifications of each member enable them to fulfil the committee's mandate. In addition to scheduled meetings, the committee meets at least once a year with the company's internal and external auditors, without management being present.

Four meetings were held during the reporting period. The committee composition and meeting attendance are below:

Name	Position	Qualification	Experience	Meetings attended
Lindani Dhlamini	Independent chairman	BSc, CA(SA)	Over 20 years' experience as a chartered accountant	4/4
Mdu Gama	Independent member	BCom (Acc), MBA, PhD (Finance)	Over 30 years' experience in financial management	4/4
Ralph Patmore	Independent member	BCom, MBL, Stanford Executive Programme	Over 30 years' experience in management, strategy, mergers and acquisitions and accounting matters	4/4

The committee, as a whole, has the necessary financial literacy, skills and experience to execute its duties effectively.

The committee is pleased to report back on its focus areas for 2018 and list its focus areas for the current financial year:

Focus areas during 2018	Delivery 2018
Approval of the quality assurance improvement programme (QAIP)	• The QAIP programme was approved by the committee for implementation during the current financial year.
Implementation of the new enterprise resource plan (ERP) system	• The committee approved the implementation of a new ERP system, and implementation is in progress.
ISO 9001:2015 certification	• BSI recommended Mustek for certification of the new ISO 9001 standard of 2015 and the certificate was received.
Implementation of King IV	• The terms of reference were updated with the requirements of King IV and all policies falling under the ambit of the committee.

2019 FOCUS AREAS

- Completion of the implementation of the new enterprise resource planning (ERP) system;
- Compliance with the requirements of 22.15(h) of the JSE Listings Requirements in the appointment of the external auditor; and
- Adoption and compliance with the new IFRS standards.

ROLE OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee has adopted an updated King IV™ compliant formal terms of reference, approved by the Board, setting out its duties and responsibilities as prescribed in the Act and incorporating additional duties delegated to it by the Board.

The committee:

- fulfils the duties that are assigned to it by the Act and as governed by other legislative requirements, including the statutory audit committee functions required for subsidiary companies;
- assists the Board in overseeing the quality and integrity of the Group's integrated reporting process, including the financial statements and sustainability reporting, and announcements in respect of the financial results;
- ensures that an effective control environment in the Group is maintained;
- provides the financial director, external auditors and the head of internal audit with unrestricted access to the committee and its chairman as is required in relation to any matter falling within the ambit of the committee;
- meets with the external auditors, senior managers and executive directors as the committee may elect;
- meets confidentially with the internal and external auditors without other executive Board members and the company's financial director being present;
- reviews and recommends to the Board the interim financial results and annual financial statements;
- oversees the activities of, and ensures coordination between, the activities of the internal and external auditors;
- receives and deals with any complaints concerning accounting practices, internal audit or the content and audit of its financial statements or related matters;
- conducts annual reviews of the Audit and Risk Committee's work plan and terms of reference;
- assesses the performance and effectiveness of the Audit and Risk Committee and its members on a regular basis; and
- reviewed the proactive monitoring process in terms of the letter from the JSE dated 20 February 2018.

EXECUTION OF FUNCTIONS DURING THE YEAR

The committee is satisfied that, for the 2018 financial year, it has performed all the functions required to be performed by an Audit and Risk Committee as set out in the Act and the committee's terms of reference.

The Audit and Risk Committee discharged its functions in terms of its terms of reference and ascribed to it in terms of the Act during the year under review as follows:

External audit

The committee among other matters:

- nominated Deloitte & Touche and Martin Bierman as the external auditor and designated auditor respectively to shareholders for appointment as auditor for the financial year ended 30 June 2018, and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor;
- nominated the external auditor and the independent auditor for each material subsidiary company for reappointment;
- requested and reviewed from the audit firm, the formal letter of their latest inspection performed by the IRBA on Deloitte & Touche and Martin Bierman, including any findings, if applicable, to the firm and/or individual;
- reviewed the audit effectiveness and evaluated the external auditor's internal quality control procedures;
- obtained an annual confirmation from the auditor that their independence was not impaired;
- maintained a policy setting out the categories of non-audit services that the external auditor may and may not provide, split between permitted, permissible and prohibited services;
- approved non-audit services with Deloitte in accordance with its policy;
- approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor;
- obtained assurances from the external auditor that adequate accounting records were being maintained by the company and its subsidiaries;
- considered whether any reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, No 26 of 2005; and
- considered any reported control weaknesses, management's response for their improvement and assessed their impact on the general control environment.

Deloitte & Touche has been the auditor of the Group for 22 years and the committee is satisfied that they are independent of the Group after taking the following factors into account:

- representations made by Deloitte & Touche to the committee;
- the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefit from the company;
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditor;
- the auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

Internal audit

The committee:

- reviewed and approved the internal audit charter and risk-based annual audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter;
- considered the reports of the internal auditor on the Group's system of internal control including financial controls, business risk management and maintenance of effective internal control systems;
- received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof; and
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to significant internal audit findings.

The head of internal audit reports functionally to the chairman of the committee and administratively to the financial director. The head of internal audit function is not a member of the Executive Committee, but attends meetings by invitation from time to time.

Adequacy and functioning of the Group's internal controls

The committee reviewed the plans and work outputs of the external and internal auditors and concluded that these were adequate to address all significant financial risks facing the business.

As noted above, it also reviewed the reporting around the adequacy of the internal controls and based on this concluded that there had been no material breakdowns in internal control, including financial controls, business risk management and maintenance of effective material control systems.

Financial reporting

The Audit and Risk Committee ensures that the financial reporting to stakeholders fairly presents the state of affairs of the Group. This covers the annual financial statements, Integrated Annual Report, interim and preliminary reporting.

The committee among other matters:

- confirmed the going concern as the basis of preparation of the interim and annual financial statements;
- reviewed compliance with the financial conditions of loan covenants and determined that the capital of the company was adequate;
- examined and reviewed the interim and annual financial statements, as well as all financial information disclosed prior to the submission to the Board for their approval and then for disclosure to stakeholders;
- ensured that the annual financial statements fairly present the financial position of the company and of the Group as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the company and the Group was determined to be a going concern;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed the external auditor's audit report and key audit matters included;
- reviewed the representation letter relating to the annual financial statements which was signed by management;
- considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements; and
- considered accounting treatments, significant unusual transactions and accounting judgements.

Significant areas of judgement

In arriving at the figures disclosed in the financial statements there are many areas where judgement is needed. These are outlined in notes 8 and 12 to the annual financial statements. The Audit and Risk Committee has reviewed the quantum of the assets and liabilities on the statements of financial position and other items that require significant judgement and decided to note the following:

Valuation of inventory

Inventory carried by the Group is made up of computers, computer components and peripherals and allied products, which are susceptible to technological obsolescence. In addition, the volatility of the Rand against major currencies combined with difficult market conditions has resulted in the erosion of trading margins on imported inventory. The estimation of the net realisable value of inventory and the provision for inventory obsolescence is thus a significant judgement area. The Audit and Risk Committee has satisfied itself that management has applied rigorous processes to assess and provide for inventory obsolescence. Refer to note 12.

Risk management and information technology (IT) governance

The committee has:

- overseen the value delivery on IT and monitors the return on investments on significant IT projects;
- ensured that intellectual property contained in information systems are protected;
- ensured that adequate business arrangements are in place for disaster recovery;
- ensured that all personal information is treated by the company as an important business asset and is identified; and
- reviewed and recommended to the Board for approval any policies proposed by management and relevant to the areas of responsibility of the committee.

Legal and regulatory requirements

To the extent that these may have an impact on the annual financial statements, the committee has:

- reviewed legal matters that could have a material impact on the Group;
- reviewed the adequacy and effectiveness of the Group's procedures, including its risk management framework, to ensure compliance with legal and regulatory responsibilities;
- monitored complaints received via the Group's whistle-blowing service; and
- considered reports provided by management, internal audit and the external auditors regarding compliance with legal and regulatory requirements.

EXPERTISE AND EXPERIENCE OF FINANCIAL DIRECTOR AND THE FINANCIAL FUNCTION

As required by 3.84(h) of the JSE Limited Listings Requirements, the committee has satisfied itself that the financial director, Neels Coetzee, has the appropriate expertise and experience. In addition, the committee satisfied itself that the composition, experience and skills set of the finance function met the Group's requirements.

ELECTION OF COMMITTEE AT THE ANNUAL GENERAL MEETING

Pursuant to the provisions of section 94(2) of the Companies Act, which required that a public company must elect an audit committee at each annual general meeting, it is proposed in the notice of annual general meeting to be held in November 2018 that Lindani Dhlamini, Mdu Gama and Ralph Patmore be reappointed as members of the Audit and Risk Committee until the next annual general meeting in 2019.

EVALUATION OF THE COMMITTEE

In line with King IV, the committee agreed to conduct an evaluation on the committee's performance every second year. An evaluation will be conducted during 2018 and the results will be included in the next Integrated Annual Report.

INTEGRATED ANNUAL REPORT

Following the review by the committee of the consolidated annual financial statements of Mustek Limited for the year ended 30 June 2018, the committee is of the view that in all material aspects they comply with the relevant provisions of the Act and International Financial Reporting Standards and fairly present the consolidated and separate financial positions at that date and the results of operations and cash flows for the year then ended. The committee has also satisfied itself of the integrity of the Integrated Annual Report and the sustainability information reported therein.

RECOMMENDATION OF THE INTEGRATED ANNUAL REPORT FOR APPROVAL BY THE BOARD

Having achieved its objectives, the committee has recommended the annual financial statements and the Integrated Annual Report for the year ended 30 June 2018 for approval to the Board. The Board has subsequently approved the reports, which will be open for discussion at the forthcoming annual general meeting.

Lindani Dhlamini
Audit and Risk Committee chairman

29 August 2018

REPORT OF THE DIRECTORS

for the year ended 30 June 2018

INTRODUCTION

The directors have pleasure in presenting their report on the activities of the company and the Group for the year ended 30 June 2018.

GENERAL REVIEW

Mustek Limited is a company incorporated in South Africa and listed on the JSE Limited and the Group's major activities comprise the procurement, assembly, distribution and servicing of computers, computer components and allied products. The Group's profit before taxation was R101.4 million (2017: R93.9 million).

SHARE CAPITAL

The authorised and issued share capital of the company is detailed in note 15 to the annual financial statements.

Mustek acquired 10 000 000 (2017: 15 000 000) ordinary shares of its issued share capital on the open market for a purchase consideration in aggregate of R54 854 417 (2017: R68 986 289) (the general repurchase). The general repurchase was effected in terms of a general authority to Mustek's directors (the directors), which was granted in terms of special resolutions passed by the members at Mustek's annual general meetings (AGM) held on 8 December 2016 and 2 November 2017. The share repurchase comprises 12.81% of the total issued ordinary shares of Mustek at the date of the 2017 AGM.

The general repurchase commenced on 30 August 2017 and continued on a day-to-day basis as market conditions allowed and in accordance with the JSE Limited (JSE) Listings Requirements until 20 June 2018. The company confirms that the repurchases were effected through the order book operated by the JSE and done without any prior understanding or arrangement between the company and the counterparties. The highest and lowest prices paid by Mustek for the ordinary shares were 690 cents and 430 cents per share, respectively.

DIRECTORS

The directors in office at the date of this report were as follows:

Non-executive	Executive	Business address	Postal address
VC Mehana[3, 5] (Chairman)	DC Kan (chief executive officer)	322 15th Road	PO Box 1638
ME Gama[1, 2, 3, 4, 5]	H Engelbrecht[4]	Randjespark	Parklands
LL Dhlamini[1, 2]	CJ Coetzee[5]	Midrand	2121
RB Patmore[1, 2, 3, 4]		1685	

[1] *Independent.*
[2] *Audit and Risk Committee member.*
[3] *Remuneration and Nomination Committee member.*
[4] *Social and Ethics Committee member.*
[5] *These directors are retiring in terms of the company's memorandum of incorporation. In terms of the statutes of the company, VC Mehana, ME Gama and CJ Coetzee are available for re-election at the next annual general meeting.*

COMPANY SECRETARY

S van Schalkwyk

DIVIDENDS

A final dividend of 16 cents per ordinary share was declared on 27 September 2017 and paid on 2 October 2017. During the previous financial year, a final dividend of 15 cents per ordinary share was declared on 28 September 2016 and paid on 3 October 2016.

SHAREHOLDERS' SPREAD

At 30 June 2018, insofar as is known, the following shareholders beneficially held more than 5% of the issued Mustek Limited shares:

Shareholding – ordinary shares in issue	Number of shares	% of shares in issue
Old Mutual Life Assurance Company SA Limited	15 033 171	20.6
DK Trust	9 032 442	12.4
	24 065 613	33.0

2018

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 107	76.5	1 323 426	1.8
5 001 – 10 000	146	10.1	1 064 678	1.5
10 001 – 50 000	112	7.7	2 686 405	3.7
50 001 – 100 000	22	1.5	1 676 982	2.3
100 001 – 1 000 000	42	2.9	13 678 403	18.7
Over 1 000 000	19	1.3	52 570 106	72.0
	1 448	100.0	73 000 000	100.0

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	3	0.2	4 773 046	6.5
Companies controlled by directors	1	0.1	2 592 970	3.6
Trusts with directors as trustees	1	0.1	9 032 442	12.4
Public shareholders	1 443	99.6	56 601 542	77.5
	1 448	100.0	73 000 000	100.0

At 30 June 2017, insofar as is known, the following shareholders beneficially held more than 5% of the issued Mustek shares:

Shareholding – ordinary shares in issue	Number of shares	% of shares in issue
Old Mutual Life Assurance Company SA Limited	15 033 171	18.1
DK Trust	9 032 442	10.9
NGI Growth Fund	4 472 530	5.4
	28 538 143	34.4

REPORT OF THE DIRECTORS (CONTINUED)

for the year ended 30 June 2018

2017

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 138	78.6	1 250 456	1.5
5 001 – 10 000	109	7.5	839 285	1.0
10 001 – 50 000	107	7.4	2 657 309	3.2
50 001 – 100 000	22	1.5	1 628 029	2.0
100 001 – 1 000 000	52	3.6	18 343 440	22.1
Over 1 000 000	20	1.4	58 281 481	70.2
	1 448	100.0	83 000 000	100.0

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	3	0.2	4 773 046	5.8
Companies controlled by directors	1	0.1	2 592 970	3.1
Trusts with directors as trustees	1	0.1	9 032 442	10.9
Public shareholders	1 443	99.6	66 601 542	80.2
	1 448	100.0	83 000 000	100.0

GOODWILL, OTHER INTANGIBLE ASSETS, INVESTMENTS IN AND LOANS TO SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS

The following matters are highlighted with regards to the investments in and loans to subsidiaries, associates and other investments (refer to notes 8, 9, 10 and 11 to the annual financial statements for more information):

Yangtze Optics Africa Holdings Proprietary Limited

Yangtze Optics Africa Holdings Proprietary Limited (YOA) is located at the Dube Trade Port in Durban and Mustek is a 25.1% shareholder of YOA. The other shareholders are Yangtze Optical Fibre and Cable Joint Stock Limited Company and Yangtze Optical Fibre and Cable Company (Hong Kong) Limited, the world's largest manufacturers of optical fibre cables. YOA manufactured its first optical fibre cable during January 2017 and the Group's share of losses equity accounted in 2018 was R2.0 million (2017: R4.6 million). They continue to grow their revenue and management believes that the company will contribute profitably to the Group's bottom line during the 2019 financial year.

Disposal of investment

On 5 October 2017, Mustek disposed of its 20% investment in Zinox Technologies Limited (Zinox), a company incorporated in Nigeria for a cash consideration of USD1 056 526. Prior to the transaction, Zinox declared a dividend of USD257 400 to the company and the total loss on the disposal of Zinox amounted to R0.8 million.

Loans to executive management

During previous financial years, Mustek Limited shares were issued to members of the executive management of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the staff members in terms of the rules of the trust deed. The trust deed provides that the Board of directors determine the interest rate. Until 31 August 2017, interest was charged at the South African repo rate plus one percent where after the loans became interest-free. As at year-end the balance on these loans were R48.1 million (2017: R46.7 million) and the loans have no fixed repayment terms. The directors are comfortable that these loans are not impaired as sufficient measures are in place to ensure recoverability of these loans.

CAPITAL COMMITMENTS

After acquiring a 99-year notarial lease on land in Cape Town for R9.6 million during the previous financial year, the Group spent a further amount of R24.7 million developing the site and is planning to relocate its Cape Town offices to the new premises during November 2018. It is estimated that a further R10.3 million will be spent to complete the development.

LEGAL DISPUTE

One of Mustek's biggest debtors went into business rescue in the latter part of 2017 and an amount of R20 million is outstanding after receiving an insurance settlement from its credit insurer. The R20 million was secured with a guarantee that is now disputed by the insurance company that issued the guarantee. 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.

SPECIAL RESOLUTIONS

During the current financial year, the following special resolutions were passed by the company's shareholders:

- The company and its subsidiaries are authorised, by way of a general authority, to acquire ordinary shares issued by the company, subject to the provisions of the Companies Act (Act 71 of 2008), as amended, the Listings Requirements of the JSE and the memorandum of incorporation of the company.
- With effect from 2 November 2017, the remuneration payable to non-executive directors applicable for a period of 12 months.
- In accordance with section 45 of the Companies Act, the provision of any financial assistance by the company to any company or corporation which is related or inter-related to the company (as defined in the Companies Act), on the terms and conditions which the directors of Mustek may determine.

