Celebrating 30 Years

Mustek

South Africa's ICT supplier of choice

2017 Integrated Annual Report

Creating value through our **six** capitals

Our brand portfolio

PHILIPS

Mustek
POS SOLUTIONS

POSIFLEX

SAMSUNG

SanDisk®
a Western Digital brand

MST
MUSTEK SECURITY TECHNOLOGIES

TOSHIBA

XYZ printing

NEC

msi®

Hytera

Panasonic
BUSINESS

netis

NET Trace

Optoma

Contents

Mustek at a glance

Leadership review

The capitals

Governance

Annual financial statements

Welcome

Welcome to Mustek's seventh 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 2017 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 (2016) 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, the JSE Listings Requirements and where possible, the recommendations of the King Report on Governance for South Africa 2009 (King III report). The Board and Company Secretary are preparing to implement the principles and relevant practices of the King IV Code™ during the course of the 2017/18 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 2017 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 2016 to 30 June 2017. 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 III Report.

This report was approved by the Mustek Limited Board of directors (the Board) on 13 September 2017.

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.

Feedback on report

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

Getting your Mustek report

Download these in PDF format from **www.mustek.co.za**, or request your printed copies from:

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Tel: +27 (0) 11 237 1000 Fax: +27 (0) 11 314 5039
Website: www.mustek.co.za

Creating value through our six capitals

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

P39
Financial capital — **Generating funds**

P43
Manufactured capital — **Leveraging infrastructure**

P46
Human capital — **Strengthening skills**

P52
Social and relationship capital — **Enhancing relationships**

P57
Natural capital — **Environmental care**

P64
Intellectual capital — **Intangible assets**

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.

Reporting period: **1 July 2016 – 30 June 2017**

Highlights for the year

Net cash generated from operations	Headline earnings per share ↑ 5.7%	Net asset value per share
R228.78 million	**81.26 cents**	**1 169.08 cents**
2016: R175.05 million	2016: 76.88 cents	2016: 1 008.08 cents

Financial capital

Net cash generated from operations
R228.78 million
2016: R175.05 million

Headline earnings per share up 5.7%
81.26 cents
2016: 76.88 cents

Net asset value per share up 16.0%
2017: 1 169.08 cents
2016: 1 008.08 cents

Forex losses of R0.5 million compared to R11.8 million in the comparative period

Mustek acquired 15 000 000 ordinary shares in a **share repurchase programme**

Manufactured capital

On 1 March 2017, the Group acquired a 50% stake in **Palladium Business Solutions Proprietary Limited**

At 30 June 2017, the Group's inventory amounted to
R1.078 billion
2016: R1.112 billion

60 807 units
assembled
2016: 67 743

6.512 million
items sold
2016: 4.424 million

Human capital

R13.67 million spent on **staff development** in the Mustek Group

100% of Mustek's workforce receives regular **performance and career development reviews**

100% of senior management is hired from the **local community**

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

Mustek retained its level 2 B-BBEE rating, using the ICT sector codes

R1.14 million spent on CSI contributions

5 Natural capital

Mustek Gauteng successfully maintained its ISO 14001 certification

Energy management system (EnMS) implemented at Midrand facility

Energy consumption reduced by 3.19% during the reporting period

6 Intellectual capital

Huawei Distributor of the Year Award

NEC EMEA Smart Government Solution Partner of the year Award

Toshiba Storage Distributor of the Year Award for Toshiba 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. Solutions provided 40% of Mustek's total revenue earned during the financial year.

Our business strategy is built on anticipating trends to better serve the tech-savvy customers of the near future.

Through an approachable and flexible "can do" attitude, we assist our customers to identify specifications, formulate solutions and source products by offering them a wide-ranging choice of equipment, combined with superior technical expertise, service and support, to address every level of the ICT stack.

Mustek's strategy is founded on the intellectual capital contained within its workforce and its ability to expertly apply financial, manufactured and human capital to the creation of value for all stakeholders.

The Group offers its goods and services through four business units, of which the largest are the Mustek division and Rectron. These two companies market and distribute their brand lines in line with the Mustek business model, while engaging two adjacent market segments with a small client overlap.

Mustek has a 40% shareholding in Sizwe Africa IT Group, which provides strategic exposure to the networking and cloud environments.

Our 36% shareholding in Khauleza IT Solutions is helping develop the objective of being recognised as the single point of contact for all ICT requirements. Khauleza provides industry-leading hardware, computing accessories, technical skills and consulting services to customers by being the interface for an expanding network of small, medium and micro-enterprises (SMMEs).

This strategy enables Mustek to offer its customers a perfect match for their technology needs, whether driven by configuration and customisation requirements, or 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.

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

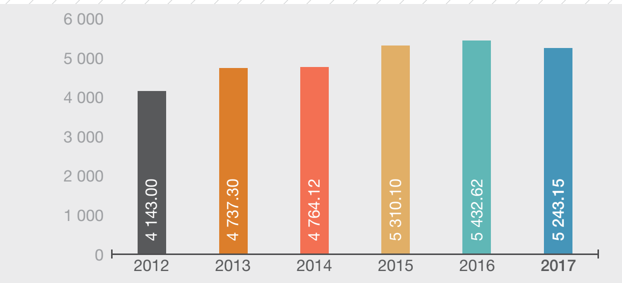
Mustek believes in integrity, employment equity, care for the environment, respect and human dignity for all. We reward performance and share responsibility at all levels.

Six-year financial review

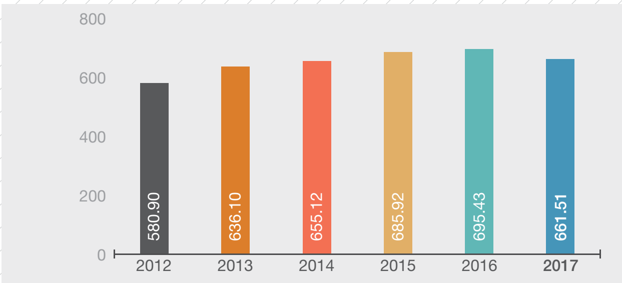
for the year ended 30 June 2017

	2017 R000	2016 R000	2015 R000	2014 R000	2013 R000	2012 R000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Revenue	**5 243 147**	5 432 617	5 310 102	4 764 123	4 737 304	4 143 022
Cost of sales	**(4 581 639)**	(4 737 192)	(4 624 183)	(4 109 007)	(4 101 167)	(3 562 106)
Gross profit	**661 508**	695 425	685 919	655 116	636 137	580 916
Distribution, administrative and other operating expenses	**(459 043)**	(481 764)	(430 273)	(453 398)	(469 754)	(417 777)
EBITDA	**202 465**	213 661	255 646	201 718	166 383	163 139
Headline profit	**73 950**	77 396	132 838	108 032	78 996	76 344
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
Assets	**2 980 199**	3 085 558	3 458 183	2 701 180	2 233 319	2 117 199
Property, plant and equipment	**156 237**	152 458	174 709	160 029	120 462	122 625
Intangible assets	**93 516**	67 059	62 843	60 032	57 489	60 240
Investments and loans	**180 926**	152 657	139 131	122 483	39 250	40 470
Deferred tax asset	**16 572**	17 312	29 593	29 164	17 487	15 666
Current assets	**2 532 948**	2 696 072	3 051 907	2 329 472	1 934 043	1 609 534
Assets classified as held-for-sale	**–**	–	–	–	64 588	268 664
Equity and liabilities	**2 980 199**	3 085 558	3 458 183	2 701 180	2 233 319	2 117 199
Equity attributable to equity holders of the parent	**970 333**	987 918	993 748	916 052	826 365	755 732
Minority interest	**8 128**	(581)	19 268	18 461	12 546	18 426
Long-term borrowings	**5 637**	499	23 127	34 788	6 837	4 712
Deferred tax liability	**10 617**	4 504	4 576	–	2 324	2 409
Non-current deferred income	**13 215**	12 632	15 627	14 725	16 650	–
Current liabilities	**1 972 269**	2 080 586	2 401 837	1 717 154	1 341 703	1 141 689
Liabilities directly associated with assets classified as held-for-sale	**–**	–	–	–	26 894	194 231

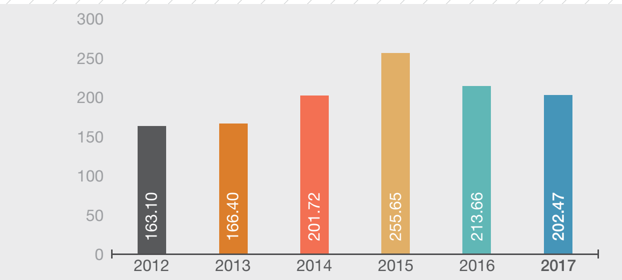
Revenue (R'million)



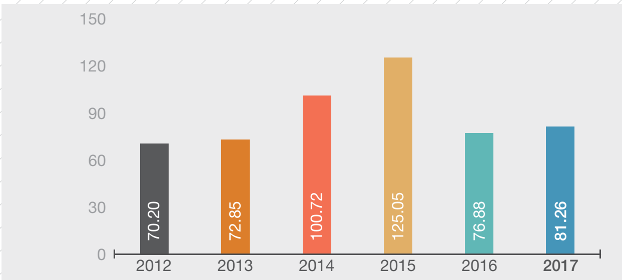
Gross profit (R'million)



EBITDA (R'million)

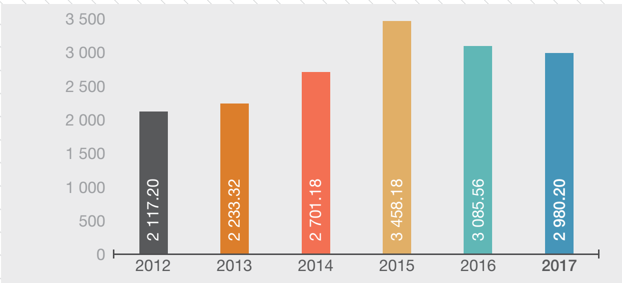


Headline earnings per share (cents)

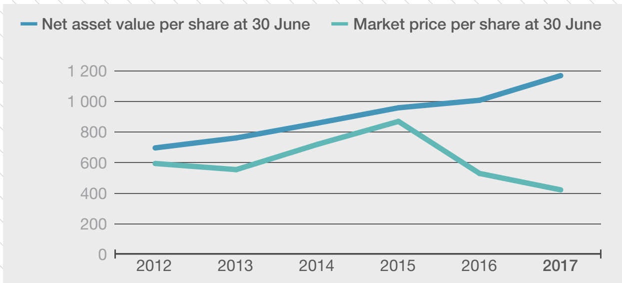


	2017	2016	2015	2014	2013	2012
KEY BALANCE SHEET FIGURES						
Total assets (R000)	**2 980 199**	3 085 558	3 458 183	2 701 180	2 233 319	2 117 199
Ordinary shareholders' equity (R000)	**970 333**	987 918	993 748	916 052	826 365	755 732
Return on ordinary shareholders' equity (%)	**7.5**	7.5	13.9	12.3	10.8	11.1
Net asset value per share (cents)	**1 169**	1 008	959	859	762	697
MARKET INFORMATION AT 30 JUNE						
Ordinary shares in issue	**83 000 000**	98 000 000	103 623 471	106 682 760	108 433 165	108 469 165
Weighted average number of ordinary shares	**91 003 326**	100 674 409	106 228 765	107 255 590	108 436 464	108 831 677
Headline earnings per share (cents)	**81.3**	76.9	125.1	100.7	72.9	70.2
Market price per share (cents)						
– year-end	**423**	530	870	720	555	595
– highest	**576**	945	980	750	648	635
– lowest	**385**	451	670	450	539	450
Number of transactions	**3 569**	5 607	3 480	3 380	2 729	3 645
Number of shares traded	**34 842 319**	32 317 053	28 380 892	23 418 429	29 750 208	36 835 543
Value of shares traded (R)	**161 864 002**	244 417 366	231 259 869	138 378 220	173 588 071	204 105 119
Percentage of issued shares traded (%)	**38**	32	27	22	27	34
LIQUIDITY AND LEVERAGE						
Interest cover (times)	**2.3**	2.3	4.3	4.6	4.1	5.9
Net cash from (used in) operating activities (R000)	**99 859**	13 233	254 771	(225 798)	142 808	44 602
Current ratio (times)	**1.3**	1.3	1.3	1.4	1.4	1.4
PROFITABILITY						
Operating margin (%)	**3.9**	3.9	4.8	4.2	3.5	3.9
EMPLOYEES						
Number of employees	**948**	993	1 023	1 020	949	1 122

Total assets (R'million)



Share price versus NAV at 30 June (cents)



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 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 ever-changing 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 III, GRI, SDTI and <IR>.

ICT MARKET ENVIRONMENT

Inputs

Financial capital

- Shareholder funds
- Banking funds
- Accounts funding.

Manufactured capital

- Inventory
- Premises – HO and branches
- Warehousing
- Assembly line
- Fleet.

Business activities

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.

END-CUSTOMER

- Exceeding our customer expectations
- Devising accurate solutions, delivering products quickly, offering excellent technical support and efficiently fulfilling warranties and service level agreements.

Outputs

Financial capital

Net cash generated from operations R228.78 million

Profit for the year R73.72 million

Revenue from continuing operations R5.24 billion

Net asset value per share: 1 169.08 cents

Headline earnings per ordinary share 81.26 cents

Income tax expense R20.13 million

Manufactured capital

Property, plant and equipment valued at R156.24 million

On 12 June 2017, the Group acquired land in Cape Town for R9.6 million

Ability to customise products to meet customer demands

60 807 units assembled (2016: 67 743)

6.51 million items sold (2016: 4.43 million)

Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa.

Outcomes

Financial capital

Mustek's working capital is adequate

Assets exceed liabilities

Focus on optimal working capital management

Share buy back: Mustek acquired a further 15 000 000 ordinary shares in the issued share capital, funded from available cash resources

The Group's more conservative forex hedging policy proved effective: Forex losses, including the cost of forward points, was R0.5 million compared to R11.8 million in the comparative period

Manufactured capital

Reduced inventory improves gross profit margins. Inventories on hand reduced by R33.89 million

Human capital

- 566 Mustek division South African direct employees
- 334 Rectron South African direct employees
- Management and employees of the associated companies
- Mustek's Board and executive management.

Social and relationship capital

- Stakeholder relationships with shareholders, employees, customers, resellers, suppliers, vendors and local communities, among others
- Mecer and multinational brands.

Natural capital

- Power
- Land
- Raw materials processed into components.

Intellectual capital

- IT trend spotting
- Distribution systems
- Retained institutional knowledge.

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.

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.

PRODUCT ACQUISITION

- Assembly, production and planning
- Strong relationships with vendors of leading international ICT brands through agency and distributorship agreements.

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.

R6.19 million spent on staff development in Mustek company

R7.49 million spent on staff development in the Rectron Group

Employee turnover for Mustek for the current year amounted to 17.00%

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

Mustek's absenteeism rate was recorded as 1.45%, and Rectron's as 2.06% for the 2017 year

100% of Mustek's workforce receives regular performance and career development reviews

Mustek retained its level 2 B-BBEE rating, using the ICT sector codes.