DECLARATION OF DIVIDENDS

A gross dividend of 22 cents per ordinary share was declared as follows after the end of the financial year:

Last day of trade *cum* dividend	Tuesday, 25 September 2018
First day to trade *ex* dividend	Wednesday, 26 September 2018
Record date	Friday, 28 September 2018
Payment date	Monday, 1 October 2018

POST-STATEMENT OF FINANCIAL POSITION EVENTS

Land belonging to a subsidiary within the Group was classified as held-for-sale during the current financial year. Subsequent to year-end, the title deed transferred to the buyer. 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Notes	2018 R000	2017 R000
Revenue	2	5 671 293	5 243 147
Cost of sales		(4 875 873)	(4 581 639)
Gross profit		795 420	661 508
Foreign currency losses		(87 935)	(464)
Distribution, administrative and other operating expenses		(544 405)	(487 352)
Profit from operations	3	163 080	173 692
Investment revenues	4	10 658	20 937
Finance costs	5	(87 255)	(108 266)
Other losses	11 and 8	(792)	(468)
Share of profit of associates	10	15 749	7 956
Profit before tax		101 440	93 851
Income tax expense	6	(20 183)	(20 131)
Profit for the year		81 257	73 720
Other comprehensive income			
Exchange differences on translation of foreign operations (not reclassified to profit and loss)		2 110	(7 740)
Other comprehensive income for the year, net of tax		2 110	(7 740)
Total comprehensive income for the year		83 367	65 980
Profit attributable to:			
Equity holders of the parent		79 807	73 091
Non-controlling interest		1 450	629
		81 257	73 720
Total comprehensive income attributable to:			
Equity holders of the parent		81 917	65 351
Non-controlling interest		1 450	629
		83 367	65 980
Earnings per share (cents)	15		
Basic earnings per ordinary share		102.58	80.32
Diluted basic earnings per ordinary share		102.58	80.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

	Notes	2018 R000	2017 R000
ASSETS			
Non-current assets			
Property, plant and equipment	7	170 478	156 237
Goodwill	8	55 627	55 627
Intangible assets	8	44 634	37 889
Investments in associates	10	117 328	103 006
Other investments and loans	11	59 928	77 920
Deferred tax assets	6	21 923	16 572
		469 918	447 251
Current assets			
Inventories	12	965 971	1 078 035
Inventories in transit	12	187 282	128 375
Trade and other receivables	13	971 403	1 093 565
Foreign currency assets	18	31 077	2 602
Bank balances and cash	14	295 376	230 371
		2 451 109	2 532 948
Non-current asset classified as held-for-sale	24	9 420	—
TOTAL ASSETS		2 930 447	2 980 199
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	15	—	—
Retained earnings		981 157	969 164
Non-distributable reserve		—	—
Foreign currency translation reserve		3 279	1 169
Equity attributable to equity holders of the parent		984 436	970 333
Non-controlling interest		8 879	8 128
Total equity		993 315	978 461
Non-current liabilities			
Long-term borrowings	16	6 251	5 637
Deferred tax liability	6	8 898	10 617
Deferred income	2	15 788	13 215
		30 937	29 469
Current liabilities			
Trade and other payables	17	1 625 054	1 715 277
Foreign currency liabilities	18	12 668	4 481
Deferred income	2	13 817	13 233
Bank overdrafts	16	254 656	239 278
		1 906 195	1 972 269
Total liabilities		1 937 132	2 001 738
TOTAL EQUITY AND LIABILITIES		2 930 447	2 980 199

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Ordinary stated capital R000	Retained earnings R000	Non-distributable reserve R000	Foreign currency translation reserve* R000	Attributable to equity holders of the parent R000	Non-controlling interest R000	Total R000
Balance at 30 June 2016	50 531	927 669	809	8 909	987 918	(581)	987 337
Net profit for the year	—	73 091	—	—	73 091	629	73 720
Other comprehensive loss	—	—	—	(7 740)	(7 740)	—	(7 740)
Dividends paid	—	(13 950)	—	—	(13 950)	—	(13 950)
Buy back of shares (refer to note 15)	(50 531)	(18 455)	—	—	(68 986)	—	(68 986)
Acquisition of subsidiary (refer to note 14)	—	—	—	—	—	8 080	8 080
Non-distributable reserves recycled to retained earnings	—	809	(809)	—	—	—	—
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 loss	**—**	**—**	**—**	**2 110**	**2 110**	**—**	**2 110**
Dividends paid	**—**	**(12 960)**	**—**	**—**	**(12 960)**	**(699)**	**(13 659)**
Buy back of shares (refer to note 15)	**—**	**(54 854)**	**—**	**—**	**(54 854)**	**—**	**(54 854)**
Balance at 30 June 2018	**—**	**981 157**	**—**	**3 279**	**984 436**	**8 879**	**993 315**

** Exchange differences arising from the translation of the results and net assets of the Group's foreign operations from their respective functional currencies to the Group's reporting currency, are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.*

	2018 R000	2017 R000
Dividend per share (cents)		
Dividend per ordinary share – paid	**16.00**	15.00
Dividend per ordinary share – proposed	**22.00**	16.00

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Notes	2018 R000	2017 R000	Restated 2016 R000
OPERATING ACTIVITIES				
Cash receipts from customers		**5 778 409**	5 251 783	5 563 726
Cash paid to suppliers and employees		**(5 538 720)**	(5 023 008)	(5 388 679)
Net cash from operations	14	**239 689**	228 775	175 047
Investment revenues received	4	**10 658**	20 937	19 281
Finance costs paid	5	**(87 255)**	(108 266)	(110 793)
Dividends paid		**(13 659)**	(13 950)	(35 605)
Income taxes paid		**(10 862)**	(27 637)	(34 697)
Net cash from operating activities		**138 571**	99 859	13 233
INVESTING ACTIVITIES				
Additions to property, plant and equipment	7	**(44 052)**	(23 750)	(24 858)
Proceeds from sale of property, plant and equipment		**526**	153	271
Proceeds on disposal of subsidiary, net of cash disposed		**—**	—	(1 263)
Acquisition of subsidiaries, net of cash acquired	14	**—**	(6 256)	—
Decrease (increase) in investments in and loans to associates	10	**1 427**	(10 202)	(8 018)
Decrease (increase) in investments and loans	11	**13 713**	(2 518)	9 844
Additions to intangible asset	8	**(16 621)**	(9 781)	(13 083)
Net cash used in investing activities		**(45 007)**	(52 354)	(37 107)
FINANCING ACTIVITIES				
Buy back of ordinary shares	15	**(54 854)**	(68 986)	(42 823)
Increase in long-term borrowings	16	**3 187**	5 721	9 164
Increase (decrease) in short-term borrowings	16	**7 730**	953	(14 808)
Increase (decrease) in bank overdrafts	16	**15 378**	(138 435)	15 964
Acquisition of additional shares in a previously controlled entity	14	**—**	—	(19 842)
Net cash used in financing activities		**(28 559)**	(200 747)	(52 345)
Net increase (decrease) in cash and cash equivalents		**65 005**	(153 242)	(76 219)
Cash and cash equivalents at the beginning of the year		**230 371**	383 613	459 832
Cash and cash equivalents at the end of the year	14	**295 376**	230 371	383 613

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Notes	2018 R000	2017 R000
Revenue	2	3 786 619	3 097 262
Cost of sales		(3 245 573)	(2 687 757)
Gross profit		541 046	409 505
Other income		2 185	2 407
Foreign currency losses		(68 973)	(698)
Distribution, administrative and other operating expenses		(364 403)	(319 041)
Profit from operations	3	109 855	92 173
Investment revenues	4	24 130	31 579
Finance costs	5	(59 966)	(57 028)
Other gains (losses)	11	5 462	(3 400)
Profit before tax		79 481	63 324
Income tax expense	6	(13 553)	(10 995)
Profit for the year		65 928	52 329
Other comprehensive income, net of tax		–	–
Total comprehensive income for the year		65 928	52 329

COMPANY STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

	Notes	2018 R000	2017 R000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**35 006**	31 101
Intangible assets	8	**19 937**	13 015
Investments in subsidiaries	9	**288 681**	283 649
Investments in associates	10	**41 298**	38 325
Other investments and loans	11	**51 882**	60 586
Deferred tax asset	6	**14 518**	8 447
		451 322	435 123
Current assets			
Inventories	12	**624 480**	657 865
Inventories in transit	12	**123 459**	97 690
Trade and other receivables	13	**706 909**	731 730
Foreign currency assets	18	**27 010**	2 041
Bank balances and cash	14	**160 043**	101 626
		1 641 901	1 590 952
TOTAL ASSETS		**2 093 223**	2 026 075
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	15	**—**	—
Retained earnings		**624 005**	625 891
Total equity		**624 005**	625 891
Non-current liabilities			
Long-term borrowings	16	**6 122**	4 052
Deferred income	2	**15 788**	13 215
		21 910	17 267
Current liabilities			
Trade and other payables	17	**1 104 661**	1 052 084
Foreign currency liabilities	18	**12 668**	2 662
Loans owing to subsidiaries	9	**71 661**	88 860
Deferred income	2	**13 817**	12 662
Bank overdrafts	16	**244 501**	226 649
		1 447 308	1 382 917
Total liabilities		**1 469 218**	1 400 184
TOTAL EQUITY AND LIABILITIES		**2 093 223**	2 026 075

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Ordinary stated capital R000	Retained earnings R000	Total R000
Balance at 30 June 2016	50 531	605 967	656 498
Net profit for the year	—	52 329	52 329
Other comprehensive income	—	—	—
Dividends paid	—	(13 950)	(13 950)
Buy back of shares (refer to note 15)	(50 531)	(18 455)	(68 986)
Balance at 30 June 2017	**—**	**625 891**	**625 891**
Net profit for the year	**—**	**65 928**	**65 928**
Other comprehensive income	**—**	**—**	**—**
Dividends paid	**—**	**(12 960)**	**(12 960)**
Buy back of shares (refer to note 15)	**—**	**(54 854)**	**(54 854)**
Balance at 30 June 2018	**—**	**624 005**	**624 005**

COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Notes	2018 R000	2017 R000	Restated 2016 R000
OPERATING ACTIVITIES				
Cash receipts from customers		**3 793 333**	3 052 635	3 324 043
Cash paid to suppliers and employees		**(3 616 338)**	(2 857 740)	(3 272 612)
Net cash from operations	14	**176 995**	194 895	51 431
Interest received	4	**4 251**	7 645	12 905
Finance costs paid	5	**(59 966)**	(57 028)	(66 066)
Dividends received	4	**19 879**	23 934	12 024
Dividends paid		**(12 960)**	(13 950)	(35 605)
Income taxes paid		**(1 755)**	(16 211)	(16 953)
Net cash from (used in) operating activities		**126 444**	139 285	(42 264)
INVESTING ACTIVITIES				
Additions to property, plant and equipment	7	**(16 940)**	(7 483)	(15 152)
Proceeds from sale of property, plant and equipment		**285**	122	—
Increase in loans to subsidiaries	9	**(22 231)**	(15 149)	(11 751)
Increase in investments in and loans to associates	10	**(2 973)**	(16 202)	(8 018)
Additions to intangible assets	8	**(13 564)**	(7 629)	(9 750)
Increase (decrease) in investments and loans	11	**14 166**	(2 518)	9 844
Net cash used in investing activities		**(41 257)**	(48 859)	(34 827)
FINANCING ACTIVITIES				
Buy back of ordinary shares	18	**(54 854)**	(68 986)	(42 823)
Increase (decrease) in long-term borrowings	18	**4 643**	3 559	(3 027)
Increase (decrease) in short-term borrowings	16	**5 589**	(390)	(1 003)
Increase (decrease) in bank overdrafts	16	**17 852**	(130 067)	13 185
Acquisition of subsidiaries, net of cash acquired	14	**—**	—	(10 163)
Net cash used in financing activities		**(26 770)**	(195 884)	(43 831)
Net increase (decrease) in cash and cash equivalents		**58 417**	(105 458)	(120 922)
Cash and cash equivalents at the beginning of the year		**101 626**	207 084	328 006
Cash and cash equivalents at the end of the year	14	**160 043**	101 626	207 084

ACCOUNTING POLICIES

for the year ended 30 June 2018

The consolidated and company annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC), and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the requirements of the South African Companies Act, No 71 of 2008.

The consolidated and company annual financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments (refer to note 18). The principal accounting policies are set out in the related notes to the consolidated and company financial statements and are presented in South African Rand. These are consistent with the policies applied in the preparation of the annual financial statements for the financial year ended 30 June 2017.

At the date of authorisation of these financial statements, the following standards, relevant to the entity, were in issue but not yet effective:

	Standard	Date issued by IASB	Effective for periods beginning on or after
IFRS 15	Revenue from contracts with customers	May 2014	1 January 2018
IFRS 9	Financial instruments	July 2014	1 January 2018
IFRS 16	Leases	January 2016	1 January 2019

The directors intend to adopt these standards during the first financial year in which the standards become effective.

The directors are of the opinion that the impact of the implementation of the aforementioned standards will be as follows:

IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

This standard specifies how and when an entity will recognise revenue as well as disclosures that will provide more informative, relevant information to the users of the financial statements. This is achieved by means of a single, principles-based five-step model to be applied to all contracts with customers. These steps are specified as follows:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

For revenue from the sale of goods, management does not expect a significant impact on the measurement or timing of revenue recognition, as the application of the criteria for the recognition of revenue in terms of IFRS 15 is not likely to result in a materially different outcome than under the standards and interpretations which it replaces.

For revenue from the rendering of services, management does not expect a significant impact on the measurement or timing of revenue recognition due to the nature and short length of the services rendered.

Disclosures relating to revenue are expected to be expanded significantly on the adoption of IFRS 15.

The Group is currently in the process of performing a detailed assessment of the impact resulting from the application of IFRS 15 and the related disclosures.

IFRS 9 Financial Instruments

IFRS 9 replaces the current categories of financial assets as specified in IAS 39 with the following three principle classification categories for financial assets:

- measured at amortised cost
- fair value through other comprehensive income
- fair value through profit and loss.

Management has performed a preliminary assessment of the impact of IFRS 9. Given the nature of the consolidated and company financial instruments, the Group does not believe that the new classification requirements will significantly impact the measurement of these instruments.

The impairment model for trade receivables will change from an "incurred loss" model to an "expected loss" model.

Extensive additional disclosures will be required, specifically relating to credit risk and expected credit losses.

The Group is in the process of performing a more detailed assessment of the impact of these changes and related disclosures.

IFRS 16 Leases

This standard specifies how an entity will recognise, measure, present and disclose leases. A single lessee accounting model is provided and requires lessees to recognise right of use assets and lease liabilities for all leases other than leases with a term of 12 months or less or for leases in which the underlying asset is low in value, ie IFRS 16 will result in almost all leases being included on the statement of financial position. Classification of leases as either operating or finance leases and the accounting thereof under IFRS 16, remains largely unchanged from IAS 17, which it replaces.

The Group is both the lessor and lessee in a number of operating leases over land and buildings. The terms of these leases are more than 12 months and the underlying assets have significant value.

Disclosures relating to leases are expected to be expanded significantly on the adoption of IFRS 16.

As at 30 June 2018, the Group has non-cancellable operating lease commitments of R74.5 million. IAS 17 does not require the recognition of any right of use or liability for future payments for these leases. Instead, certain information is disclosed as operating lease commitments in note 16. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right of use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right of use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated and separate financial statements. The directors have assessed the potential impact of the implementation of IFRS 16 and the net present value is estimated at R64.7 million (R64.8 million) for the Group and company respectively.

The cost of debt after tax rate of 7.2% was used to discount the cash flows.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- Impairment assessment of loans made to executive management and directors by the Mustek Executive Share Trust (refer to note 11).
- Goodwill impairment assessment (refer to note 8)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Residual values and useful lives of property, plant and equipment (refer to note 7);
- Impairment of goodwill (refer to note 8);
- Valuation and impairment of investments and accompanying loans (refer to notes 11 and 18);
- Inventory provisions (refer to note 12);
- Recoverability of accounts receivable (refer to note 13);
- Fair value of derivatives and other financial instruments (refer to note 18).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2018

1. SEGMENTAL REPORTING

Business segments

The Group determines operating segments based on the manner in which information is provided internally to the key decision-makers, being executive management and the Board of directors.

For management purposes, the Group is currently organised into the following segments and these segments are the basis on which the Group reports its primary segment information:

Mustek Assembly and distribution of computer products and peripherals, including Mecer-branded products and related services. This includes all other operations not disclosed as separate segments.

Rectron Distribution of computer components and peripherals.

Group Includes investments in associates and other investments and loans. Refer to notes 10 and 11 for more information about their activities.

2018	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
REVENUE					
External sales	3 756 053	1 915 240	—	—	5 671 293
Inter-segment sales	70 701	249 091	—	(319 792)	—
Total revenue from continuing operations	3 826 754	2 164 331	—	(319 792)	5 671 293
SEGMENT RESULTS					
EBITDA*	166 882	50 417	(23 736)	—	193 563
Depreciation and amortisation	(20 055)	(10 428)	—	—	(30 483)
Profit from operations	146 827	39 989	(23 736)	—	163 080
Investment revenues	5 378	7 107	2 173	(4 000)	10 658
Finance costs	(60 523)	(26 673)	(4 059)	4 000	(87 255)
Other losses	—	—	(792)	—	(792)
Share of associates' net profit (refer to note 10)	—	—	15 749	—	15 749
Profit (loss) before tax	91 682	20 423	(10 665)	—	101 440
Income tax expense	(22 174)	(4 047)	6 038	—	(20 183)
Profit (loss) for the year	69 508	16 376	(4 627)	—	81 257
Attributable to:					
Owners of the parent	69 508	14 874	(4 575)	—	79 807
Non-controlling interest	—	1 502	(52)	—	1 450
	69 508	16 376	(4 627)	—	81 257

2017	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
REVENUE					
External sales	3 072 759	2 170 388	—	—	5 243 147
Inter-segment sales	62 739	259 531	—	(322 270)	—
Total revenue from continuing operations	3 135 498	2 429 919	—	(322 270)	5 243 147
SEGMENT RESULTS					
EBITDA*	132 170	86 265	(15 970)	—	202 465
Depreciation and amortisation	(18 759)	(10 014)	—	—	(28 773)
Profit from operations	113 411	76 251	(15 970)	—	173 692
Investment revenues	7 818	13 780	4 988	(5 649)	20 937
Finance costs	(57 759)	(50 507)	(5 649)	5 649	(108 266)
Other losses	—	—	(468)	—	(468)
Share of associates' net profit (refer to note 10)	—	—	7 956	—	7 956
Profit (loss) before tax	63 470	39 524	(9 143)	—	93 851
Income tax expense	(13 933)	(9 273)	3 075	—	(20 131)
Profit (loss) for the year	49 537	30 251	(6 068)	—	73 720
Attributable to:					
Owners of the parent	49 537	29 574	(6 020)	—	73 091
Non-controlling interest	—	677	(48)	—	629
	49 537	30 251	(6 068)	—	73 720

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

1. SEGMENTAL REPORTING (continued)

Business segments (continued)

2018	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
OTHER					
Capital expenditure	55 709	4 964	—	—	60 673
ASSETS					
Segment assets	1 827 644	865 905	115 554	(199)	2 808 904
Investment in associates	—	—	117 328	—	117 328
Current tax assets	2 479	1 736	—	—	4 215
Consolidated total assets	1 830 123	867 641	232 882	(199)	2 930 447
LIABILITIES					
Segment liabilities	1 394 161	525 062	—	16 874	1 936 097
Current tax liabilities	1 035	—	—	—	1 035
Consolidated total liabilities	1 395 196	525 062	—	16 874	1 937 132
Number of employees at year-end	626	331	—	—	957

2017	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
OTHER					
Capital expenditure	27 682	26 738	—	—	54 420
ASSETS					
Segment assets	1 698 668	1 025 902	133 547	(1 855)	2 856 262
Investment in associates	—	—	103 006	—	103 006
Current tax assets	20 931	—	—	—	20 931
Consolidated total assets	1 719 599	1 025 902	236 553	(1 855)	2 980 199
LIABILITIES					
Segment liabilities	1 289 882	683 682	—	26 472	2 000 036
Current tax liabilities	170	1 532	—	—	1 702
Consolidated total liabilities	1 290 052	685 214	—	26 472	2 001 738
Number of employees at year-end	607	341	—	—	948

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2018

1. SEGMENTAL REPORTING (continued)

Geographical segments

2018	East Africa R000	Taiwan R000	South Africa R000	Total R000
Revenue	38 301	1 187	5 631 805	5 671 293
Profit before tax	2 171	1 255	98 015	101 441
Income tax expense	(301)	(329)	(19 553)	(20 183)
Profit for the year	1 870	926	78 461	81 257
Attributable to:				
Owners of the parent	1 870	926	77 011	79 807
Non-controlling interest	—	—	1 450	1 450
	1 870	926	78 461	81 257
OTHER INFORMATION				
Capital expenditure	398	—	60 275	60 673
Segment assets	49 618	16 622	2 859 992	2 926 232
Current tax assets	—	—	4 215	4 215
Consolidated total assets	49 618	16 622	2 864 207	2 930 447

2017	East Africa R000	Taiwan R000	South Africa R000	Total R000
Revenue	37 762	1 129	5 204 256	5 243 147
(Loss) profit before tax	(1 600)	1 246	94 205	93 851
Income tax benefit (expense)	1 295	(563)	(20 863)	(20 131)
(Loss) profit for the year	(305)	683	73 342	73 720
Attributable to:				
Owners of the parent	(305)	683	73 390	73 091
Non-controlling interest	—	—	(48)	629
	(305)	683	73 342	73 720
OTHER INFORMATION				
Capital expenditure	(1 539)	—	55 959	54 420
Segment assets	48 518	23 051	2 887 699	2 959 268
Current tax assets	624	—	20 307	20 931
Consolidated total assets	49 142	23 051	2 908 006	2 980 199

Refer to note 13 for a quantification of the Group and company's reliance on its largest customers.