R1.14 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

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

217 tonnes of waste recycled

Mustek consumed 13 874 GJ of energy

Rectron consumed 5 973 GJ of energy

Replacement of ICT equipment with energy-efficient units, installing rooftop solar panels and LED lights

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 9001:2008 (quality)
- ISO 14001:2004 (environment)

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

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

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

Minimised obsolescence and waste

Acceleration of new technologies

Better responses to changing consumer needs

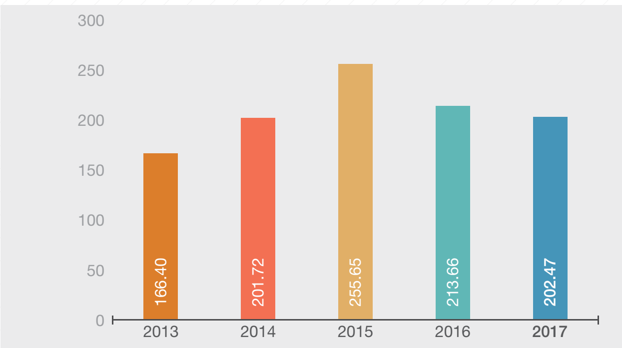
Solutions for improving South Africa's ICT landscape

Strategic performance and goals

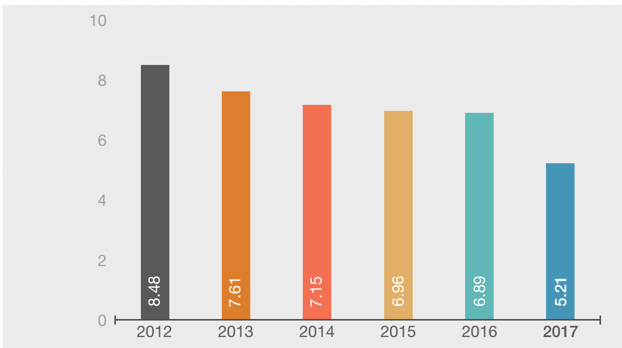
Strategic initiatives for 2017

Strategic goal	Improve relationships with large value added resellers	Change commission structures to promote revenue and profit growth	Improve working capital management	Continue to differentiate ourselves as a value added solutions provider, not merely a distributor. Acquire further product lines in emerging technologies	Promote the Group's service capabilities as a standalone brand
Performance this year	Established strategic partnerships	Reseller revenue on target in a challenging market	Improvement from the previous year with healthy cash flows	Established strategic partnerships and investigated room for additional distribution rights	Launched more aggressive marketing of service capabilities for most OEM hardware brands
Future initiatives	Continuing programme	Completed	Continuing programme	Identify further partnerships in current and adjacent markets	Will continue this marketing plan

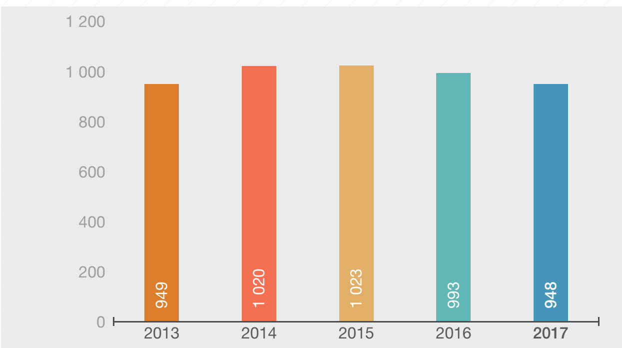
EBITDA (R'million)



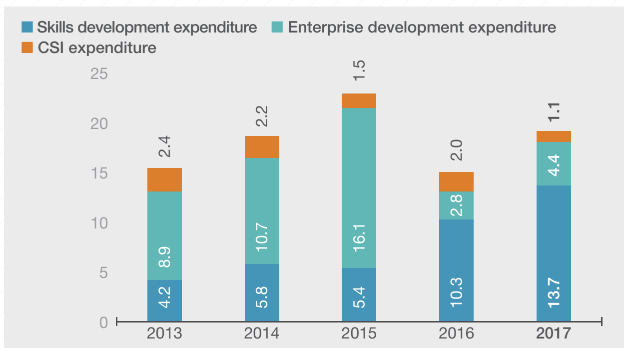
Simple price-earnings ratio using HEPS (times)



Employees



Group transformative expenditure (R'million)



and for **2018**

	Focus on operational efficiencies and cost management	Understand the customer of the future and position Mustek for an online e-commerce market	Investigate opportunities in the distribution landscape	Investigate opportunities in the service, support and solutions landscape
	Distribution, administrative and other operating expenses increased by only 1.5%	Launched an online ordering system for our registered reseller market	Made investment of 50.1% in Palladium Business Solutions Proprietary Limited, an independent software vendor	No new investments made
	Continuing programme	Continuing programme	Continuing programme	Continuing programme

1

Software portfolio enhancement – double revenue from software in two years

2

Grow our newly established training and enterprise development centre

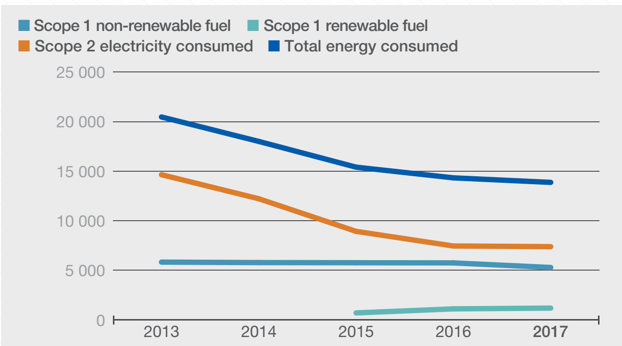
3

Disposal of lazy assets

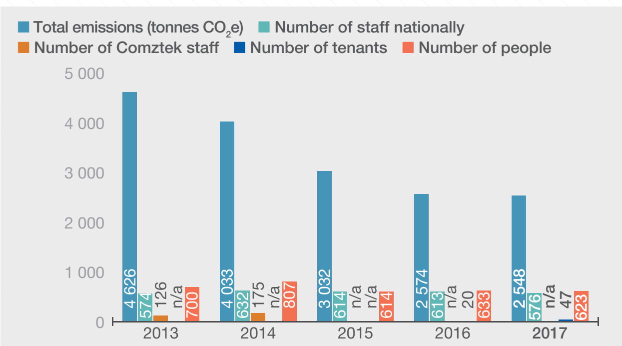
4

Continue share buyback while earnings enhancing

Mustek – energy consumption (GJ)