2. REVENUE

An analysis of the Group and company's revenue for the year is as follows:

	GROUP Total		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Sales of goods	**5 663 129**	5 226 627	**3 779 219**	3 081 102
Rendering of services	**8 164**	16 520	**7 400**	16 160
	5 671 293	5 243 147	**3 786 619**	3 097 262

The directors are satisfied that the recognition of the revenue in the current year is appropriate, taking into account the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and, in particular, applying critical judgement in determining whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods.

Revenue is measured net of discounts.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:
- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, which will happen by means of the signing of a proof of delivery document or something to that effect;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

In most instances, the criteria for recognition of revenue is met when a proof of delivery document is signed.

Revenue for services

Revenue for services consist of revenue for the repair of equipment, as well as service contracts sold alongside equipment.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:
- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at statement of financial position date; and
- servicing fees included in the price of the products sold are recognised by reference to the proportion of the total cost of providing the service for the product, taking into account historical trends in the number of services actually provided on past goods sold. These services represent maintenance contracts for equipment sold.

Deferred income

Deferred income arises as a result of various onsite service and maintenance contracts which are sold to customers together with certain products. The duration of these service and maintenance contracts varies between three and five years depending on the option the customer selected or the terms of the packages sold.

The income is deferred and recognised as revenue on a straight-line basis over the duration of the underlying service or maintenance contract.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2018

3. PROFIT FROM OPERATIONS

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Profit from operations has been arrived at after taking the following items into account:				
Auditor's remuneration:				
Audit fees	5 627	5 082	3 784	3 328
Fees for other services	380	255	176	75
	6 007	5 337	3 960	3 403
Depreciation of property, plant and equipment (refer to note 7)	20 586	17 771	12 556	12 953
Net loss on disposal of property, plant and equipment	(223)	(219)	(194)	(78)
Amortisation of intangible assets (refer to note 8)	9 897	11 001	6 642	8 335
Foreign exchange (losses) gains:				
Realised	(45 280)	2 727	(35 966)	730
Unrealised	(61 064)	(1 312)	(47 349)	(807)
	(106 344)	1 415	(83 315)	(77)
Fair value adjustments:				
Open foreign exchange contracts gains (losses)	18 409	(1 879)	14 342	(621)
	18 409	(1 879)	14 342	(621)
Net foreign currency losses	(87 935)	(464)	(68 973)	(698)

4. INVESTMENT REVENUES

	GROUP 2018 R000	GROUP 2017 R000	COMPANY 2018 R000	COMPANY 2017 R000
Investment revenue on financial instruments not at fair value through profit or loss:				
Interest received on bank balances and cash	10 658	20 937	2 924	3 437
Interest received from subsidiaries and joint venture	—	—	1 327	4 208
Dividends from subsidiaries and joint venture	—	—	19 879	23 934
	10 658	20 937	24 130	31 579

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholders' rights to receive payment have been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

5. FINANCE COSTS

	GROUP		COMPANY	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Finance costs on financial instruments not at fair value through profit or loss:				
Interest paid on bank overdrafts	**32 522**	32 489	**32 300**	31 216
Interest paid on loans	**675**	—	**59**	—
Interest paid on letters of credit and trade finance	**47 901**	57 256	**27 607**	25 812
Other interest paid	**—**	1	**—**	—
Interest on forward points	**6 157**	18 520	**—**	—
	87 255	108 266	**59 966**	57 028

6. TAXATION

Income tax expense

	GROUP 2018 R000	GROUP 2017 R000	COMPANY 2018 R000	COMPANY 2017 R000
South African normal tax	**(19 427)**	(20 837)	**(13 553)**	(10 995)
Foreign tax	**(719)**	732	**—**	—
Withholding tax	**(37)**	(26)	**—**	—
	(20 183)	(20 131)	**(13 553)**	(10 995)
Comprising:				
Normal current tax				
– Current year	**(26 854)**	(19 024)	**(19 690)**	(9 537)
– Prior year	**(20)**	(491)	**66**	(198)
Normal deferred tax				
– Current year	**6 111**	(1 776)	**6 063**	(1 587)
– Prior year	**617**	1 186	**8**	327
Withholding tax	**(37)**	(26)	**—**	—
Income tax expense for the year	**(20 183)**	(20 131)	**(13 553)**	(10 995)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2018

6. TAXATION (continued)

Tax rate reconciliation

	GROUP 2018 R000	GROUP 2017 R000	COMPANY 2018 R000	COMPANY 2017 R000
Profit before tax	**101 440**	93 851	**79 481**	63 324
South African statutory rate of tax	**28.0%**	28.0%	**28.0%**	28.0%
Dividends received	**0.0%**	0.0%	**(7.0%)**	(10.6%)
Current tax prior year underprovision	**0.0%**	0.5%	**(0.1%)**	0.3%
Deferred tax prior year overprovision	**(0.6%)**	(1.3%)	**0.0%**	(0.5%)
Profits from associates already taxed	**(4.3%)**	(2.4%)	**0.0%**	0.0%
Income from learnership agreements exempt	**(3.5%)**	(3.6%)	**(1.8%)**	(2.0%)
Non-taxable income	**0.3%**	0.2%	**0.0%**	0.0%
Disallowed expenses	**0.0%**	0.0%	**(2.0%)**	2.2%
Effective tax rate on continuing operations	**19.9%**	21.4%	**17.1%**	17.4%

Income tax expense represents the sum of the tax currently payable and deferred tax.

Deferred tax assets and liabilities

The tax effects of temporary differences of the company and subsidiary companies resulted in deferred tax assets and liabilities. The directors have assessed, based on budgeted expectation for future profits, that it is reasonable to assume that future taxable income will be sufficient to allow the tax benefits to be realised. The following are the major deferred tax liabilities and assets recognised at 28% (2017: 28%) except if otherwise indicated:

	GROUP 2018 R000	GROUP 2017 R000	COMPANY 2018 R000	COMPANY 2017 R000
Tax loss	**7 512**	7 997	**—**	—
Provision for doubtful debts	**1 442**	984	**1 653**	1 088
Amortisation of intangible assets	**(5 058)**	12	**10**	12
Salary-related provisions	**8 349**	4 165	**6 825**	4 165
Accelerated wear and tear for tax purposes	**(6 793)**	(6 862)	**(2 661)**	(2 598)
Prepayments	**(614)**	(708)	**(399)**	(430)
Minor assets	**11**	8	**11**	7
Operating lease liabilities	**975**	775	**1 089**	756
Provision for commission	**2 635**	1 625	**1 358**	1 079
Other provisions	**2 713**	2 435	**2 302**	651
Unrealised exchange gains and losses	**(4 458)**	(4 299)	**(3 960)**	(3 529)
Deferred revenue	**8 290**	7 246	**8 290**	7 246
Unrealised capital gains	**(2 120)**	(2 120)	**—**	—
Unrealised fair value capital gain on investment	**141**	141	**—**	—
Arising from the acquisition of subsidiary	**—**	(5 444)	**—**	—
	13 025	5 955	**14 518**	8 447
Deferred tax assets	**21 923**	16 572	**14 518**	8 447
Deferred tax liabilities	**(8 898)**	(10 617)	**—**	—
	13 025	5 955	**14 518**	8 447

6. TAXATION (continued)

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Reconciliation between opening and closing balances:				
Deferred tax asset at the beginning of the year	5 955	12 808	8 447	9 707
Differences on taxable loss	(485)	736	—	—
Differences on provision for doubtful debts	458	(1 150)	565	(1 237)
Differences on amortisation of intangible assets	(374)	(3)	(2)	(3)
Differences on salary-related provisions	4 184	(492)	2 660	(492)
Differences on accelerated wear and tear	69	290	(63)	239
Differences on prepayments	94	(88)	31	10
Differences on minor assets	3	(3)	4	(3)
Differences on lease liability	200	355	333	412
Differences on provision for commission	1 010	(188)	279	(324)
Differences on other provisions	278	(1 937)	1 651	(246)
Differences on unrealised exchange gains and losses	(159)	1 752	(431)	1 065
Differences on deferred revenue	1 044	(681)	1 044	(681)
Foreign currency translation reserve	406	819	—	—
	6 728	(590)	6 071	(1 260)
Deferred tax movement through the statement of comprehensive income – continuing operations	6 728	(590)	6 071	(1 260)
Deferred tax movement through the statement of financial position	342	(6 263)	—	—
Foreign currency translation reserve	342	(632)	—	—
Intangible asset through acquisition of subsidiary (refer to note 14)	—	(5 631)	—	—
	13 025	5 955	14 518	8 447

The Group or company recognises deferred tax assets only when the future recovery of that asset is assessed to be highly likely. The deferred tax assets have been recognised based on the fact that the future five-year forecasts of the underlying entities indicate that there will be sufficient future taxable profits.

No unrecognised deductible temporary differences, unused tax losses or unused tax credits existed in the Mustek Group in the current or prior financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2018

7. PROPERTY, PLANT AND EQUIPMENT

	Opening balance R000	Additions R000	Disposals R000	Reclassified to non-current assets held-for-sale R000	Exchange differences R000	Closing balance R000
GROUP – 2018						
Cost						
Land and buildings	85 100	24 748	—	(9 420)	951	101 379
Improvements to leased premises	53 157	1 037	—	—	7	54 201
Plant and machinery	56 384	4 481	—	—	57	60 922
Furniture, fixtures and office equipment	39 774	2 085	(142)	—	68	41 785
Computer equipment	64 753	10 302	(91)	—	117	75 081
Motor vehicles	15 753	1 399	(1 637)	—	54	15 569
	314 921	44 052	(1 870)	(9 420)	1 254	348 937

	Opening balance R000	Current year R000	Disposals R000	Reclassified to non-current assets held-for-sale R000	Exchange differences R000	Closing balance R000
Accumulated depreciation						
Land and buildings	3 613	537	—	—	58	4 208
Improvements to leased premises	32 241	2 514	—	—	7	34 762
Plant and machinery	35 229	3 868	—	—	43	39 140
Furniture, fixtures and office equipment	30 589	2 492	(5)	—	57	33 133
Computer equipment	50 022	10 488	(63)	—	103	60 550
Motor vehicles	6 990	687	(1 053)	—	42	6 666
	158 684	20 586	(1 121)	—	310	178 459

	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
COMPANY – 2018				
Cost				
Land	784	—	—	784
Improvements to leased premises	16 911	1 036	—	17 947
Plant and machinery	22 170	4 483	—	26 653
Furniture, fixtures and office equipment	14 236	1 401	—	15 637
Computer equipment	53 781	8 621	—	62 402
Motor vehicles	14 162	1 399	(1 140)	14 421
	122 044	16 940	(1 140)	137 844

	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Accumulated depreciation				
Improvements to leased premises	16 116	312	—	16 428
Plant and machinery	15 906	2 365	—	18 271
Furniture, fixtures and office equipment	11 134	754	—	11 888
Computer equipment	42 012	8 469	—	50 481
Motor vehicles	5 775	656	(661)	5 770
	90 943	12 556	(661)	102 838

7. PROPERTY, PLANT AND EQUIPMENT (continued)

	Opening balance R000	Acquisition of subsidiary (refer note 14) R000	Additions R000	Disposals R000	Exchange differences R000	Closing balance R000
GROUP – 2017						
Cost						
Land and buildings	75 041	—	11 954	—	(1 895)	85 100
Improvements to leased premises	52 717	—	491	—	(51)	53 157
Plant and machinery	56 458	—	103	(64)	(113)	56 384
Furniture, fixtures and office equipment	37 634	256	3 040	(998)	(158)	39 774
Computer equipment	57 978	296	7 254	(599)	(176)	64 753
Motor vehicles	15 278	100	908	(399)	(134)	15 753
	295 106	652	23 750	(2 060)	(2 527)	314 921

	Opening balance R000	Acquisition of subsidiary (refer note 14) R000	Current year R000	Disposals R000	Exchange differences R000	Closing balance R000
Accumulated depreciation						
Land and buildings	6 530	—	(2 901)	—	(16)	3 613
Improvements to leased premises	29 642	—	2 675	—	(76)	32 241
Plant and machinery	31 781	—	3 586	(59)	(79)	35 229
Furniture, fixtures and office equipment	28 856	107	2 666	(938)	(102)	30 589
Computer equipment	39 591	218	10 815	(492)	(110)	50 022
Motor vehicles	6 248	100	930	(199)	(89)	6 990
	142 648	425	17 771	(1 688)	(472)	158 684

	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
COMPANY – 2017				
Cost				
Land	784	—	—	784
Improvements to leased premises	16 420	491	—	16 911
Plant and machinery	22 067	103	—	22 170
Furniture, fixtures and office equipment	13 891	345	—	14 236
Computer equipment	48 162	5 619	—	53 781
Motor vehicles	13 636	925	(399)	14 162
	114 960	7 483	(399)	122 044

	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Accumulated depreciation				
Improvements to leased premises	15 720	396	—	16 116
Plant and machinery	13 827	2 079	—	15 906
Furniture, fixtures and office equipment	10 428	706	—	11 134
Computer equipment	33 114	8 898	—	42 012
Motor vehicles	5 100	874	(199)	5 775
	78 189	12 953	(199)	90 943

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7. PROPERTY, PLANT AND EQUIPMENT (continued)

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Net book value				
Land and buildings	**97 171**	81 487	**784**	784
Improvements to leased premises	**19 439**	20 916	**1 519**	795
Plant and machinery	**21 782**	21 155	**8 382**	6 264
Furniture, fixtures and office equipment	**8 652**	9 185	**3 749**	3 102
Computer equipment	**14 531**	14 731	**11 921**	11 769
Motor vehicles	**8 903**	8 763	**8 651**	8 387
	170 478	156 237	**35 006**	31 101

Property, plant and equipment are carried on the cost model in accordance with IAS 16.

The following useful lives were applied in the current and previous financial year for the depreciation of property, plant and equipment as based on the judgement of management:

Buildings	20 years
Improvements to leased premises	over period of the initial lease
Plant and machinery	5 years
Furniture, fixtures and office equipment	5 to 10 years
Computer equipment:	
– Desktops	5 years
– Laptops/notebooks	3 years
– Printers/scanners	5 years
– Displays (large and small)	3 years
– Network equipment (routers and switches)	5 years
– UPS	5 years
– CCTV cameras	2 years
Motor vehicles	5 years

The directors reviewed the residual values, useful lives and carrying amount of its property, plant and equipment to determine the appropriate level of depreciation and whether there is any indication that those assets have suffered an impairment loss. The directors judged a residual value of zero as a result of the fact that plant and equipment are not held for trading and are normally scrapped, apart from motor vehicles for which a residual value of 50% of cost was determined. The residual value of land and buildings normally exceeds the original costs. Land is not depreciated.

On 12 June 2017, the Group acquired a notarial lease on land in Cape Town that shall expire after a period of 99 years calculated from 18 March 2015 for a purchase consideration of R9.6 million. The Board approved a further R35.0 million for the development of the site. During the 2018 financial year, R24.7 million was spent for development of the site. It is estimated that a further R10.3 million will be spent to complete the development.

Apart for the capital expenditure mentioned above, the Group and company do not have any significant planned capital expenditure in the near future.

There are no restrictions over the title to any of the property, plant and equipment. No property, plant and equipment has been pledged as security for any liabilities.

8. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Goodwill				
Cost	62 344	62 344	—	—
At the beginning of the year	62 344	54 267	—	—
Amount arising from acquisition of a subsidiary (refer to notes 9 and 14)	—	8 077	—	—
Accumulated impairments	(6 717)	(6 717)	—	—
At the beginning of the year	(6 717)	(6 249)	—	—
Impairment of goodwill that arose from the acquisition of Mustek East Africa Limited	—	(468)	—	—
Carrying amount	55 627	55 627	—	—
Software*				
Cost	137 663	120 999	87 091	73 527
At the beginning of the year	120 999	92 188	73 527	65 898
Acquisition of subsidiary (refer to note 14)	—	20 201	—	—
Additions	16 621	10 469	13 564	7 629
Disposals	—	(1 796)	—	—
Exchange differences	43	(63)	—	—
Accumulated amortisation*	(93 029)	(83 110)	(67 154)	(60 512)
At the beginning of the year	(83 110)	(73 147)	(60 512)	(52 177)
Acquisition of subsidiary (refer to note 14)	—	(89)	—	—
Amortisation	(9 897)	(11 001)	(6 642)	(8 335)
Disposals	—	1 108	—	—
Exchange differences	(22)	19	—	—
Carrying amount	44 634	37 889	19 937	13 015
Distribution rights and development cost**				
Cost	10 336	10 336	—	—
At the beginning of the year	10 336	10 336	—	—
Accumulated amortisation and impairments**	(10 336)	(10 336)	—	—
At the beginning of the year	(10 336)	(10 336)	—	—
Carrying amount	—	—	—	—
Total intangible assets	100 261	93 516	19 937	13 015

* *Software is written off on a straight-line basis over three years.*
** *Distribution rights and development cost are amortised on a straight-line basis over three years.*

Intangible assets are carried on the cost model in accordance with IAS 38.

There are no restrictions over the title to any of the intangible assets and no intangible assets have been placed as security for any liabilities.

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8. INTANGIBLE ASSETS (continued)

	Pre-tax discount rate %	Post-tax discount rate %	Forecast cash flows	GROUP 2018 R000	GROUP 2017 R000
The carrying amount of goodwill had been allocated as follows:					
Mustek Limited	19.43	13.99	Five-year cash forecast, based on current year profits after tax, with perpetual cash forecast thereafter.	**20 274**	20 274
Palladium Business Solutions	21.03	15.14	Ten-year cash forecast, with discounted cash flows calculated as a percentage of profit before tax.	**8 077**	8 077
Rectron	19.43	13.99	Five-year cash forecast, based on current year profits after tax, with perpetual cash forecast thereafter.	**27 276**	27 276
				55 627	55 627

Cash-generating units (CGUs) have been reassessed in the current financial year. Allocations between CGUs remained unchanged from the previous financial year.

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units that are expected to benefit from that business combination. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash-generating units were determined using a discounted cash flow model. The key assumptions for the discounted cash flow model, are those regarding discount rates, expected volume growth rates, and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect management's assessment of the time value of money and their views on the risks specific to the cash-generating units. Discount rates used are based on a weighted average cost of capital of similar businesses in the same sector and of similar size, adjusted for the risk profile of the business. The growth rates are based on management experience and their expectations of industry and market share growth. Expectation of changes in gross margins and changes in indirect costs are based on past practices, expectations of future changes in the market and a view on expected inflation rates.

The impairment models were prepared on the same basis as the comparative year. The forecast cash flow periods and other inputs are all consistent with those of the comparative year.

Sensitivity analysis

Management has adjusted the cash flows of each CGU for entity-specific risk factors to arrive at the future cash flows expected to be generated from the CGU. There is no indication based on a reasonable fluctuation in those risk factors that the goodwill of the CGUs is impaired.

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

9. INVESTMENTS IN SUBSIDIARIES

	COMPANY 2018 R000	COMPANY 2017 R000
Shares at cost	**304 698**	304 698
– opening balance	**304 698**	304 698
– additions	**—**	—
Impairment charges	**(122 422)**	(122 422)
Opening carrying value adjustments	**(122 422)**	(119 022)
Current year impairment of investments and loans	**—**	(3 400)
Loans owing by subsidiaries	**106 405**	101 373
Non-current investments in subsidiaries	**288 681**	283 649
Loans owing to subsidiaries	**(71 661)**	(88 860)
	217 020	194 789

	Ownership interest 2018 %	Ownership interest 2017 %	Shares at cost 2018 R000	Shares at cost 2017 R000	Loans to (from) 2018 R000	Loans to (from) 2017 R000	Net investment 2018 R000	Net investment 2017 R000
DIRECT								
Unlisted								
Ballena Trading 29 Proprietary Limited	**51**	51	**5 272**	5 272	**—**	—	**—**	—
Brobusmac Investments Proprietary Limited[2, 3]	**100**	100	**1 575**	1 575	**(7 960)**	(7 960)	**(6 385)**	(6 385)
Brotek Proprietary Limited[2, 5]	**100**	100	**71 468**	71 468	**(26 415)**	(48 014)	**45 053**	23 454
CIS Thuthukani Technology Proprietary Limited[2, 3]	**100**	100	**6 793**	6 793	**(10 212)**	(10 212)	**(3 419)**	(3 419)
Digital Surveillance Systems Proprietary Limited	**75**	75	**5 896**	5 896	**—**	—	**—**	—
Lithatek Investments Proprietary Limited	**100**	100	**19 448**	19 448	**2 479**	2 479	**—**	—
Makeshift 1000 Proprietary Limited	**100**	100	**10 698**	10 698	**43 192**	43 192	**50**	50
Mecer Technology Limited[6]	**100**	100	**6 629**	6 629	**—**	—	**6 629**	6 629
Mustek Capital Proprietary Limited[3]	**100**	100	**100**	100	**(10 520)**	(10 520)	**(10 420)**	(10 420)
Mustek Limited Company Limited	**100**	100	*****	*	**3 511**	3 511	**—**	—
Mustek East Africa Limited[4, 8, 9]	**100**	100	**12 315**	12 315	**30 983**	28 959	**37 566**	35 542
Mecer Proprietary Limited	**100**	100	*****	*	**—**	—	**—**	—
MFS Technologies Proprietary Limited[2, 3]	**100**	100	*****	*	**(1 271)**	(1 271)	**(1 271)**	(1 271)
Mustek Electronics (Cape Town) Proprietary Limited	**100**	100	**3 229**	3 229	**(3 216)**	(3 216)	**13**	13
Mustek Electronics (Durban) Proprietary Limited	**100**	100	**1 658**	1 658	**(1 433)**	(1 433)	**225**	225
Mustek Electronics (Port Elizabeth) Proprietary Limited	**100**	100	**327**	327	**(234)**	(234)	**93**	93
Mustek Middle East FZCO	**100**	100	**1 392**	1 392	**1 118**	1 118	**—**	—
Mustek Lesotho Proprietary Limited	**99**	99	*****	*	**952**	952	**—**	—
Quickstep 94 Proprietary Limited[1, 2, 7]	**100**	100	**2 581**	2 581	**18 422**	18 422	**1 621**	1 621
Rectron Holdings Limited[7]	**100**	100	**115 973**	115 973	**—**	—	**115 973**	115 973
Tradeselect 38 Proprietary Limited[2, 3]	**100**	100	**3 400**	3 400	**—**	—	**—**	—
Zatophase Proprietary Limited	**100**	100	**35 944**	35 944	**(10 400)**	(6 000)	**25 544**	29 944
INDIRECT								
Unlisted								
Mecer Inter-Ed Proprietary Limited[1, 5]	**100**	100	**—**	—	**2 866**	83	**2 866**	83
Palladium Business Solutions Proprietary Limited[11]	**50.1**	50.1	**—**	—	**—**	—	**—**	—
Soft 99 Proprietary Limited[7, 10]	**68**	68	**—**	—	**2 882**	2 657	**2 882**	2 657
TOTAL DIRECT AND INDIRECT			**304 698**	304 698	**34 744**	12 513	**217 020**	194 789

1 *These loans have been subordinated in favour of all other creditors of the subsidiary. The loans have been partially or fully impaired.*
2 *These loans are interest-free and have no fixed terms of repayment.*
3 *Dormant companies registered and incorporated in South Africa.*
4 *Active trading company registered and incorporated in Kenya.*
5 *Active trading company registered and incorporated in South Africa.*
6 *Active company registered and incorporated in Taiwan.*
7 *Non-trading investment company or property company registered and incorporated in South Africa.*
8 *The investment Mustek East Africa Limited was impaired by an amount of R5.7 million in previous financial years. The impairment represented the amount by which the net investment in the company exceeded its net asset value.*
9 *This loan bears interest at two percent per annum and is repayable on demand.*
10 *The first R0.5 million of this loan is interest-free and the remaining portion bears interest at prime. The loan has no fixed repayment terms.*
11 *Rectron Holdings Limited acquired a 50.1% stake in Palladium Business Solutions Proprietary Limited, an independent software vendor, with effect from 1 March 2017 for a total consideration of R16.2 million. R7.9 million of the total consideration was conditional upon the achievement of profit guarantees over the 2018 and 2019 financial year. R5.5 million was achieved during the current financial year and R2.4 million is to be achieved in the 2019 financial year.*

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9. INVESTMENTS IN SUBSIDIARIES (continued)

In the separate financial statements of Mustek Limited, investments in subsidiaries are carried at cost in accordance with IAS 27.

The net investment is after impairment charges against the investments and loans of R122.4 million (2017: R122.4 million). During the previous financial year, the investment of R3.4 million in Tradeselect 38 Proprietary Limited was fully impaired, after all the reserves of the company was declared as a dividend.

A Group company considers an entity to be controlled when the Group company controls the majority of voting rights by means of a shareholding of more than 50%.

Mecer Inter-Ed provides training, educational software and hardware solutions to its customers. The other trading subsidiaries' activities comprise the procurement, assembly, distribution and servicing of computers and printers, related components and allied products. A list of the number of shares that is held in each subsidiary is available at the registered office of the company. None of the loans receivable have been secured.

The interest of the company in the aggregate net profit (loss) after tax of subsidiaries is:

	2018 R000	2017 R000
Net aggregate profits	**38 954**	50 509
Net aggregate losses	**(25 859)**	(10 564)

10. INVESTMENTS IN ASSOCIATES

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Shares at cost	**88 026**	88 026	**40 246**	40 246
– opening balance	**88 026**	69 878	**40 246**	22 098
– acquisitions	**—**	18 148	**—**	18 148
Impairments	**(24 539)**	(24 539)	**(4 189)**	(4 189)
– opening balance	**(24 539)**	(24 539)	**(4 189)**	(4 189)
Share of undistributed post-acquisition gains	**48 600**	37 251	**—**	—
– opening balance	**37 251**	35 295	**—**	—
– current year share of post-acquisition gains	**15 749**	7 956	**—**	—
– current year dividends received from associates	**(4 400)**	(6 000)	**—**	—
Loans owing by associates	**12 541**	9 568	**5 241**	2 268
Opening balance	**9 568**	11 514	**2 268**	4 214
Increase (decrease) in loans	**2 973**	(1 946)	**2 973**	(1 946)
Fair valuation adjustments to loans	**(7 300)**	(7 300)	**—**	—
Investments in associates	**117 328**	103 006	**41 298**	38 325

10. INVESTMENTS IN ASSOCIATES (continued)

The assets, liabilities and results of operations of significant associates at year-end are summarised as follows:

	GROUP AND COMPANY								GROUP			
	Yangtze Optics Africa Holdings Proprietary Limited		Khauleza IT Solutions Proprietary Limited		Continuous Power Systems Proprietary Limited		Mustek Zimbabwe Private Limited		Zaloserve Proprietary Limited		Preworx Proprietary Limited	
	2018 R000	2017 R000	2018 R000	2017 R000	2018 R000	2017 R000	2018 R000	2017 R000	2018 R000	2017 R000	2018 R000	2017 R000
Current assets	81 389	71 155	39 898	41 912	13 746	6 032	9 591	7 372	264 740	302 086	–	–
Non-current assets	83 266	72 572	5 184	8 505	23 652	24 872	285	321	122 838	100 133	963	963
Total assets	164 655	143 727	45 082	50 417	37 398	30 904	9 876	7 693	387 578	402 219	963	963
Current liabilities	41 367	19 671	4 585	17 390	8 352	497	3 946	3 467	195 272	228 782	–	–
Non-current liabilities	–	–	–	–	21 676	26 121	81	104	42 627	46 198	8 757	5 757
Total liabilities	41 367	19 671	4 585	17 390	30 028	26 618	4 027	3 571	237 899	274 980	8 757	8 757
Revenue	110 329	23 973	87 505	151 098	28 030	28 233	25 969	20 534	1 044 309	926 461	–	–
(Loss) profit before tax	(9 937)	(22 976)	10 375	4 799	3 083	(585)	1 394	223	44 394	41 378	–	–
Income tax benefit (expense)	2 098	4 435	(2 905)	(1 344)	(863)	164	(359)	(57)	(9 770)	(12 655)	–	–
Net (loss) profit for the year	(7 839)	(18 541)	7 470	3 455	2 220	(421)	1 035	166	34 624	28 723	–	–

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10. INVESTMENTS IN ASSOCIATES (continued)

	Percentage holding		Cost			
	2018 R000	2017 R000	2018 R000	Additions/ (disposals)	Opening impairment	Additional impairment
COMPANY						
Unlisted						
Mustek Zimbabwe Private Limited[1]	**—**	—	**4 189**		(4 189)	
Khauleza IT Solutions Proprietary Limited	**36**	36	**—**	—	—	—
Continuous Power Systems Proprietary Limited[3]	**40**	40	**—**	—	—	—
Yangtze Optics Africa Holdings Proprietary Limited[4]	**25.1**	25.1	**36 057**	—	—	—
			40 246	—	(4 189)	—
GROUP						
Unlisted						
Mustek Zimbabwe Private Limited[1]	**—**	—	**—**	—	—	—
Preworx Proprietary Limited[2]	**38**	38	**24 447**	—	(20 350)	—
Khauleza IT Solutions Proprietary Limited	**36**	36	**—**	—	—	—
Continuous Power Systems Proprietary Limited[3]	**40**	40	**—**	—	—	—
Zaloserve Proprietary Limited[5]	**40**	40	**23 333**	—	—	—
Yangtze Optics Africa Holdings Proprietary Limited[4]	**25.1**	25.1	**—**	—	—	—
TOTAL COMPANY AND GROUP			**88 026**	—	(24 539)	—

[1] *On 1 July 2002 Mustek disposed of Mustek Zimbabwe. The purchaser irrevocably granted Mustek an option to purchase, at any time, 40% of the entire issued share capital of Mustek Zimbabwe for a nominal value and, as a result, the option investment is treated as an equity investment in an associate company.*

[2] *This loan is unsecured, interest-free and has no fixed terms of repayment. The investment and loan in this company were impaired to R nil in previous financial years.*

[3] *With effect from 1 January 2011, Mustek Limited acquired a 40% share in Continuous Power Systems Proprietary Limited. A series of loans were extended from Mustek Limited to Continuous Power Systems Proprietary Limited. These loans bear interest at prime plus one percent and has no fixed repayment terms.*

[4] *Mustek Limited acquired a 25.1% share in Yangtze Optics Africa Holdings Proprietary Limited with effect from 8 March 2016. Production by Yangtze Optics Africa Holdings Proprietary Limited started during the previous financial year. Results were equity accounted for six months during the previous financial year and 12 months during the current financial year.*

[5] *Mustek Limited acquired a 65% share in Zatophase Proprietary Limited with effect from 13 March 2014. Zatophase Proprietary Limited acquired a 40% share in Zaloserve Proprietary Limited on 13 March 2014. Furthermore, Zaloserve Proprietary Limited owns 100% in Opiwise Proprietary Limited, and Opiwise Proprietary Limited in turn owns 100% of Sizwe IT Group. The 40% investment in Zaloserve Proprietary Limited is equity accounted for in the Mustek Group.*

	Loans to					Equity accounted share of earnings		Net investment	
2017 R000	2018 R000	Advanced/ (repaid)	Opening impairment	Additional impairment	2017 R000	2018 R000	2017 R000	2018 R000	2017 R000
4 189	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	5 241	2 973	—	—	2 268	—	—	5 241	2 268
36 057	—	—	—	—	—	—	—	36 057	36 057
40 246	5 241	2 973	—	—	2 268	—	—	41 298	38 325
—	—	—	—	—	—	844	554	844	554
24 447	7 300	—	(7 300)	—	7 300	(4 097)	(4 097)	—	—
—	—	—	—	—	—	14 299	11 610	14 299	11 610
—	—	—	—	—	—	2 403	1 515	2 403	1 515
23 333	—	—	—	—	—	41 773	32 323	65 106	55 656
—	—	—	—	—	—	(6 622)	(4 654)	(6 622)	(4 654)
88 026	12 541	2 973	(7 300)	—	9 568	48 600	37 251	117 328	103 006

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10. INVESTMENTS IN ASSOCIATES (continued)

In the separate financial statements of Mustek Limited, investments in associates are carried at cost in accordance with IAS 27.

The net investment is after impairment charges and fair value adjustments of the investments and loans of R24.5 million (2017: R24.5 million) for the Group and R4.2 million (2017: R4.2 million) for the company.

The loans are initially recognised at fair value through profit and loss. The loans are subsequently carried at amortised cost less impairment.

The Group or company considers significant influence over an entity to be present, when the Group or company can exert significant influence over the executive decision-making within the entity. This may be achieved by either or a combination of the voting rights associated to the shareholding in the entity, or through significant influence over executive decision-making by means of positions and relationships held.