Greenhouse gas emissions intensity



Mustek's core operations and geographical representation

Mustek

Subsidiaries

Mustek Group
100% shareholding

Rectron
100% shareholding

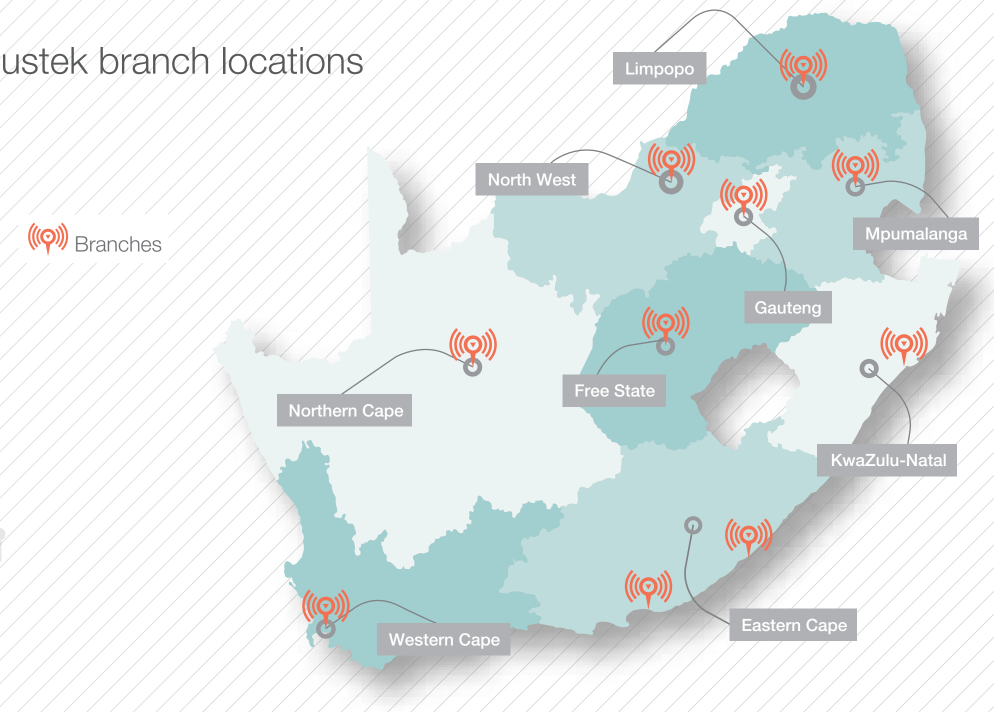
Associates

Sizwe IT Group
40% shareholding

Khauleza IT Solutions
36% shareholding

Yangtze Optics Africa Cable (YOAC)
25.1% shareholding

Mustek branch locations



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 2 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 46 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 106.

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 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, SMEs, enterprises, government and academic institutions, served indirectly through a reseller and retail channel

Core business value

Cost saving and user productivity

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

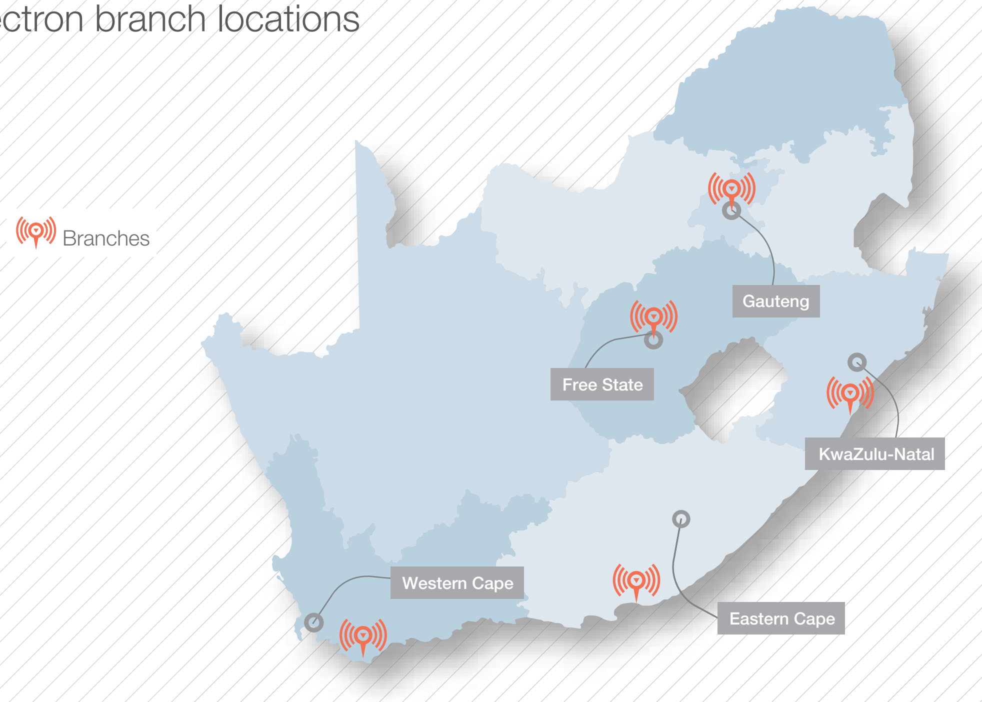
Five branches, based in Midrand, Cape Town, Durban, Port Elizabeth and Bloemfontein

Rectron's portfolio of brands

End-to-end customer solutions

AORUS	TomTom	HUAWEI	Hisense	Thecus	VIVOTEK	onapp	wePresent	Bitdefender
GIGABYTE	Transcend	Lenovo	Canon	intel	TYAN		ADVANTECH	
MakerBot	acer	Microsoft	CHENBRO	PNY	palladium	AIC	logitech	
RCT	D-Link	SAMSUNG	COOLER MASTER	poslab	Acronis	ekwb	pqi	
RICOH	EVERKI	ASUS	CORSAIR	SEAGATE	iEi	KASPERSKY	Synology	

Rectron branch locations



Rectron introduction

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

Rectron is a value-added ICT distributor and partner to reseller and retailer channels, offering best in breed technology and services. During FY16, we revised our vision and mission to become a customer needs-led organisation.

Rectron services the ICT market by delivering hardware and software solutions, as well as repair services to consumers, academic institutions, government institutions and businesses through a loyal network of 7 000 resellers countrywide.

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, 23% 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 (SME) 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	Vision	Philosophy	Technology	Culture
Rectron strives to be an innovative, customer needs-led organisation, delivering value to our stakeholders **Promise** Pursuing excellence	Rectron aims to be the partner of choice by delivering innovative, end-to-end solutions that enable successful, profitable partnerships	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	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	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

Mustek's core operations and geographical representation (continued)

Rectron (continued)

What Rectron does

Rectron's core business is to import and distribute ICT products and services to computer resellers, retailers and systems integrators across southern Africa. Our portfolio of products and services has expanded into one of the most comprehensive in southern Africa.

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. We aim to make our channel a leader in technologies by offering innovative solutions and services.

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
- managed print services
- software solutions
- wearable technology
- storage solutions
- point of sale solutions
- IoT products
- build-to-order PCs and servers
- surveillance
- vertical solutions, such as large format displays.

In the 2016/2017 financial year, we strengthened our offering through onboarding new brands, such as:
Security solutions: Bitdefender for enterprise, SME and consumer, Kaspersky for consumers
Storage solutions: Synology
Cloud offerings: Microsoft Cloud Solutions provider; Acronis cloud backup
Consumer hardware: Logitech PC peripherals
Gaming: EKWB liquid cooling
Business software: Palladium accounting.

During the year, Rectron acquired a majority stake in Palladium, a local 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 a revenue stream for Rectron.

Microsoft appointed Rectron as a cloud solutions provider in mid-2017.

Rectron's evolving business model

We are developing a business model that will disrupt 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 enable our customers to easily do business with us. Our website has upgraded into a 24/7 interface for self-help and online ordering. Customers are incentivised to move all their business interactions online.

Rectron's five strategically sited branches around South Africa are a vital asset. Each branch is fully equipped for personal and world-class service.

Rectron's walk-in support service is renowned for its accuracy and fast 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 all Gigabyte products, MakerBot and Ricoh printers, Hisense TVs, RCT products, ASUS notebooks, D-link products, Poslab Point of Sale Devices and Vivotek surveillance cameras.

Performance

Financial performance in 2017

Rectron has managed 3.5% growth across the board, despite the Rand strengthening by 5.9% against the US Dollar during the period. This performance equates to a healthy increase in revenue, given that the bulk of Rectron's products are imported.

This financial growth recorded in difficult economic circumstances, together with the new business verticals being established, is positioning 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 needed technology to previously disadvantaged schools and community institutions.

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.

We have partnered with Microsoft in their Student-to-Business-Internship-Programme, which aims to upskill young talent in the field of licensing and cloud solution sales. This is the third year of participating in this programme and last year we took on seven interns at Rectron, with five consequently offered full-time employment in the Mustek Group. We look forward to similar successes going forward.

For several years Rectron has supported young learners around South Africa by sponsoring 100 learners per annum through Torque IT. In this past financial year, Rectron sponsored 150 such learners in technical support and systems support training. Once the learners have completed the one-year training and graduate, Rectron assists Torque IT to find legitimate employment for them.