Additional information	Nature of business	Country of incorporation	Period equity accounted
Mustek Zimbabwe Private Limited	Assembly and distribution of computers and computer components	Zimbabwe	12 months (2017: 12 months)
Khauleza IT Solutions Proprietary Limited	Provider of IT support solutions	South Africa	12 months (2017: 12 months)
Continuous Power Systems Proprietary Limited	Provider of uninterrupted power supply solutions	South Africa	12 months (2017: 12 months)
Zaloserve Proprietary Limited	Group of IT support solutions provider companies	South Africa	12 months (2017: 12 months)
Preworx Proprietary Limited	Remote access diagnostics technology	South Africa	12 months (2017: 12 months)
Yangtze Optics Africa Holdings Proprietary Limited	Fibre optics technology	South Africa	12 months (2017: 6 months)

11. OTHER INVESTMENTS AND LOANS

	GROUP		COMPANY	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Shares at cost	**5 764**	24 506	**250**	9 251
– opening balance	**24 506**	24 506	**9 251**	9 251
– disposals	**(18 742)**	—	**(9 001)**	—
Loans	**60 582**	59 832	**52 536**	52 239
Fair value adjustments	**(6 418)**	(6 418)	**(904)**	(904)
– opening balance	**(6 418)**	(6 418)	**(904)**	(904)
	59 928	77 920	**51 882**	60 586

11. OTHER INVESTMENTS AND LOANS (continued)

	Ownership interest		Shares at cost		Loans to		Net investment	
	2018 %	2017 %	2018 R000	2017 R000	2018 R000	2017 R000	2018 R000	2017 R000
COMPANY								
Unlisted								
A Lai[2]	–	–	–	–	1 000	1 000	1 000	1 000
Columbus Technologies Proprietary Limited[1]	–	–	–	–	–	370	–	370
M Cameron[3]	–	–	–	–	988	972	988	972
Option – Mecer Capital Proprietary Limited	–	–	250	250	–	–	–	–
Simple Process Engineering Solutions Proprietary Limited	–	–	–	–	654	654	–	–
Zinox Technologies Limited[4]	20	20	–	9 001	–	–	–	9 001
Elimu Technologies Proprietary Limited[5]	–	–	–	–	1 771	2 536	1 771	2 536
Omni Capital Proprietary Limited	–	–	–	–	–	–	–	–
Mustek Executive Share Trust[6, 7]	–	–	–	–	48 123	46 707	48 123	46 707
			250	9 251	52 536	52 239	51 882	60 586
GROUP								
Unlisted								
Casetek International Co Limited	8	8	5 514	5 514	–	–	–	–
Zinox Technologies Limited[4]	–	20	–	9 741	–	–	–	9 741
DC Kan[6]	–	–	–	–	26 664	25 857	26 664	25 857
H Engelbrecht[6]	–	–	–	–	14 612	14 173	14 612	14 173
CJ Coetzee[6]	–	–	–	–	3 430	3 328	3 430	3 328
JW Viviers[8]	–	–	–	–	629	627	629	627
O Levey[8]	–	–	–	–	968	942	968	942
JL Chen[8]	–	–	–	–	1 192	1 157	1 192	1 157
VL Chunilal[8]	–	–	–	–	145	141	145	141
MR de Klerk[8]	–	–	–	–	482	482	482	482
Mustek Executive Share Trust[6, 7]	–	–	–	–	(48 122)	(46 707)	(48 122)	(46 707)
IG3 Education Limited[9]	–	–	–	–	8 046	7 593	8 046	7 593
TOTAL COMPANY AND GROUP			5 764	24 506	60 582	59 832	59 928	77 920

1 The loan was fully repaid during the current financial year.

2 This loan is secured, interest-free and has no fixed terms of repayment.

3 This loan is unsecured, bears interest at 10% per annum and is repayable on demand.

4 On 13 March 2008, Zinox Technologies Limited issued additional shares as part of a merging transaction. The Group's investment diluted from 30% to 12% as a result of the transaction and the investment was reclassified from an associate to an available-for-sale investment. The equity accounted profit share at date of dilution was R14.6 million and the loan was capitalised as cost of the investment. During the 2014 financial year, the merging transaction was reversed and the Group's shareholding in Zinox Technologies Limited increased to 30%. The Group sold 10% of its 30% shareholding effective 9 July 2013 for a total consideration of R8.6 million. Due to the restrictive nature of cross-border investment, the investment in Zinox Technologies Limited has been valued at net asset value. Based on the latest financial information available for Zinox Technologies Limited, the net asset value was found to approximate the carrying value of the investment and therefore no fair valuation adjustments or impairments have been recognised for this investment. The Group sold its entire share in Zinox Technologies Limited effective October 2017 for a total consideration of R17.9 million.

5 This loan is unsecured, bears interest at prime and has no fixed repayment terms.

6 3.8 million Mustek Limited shares were issued to directors of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the directors in terms of the rules of the trust. The loan from the Share Trust was in turn funded by a loan from Mustek Limited to the Share Trust. Up to 31 August 2017, these loans bore interest at the South African repo rate plus one percent. From 1 September 2017, tax on fringe benefits was charged to the loan accounts on a monthly basis. These loans have no fixed repayment terms.

7 This entity has a 28 February financial year-end which is different to the 30 June year-end of other group entities (unless stated otherwise). There are no specific reasons determining why the year-end of this entity is different to that of other group entities.

8 During the 2015 financial year, 1.9 million Mustek Limited shares were issued to members of the executive management of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the staff members in terms of the rules of the trust deed. The trust deed provides that the Board of directors determines the interest rate. Interest is currently charged at the South African repo rate plus one percent and the loans have no fixed repayment terms. The directors are comfortable that these loans are not impaired as sufficient measures are being put in place to ensure recoverability of these loans.

9 This loan bears at 4.17% per annum and is repayable in four equal payments over the next four years. An amount of R1.7 million payable during the next financial year was included in other receivables (refer to note 13).

All companies, trusts and individuals are registered or resident in South Africa, except for Casetek International Co Limited and Zinox Technologies Limited, which are registered in Taiwan and Nigeria respectively.

All these loans are carried at amortised cost. The fair values of these loans approximate the carrying amounts thereof.

Management applies judgement in assessing whether any indicators of possible impairment of an investment or loan exist. Should these indicators be present and the fair value of the investment or loan be found to be significantly less than the carrying value thereof, an adjustment will be made to in order to align the carrying value of the investment or loan to the fair value thereof.

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12. INVENTORIES

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Trading inventory	**1 012 677**	1 121 016	**653 739**	684 313
Provision for obsolescence	**(46 706)**	(42 981)	**(29 259)**	(26 448)
Trading inventory, net of provision for obsolescence	**965 971**	1 078 035	**624 480**	657 865
Inventories in transit	**187 282**	128 375	**123 459**	97 690
Total inventories	**1 153 253**	1 206 410	**747 939**	755 555

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Service stock and trading stock obsolescence provisions are highly judgemental because of the very competitive nature of the business and the extremely short lifecycle of the product. Service stock is impaired depending on its age. The net realisable values of inventories are used to manage their cost. The net realisable value of inventory represents the estimated selling price in the current market at statement of financial position date. The Group provides for the amount which the cost of inventory is higher than the net realisable value multiplied by the units of stock on hand at statement of financial position date. Included above are the carrying amounts of inventory stated at net realisable value for the Group and company of R105.9 million (2017: R69.0 million) and R44.0 million (2017: R45.7 million) respectively.

The cost of inventories recognised as an expense during the year was R4 862.8 million (2017: R4 521.8 million) and R3 188.9 million (2017: R2 656.1 million) for the Group and company respectively.

The cost of inventories recognised includes R13.2 million (2017: R14.2 million) in respect of write-downs to net realisable value.

Sales between group entities were made at an average mark-up of 0,5%.

No inventories that were not provided for, are expected to be recovered in 12 months or longer after the end of the current financial year.

13. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Gross trade receivables	**859 013**	874 784	**613 692**	561 290
Doubtful debt allowance	**(10 512)**	(6 663)	**(7 872)**	(5 180)
Net trade receivables	**848 501**	868 121	**605 820**	556 110
Other receivables	**69 556**	161 001	**57 009**	130 874
VAT receivable	**49 131**	41 695	**41 641**	24 200
Tax assets	**4 215**	20 931	**2 439**	20 308
Short-term loans	**—**	1 817	**—**	238
Total current trade and other receivables	**971 403**	1 093 565	**706 909**	731 730

13. TRADE AND OTHER RECEIVABLES (continued)

Other information

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment. The provision for doubtful debts was based on a combination of specifically identified doubtful debtors and providing for older debtors. The directors believe that the provision appears to be appropriate and not excessive. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group performs ongoing credit valuations of the financial condition of customers, and where appropriate, credit guarantee insurance is purchased for between 85% and 90% (2017: 85% and 90%) of the value of individual trade receivables subject to an insurance deductible. Note that the majority of trade receivables are encumbered (see above and note 17).

The average credit period on sale of goods and services is between 30 and 60 days (2017: 30 and 60 days) from date of invoice. Generally, no interest is charged on trade receivables. Of the trade receivable balance at year-end, R59.4 million (2017: R166.8 million) and R44.8 million (2017: R44.4 million) is due from the Group and the company's largest customers, respectively. Trade receivables are stated at amortised cost, which normally approximates their fair value due to short-term maturity.

It is the Group's policy to provide credit terms with deferred payment terms to approved dealers, government departments and parastatals, and to allow an account to exceed its credit limit by a maximum of 50% of the original credit limit for temporary periods, subject to the necessary approval. Limits are revised regularly according to the customer's requirements and payment history. When an insured limit is exceeded temporarily, an application is immediately sent to the insurer requesting an extension of the insured limit.

Doubtful debt allowance

The Group and company's trade receivables are stated after allowances for doubtful debts based on management's assessment of creditworthiness, an analysis of which is as follows:

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Balance at the beginning of the year	6 663	15 607	5 180	12 403
Net amounts written off as uncollectable	(2 590)	(4 801)	—	(1 533)
Charged to profit and loss	6 439	(4 143)	2 692	(5 690)
Balance at the end of the year	10 512	6 663	7 872	5 180

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13. TRADE AND OTHER RECEIVABLES (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group limits its counterparty exposure arising from money market and derivative instruments by only dealing with well-established financial institutions of high credit standing. The Group's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of cash and cash equivalents, foreign exchange forward contracts, loans and receivables, investments and trade and other receivables. Financial guarantees granted also subject the Group to credit risk.

With respect to the foreign exchange forward contracts, the Group's exposure is on the full amount of the foreign currency payable on settlement. The Group minimises credit risk relating to foreign exchange forward contracts by limiting the counterparties to major local and international banks, and does not expect to incur any losses as a result of non-performance by these counterparties.

Financial assets recorded in the financial statements, which are net of impairment losses, represent the company and Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit exposure of forward exchange contracts is represented by the fair value of these contracts.

The maximum credit exposure of financial guarantee contracts granted is the maximum amount the Group could be required to pay, or fund, without consideration of the probability of the actual outcome.

The Group holds collateral over certain trade and other receivables. The collateral is made up of demand guarantees from financial institutions and can be exercised on liquidation of the debtor. The collateral held amounted to R607.2 million (2017: R714.0 million) and R393.6 million (2017: R407.4 million) for the Group and company, respectively.

There has been no significant change during the financial year, or since the end of the financial year, to the Group or company's exposure to credit risk, the approach to the measurement or the objectives, policies and processes for managing this risk.

Trade receivables that are past due, but not impaired, are considered to have a low risk of not being recoverable, for both the Group and company.

Definitions

High: The probability exists that the debtor has defaulted in payments and entered into a delinquency scenario.
Medium: The probability exists that the debtor is experiencing financial difficulties and is in arrears. The debtor is being managed closely to collect all overdue accounts.
Low: No default in payment has occurred or is anticipated for the debtor.

The following represents an analysis of the age of financial assets that are past due but not impaired:

	GROUP		COMPANY	
	2018 R000	2017 R000	**2018 R000**	2017 R000
Trade and other receivables	**303 898**	74 992	**106 729**	74 094
Age of receivables that are past due but not impaired				
0 – 30 days past due	**139 070**	28 173	**1 104**	27 276
31 – 60 days past due	**95 126**	16 714	**41 840**	16 714
61 – 90 days past due	**26 151**	4 132	**20 988**	4 132
91 – 120 days past due	**9 013**	9 583	**8 356**	9 583
Over 120 days past due	**34 538**	16 390	**34 441**	16 390
	303 898	74 992	**106 729**	74 095

14. BANK BALANCES AND CASH

Bank balances and cash comprise cash, funds on call and short-term deposits. The carrying amount of these assets approximates their fair value. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Bank balances and cash	**295 376**	230 371	**160 043**	101 626

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

In terms of its borrowing requirements, the Group ensures that adequate funds are available to meet its expected and unexpected financial commitments by maintaining adequate reserves, banking facilities, reserve borrowing facilities and matching the maturity profiles of financial assets and liabilities. Included in note 16 is a listing of the Group and company's borrowing powers, borrowing capacity and banking facilities.

The following table details the Group and company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities.

	Trade and other payables R000	Borrowings R000	Total R000
GROUP 2018			
Non-interest-bearing	**718 217**	**—**	**718 217**
Variable interest rate instruments	**—**	**1 154 156**	**1 154 156**
	718 217	**1 154 156**	**1 872 373**
GROUP 2017			
Non-interest-bearing	944 388	—	944 388
Variable interest rate instruments	—	1 006 539	1 006 539
	944 388	1 006 539	1 950 927
COMPANY 2018			
Non-interest-bearing	**446 582**	**—**	**446 582**
Variable interest rate instruments	**—**	**897 263**	**897 263**
	446 582	**897 263**	**1 343 845**
COMPANY 2017			
Non-interest-bearing	636 979	—	636 979
Variable interest rate instruments	—	641 754	641 754
	636 979	641 754	1 278 733

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14. BANK BALANCES AND CASH (continued)

Net cash from operations

	GROUP			COMPANY		
	2018 R000	2017 R000	Restated 2016 R000	2018 R000	2017 R000	Restated 2016 R000
Profit for the year	**81 257**	73 720	78 944	**65 928**	52 329	43 286
Adjusted for:						
Income tax expense	**20 183**	20 131	27 237	**13 553**	10 995	13 100
Interest income	**(10 658)**	(20 937)	(19 281)	**(4 251)**	(7 645)	(12 905)
Finance costs	**87 255**	108 266	110 793	**59 966**	57 028	66 066
Dividend income	**—**	—	—	**(19 879)**	(23 934)	(12 024)
Depreciation of property, plant and equipment	**20 586**	17 771	20 333	**12 556**	12 953	12 495
Net loss on disposal of plant and equipment	**223**	219	368	**194**	78	80
Unrealised foreign exchange (gains) losses	**61 064**	1 312	(25 801)	**47 349**	807	(24 725)
Fair value adjustments of derivative instruments	**(18 409)**	1 879	6 971	**(14 342)**	621	380
Share-based payments	**6 686**	(1 403)	(12 704)	**6 268**	(1 220)	(11 292)
Impairment of goodwill	**—**	468	—	**—**	—	—
Impairment of investment in subsidiary	**—**	—	—	**—**	3 400	—
Amortisation of intangible assets	**9 897**	11 001	8 709	**6 642**	8 335	7 877
Loss on disposal of subsidiary	**—**	—	2 278	**—**	—	—
Loss (profit) on disposal of investment	**792**		—	**(5 462)**	—	—
Share of profit of associates	**(15 749)**	(7 956)	(15 352)	**—**	—	—
Operating cash flows before movements in working capital	**243 127**	204 471	182 495	**168 522**	113 747	82 338
Working capital movements	**(3 438)**	24 304	(7 448)	**8 473**	81 148	(30 907)
Decrease (increase) in inventories	**53 157**	1 329	62 243	**7 616**	(735)	52 139
Decrease (increase) in trade and other receivables	**107 116**	8 636	131 109	**6 714**	(44 627)	121 480
Increase (decrease) in deferred income	**584**	(6 051)	(2 954)	**1 155**	(3 018)	(6 558)
(Decrease) increase in trade and other payables	**(164 295)**	20 390	(197 846)	**(7 012)**	129 528	(197 968)
Net cash from operations	**239 689**	228 775	175 047	**176 995**	194 895	51 431

Restatement of 2016 statement of cash flows

The 2016 statements of cash flows were restated in order to correctly classify an acquisition of additional shares in a previously controlled entity as financing activities as opposed to investing activities. The error was detected through the JSE's proactive monitoring review process.

	GROUP 2016			COMPANY 2016		
	As previously reported R000	Restated R000	Impact R000	As previously reported R000	Restated R000	Impact R000
Net cash used in investing activities	(56 949)	(37 107)	19 842	(44 990)	(34 827)	10 163
Net cash used in financing activities	(32 503)	(52 345)	(19 842)	(33 668)	(43 831)	(10 163)
Net cash flow impact			—			—

14. BANK BALANCES AND CASH (continued)

Acquisition of subsidiary

The aggregated fair value of the assets acquired and liabilities assumed were as follows:

	2018 R000	2017 R000
Property, plant and equipment	–	227
Intangibles	–	20 112
Deferred tax liability	–	(5 631)
Trade and other receivables	–	2 872
Inventories	–	57
Bank balances and cash	–	2 057
Tax liabilities	–	(678)
Trade and other payables	–	(2 825)
Total net asset value	–	16 191
Non-controlling interest at 49.9%	–	(8 080)
Net asset value acquired	–	8 111
Goodwill	–	8 077
Total purchase consideration	–	16 188
Satisfied by:		
Cash	–	8 313
Contingent consideration[1]	–	7 875
	–	16 188
Net cash outflow arising on acquisition:		
Cash consideration	–	(8 313)
Bank balances and cash acquired	–	2 057
Cash flow	–	(6 256)

[1] *The contingent consideration arrangement in the 2017 financial year required Rectron to pay the former owners in Palladium an amount of R7.875 million. R5.500 million was paid during the current financial year and a further R2.375 million is required to be paid over the 2019 financial year.*

A controlling share was acquired in Palladium Business Solutions Proprietary Limited (Palladium), a software vendor, by Rectron Holdings Limited (Rectron) effective 1 March 2017. This was done by means of purchasing 50.1% of the shareholding in Palladium. The goodwill of R8.077 million arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Palladium and Rectron. None of the goodwill recognised is expected to be deductible for income tax purposes.

The table above summarises the consideration paid for Palladium and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Palladium.

As noted in the table above Palladium doesn't own any significant assets other than Palladium software, which was not recognised as an asset in its accounting records. The investment therefore consists of software, determined by means of a fair valuation by using the royalty relief method. This method is predominantly and widely used as a basis for the valuation of software locally and internationally. The fair value measurements are based on significant inputs that are not observable in the market and thus represent a fair value measurement categorised within level 3 of the fair value hierarchy as described in IFRS 13.

Key assumptions include the following:

- The royalty relief method was used and is based on the notion that a brand holding company (Palladium) owns the brand and licenses it to an operating company. The net present value (NPV) of forecast royalties over the useful life of the software represents the value of the brand to the business.
- The royalty rate represents the assumed amount which would be paid to the owner of the intangible asset as a royalty fee, expressed as a percentage of earnings before interest and tax, for the use of the intangible asset over the useful life of the asset. It is necessary to look to the industry in which the brand is operational to determine an appropriate notional royalty rate. A database search of the RoyaltySource Intellectual Property Database for comparable worldwide licensing or franchising transactions of software/brand names in the industry, revealed royalty rates varying from 25% to 33%. The royalty rate used in assessing the fair value of the Palladium software was 33%.
- A discount rate based on a weighted average cost of capital of 15%. The weighted average cost of capital used was determined based on similar businesses in the same sector and of similar size, adjusted for the risk profile of the business.
- A growth rate of 32% was used based on management experience, past history and their expectations of industry and market share growth.

The contingent consideration arrangement requires Rectron to pay the former owners of the 50.1% share in Palladium an amount of R2.4 million over the next financial year based on Palladium achieving net profit targets. The potential undiscounted amount of all future payments that Rectron could be required to make under the contingent consideration arrangement is R2.4 million.