Corporate social responsibility

Our Group corporate and social responsibility programme is focused on driving educational activities and opportunities. We have shifted our focus from once-off requests to supporting sustainable projects, with partnerships and measurable results.

The Change the World Trust partnered with Rectron in 2007. This non-profit organisation (NPO) provides free training in computer literacy and other computer-based skills to unemployed youth and high school students. Last year, the trust provided free training to 1 957 high school students, 564 unemployed youth and 94 teachers, adding up to 2 615 direct beneficiaries.

Action for the Blind is an NPO based in Roodepoort and KwaZulu-Natal. Its mission is to train blind and disabled youth in computers and skills to the required level for writing their Microsoft accredited examinations.

Since 2010, Rectron has donated computer software, hardware and peripherals to Action for the Blind learning centres around the country.

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 growing strongly as consumers shift towards online shopping.

Our specific focus on enterprise solutions and IoT is attracting larger value and system integration resellers into the Rectron stable. In the 2016/2017 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 latent needs for future growth
- Develop end-to-end customer solutions.

Consumerisation, seamless integration and gadgets are robust growth areas. Existing relationships with brands such as Lenovo, Acer and TomTom are creating value as clients begin adopting newer technologies. Specialised products, such as MakerBot 3D printing, will open up new vertical markets for hardware and the ongoing supply of consumables.

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

Mustek's core operations and geographical representation (continued)

Rectron (continued)

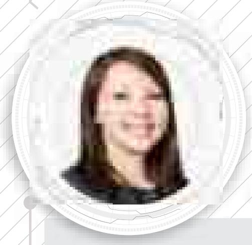
Rectron executive team

Spencer Chen
Managing Director

Martin Roets
Operations Director

Gerhard Malan *CA(SA)*
Financial Director

Matthew Hall
Product Director



Elaine Wang
Cloud and Software Solutions Director

Michael Turetz
National Sales Manager

Customers

Investing into 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. During the last year, we invested into a stock management and ordering platform called Netstock, which has improved the stock turnaround and availability in all branches.

People

Rectron's greatest asset is our people and we are upskilling them for personal development within the digital transformation of the business. A mentorship programme being introduced in the 2017/2018 year enables employees to gain hands-on experience and insight into Rectron's core operations, with a view to deepening resources and cultivating next-generation talent.

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.

FY18 priorities

Financial capital

- 10% GP growth
- Maintain 12% ROE
- Maintain BEE level 2
- New business growth – Palladium
- New markets: Africa/Systems integrators/B2B
- Continued focus on EVAR
- Working capital management.

Business transformation

- Continued digital transformation
- Create new user platforms with CSP
- Extension of software/cloud stack: Microsoft ESD, Acronis, Bitdefender
- End-customer focus across all activities
- Innovations in digital marketing.

Customer focus

- Superior customer experience across all touch points
- Analysis of customer feedback and surveys – customer needs drive decisions
- Customer education and enablement
- Customer experience always on.

Human capital

- Recruit, retain and grow talent with job-related training, mentorship programmes, learnerships and internships
- Continue to drive our high-performance culture
- Continued focus on employee health, safety and wellbeing.

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

Sizwe IT Group

Sizwe at a glance

Major activities	Markets served	Core business value
Provision of comprehensive ICT service solutions	Public and private sector clients	Cost saving and user productivity

Focus	Primary solutions	Branches
Integrated ICT solutions	Managed services, unified network solutions, fibre and facilities management and systems integration	• 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 foremost 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.

Sizwe is level 2 B-BBEE rated and we are totally committed to transformation as the route to innovation and diversity in sustaining our fast expanding business.

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

We now offer systems integration as part of our growing hardware and infrastructure portfolio. Our systems integration unit focuses on cloud-based software solutions developed to drive innovation, manage risk and improve performance.

Suite of service offerings			
Managed services	**Unified network solutions**	**Fibre and facilities management**	**Systems integration**
Portfolio	Portfolio	Portfolio	Portfolio
• National call centre • Remote management • Hosting • Managed print services • Desktop computing • Mobile computing • Enterprise processing • Cloud and SAAS • Software • Security • Rental solutions • Automated workforce management.	• Data communication (routing/switching/ wireless) • Unified communications and collaboration (voice and videoconferencing) • Client contact centres • Physical security (access control/video surveillance) • Network security (firewalls) • Specialised solutions (Internet of Things) • Business consulting • IT management services (project management) • Professional services (design, implement, optimisation, maintenance and support on IT infrastructure).	• Backup and redundant power management (generation and UPS) • Outside plant optic fibre • LAN (copper) reticulation • Facility management • Fire detection and suppression • HVAC (heating, ventilation, air handling and cooling) • Tower maintenance • Civil infrastructure • Mechanical services • Diesel replenishment • Data centre design, implementation and maintenance • Alternative energy.	• ICT consulting • Business process outsourcing • Project/services-based resourcing • ICT advisory and innovation • Systems audit and optimisation • System integration • System development.

Mustek's core operations and geographical representation (continued)

Sizwe IT Group (continued)

The Sizwe approach

We offer 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 outright 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

Continuously changing technological environments, converging technologies and increasing business demand for information availability is compelling organisations to make costly acquisitions of systems and hardware. Outright purchases may require substantial capital outlays that could be recorded as non-changing assets. These would appreciate the balance sheet. On the other hand, standard finance lease and asset purchase facilities are recorded in balance sheets as financial debt, which may drain credit facilities that could be used more optimally for other purposes.

A viable option is the Sizwe Rental Solution, which takes the inherent costs and risks associated with ownership out of the equation and can be positioned as an operating expense that allows predicted operating payments.

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 among the select few listed as a direct acquisition company in the government IT supply channel.

A countrywide reach

Sizwe IT has expanded to include a network of SMEs and associated companies in each province. This robust and inclusive growth has enabled Sizwe to take holistic ICT solutions to clients across South Africa.

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

A partnership-driven approach

Sizwe's professional partnerships with multinational manufacturers, suppliers and sub-contractors enable us to maintain the high levels of service and trust built up with our clients. Our rigorous service delivery standards are underpinned by a workforce trained in best practice processes. We have gained in-depth expertise through strategic technology partnerships with Cisco, HP, Mustek, Epson, Samsung, Microsoft, Kyocera, Fujitsu and Huawei.

Our subsidiaries

Sizwe Connect Proprietary Limited, a subsidiary of Sizwe IT Group, is positioned as a truly "Open Access" services and connectivity network aggregator. Sizwe Connect provides managed connectivity services across any available networks or infrastructure.

Our managed connectivity and services offering is aggregated across our own fibre and microwave infrastructure, as well as through the infrastructures of multiple service providers. We can support "Fibre to the Home" and "Fibre to the Business" target markets.

Sizwe Connect's managed connectivity service includes metro and long-haul connectivity, with transmission speeds from 10 Mbps to 10 Gbps. This point-to-point aggregate service supports multiple footprints and cross-border or remote clients.

Connect IoT is a subsidiary of Sizwe IT Group. The Internet of Things (IoT) is the growing technology wave that potentially interconnects all devices for collaborative functioning and monitoring.

IoT applications have the potential to transform every sector of a business by allowing enterprises to optimise processes and craft innovative business models. Connect IoT is a business of the future that enables other businesses to create their futures.

Sustainable community investment (SCI)

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 respond to the real social needs of communities.

Sizwe supports programmes aimed at bridging the digital divide for learners.

We provide practical support to schools in six provinces by contributing:

- computer labs
- wireless connectivity
- school shoes for needy learners.