Total non-controlling interest to the amount of R9.5 million was recognised. The measurement of non-controlling interest was based on 49.9% of the fair value determined for the investment in Palladium.

Net profit after tax for the 12 months ended 30 June 2018 was R4.4 million, of which the Group's share of 50.1% was included at R2.2 million.

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15. STATED CAPITAL AND EARNINGS PER SHARE

	GROUP AND COMPANY 2018 R000	2017 R000
Authorised share capital		
250 000 000 ordinary shares (2017: 250 000 000)		
Issued share capital/ordinary stated capital		
Opening balance: 83 000 000 ordinary shares (2017: 98 000 000)	–	50 531
Shares bought back: 10 000 000 ordinary shares (2017: 15 000 000 ordinary shares)	(54 854)	(68 986)
Share buy backs funded by retained income	54 854	18 455
Closing balance: 73 000 000 ordinary shares (2017: 83 000 000)	–	–

	Number of shares 2018 000	Number of shares 2017 000
Ordinary shares		
Balance at the beginning of the year	83 000	98 000
Shares bought back and cancelled	(10 000)	(15 000)
Balance at the end of the year	73 000	83 000

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity. The Group's Board of directors reviews the capital structure on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt-to-equity ratio of 30% to 40%. Group equity comprises equity attributable to equity holders of the parent.

Earnings per share

The calculation of the basic and headline earnings per share is based on the following data:

	GROUP 2018 R000	2017 R000
Basic earnings (profit for the year attributable to equity holders of the parent)	79 807	73 091
Group's share of after tax loss on disposal of property, plant and equipment	434	391
Group's share of loss from disposal of shares in investments (refer to note 11)	792	–
Group's share of loss from impairment of goodwill (refer to note 8)	–	468
Headline earnings	81 033	73 950
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	77 802	91 003
Effect of dilutive potential ordinary shares – share options	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	77 802	91 003

At year-end, no share options were outstanding (2017: no share options were outstanding). The weighted average market price for the current financial year was R5.65 per share (2017: R4.65 per share).

15. STATED CAPITAL AND EARNINGS PER SHARE (continued)

Earnings per share (continued)

	2018 Cents	2017 Cents
Earnings per share		
– Headline earnings per ordinary share	**104.15**	81.26
– Basic earnings per ordinary share	**102.58**	80.32
– Diluted headline earnings per ordinary share	**104.15**	81.26
– Diluted basic earnings per ordinary share	**102.58**	80.32

16. BORROWINGS

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Interest-bearing				
Unsecured – at amortised cost				
Bank overdrafts	**254 656**	239 278	**244 501**	226 649
Total interest-bearing borrowings	**254 656**	239 278	**244 501**	226 649
Interest-free				
Unsecured – non-financial liabilities				
Operating lease liabilities	**3 483**	2 117	**3 890**	2 701
Share-based payment liabilities	**8 007**	1 557	**7 549**	1 113
Amount due on acquisition of subsidiary	**—**	2 250	**—**	—
Amount due to Palladium shareholder	**640**	—	**—**	—
Total interest-free borrowings	**12 130**	5 924	**11 439**	3 814
Total borrowings	**266 786**	245 202	**255 940**	230 463
The borrowings are repayable as follows:				
On demand or within one year	**260 536**	239 565	**249 818**	226 411
In the second year	**3 096**	2 062	**3 059**	(53)
In the third to fifth years inclusive	**3 154**	3 575	**3 063**	4 105
Total borrowings	**266 786**	245 202	**255 940**	230 463
Bank overdrafts	**(254 656)**	(239 278)	**(244 501)**	(226 649)
Amounts due for settlement within 12 months	**(5 879)**	(287)	**(5 317)**	238
Long-term borrowings	**6 251**	5 637	**6 122**	4 052
Consisting of:				
Interest-bearing borrowings	**254 656**	239 278	**244 501**	226 649
Interest-free borrowings	**12 130**	5 924	**11 439**	3 814
	266 786	245 202	**255 940**	230 463

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16. BORROWINGS (continued)

Additional information

Included in borrowings are the following:

Accounts receivable securitisation loans

Included in bank overdraft, is an amount of R514.4 million (2017: R357.2 million), which represents a general banking facility from the Bank of China Limited, bearing interest at JIBAR plus 2% (2017: JIBAR plus 2%) and is repayable by 23 August 2018 (2016: 11 November 2017). It is the intention of the directors to renew the facility for a further period of 12 months. This loan is classified as held to maturity and carried at amortised cost. The facility is secured over accounts receivable in Mustek Limited and Rectron Proprietary Limited. A working capital ratio of more than one, as well as a net debt to equity ratio not exceeding 180%, need to be maintained by Mustek Limited. Furthermore, the total facility of R480 million (2017: R480 million) is limited to 90% of the trade receivables less than 90 days of age, in Mustek Limited. All facility covenants were met in the current and previous financial year.

Reconciliation of liabilities arising from financing activities

	2017 R000	Financing cash flows R000	Non-cash changes R000	2018 R000
GROUP				
Bank overdrafts	239 278	15 378	—	**254 656**
Operating lease liabilities	2 117	1 366	—	**3 483**
Share-based payment liabilities	1 557	—	6 450	**8 007**
Amount due on acquisition of subsidiary	2 250	(2 250)	—	**—**
Amount due to Palladium shareholder	—	640	—	**640**
	245 202	15 134	6 450	**266 786**
COMPANY				
Bank overdrafts	226 649	17 852	—	**244 501**
Operating lease liabilities	2 701	1 189	—	**3 890**
Share-based payment liabilities	1 113	—	6 436	**7 549**
	230 463	19 041	6 436	**255 940**

Operating lease liabilities

Operating lease liabilities occur in the earlier years of long-term operating lease contracts with fixed escalation clauses. An equal amount is expensed every year while the cash flows normally escalate. These liabilities are not financial instruments, are not secured and do not have an interest component attached to them.

The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Cash due:				
During the ensuing year	**23 952**	25 296	**23 617**	23 569
In the second year	**24 693**	23 961	**24 574**	22 450
In the third to fifth year inclusive	**25 943**	50 683	**26 631**	50 232
	74 588	99 940	**74 822**	96 251
Operating lease liability	**3 483**	2 117	**3 890**	2 701
To be expensed:				
During the ensuing year	**24 155**	26 607	**23 670**	24 704
In the second year	**23 531**	24 167	**23 257**	22 504
In the third to fifth year inclusive	**23 419**	47 049	**24 005**	46 342
	74 588	99 940	**74 822**	96 251
Operating lease expenses	**33 139**	29 157	**29 606**	27 636

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Operating lease payments represent rentals payable by the Group for the use of the properties from which it operates. The duration of these leases varies between one and seven years. None of these leases has any purchase options, nor are any of these leases subject to any restrictive terms. No renewal options have been taken into consideration for the straight-lining of any lease, as the possibility of renewal is reassessed at the end of each lease term.

All lease obligations are denominated in Rand.

16. BORROWINGS (continued)

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group and company's interest rate profile consists of fixed and floating rate loans and bank balances which expose the Group and company to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Financial liabilities				
Loans received and bank borrowings linked to LIBOR	**909 655**	779 890	**652 762**	415 105
Loans received and bank borrowings linked to JIBAR	**244 501**	226 649	**244 501**	226 649
	1 154 156	1 006 539	**897 263**	641 754
Financial assets				
Loans granted at fixed rates of interest	**988**	1 342	**988**	1 342
Loans granted and bank deposits linked to South African prime rates	**186 483**	170 489	**15 671**	44 301
Bank deposits linked to LIBOR	**68 022**	72 294	**65 161**	40 821
Bank deposits linked to money market rates	**79 331**	16 624	**79 211**	16 504
Bank deposits linked to Kenyan prime rates	**2 689**	1 852	**—**	—
Bank deposits linked to other foreign prime rates	**150**	137	**—**	—
	337 663	262 738	**161 031**	102 968

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the statement of financial position date. The analysis is prepared assuming the amount of the instrument outstanding at the statement of financial position date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel. If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group and company's profit before tax for the year ended 30 June 2018 would decrease/increase by R8.2 million (2016: R7.5 million) and R7.4 million (2017: R5.4 million), respectively.

Borrowing powers, borrowing capacity and banking facilities

In terms of the memorandum of incorporation, the company's borrowing powers are unlimited. The Group has the following banking facilities amounting to R2 182.1 million (2017: R2 525.8 million):

	GROUP	
	2018 R000	2017 R000
General overdraft and similar facilities	**1 148 624**	1 176 532
Letters of credit facilities	**1 033 452**	1 349 237
Total facilities	**2 182 076**	2 525 769
Utilised facilities	**(1 144 000)**	(993 909)
Unutilised facilities	**1 038 076**	1 531 860

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17. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Letters of credit and trade finance payables	**899 500**	767 260	**652 762**	415 105
Trade payables	**663 692**	902 293	**420 465**	619 903
Other payables	**24 982**	23 156	**4 060**	3 313
Accruals	**29 543**	18 939	**22 057**	13 763
VAT payable	**423**	1 927	**—**	—
Tax liabilities	**1 035**	1 702	**—**	—
Short-term borrowings	**5 879**	—	**5 317**	—
Total trade and other payables	**1 625 054**	1 715 277	**1 104 661**	1 052 084

The Group obtained import letters of credit facilities to replace the trade finance facility of the previous financial years. The letters of credit supply a 120-day trade payment term to the Group. The maximum facility available to the Group is R1 033.5 million (2017: R1 349.2 million) and interest is calculated at LIBOR plus 2.0%. These facilities are carried at amortised cost, as the interest rate is market-related and fair value therefore approximates amortised cost.

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases stated is 119 days (2017: 137 days).

Trade and other payables are stated at amortised cost, which normally approximates their fair value due to their short-term maturity.

Accruals consist of accruals for leave pay and accruals for bonuses.

Employee entitlements to annual leave are recognised as services are rendered. An accrual, based on total employment cost, is raised for the estimated liabilities as a result of services rendered by employees up to statement of financial position date.

The bonus accrual relates to the annual 13th cheque payable to employees of the Group and the company.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management

The Group's Board of directors provides financial risk management services to the business, coordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives and exposure levels is governed by the Group's policies approved by the Board of directors. The Group does not use derivative financial instruments for speculative purposes. The Group enters into financial instruments to manage and reduce the possible adverse impact on earnings of changes in interest rates and foreign currency exchange rates.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. It is the Group's policy to enter into foreign exchange forward contracts to buy and/sell specified amounts of foreign currencies in the future at a predetermined exchange rate for approximately 50% of the Group's foreign currency commitments. The Group uses contracts with terms of up to 120 days. The contracts are entered into to manage the Group's exposure to fluctuations in foreign currency exchange rates, as a means of economic hedging.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign currency risk management (continued)

At statement of financial position date, the company and Group had contracted to buy/sell the following amounts under forward exchange contracts:

	Rate		Foreign currency		Contract value		Fair value assets (liabilities)	
	2018 R	2017 R	2018 R000	2017 R000	2018 R000	2017 R000	2018 R000	2017 R000
GROUP								
Buy:								
US Dollar								
Less than three months	**12.95**	13.42	**82 987**	76 563	**1 074 845**	1 027 310	**18 409**	(1 995)
Three to six months	**—**	12.97	**—**	1 710	**—**	22 187	**—**	116
							18 409	(1 879)
Foreign currency assets							**31 077**	2 602
Foreign currency liabilities							**(12 668)**	(4 481)
							18 409	(1 879)
COMPANY								
Buy:								
US Dollar								
Less than three months	**12.91**	13.44	**66 471**	66 450	**858 292**	893 183	**14 342**	(621)
							14 342	(621)
Foreign currency assets							**27 010**	2 041
Foreign currency liabilities							**(12 668)**	(2 662)
							14 342	(621)

The following significant exchange rates applied for both the Group and the company during the year:

	Average spot rate		Closing spot rate	
	2018 R	2017 R	2018 R	2017 R
US Dollar	**12.87**	13.61	**13.71**	13.03
Euro	**15.34**	14.84	**15.97**	14.89

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign currency risk management (continued)

The Group and company have various monetary assets and liabilities in currencies other than their functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group and company according to the different functional currencies of each entity within the Group.

	2018			2017		
	United States Dollar R000	Euro R000	Other* R000	United States Dollar R000	Euro R000	Other* R000
Functional currency (liabilities) assets						
GROUP						
South African Rand	(735 588)	(1 054)	15 365	(708 339)	(4 421)	137
Kenyan Shilling	(9 804)	—	2 689	(14 098)	—	14 992
	(745 392)	(1 054)	18 054	(722 437)	(4 421)	15 129
COMPANY						
South African Rand	(486 661)	(1 068)	—	(518 267)	(4 422)	—
	(486 661)	(1 068)	—	(518 267)	(4 422)	—

** Other currencies include British Pound, United Arab Emirates Dirham, Namibia Dollar, Lesotho Maluti and Zambian Kwacha.*

Foreign currency sensitivity analysis

The Group is mainly exposed to United States Dollar and the Euro. The following table details the Group's sensitivity to a 10% increase and decrease in the United States Dollar against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items such as cash balances, trade receivables, trade payables and loans and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number represents a gain whilst a negative number represents a loss. A 10% decrease in the United States Dollar against each foreign currency exchange rate would have an equal but opposite effect, on the basis that all other variables remain constant. It ignores the effect of any foreign exchange forward contracts that would have mitigated the risk. There were no changes in the methods and assumptions used in preparing the foreign currency sensitivity analysis.

	2018 R000	2017 R000
GROUP		
Profit before tax	76 239	73 315
COMPANY		
Profit before tax	48 559	51 385

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position

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).

There were no transfers between levels of financial assets and liabilities during the current or previous financial year.

Level 2 financial assets and liabilities consist of assets and liabilities arising from open foreign exchange contracts. The inputs used to measure the fair value of these assets and liabilities are valuations received from the financial institutions with which the contracts are held. These valuations are based on the difference between contract exchange rate and the exchange rate at the end of the reporting period.

Please refer foreign currency risk management for a foreign currency sensitivity analysis, which includes the potential profits or losses on open foreign currency contracts due to movements in exchange rates.

Level 3 financial assets consist of shares held in Zinox Technologies Limited (refer to note 11). 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.

	Level 1 R000	Level 2 R000	Level 3 R000
GROUP			
2018			
Held-for-trading			
Foreign currency assets	–	31 077	–
Foreign currency liabilities	–	(12 668)	–
Total – held-for-trading	–	18 409	–
Available-for-sale			
Other investments and loans	–	–	–
Total – available-for-sale	–	–	–
Total financial assets and (liabilities) at fair value	–	18 409	–
COMPANY			
2018			
Held-for-trading			
Foreign currency assets	–	27 010	–
Foreign currency liabilities	–	(12 668)	–
Total – held-for-trading	–	14 342	–
Available-for-sale			
Other investments and loans	–	–	–
Total – available-for-sale	–	–	–
Total financial assets and (liabilities) at fair value	–	14 342	–

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position (continued)

Reconciliation of level 3 fair value measurements of financial assets and (liabilities):

	Short-term borrowings R000	Long-term borrowings R000	Other investments and loans R000
GROUP			
2018			
Opening balance	–	–	18 741
Disposal of investment	–	–	(18 741)
Closing balance	–	–	–
COMPANY			
2018			
Opening balance	–	–	9 001
Disposal of investment			(9 001)
Closing balance	–	–	–

	Level 1	Level 2	Level 3
GROUP			
2017			
Held-for-trading			
Foreign currency assets	–	2 602	–
Foreign currency liabilities	–	(4 481)	–
Total – held-for-trading	–	(1 879)	–
Available-for-sale			
Other investments and loans	–	–	18 741
Total – available-for-sale	–	–	18 741
Total financial assets and (liabilities) at fair value	–	(1 879)	18 741
COMPANY			
2017			
Held-for-trading			
Foreign currency assets	–	2 041	–
Foreign currency liabilities	–	(2 662)	–
Total – held-for-trading	–	(621)	–
Available-for-sale			
Other investments and loans	–	–	9 001
Total – available-for-sale	–	–	9 001
Total financial assets and (liabilities) at fair value	–	(621)	9 001

Reconciliation of level 3 fair value measurements of financial assets and (liabilities):

	Short-term borrowings R000	Long-term borrowings R000	Other investments and loans R000
GROUP			
2017			
Opening balance	–	–	18 741
Closing balance	–	–	18 741
COMPANY			
2017			
Opening balance	–	–	9 001
Closing balance	–	–	9 001

19. STAFF COST AND RETIREMENT BENEFIT PLANS

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Staff costs	**317 437**	265 622	**211 643**	177 906
Pension contributions (defined contribution plan)	**11 593**	10 789	**8 582**	8 014

Refer to note 21 for details with regards to directors' emoluments.

Contributions to defined contribution retirement benefit plans are recognised as an expense as they fall due. Contributions made to state-managed retirement benefit schemes are dealt with as contributions to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

The Mustek Group Retirement Fund, a defined contribution fund, was established with effect from 1 January 1998. The fund has been registered by the Registrar of Pension Funds and is governed by the Pension Funds Act No 24 of 1956 as amended. The majority of the Group's employees belong to this fund.

20. GUARANTEES AND CONTINGENT LIABILITIES

Limited guarantees

- Standby letter of credit for Intel International BV for USD0.5 million.
- USD1.0 million guarantee of payment in favour of Bank of China Limited on behalf of Mustek East Africa Proprietary Limited.
- USD0.5 million guarantee of payment in favour of Lenovo PC HK Limited on behalf of Mustek East Africa Proprietary Limited.
- R3.75 million guarantee of payment in favour of Department of Customs & Excise, South African Revenue Service.
- R4.125 million guarantee of payment in favour of Standard Bank of South Africa.
- R30.00 million guarantee of payment in favour of First National Bank on behalf of Sizwe IT Group Proprietary Limited.

Legal dispute

During the previous financial year, the South African Revenue Service (SARS) filed an application for leave to appeal a finding in favour of Mustek Limited with regards to a tariff heading used for certain imported goods. The matter was heard by the supreme court of appeal and SARS' appeal was dismissed with costs.

One of Mustek's biggest debtors went into business rescue in the latter part of 2017 and an amount of R20.0 million is outstanding after receiving an insurance settlement from its credit insurer. The R20 million was secured with a guarantee that is now disputed by the insurance company that issued the guarantee. Mustek obtained a legal opinion from senior counsel and has not raised any provision against the R20 million because management is of the view that the amount is recoverable.