Partnership with the Western Cape South African Police Service (SAPS)

For the past seven years we have supported the Western Cape SAPS's annual drive to raise funds for the beneficiaries of the deceased police officials. Specific actions are to:

- support and sponsor the annual SAPS Western Cape Golf Day
- offer internships to the children of the deceased police officers.

Step Up 2 A Start Up entrepreneurial development programme

In an effort to cultivate a culture of entrepreneurship among young people, Sizwe has partnered with Primestars Marketing and other major organisations to sponsor the Step Up 2 A Start Up programme, which helps young entrepreneurs access entrepreneurial skills, knowledge and values.

Environmental focus – solar parking at Sizwe head office

Sizwe is committed to reducing greenhouse gas emissions by stimulating market demand for solar solutions. Leading by example, we have erected a grid-tied solar car park structure at our head office to introduce solar energy into our power consumption mix.

As with any office environment, our highest electricity usage is from 08:00 to 17:00 during the day, which fits perfectly with solar energy production hours. We are advising clients of the proven cost benefits of these electricity savings.

Energy-efficient data centre installed

Sizwe has installed a Huawei FusionModule800 Smart Small Data Centre, which significantly reduces power consumption and space requirements.

Certifications

- BS OHSAS 18001 – Occupational Health and Safety
- ISO 14001 – Environmental Management System (EMS)
- ISO 27001:2013 – Information Security Management System (ISMS)
- ISO 9001:2008 – Quality Management System (QMS).

Partner certifications

- Cisco Gold Partner
- Cisco Internet of Things (IoT) Manufacturing
- HP Partner First Gold Partner
- Huawei Value Added Partner
- Mustek Approved Service Provider
- Kyocera Approved Service Provider
- Epson Approved Service Provider
- Fujitsu Service Integrator.

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

Mustek's core operations and geographical representation (continued)

Khauleza IT Solutions

Khauleza IT at a glance

Major activities	Markets served	Focus
Procures ICT products and services on behalf of customers	Public and private sectors	Providing ICT-related skills and services through a single interface
Primary brands	**Primary products**	**Branches**
Acer, APC, Brandrex, Brother, Cisco, Dell, D-Link, Eaton, Epsom, Enterasys, Fijitsu, HP, Juniper, Krohne, Lenovo, Lexmark, Mecer, Microsoft, Molex, Mustek, N-Computing, NEC, Posifex, Toshiba, X-treme Huawei, 3M and VMWare	ICT services, communications, ICT advisory and consulting	Pretoria, Kloof KZN, Cape Town, Bloemfontein, East London, Port Elizabeth, Kimberley, Nelspruit, Middelburg, Polokwane and Potchefstroom

What Khauleza IT does

Khauleza provides a single point of contact that aligns a customer's ICT requirements with industry leading solutions. A full range of ICT, communication, advisory and consulting services is offered through the partnerships with selected technology firms, vendors and SMMEs that give Khauleza wide access to hardware, computing accessories and technical skills.

Khauleza IT's service provider aggregator (SPA) operating model allows organisations to work with a "one stop" interface for sales, contracts, administration, goods and services.

The company has developed a plan, deploy, manage and maintain (PDMM) methodology that supports all technological environments. PDMM utilises a comprehensive lifecycle approach so that strategic goals are reached while controlled costs in technology ownership (CCTO) are maintained. This approach ensures that all stages of the technology lifecycle are carefully managed and worked into a budget.

We currently maintain over 350 000 end-user devices, at more than 1 500 sites across the country.

Black economic empowerment

Khauleza IT is level 2 B-BBEE certified and has formal alliances with numerous SMMEs. We welcome proposals from SMMEs in ICT for partnerships.

Our core capabilities

Services and products

ICT distributed services

Deployment services
Pre-stage, configure, transport and install new systems and equipment.

Call centre (24 hours)
Clients can access our call centre for up to 24 hours daily, depending on the agreed SLA.

Maintenance services
Onsite remedial maintenance and support services are available through our national infrastructure and strategic partners.

IMACD and end-user equipment
Installations, moves, additions, changes and decommissions are undertaken countrywide.

Server services
Supply, install and maintain servers from IBM, Dell EMC, HP, VMWare and Microsoft.

Infrastructure services
- Fibre, cabinets, air-conditioners, fire suppression, access control, biometrics, RFID Cards, CCTV, and generators
- Molex, Krone, and 3M certified skills
- WAN and LAN design, Cisco, Huawei and HP certified skills.

In-house repair workshop for IT-related equipment
Fully functional repair workshop for all IT-related equipment.

Print management solutions
Managed print services save money, boosts productivity and supports document security while reducing environmental impacts.

Alternative power solutions

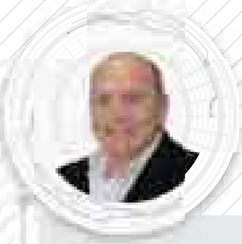
Khauleza's DC power solutions offer short and long-term power solutions. Our power experts develop appropriate solutions that fit needs and budget.

Alternative energy, solar power, and grid interactive systems
Power solutions include:
- UPS systems
- Batteries and generators for industrial, commercial and household use
- Battery chargers (rectifiers from 8.7 kW to 17.4 kW)
- Solar solutions, including off-grid solar power systems
- Installation and maintenance of all types of generators and UPS systems
- Energy consultancy and site assessments.

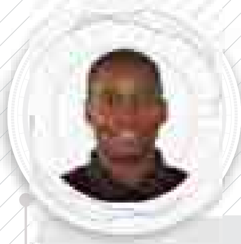
Mustek's core operations and geographical representation (continued)

Khauleza IT Solutions (continued)

Khauleza management team



Raymond Risk
Chief Executive Officer (CEO)



Siyabonga Maclean
Executive Director: Strategy and Finance

David Kan
Non-Executive Director

Occupational health, safety and quality (SHEQ)

Khauleza IT complies with the provisions of the Occupational Health and Safety Act, 85 of 1993 (OHS Act) and the regulations issued in terms of this Act.

Leadership team

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

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

Mustek Security Technologies (MST)

Mustek Security Technologies at a glance

Major activities	Markets served	Focus
Security solutions	National key points and corporate environments throughout South Africa	Turnkey security solutions that addresses client-specific requirements through needs analysis, detailed system designs, implementation and maintenance
Primary products	**Branches**	**Standards**
Security hardware, software and solutions customised to client requirements, including SASSETA accredited training courses	10	ISO 14000; 9000; OHSAS 18001. Compliance with all relevant legislation such as national key point regulations and the incoming 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	Services
• 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 • Perimeter protection systems • Accredited training services • Solar solutions • Communication infrastructure solutions.	• 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 (R&D) in support of prevention and prosecution through latest technologies.

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

Yangtze Optics Africa Cable (YOAC)

Yangtze Optics Africa Cable at a glance

Major activities	Markets served	Branches
Optical fibre cable manufacturer	South African ICT and broadband market	Dube TradePort's Special Economic Zone in KwaZulu-Natal
Focus	**Primary products**	**Standards**
New generation optical fibre cable	Optical fibre and cable products	IEEE Standard, ISO 9001

The YOAC optical fibre cable factory was established to supply South Africa's exponential demand for broadband and can be expanded into the largest optical fibre producer in the country. Sited at Dube TradePort outside Durban, the YOAC factory manufactures and distributes fibre cable to the public sector, network operators and private buyers.

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

The YOAC facility took six months to build and entered the South African market with its product range in January 2017.

What YOAC does

The YOAC factory manufactures a range of new generation optical fibre cable and envisages expanding its manufacturing capacity to over one million kilometres of optical fibre per annum.

YOAC will play a significant role in South Africa's broadband rollout.

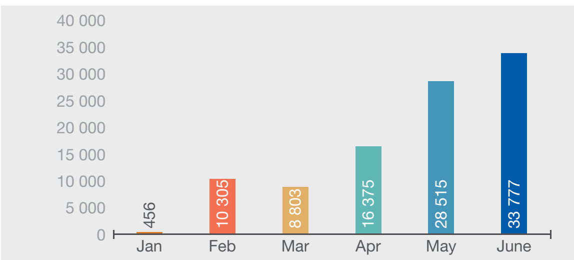
Once the factory is fully operational and sustainable, fibre-related hardware products can be can be added to YOAC's range of offerings.

Performance

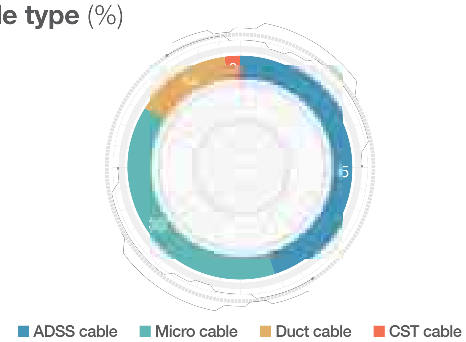
Commencing in January 2017, YOAC gradually ramped up on its production output to over 30 000 fibre kilometres (fkm) in June 2017. By Q3 2017, YOAC anticipates reaching 60% of current manufacturing capacity. In July 2017, the plant reached 50% of the manufacturing capacity and its financial break-even point.

YOAC currently manufactures micro-blown optical fibre cable, ADSS aerial optical fibre cable, ducting optical fibre cable as well as corrugated steel tape optical fibre cable (CST cable). The chart below shows the percentage split of cable types manufactured in the first six months of 2017.

YOAC monthly production output (fkm)



Cable type (%)



Mustek's core operations and geographical representation (continued)

Yangtze Optics Africa Cable (YOAC) (continued)

The YOAC facility has commenced functional testing and supplier auditing of its production processes to ensure full compliance with international standards such as ISO9001:2015 and IEC-60794. The factory must also match up to internal OEM standards set by YOFC in China and those of local operators such as Openserve and MTN.

New jobs and skills

By June 2018, when the YOAC plant is fully operational, it will create sustainable jobs for approximately 120 people in the surrounding communities of Inanda, Ntuzuma, KwaMashu, Phoenix, Ottawa and Waterloo. These positions are being complemented by the transferring of high-level technical skills through a planned four-year YOAC skills development programme.

The first 14 South Africans employed by YOAC travelled to China for training on fibre cable manufacturing in preparation for the launch of the plant. This training covered the full manufacturing spectrum from optic fibre colouring, secondary coating, stranding, sheathing to cable testing and quality control. These employees are now training the newly recruited South African teams.

YOFC is strengthening its commercial relationships in South Africa by tapping into local resources and upskilling people from nearby communities.

Future prospects and forward planning

YOAC intends competing on delivery, quality and price of our products, supported by complementary solutions.

We intend significantly reducing the cost of optical fibre cable in South Africa through local manufacture and an established distribution chain. As fibre uptake across South Africa and the broader continent grows, YOAC will broaden its range of products and manufacturing volumes.

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 in this report, 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.

We intend the result to populate an accurate and complete Integrated Annual Report, yet unburdened with the peripheral data that tends to confuse rather than enlighten.

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; and Mustek's ability to affect 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.

South Africa's economy and the Rand exchange rate

The ZAR/USD exchange rate is a major factor in the ICT industry, as the bulk of our imported inventory is paid for in US Dollar.

Exchange rate fluctuations affect prices, and the Rand's propensity for sharp movements against other major currencies is an ongoing challenge. Mustek does have a hedging policy in place.

South Africa's economy remains stagnant, with minimal GDP growth projected for 2017. Even if South Africa does escape further credit downgrades by ratings agencies and background factors improve, an economic turnaround will take time to gather impetus.

Preserving key relationships

A breakdown in relationships with key suppliers and resellers would negatively affect Mustek's profitability. Mustek and Rectron pay particular attention to maintaining the relationships at both ends of our value chain that are critical to our success. 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.

Mustek's material matters (continued)

Underpinning this is the Group's overall commitment to meeting ever-changing ICT needs by delivering the right products and services, at the right time and at the right price.

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 quickly to trends in South Africa and globally.

The world's biggest technology brands will obviously shape 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.

From South Africa's digital transformation efforts, to how the Internet of Things will transform organisations, people and hardware – these are some trends Mustek constantly monitors.

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.

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

Attracting and retaining the broad range of necessary skills within the Group is an important focus area. Besides offering market-related remuneration, Mustek enables individual career path choices, supported by skills development programmes.

The Group prioritises recruiting previously disadvantaged persons who we train to be valuable and experienced ICT industry workers.

Transformation and maintaining our social licence to operate

Mustek's business units readily accept their responsibility to address the imbalances of the past by working to continually improve its 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 crime, are driving companies to embed strict corporate governance and ethics policies.

Over the past two 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 roof of its Midrand premises in 2013, with Rectron following suit in 2015. During the previous financial year, 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.

In this year Mustek continued driving its strategy of growing and optimising its core distribution business, while bringing in complementary services and technologies that secure the Group's long-term sustainability.

This continual diversification of Mustek's overall portfolio enables the Group to ride out tough times, such as South Africa is currently facing.

On behalf of the Board, I commend management and each employee for year after year delivering solid results in unfavourable economic circumstances.

Trading environment and Mustek's unfolding strategy

Public sector procurement is a substantial portion of our business and Mustek has been directly affected by a slowdown in spending of government funds for overdue ICT upgrades in the public sector.

As South Africa's largest European trading partner, uncertainty about the UK's "Brexit" from the EU may affect imports and financial flows. On the other hand, GDP growth in the USA and China should drive up commodity prices and earnings for the mining industry in particular, which would support improved growth in 2018.

On the positive side, the ending of the drought and a downturn in inflation have allowed the South African Reserve Bank to start cutting interest rates. South Africa's agricultural sector is rebounding and falling food prices should ease the pressure on households and increase their purchasing power.

Across the globe, technology is being leveraged to drive growth, transform customer experiences, improve services, and so much more. Mustek is positioned as a strategic partner in the digital transformation that just about every kind of organisation has to undergo. Many opportunities lie ahead for Mustek and our diversification strategy of the past few years has enabled the Group to assemble the products and solutions that underpin a digital future for organisations and individuals.

This financial year's results and the ongoing validation of Mustek's current strategy convince me that the Group remains on the right track.

Relations with stakeholders

In a fast changing world, Mustek will only remain profitable and sustainable by actively listening to clients, shareholders, employees, partners, community leaders and regulators. We achieve our strategic objectives by nurturing strong relationships with our partners and stakeholders, both locally and abroad.

A key stakeholder group is our thousands of resellers, who are at the coalface of evolving consumer trends and demands. We gain invaluable insight into market demand by continually engaging with resellers through customer surveys, roadshows, personal meetings and incentive schemes.

Transformation and B-BBEE

Following changes tabled in the amended B-BBEE ICT sector code (AICT) in November 2016, the Mustek division retained its level 2 B-BBEE contributor status, while Rectron reverted from level 2 back to level 4.

Rev Dr Vukile Mehana
Chairman

Chairman's letter (continued)

With AICT in place, we have regulatory certainty and can plan for Mustek's ongoing transformation.

While the ICT sector has introduced powerful and modern tools for developing South Africa, millions of people in rural areas are still left behind. Recognising that overcoming this digital divide is a key to social upliftment and reducing inequality, Mustek is intensifying its decades long programme of training marginalised people in ICT skills, of which many are now spread throughout the industry.

Smart learning is growing as traditional educational institutions realise the importance of establishing online platforms. At Mustek we are ramping up our training offering through the Mecer Inter-Ed subsidiary and intend engaging SETAs, schools and universities with digital education tools and training in ICT skills.

During this reporting period, a Group Transformation Executive was appointed to drive Mustek's transformation initiatives in South Africa.