Apart from the aforementioned matter, the Group has no significant legal matters pending.

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

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21. RELATED-PARTY TRANSACTIONS

During the 2018 financial year the company had the following related parties:

Subsidiaries

2018 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Brobusmac Investments Proprietary Limited[1]	Loan	–	(7 960)
Brotek Proprietary Limited[1]	Loan	(21 599)	(26 415)
Mecer Inter-Ed Proprietary Limited	Loan	(2 783)	2 866
Mecer Technology Limited	Management fees	(6 141)	–
	Purchases	(142)	–
Makeshift 1000 Proprietary Limited[4]	Loan	–	43 192
Mustek Capital Proprietary Limited[1]	Loan	–	(10 520)
Mustek East Africa Limited[1]	Sales	116	–
	Loan	(2 025)	30 983
Mustek Lesotho Proprietary Limited[6]	Loan	–	952
Mustek Limited Company Limited[2]	Loan	–	3 511
Mustek Middle East FZCO[5]	Loan	–	1 118
Quickstep 94 Proprietary Limited[3]	Purchases	(9 426)	–
	Management fees	120	–
	Loan	(3 008)	24 168
Rectron Holdings Limited[1]	Sales	70 701	199
	Purchases	(249 091)	(16 675)
Zatophase Proprietary Limited	Loan	4 400	(10 400)

[1] Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.
[2] R3.5 million of the amount outstanding has been impaired to date.
[3] R16.8 million of the amount outstanding has been impaired to date.
[4] R43.2 million of the amount outstanding has been impaired to date.
[5] R1.1 million of the amount outstanding has been impaired to date.
[6] R1.0 million of the amount outstanding has been impaired to date.

Note: Refer to note 9 for a complete list of subsidiaries and further details about these entities.

Associates

2018 Related party	Type of transaction	Amount of transaction received R000	Amount receivable (payable) R000
Continuous Power Systems Proprietary Limited[1]	Loan	(2 973)	5 241

[1] Amounts receivable are unsecured and no guarantees have been received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.

Note: Refer to note 10 for a complete list of associates.

21. RELATED-PARTY TRANSACTIONS (continued)

Other related parties

2018 Related party	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Columbus Technologies Proprietary Limited[1]	Previous associate	Loan	370	—
Mustek Electronics Properties Proprietary Limited[2]	Common directorship	Operating lease	(18 265)	—

[1] Columbus Technologies Proprietary Limited is no longer a related party but the loan amount above was made to Columbus Technologies Proprietary Limited while it was an associate of the company.
[2] Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.

During the 2017 financial year the company had the following related parties:

Subsidiaries

2017 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Brobusmac Investments Proprietary Limited[1]	Loan	—	(7 960)
Brotek Proprietary Limited[1]	Loan	(12 504)	(48 014)
Mecer Inter-Ed Proprietary Limited	Loan	(83)	83
Mecer Technology Limited	Management fees	(6 472)	—
	Purchases	(361)	—
Makeshift 1000 Proprietary Limited[4]	Loan	—	43 192
Mustek Capital Proprietary Limited[1]	Loan	—	(10 520)
Mustek East Africa Limited[1]	Sales	1 014	—
	Loan	3 288	28 958
Mustek Lesotho Proprietary Limited[6]	Loan	—	952
Mustek Limited Company Limited[2]	Loan	—	3 511
Mustek Middle East FZCO[5]	Loan	—	1 118
Quickstep 94 Proprietary Limited[3]	Purchases	—	—
	Management fees	120	—
	Loan	(21)	21 160
Rectron Holdings Limited[1]	Sales	62 739	1 855
	Purchases	(259 531)	(24 617)
Tradeselect 38 Proprietary Limited	Loan	(11 912)	—
Zatophase Proprietary Limited	Loan	6 000	(6 000)

[1] Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.
[2] R3.5 million of the amount outstanding has been impaired to date.
[3] R16.8 million of the amount outstanding has been impaired to date.
[4] R43.2 million of the amount outstanding has been impaired to date.
[5] R1.1 million of the amount outstanding has been impaired to date.
[6] R1.0 million of the amount outstanding has been impaired to date.

Note: Refer to note 9 for a complete list of subsidiaries and further details about these entities.

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21. RELATED-PARTY TRANSACTIONS (continued)

Associates

2017 Related party	Type of transaction	Amount of transaction received R000	Amount receivable (payable) R000
Continuous Power Systems Proprietary Limited[1]	Loan	1 946	2 268

[1] Amounts receivable are unsecured and no guarantees have been received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.

Note: Refer to note 10 for a complete list of associates.

Other related parties

2017 Related party	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Columbus Technologies Proprietary Limited[1]	Previous associate	Loan	719	370
Mustek Electronics Properties Proprietary Limited[2]	Common directorship	Operating lease	(16 896)	—

[1] Columbus Technologies Proprietary Limited is no longer a related party but the loan amount above was made to Columbus Technologies Proprietary Limited while it was an associate of the company.
[2] Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.

Interest of directors in contracts

Mustek Limited has entered into a lease agreement with Mustek Electronics Properties Proprietary Limited, with effect from 1 September 2011 and terminated on 31 August 2016. The lease agreement was renewed during the 2017 financial year, with effect from 1 September 2016 and will terminate on 31 August 2021. David Kan, chief executive officer of Mustek Limited, is both a director and the majority shareholder of Mustek Electronics Properties Proprietary Limited. Lease payments to the amount of R18.2 million (2017: R16.9 million) were paid with regards to the lease agreement (refer to note 16).

The aforementioned transaction was done at arm's length.

Apart from the aforementioned lease agreement, the directors have certified that they were not materially interested in any transaction of any significance with the company or any of its subsidiaries. Accordingly, a conflict of interest with regards to directors' interest in contracts does not exist.

21. RELATED-PARTY TRANSACTIONS (continued)

Key management personnel compensation

The remuneration of directors and other members of key management during the year was as follows:

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Short-term benefits	21 585	16 967	13 694	9 076
Share-based payments	6 686	(1 403)	6 268	(1 220)
	28 271	15 564	19 962	7 856

Directors' emoluments, consisting of short-term benefits during the year, were as follows:

	Fees for services R000	Basic salary R000	Expense allowances R000	Pension contributions R000	Bonus and performance-related R000	Fringe benefit on low interest rate loan R000	Total R000
2018							
Executive directors	—	8 254	647	620	1 377	2 796	13 694
DC Kan	—	2 996	281	251	512	1 667	5 707
H Engelbrecht	—	2 912	270	251	494	914	4 841
CJ Coetzee	—	2 346	96	118	371	215	3 146
Non-executive directors	1 503	—	—	—	—	—	1 503
VC Mehana	436	—	—	—	—	—	436
LL Dhlamini	289	—	—	—	—	—	289
ME Gama	412	—	—	—	—	—	412
RB Patmore	366	—	—	—	—	—	366
	1 503	8 254	647	620	1 377	2 796	15 197
2017							
Executive directors	—	7 883	606	587	—	—	9 076
DC Kan	—	2 924	240	238	—	—	3 402
H Engelbrecht	—	2 734	270	238	—	—	3 242
CJ Coetzee	—	2 225	96	111	—	—	2 432
Non-executive directors	1 381	—	—	—	—	—	1 381
VC Mehana	411	—	—	—	—	—	411
LL Dhlamini	243	—	—	—	—	—	243
ME Gama	388	—	—	—	—	—	388
RB Patmore	339	—	—	—	—	—	339
	1 381	7 883	606	587	—	—	10 457

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21. RELATED-PARTY TRANSACTIONS (continued)

Directors' shareholding

At 30 June 2018, the directors collectively held the following direct and indirect interests in shares in the company, which represents 22.5% (2017: 19.8%) of the issued share capital of the company. (No change occurred between 30 June 2018 and 29 August 2018):

	Beneficial			
	Direct		Indirect	
	2018	2017	**2018**	2017
DC Kan	**2 288 046**	2 288 046	**11 625 412**	11 625 412
H Engelbrecht	**1 750 000**	1 750 000	**—**	—
CJ Coetzee[1]	**735 000**	735 000	**—**	—
	4 773 046	4 773 046	**11 625 412**	11 625 412

[1] Includes 300 000 shares held through contracts for difference (2017: 300 000 shares held through contracts for difference).

These shareholdings exclude options held. The remainder of the directors do not hold any shares.

Share-based payments

Share appreciation rights scheme

The object and purpose of the scheme is to incentivise certain selected senior employees by granting options to such employees to enable them to benefit from an improvement in the price of the company's shares as listed on the JSE, in the manner and on the terms and conditions set out in the scheme.

The directors may, on an annual basis or from time to time, grant options to employees selected by the Remuneration and Nominations Committee. The Remuneration and Nominations Committee shall determine the number of phantom shares which are to be the subject of each option. The price at which an option may be granted will be, in respect of each phantom share which is the subject of that option, the average market price of the ordinary shares of the company on the JSE, as certified by the company secretary, for the 30 days immediately preceding that on which the employee is granted the option. Options granted up to 30 June 2015 will remain in force for a period of seven years after the date of the granting of the option. All options granted since 1 July 2015 will remain in force for a period of six months after vesting.

Each option may only be exercised by an employee or retired employee subject to the achievement of certain performance hurdles that may be determined by the directors from time to time.

For all options granted after 1 July 2015, the price at which an option may be exercised will be, in respect of each phantom which is the subject of that option, the weighted average market price of the ordinary shares of the company on the JSE, for the 30 days immediately preceding that on which the employee is exercising the option. For options granted up to 30 June 2015, the price at which an option may be exercised will be, in respect of each phantom which is the subject of that option, the closing market price of the ordinary shares of the company on the JSE, as certified by the company secretary, on the trading day immediately preceding that on which the employee or retired employee so exercises the option. Upon the exercising of an option, the employee will be paid an amount determined as the difference between the exercise price and the grant price multiplied by the number of phantom shares, less any tax that may at that time be applicable to such a cash bonus.

21. RELATED-PARTY TRANSACTIONS (continued)

Share appreciation rights scheme (continued)

	Weighted average price (Rand)		Number of options	
	2018	2017	**2018**	2017
Phantom shares outstanding at the beginning of the year	**6.47**	7.24	**7 584 000**	6 811 000
Phantom shares granted during the year	**4.12**	5.50	**3 453 786**	2 260 000
Phantom shares exercised during the year	**6.16**	4.71	**(750 000)**	—
Phantom shares that lapsed during the year	**8.15**	8.64	**(1 674 718)**	(1 487 000)
Phantom shares outstanding at year-end	**5.24**	6.47	**8 613 068**	7 584 000

A total of 3 453 786 phantom shares were granted to a number of employees during the current financial year. A total of 750 000 phantom shares with a grant price of R6.16 were exercised during the year at an exercise price of R6.70.

The fair values were calculated using a trinomial tree that adheres to all the binomial option-pricing model principles. All these share options are cash settled. The inputs into the model were as follows:

	30 June 2018	30 June 2017
Share price	**R6.85**	R4.23
Grant price	**R4.71/R8.64/R5.50/R4.12**	R4.71/R6.16/R8.64/R6.92
Expected volatility	**37.01%/37.03%/36.38%/34.32%**	34.56%/30.5%/34.56%/32.21%
Expected life	**0 years/0 years/1 year/2 years**	0 years/0 years/1 year/2 years
Risk-free rate	**7.24%/7.19%/7.43%/7.63%**	7.50%/6.28%/6.14%/6.55%
Expected dividend yield	**2.8%/2.5%/3%/3.5%**	3%/3%/3%/3%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous four years. The Group and company recognised an expense of R6 685 553 and R6 268 295, respectively (2017: income of R1 402 699 and R1 220 170, respectively) related to cash-settled share appreciation rights during the current year.

Outstanding phantom shares are exercisable at the following values and in the following periods ending 30 June:

Option price	2019	2020	2021	Number of undelivered phantom shares	Total Rand value
R4.71	1 950 000	—	—	1 950 000	9 184 500
R8.64	1 242 000	—	—	1 242 000	10 730 880
R5.50	—	2 110 000		2 110 000	11 605 000
R4.12	—	—	3 311 068	3 311 068	13 641 600
	3 192 000	2 110 000	3 311 068	8 613 068	45 161 980

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2018

21. RELATED-PARTY TRANSACTIONS (continued)

Share appreciation rights scheme (continued)

The directors have the following phantom share options outstanding:

Director	Grant price	Grant date	Undelivered phantom shares at 30 June 2018	Undelivered phantom shares at 30 June 2017
DC Kan	R4.71	1 July 2011	**500 000**	500 000
H Engelbrecht	R4.71	1 July 2011	**1 050 000**	1 050 000
CJ Coetzee	R4.71	1 July 2011	**400 000**	400 000
DC Kan	R8.64	13 November 2015	**246 667**	493 333
H Engelbrecht	R8.64	13 November 2015	**209 666**	419 333
CJ Coetzee	R8.64	13 November 2015	**172 666**	345 333
DC Kan	R5.50	14 November 2016	**400 000**	400 000
H Engelbrecht	R5.50	14 November 2016	**340 000**	340 000
CJ Coetzee	R5.50	14 November 2016	**280 000**	280 000
DC Kan	R4.12	16 February 2018	**570 874**	—
H Engelbrecht	R4.12	16 February 2018	**485 243**	—
CJ Coetzee	R4.12	16 February 2018	**399 612**	—
			5 054 728	4 228 000

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each statement of financial position date.

22. POST-STATEMENT OF FINANCIAL POSITION EVENTS

Land belonging to a subsidiary within the Group was classified as held-for-sale during the current financial year. Subsequent to year-end, the title deed transferred to the buyer. 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.

23. GOING CONCERN

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

24. NON-CURRENT ASSET HELD-FOR-SALE

	GROUP		COMPANY	
	2018 R000	2017 R000	2018 R000	2017 R000
Land	**9 420**	—	**—**	—
	9 420	—	**—**	—

Land (Extent of Erf 326, Randjespark), belonging to a subsidiary within the Group, Brotek Proprietary Limited, was classified as held-for-sale during the current financial year. The land was purchased during the 2014 financial year and the sale of the land was approved by the Board in October 2017 in line with Mustek delegation of authority. The sale agreement was reached in November 2017; however, the title deed transferred to the buyer in July 2018. As a result, the land was classified as held for sale as at 30 June 2018.

The land is stated at carrying value which is in accordance with IFRS 5 which states that assets held-for-sale should be carried at the lower of carrying amount and fair value less costs to sell. Therefor there has been no gain or loss on reclassification of the asset.

The land falls within the business segment "Mustek" and the geographical segment "South Africa".

NOTICE OF ANNUAL GENERAL MEETING

MUSTEK LIMITED

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

Notice is hereby given that the annual general meeting of the company's shareholders will be held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand on Thursday, 29 November 2018 at 10:00 (the annual general meeting).

PURPOSE

The purpose of the meeting is to present, consider and adopt the financial statements of the company for the year ended 30 June 2018; to transact the business set out in this notice of annual general meeting (AGM notice) by considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions hereunder; and to transact such other business as may be transacted at the annual general meeting.

RECORD DATE, ATTENDANCE AND VOTING

	2018
Record date in order to be eligible to receive the AGM notice	Friday, 19 October
AGM notice posted to shareholders	Tuesday, 30 October
Last date to trade in order to be eligible to vote at the annual general meeting	Tuesday, 20 November
Record date in order to be eligible to vote at the annual general meeting	Friday, 23 November
Submit forms of proxy for administration purposes for the annual general meeting (by 10:00)	Tuesday, 27 November
Annual general meeting (at 10:00)	Thursday, 29 November
Results of the annual general meeting released on SENS	Thursday, 29 November

1. Shareholders entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the company. A form of proxy, in which are set out the relevant instructions for its completion, is enclosed for the use of a certificated shareholder or own-name registered dematerialised shareholder who wishes to be represented at the annual general meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the annual general meeting.

2. The instrument appointing a proxy and the authority (if any) under which it is signed must preferably reach the company's transfer secretaries at the address given below by 10:00 on Tuesday, 27 November 2018. It can also be given to the chairman of the annual general meeting up to the commencement of the annual general meeting.

3. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who wish to attend the annual general meeting in person will need to request their Central Securities Depository Participant (CSDP) or broker to provide them with the necessary letter of representation in terms of the custody agreement entered into between such shareholders and the CSDP or broker.

4. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who are unable to attend the annual general meeting and who wish to be represented thereat, must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between them and the CSDP or broker in the manner and time stipulated therein.

5. Shareholders present in person, by proxy or by authorised representative shall, on a show of hands, have one vote each and, on a poll, will have one vote in respect of each share held.

6. In terms of the Companies Act, any shareholder or proxy who intends to attend or participate at the annual general meeting must be able to present reasonably satisfactory identification at the meeting for such shareholder or proxy to attend and participate at the annual general meeting. A green bar-coded identification document issued by the South African Department of Home Affairs, a driver's licence or a valid passport will be accepted at the annual general meeting as sufficient identification.

AGENDA

1. Presentation and consideration of the annual financial statements of the Group, including the reports of the directors and the Audit and Risk Committee for the year ended 30 June 2018 as set out in the company's Integrated Annual Report 2018 of which this AGM notice forms part of; and

2. To consider and, if deemed fit, approve, with or without modification, the following special and ordinary resolutions:

   Note:
   For any of the ordinary resolutions numbers 1 to 9 and 11 to be adopted, more than 50% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

   For any of the special resolutions numbers 1 to 3 to be adopted, 75% or more of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

   For ordinary resolution number 10 to be adopted, 75% or more of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

ORDINARY BUSINESS

1. Ordinary resolution number 1: Re-election of Vukile Mehana

"Resolved that Vukile Mehana, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

An abbreviated curriculum vitae in respect of Vukile Mehana may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

The Remuneration and Nominations Committee has considered Vukile Mehana's past performance and contribution to the company and, in accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that Vukile Mehana is re-elected as a director of the company.

2. Ordinary resolution number 2: Re-election of Mdu Gama

"Resolved that Mdu Gama, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

An abbreviated curriculum vitae in respect of Mdu Gama may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

The Remuneration and Nominations Committee has considered Mdu Gama's past performance and contribution to the company and, in accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that Mdu Gama is re-elected as a director of the company.

3. Ordinary resolution number 3: Re-election of Neels Coetzee

"Resolved that Neels Coetzee, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering herself for re-election, be and is hereby re-elected as director."

An abbreviated curriculum vitae in respect of Neels Coetzee may be viewed on page 70 of the Integrated Annual Report of which this notice forms part.

The Remuneration and Nominations Committee has considered Neels Coetzee's past performance and contribution to the company and, in accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that Neels Coetzee is re-elected as a director of the company.

Reason for ordinary resolution numbers 1 to 3

The reason for ordinary resolution numbers 1 to 3 is that article 5.1.8 of the memorandum of incorporation of the company and, to the extent applicable, the Companies Act, requires that a component of the directors rotate at the annual general meeting and, being eligible, may offer themselves for re-election as directors.

4. Ordinary resolution number 4: Confirmation of the re-appointment of the auditors

"Resolved that the re-appointment of Deloitte & Touche as independent auditors of the company for the ensuing year (the designated auditor being Martin Bierman) on the recommendation of the company's Audit and Risk Committee be hereby ratified."

Reason for ordinary resolution number 4

The reason for ordinary resolution number 4 is that the company, being a public listed company, must have its financial results audited and such auditor must be appointed or re-appointed each year at the annual general meeting of the company as required by the Companies Act.

5. Ordinary resolution number 5: Appointment of Lindani Dhlamini as a member and chairman to the Audit and Risk Committee

"Resolved that Lindani Dhlamini be elected a member and chairman of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

An abbreviated curriculum vitae in respect of Lindani Dhlamini may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

6. Ordinary resolution number 6: Appointment of Ralph Patmore as a member to the Audit and Risk Committee

"Resolved that Ralph Patmore be elected a member of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

An abbreviated curriculum vitae in respect of Ralph Patmore may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

7. Ordinary resolution number 7: Appointment of Mdu Gama as a member to the Audit and Risk Committee

"Resolved that Mdu Gama be elected a member of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

An abbreviated curriculum vitae in respect of Mdu Gama may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

Reason for ordinary resolutions number 5 to 7

The reason for ordinary resolutions number 5 to 7 (inclusive) is that the company, being a public listed company, must appoint an audit committee as prescribed by sections 66(2) and 94(2) of the Companies Act, which also requires that the members of such audit committee be appointed, or re-appointed, as the case may be, at each annual general meeting of a company.

8. Ordinary resolution number 8: Endorsement of remuneration policy and implementation report

Ordinary resolution 8.1 "Resolved that, the company's remuneration policy, as set out in the remuneration report on pages 86 to 89 of the Integrated Annual Report of which this notice forms part, be and is hereby approved by way of a non-binding advisory vote of shareholders of the company in terms of the King IV Report on Corporate Governance".

Ordinary resolution 8.2 "Resolved that, the implementation report, as set out on pages 90 and 91 of the Integrated Annual Report of which this notice forms part, be and is hereby endorsed as a non-binding advisory vote of shareholders of the company in terms of the King IV Report on Corporate Governance".

Reason for ordinary resolutions number 8.1 and 8.2

The reason for ordinary resolution number 8.1 and 8.2 is that King IV recommends that the remuneration policy of the company be endorsed through separate non-binding advisory votes by shareholders at the annual general meeting of a company. Failure to pass these resolutions will not have legal consequences relating to existing arrangements, however, the Board of directors of the company will take the outcome of the vote into consideration when assessing the company's remuneration policy and implementation report.

9. Ordinary resolution number 9: Placing unissued shares under directors' control

"Resolved that the unissued shares in the company, limited to 5% of the number of shares in issue at 30 October 2018, be and are hereby placed under the control of the directors until the next annual general meeting and that they be and are hereby authorised to issue any such shares as they may deem fit, subject to the Companies Act, the memorandum of incorporation of the company, and the provisions of the Listings Requirements of the JSE Limited (JSE), save that the aforementioned 5% limitation shall not apply to any shares issued in terms of a rights offer."

Reason for ordinary resolution number 9

The reason for ordinary resolution number 9 is that the Board requires authority from shareholders in terms of article 3 of its memorandum of incorporation to issue shares in the company. This general authority, once granted, allows the Board from time to time, when it is appropriate to do so, to issue ordinary shares as may be required inter alia in terms of capital raising exercises, and to maintain a healthy capital adequacy ratio that may be required from time to time. This general authority is subject to the restriction that it is limited to 5% of the number of shares in issue at 30 October 2018 on the terms more fully set out in ordinary resolution number 10 below.

10. Ordinary resolution number 10: General authority to issue shares for cash

"Resolved that the directors of the company be and are hereby authorised by way of a general authority, to allot and issue any of its unissued shares for cash placed under their control as they in their discretion may deem fit, without restriction, subject to the provisions of the Listings Requirements of the JSE, and subject to the provision that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution, shall be limited to 5% (3 500 000 shares) of the issued share capital at 30 October 2018, provided that:

- the approval shall be valid until the date of the next annual general meeting of the company, provided it shall not extend beyond fifteen months from the date of this resolution;
- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published after any issue representing, on a cumulative basis within any one financial year, 5% or more of the number of shares in issue prior to such issue;
- the general issues of shares for cash in the aggregate in any one financial year may not exceed 5% of the company's issued share capital of that class. For purposes of determining whether the aforementioned 5% has been or will be reached, the securities of a particular class will be aggregated with the securities that are compulsorily convertible into securities of that class and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible. The number of securities of a class which may be issued shall be based on the number of securities of that class in issue at the date of such application less any securities of the class issued during the current financial year, provided that any securities of that class to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were securities in issue at the date of application;

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

- in determining the price at which an issue of shares will be made in terms of this authority the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over the 30 trading days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE should be consulted for a ruling if the securities have not traded in such 30 business day period;
- any such issue will only be made to public shareholders as defined in paragraphs 4.25 to 4.27 of the Listings Requirements of the JSE and not to related parties; and
- any such issue will only be securities of a class already in issue or, if this is not the case, will be limited to such securities or rights that are convertible into a class already in issue."

The reason for ordinary resolution number 10

For listed entities wishing to issue shares, it is necessary for the Board not only to obtain the prior authority of the shareholders as may be required in terms of their memorandum of incorporation contemplated in ordinary resolution number 10 above but it is also necessary to obtain the prior authority of shareholders in accordance with the Listings Requirements of the JSE. The reason for this resolution is accordingly to obtain a general authority from shareholders to issue shares in compliance with the Listings Requirements of the JSE. The authority granted in terms of this resolution number 10 must accordingly be read together with authority granted in terms of ordinary resolution number 9 above and any exercise thereof will be subject to the conditions contained in ordinary resolution number 10.

Note: This resolution requires the approval of not less than 75% of the votes cast by shareholders present or represented by proxy and entitled to vote at this annual general meeting.

11. Ordinary resolution number 11: Authority to action

"Resolved that any one director of the company and/or the company secretary is hereby authorised to do all such things and sign all such documents as deemed necessary to implement the ordinary and special resolutions as set out in this notice convening the annual general meeting at which these resolutions will be considered."

The reason for ordinary resolution number 11

The reason for ordinary resolution number 11 is to ensure that the resolutions voted favourably upon is duly implemented through the delegation of powers provided for in terms of clause 5.3 of the company's memorandum of incorporation.

SPECIAL BUSINESS

2.1 Special resolution number 1: Remuneration of non-executive directors

"Resolved that the remuneration payable to the non-executive directors be approved on the following basis with effect from this annual general meeting until the next annual general meeting held in 2018:

Category	Recommended remuneration
Chairman	R376 700 annual retainer
Board member	R100 500 annual retainer R14 900 per meeting attended
Audit and Risk Committee	
Chairman	R80 350 annual retainer R18 800 per meeting attended
Member	R44 450 annual retainer R11 800 per meeting attended
Remuneration and Nominations Committee	
Chairman	R67 100 annual retainer R18 500 per meeting attended
Member	R51 400 annual retainer R14 575 per meeting attended
Employment Equity Committee	
Chairman	R29 550 annual retainer
Member	R16 800 annual retainer
Social and Ethics Committee	
Chairman	R25 750 annual retainer R9 550 per meeting attended
Member	R10 700 annual retainer R4 650 per meeting attended

Reasons for and effect of special resolution number 1

The reason for the proposed special resolution, is to comply with section 66(9) of the Companies Act, which requires the approval of directors' fees prior to the payment of such fees.

The effect of special resolution number 1 is that the company will be able to pay its non-executive directors for the services they render to the company as directors without requiring further shareholder approval until the next annual general meeting.

2.2 Special resolution number 2: Financial assistance to related and inter-related companies

"Resolved that the Board of directors of the Group be and is hereby authorised in terms of section 45(3)(a)(ii) of the Companies Act, as a general approval (which approval will be in place for a period of two years from the date of adoption of this special resolution number 4), to authorise the Group to provide any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to such term in section 45(1) of the Companies Act) that the Board may deem fit to any related or inter-related company of the Group ("related" and "inter-related" will herein have the meanings attributed to those terms in section 2 of the Companies Act), on the terms and conditions and for the amounts that the Board of directors may determine."

Reason for and effect of special resolution number 2

The reason for and the effect of special resolution number 2 is to provide a general authority to the Board of directors of the Group for the Group to grant direct or indirect financial assistance to any company forming part of the Group, including in the form of loans or the guaranteeing of their debts.

2.3 Special resolution number 3: Authority to repurchase shares by the company

"Resolved that as a special resolution that the company and its subsidiaries be and is hereby authorised, as a general approval, to repurchase any of the shares issued by the company, upon such terms and conditions and in such amounts as the directors may from time to time determine, but subject to the provisions of section 46 and 48 of the Companies Act, the memorandum of incorporation of the company, the Listings Requirements of the JSE and the requirements of any other stock exchange on which the shares of the company may be quoted or listed, namely that:

- the general repurchase of the shares may only be implemented on the open market of the JSE and done without any prior understanding or arrangement between the company and the counterparty;
- this general authority shall only be valid until the next annual general meeting of the company, provided that it shall not extend beyond fifteen months from the date of this resolution;
- an announcement must be published as soon as the company has acquired shares constituting, on a cumulative basis, 3% of the number of shares in issue prior to the acquisition, pursuant to which the aforesaid 3% threshold is reached, containing full details thereof, as well as for each 3% in aggregate of the initial number of shares acquired thereafter;
- the general authority to repurchase is limited to a maximum of 20% in the aggregate in any one financial year of the company's issued share capital at the time the authority is granted;
- a resolution has been passed by the Board of directors approving the purchase, that the company has satisfied the solvency and liquidity test as defined in the Companies Act and that since the solvency and liquidity test was applied there have been no material changes to the financial position or required shareholder spread of the Group;
- the general repurchase is authorised by the company's memorandum of incorporation;
- repurchases must not be made at a price more than 10% above the weighted average of the market value of the shares for five business days immediately preceding the date that the transaction is effected. The JSE should be consulted for a ruling if the applicant's securities have not traded in such five business day period;
- the company may at any point in time only appoint one agent to effect any repurchase(s) on the company's behalf; and
- the company and its subsidiaries may not effect a repurchase during any prohibited period as defined in terms of the Listings Requirements of the JSE unless there is a repurchase programme in place as contemplated in terms of 5.72(g) of the Listings Requirements of the JSE."

Reason and effect of special resolution number 3

The reason for and effect of special resolution number 3 is to grant the directors a general authority in terms of its memorandum of incorporation and the Listings Requirements of the JSE for the acquisition by the company and/or its subsidiaries of shares issued by it on the basis reflected in the special resolution.

In terms of the Listings Requirements of the JSE any general repurchase by the company and/or its subsidiaries must, inter alia, be limited to a maximum of 20% of the company's issued share capital in any one financial year of that class at the time the authority is granted.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

OTHER BUSINESS

To transact such other business as may be transacted at an annual general meeting or raised by shareholders with or without advance notice to the company.

INFORMATION RELATING TO THE SPECIAL RESOLUTIONS

1. The directors of the company or its subsidiaries will only utilise the general authority to purchase shares of the company and/or the subsidiary as set out in special resolution number 3 to the extent that the directors, after considering the maximum shares to be purchased, are of the opinion that the Group position would not be compromised as to the following:
   - the Group's ability in the ordinary course of business to pay its debts for a period of 12 months after the date of this annual general meeting and for a period of 12 months after the purchase;
   - the consolidated assets of the Group will at the time of the annual general meeting and at the time of making such determination be in excess of the consolidated liabilities of the Group. The assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements of the Group;
   - the ordinary capital and reserves of the Group after the purchase will remain adequate for the purpose of the business of the Group for a period of 12 months after the annual general meeting and after the date of the share purchase; and
   - the working capital available to the Group after the purchase will be sufficient for the Group's requirements for a period of 12 months after the date of the share repurchases;

   and the directors have passed a resolution authorising the repurchase, resolving that the company has satisfied the solvency and liquidity test as defined in the Companies Act and resolving that since the solvency and liquidity test had been applied, there have been no material changes to the financial position of the Group.

2. For the purposes of considering special resolution number 3, and in compliance with paragraph 11.26 of the Listings Requirements, the information listed below has been included in the Integrated Annual Report, in which this notice of annual general meeting is included, at the places indicated:
   - Directors and management (pages 70 and 71);
   - Major shareholders (page 105);
   - Directors' interests in securities (page 158);
   - Share capital of the company (page 144);
   - Contingent liabilities (page 153);
   - Responsibility statement (page 166); and
   - Material changes (page 166).

3. For purposes of special resolution number 2, the Board of the company will only utilise the general authority bestowed upon them to provide direct or indirect financial assistance related to inter-related companies to the extent that the directors, after considering the amount of financial assistance to be granted, are of the opinion that:
   - immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test (as defined in the Companies Act, 2008 as amended);
   - the terms under which the financial assistance is proposed to be given are fair and reasonable to the company; and
   - all conditions or restrictions regarding the granting of financial assistance as set out in the company's memorandum of incorporation have been satisfied and that the Board of directors have passed a resolution authorising the grant of the said financial assistance (the Board resolution) under their general authority so granted, the company which will then provide written notice of the Board resolution to all shareholders:
     - within 10 days after adoption of the Board resolution, if the total value of all loans, debts, obligations or assistance contemplated in that resolution, together with any previous such resolution(s) during the financial year, exceeds one-tenth of 1% of the company's net worth at the time of the Board resolution; or
     - within 30 business days after the end of the financial year, in any other case.

4. The company is not involved in any legal or arbitration proceedings, nor are any proceedings pending or threatened of which the company is aware that may have or have had in the previous 12 months, a material effect on the company's financial position.

5. The directors, whose names are reflected in this Integrated Annual Report of which this notice forms part, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts that have been made and that the notice contains all information required by law and the Listings Requirements of the JSE.

6. Other than the facts and developments reported on in the Integrated Annual Report, there have been no material changes in the financial or trading position of the company and its subsidiaries since the date of signature of the audit report up to the date of this AGM notice.

By order of the Board

S van Schalkwyk
Company secretary
30 October 2018

FORM OF PROXY

MUSTEK LIMITED

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

FORM OF PROXY – for use by certificated and own-name dematerialised shareholders only at the annual general meeting of shareholders to be held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand on Thursday, 29 November 2018 at 10:00 (the annual general meeting).

I/We (please print name in full) ______________________

of (address) ______________________

being a shareholder/s of Mustek Limited, holding ______________________ shares in the company hereby appoint:

1. ______________________ or, failing him/her,

2. ______________________ or, failing him/her,

3. ______________________ or failing him/her,

4. the chairman of the annual general meeting,
as my proxy to vote for me/us and on my/our behalf at the annual general meeting and at any adjournment thereof and to speak and act for me/us and, on a poll, vote on my/our behalf.

My/our proxy shall vote as follows:

	Number of shares		
	In favour of	Against	Abstain
To consider the presentation of the annual financial statements for the year ended 30 June 2018			
Ordinary resolution number 1: To re-elect Vukile Mehana as director			
Ordinary resolution number 2: To re-elect Mdu Gama as director			
Ordinary resolution number 3: To re-elect Neels Coetzee as director			
Ordinary resolution number 4: Confirmation of auditor's re-appointment			
Ordinary resolution number 5: Appointment of Lindani Dhlamini to Audit and Risk Committee			
Ordinary resolution number 6: Appointment of Ralph Patmore to Audit and Risk Committee			
Ordinary resolution number 7: Appointment of Mdu Gama to Audit and Risk Committee			
Ordinary resolution number 8: 8.1 Endorsement of remuneration policy			
8.2 Endorsement of the implementation report			
Ordinary resolution number 9: Placing of shares under the directors' control			
Ordinary resolution number 10: General authority to issue shares for cash			
Ordinary resolution number 11: Authority to action			
Special resolution number 1: Remuneration of non-executive directors			
Special resolution number 2: Financial assistance to related and inter-related companies			
Special resolution number 3: General authority to the company and its subsidiaries to repurchase shares			

(indicate instruction to proxy by way of a cross in the space provided above)

Unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

Signed this ______________________ day of ______________________ 2018

Signature ______________________

Please read the notes on the reverse side hereof.

FORM OF PROXY (CONTINUED)

NOTES

1. This form or proxy should only be used by certificated shareholders or shareholders who have dematerialised their shares with own name registration.

2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the chairman of the meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to those whose names follow.

3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the meeting as he/she deemed fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.

4. Dematerialised shareholders who wish to attend the meeting or to vote by way of proxy must contact their participant or broker who will furnish them with the necessary authority to attend the meeting or to be represented thereat by proxy. This must be done in terms of the agreement between the member and his/her participant or broker.

5. Forms of proxy must be lodged at the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Ave, Rosebank, Johannesburg, 2196 (PO Box 61051, Marshalltown, 2107) so as to be received by 10:00 on Tuesday, 27 November 2018. It can also be given to the chairman of the annual general meeting up to the commencement of the annual general meeting.

6. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

7. Documentary evidence establishing the authority of the person signing this form of proxy in a representative or other legal capacity must be attached to this form of proxy unless previously recorded by the transfer secretaries of the company or waived by the chairman of the meeting.

8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

9. The chairman shall be entitled to reject the authority of a person signing the form of proxy:
   - under a power of attorney, or
   - on behalf of a company

   unless that person's power of attorney or authority is deposited at the registered office of the transfer secretaries not less than 24 hours before the meeting.

10. Where shares are held jointly, all joint holders are required to sign the form of proxy.

11. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

12. On a show of hands, every shareholder present in person or represented by proxy shall have only one vote, irrespective of the number of shares he/she holds or represents.

13. On a poll, every shareholder present in person or represented by proxy shall have one vote for every share held by such shareholder.

14. A resolution put to the vote shall be decided by a show of hands, unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the annual general meeting.

15. The directors have not made any provision for electronic participation at the annual general meeting.

CORPORATE INFORMATION

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