Environmental stewardship

Despite Mustek's relatively small impact on the natural environment, we are committed to reducing our impacts to help mitigate climate change, while minimising inefficiencies and operating costs. The Group champions environmental stewardship through responsible use of natural resources and implementing sustainable practices.

Over the past five years, Mustek's energy-saving initiatives have reduced the Group's emissions by 48%. This investment in energy efficiency is paying for itself by significantly reducing our electricity demand, while demonstrating the viability of renewable energy to potential clients.

Mustek has successfully maintained its ISO 14001 certification since 2004 and has not been sanctioned for non-compliance with environmental laws and regulations.

Corporate governance and ethical leadership

Mustek applied the principles of King III throughout the financial year and therefore elected to report against these principles for this Integrated Annual Report. The Group is presently evaluating our governance structures and charters in preparation for the changeover to King IV. This process includes amending our internal information gathering systems to provide exact data required to populate best practice corporate reports.

Sound corporate governance underpins Mustek's reputation and the Board recognises that the tone on ethical behaviour needs to come from the top. The Board has adopted a Code of Ethics and Business Conduct which is continuously reviewed and updated as appropriate. Mustek's directors are fully committed to these principles, which ensure that the business is managed according to the highest ICT industry standards, as well as the social, political and physical environment within which we operate.

In a constantly changing IT landscape, Mustek's Board must be able to draw upon a range of experiences to understand opportunities, anticipate challenges and assess risks. I am confident that Mustek's Board presently comprises the appropriate balance of knowledge, skill, experience, diversity and independence for its effective leadership.

No material ethical leadership and corporate citizenship deficiencies were identified or arose during the review period.

Appreciation

As my first year as Mustek's Chairman proceeded, I was impressed time and again by the spirit of professionalism, solidarity and collaboration that feature throughout the business. This is clearly a mature organisation with a settled organisational culture, which shows in the relatively low personnel turnover at all levels, right up to the Board. Mustek's policy is to thoroughly prepare talent from within its ranks for promotion in support of succession planning.

While Mustek continues leading and delivering in the fast moving ICT industry, this approach clearly works.

Mustek's first 30 years have set it on track for the next decades. I have every confidence that the Group will continue growing from strength to strength.

Rev Dr Vukile Mehana
Chairman

To our stakeholders

This year we celebrate Mustek's 30th year in existence. From a four-person start-up in 1987 hand assembling South Africa's first local PC brand desktop computers, we grew into the country's most prominent distributor of international ICT brands and complementary technology solutions.

That is cause for celebration.

Mustek has evolved through the long haul of massive changes in the industry – from DOS to Windows to the era of cloud computing that the world is entering now. It is a journey I am immensely proud to have shared with the many good people who have walked the road with me.

I am pleased that we can report generally satisfactory results under particularly trying circumstances.

The Mustek and Rectron distribution channels to resellers, which comprise roughly 70% of the business, came in above budget. Other than the start-up losses incurred by YOA, our associated companies performed to expectations. The most disappointing outcome was the continued slowdown of spending in the public sector.

The Group's revenue from continuing operations decreased by 0.8% to R5.24 billion (2016: R5.29 billion). The major reason for the slowdown in growth was the reduction in the spending from the government sector.

The gross profit percentage from continuing operations was marginally down from 12.9% to 12.6%, predominantly as a result of product mix, the drive to reduce inventory levels and an increase in inventory provisions.

The Group's hedging policy proved effective, as forex losses from continuing operations, which includes the cost of forward points, was R0.5 million compared to R11.8 million in the comparative period.

Cash flow and working capital management

The improvement in working capital levels contributed to cash generated from operations of R228.8 million (2016: R175.0 million). Inventory on hand reduced by 3.0% and trade and other receivables reduced by 0.7% compared to the previous financial year. Management continues to focus on optimal working capital management as it remains a driver of profitability in our industry.

Share buy back

We continued our programme of buying back shares when the price is right to strengthen EPS and NAV per share for existing shareholders. During the year Mustek purchased 15 million shares to reduce the number of shares in circulation to 83 million.

David Kan
Chief Executive Officer

Mustek at a glance
Leadership review
The capitals
Governance
Annual financial statements

Chief Executive Officer's review (continued)

Operational overview

Mustek's ongoing strategy of broadening our range of brands and products, while introducing complementary new services and solutions, is continuing to pay off.

Building off our fundamental distribution base, Mustek's three engagement strategies for continuing sustainability are communications, mobility and energy. In this year, we provisioned our communications strategy through our Huawei Enterprise portfolio offering and by bringing in Hytera, a world leading provider of radio communication technology. We service the mobility market through top international brand ranges that include Lenovo, Acer, Asus and Toshiba, supported by our in-house Mecer brand and its 30-year track record of day-to-day reliability. Mustek's renewable energy division is steadily growing sales and we added the world's number one solar panel brand GCL to our offering.

Distribution

Our distribution channels through Mustek and Rectron were on target and we brought in brands that will complement rather than cannibalise market share from our existing market portfolio. Rectron's acquisition of a majority shareholding in the Palladium ERP software development company is the kind of complementary brand that offers additional value to our client base. After year-end, Mustek was appointed an authorised reseller of Apple products, which have a specific appeal to high-end consumers.

Services and solutions

Our technology service provider associates, Sizwe Africa IT Group and Khauleza IT Solutions, operate adjacent to our distribution channels by offering ICT solutions based on networking, cloud storage and a tailored approach to each client's needs.

Khauleza IT achieved its target and our MST division performed steadily as it entrenched itself into the security solutions market.

Sizwe performed slightly below budget due to a large contract reaching end of life, but has a promising pipeline of new business for the current financial year.

Mustek's investment into the YOA fibre cable manufacturing plant in KwaZulu-Natal offers another revenue stream with exceptional potential. This plant is a new source of supply to the fast growing African demand for fibre cable for broadband connectivity and can potentially be expanded into the largest fibre cable manufacturer on the continent.

All the required manufacturing equipment were completely installed and commissioned during November 2016 and core employees are now fully trained. YOA started production during January 2017 and managed to grow its monthly revenue each month without exception from February 2017 to July 2017 and produced their first monthly operating profit during July 2017.

New partnerships

Palladium

Rectron acquired the majority shareholding in Palladium, an enterprise resource planning (ERP) software development company. Designed for small to medium businesses, Palladium's ERP system will make clients and resellers who take it up more competitive in today's tough markets.

Hytera

In May 2017, Mustek partnered with Hytera Communications to add world leading mobile radio communications. Hytera is present in more than 120 countries and innovatively merges traditional ICT and digital radio interfaces.

Apple

In August 2017 (post reporting period) Mustek was officially appointed as an authorised Apple reseller for Apple's entire product range.

The Apple brand has a unique status due to its industry leading design, outstanding hardware and the IOS and X operating systems, with extremely loyal users across the globe.

Engaging with Apple will attract new clients and offer additional options to our current reseller base.

Market trends

Tablet sales are falling as smartphones have generally expanded their screen real estate and offer similar functionality. Users are also finding that, in practice, tablets cannot match the entrenched productivity of laptops or desktops.

As smartphones become even more central to consumer digital interaction, there is a growing trend for users to retain tablets until end of life and not feel compelled to replace them.

The reality is that laptops and desktops remain entrenched as the "mothership" productivity hardware and their sales volumes are stabilising. Tablet sales are falling in response to the rise of the smartphone, with incoming models including machine learning capabilities.

We are getting close to when smartphones will be sufficiently powerful to be docked with monitors and keyboards to provide a desktop computing experience.

Another fast growing area is cloud storage and computing. Microsoft's cloud offering has become its biggest income generator, with OEM manufacture dropping to just 12% this year.

Previously the cloud was regarded as erratic and risky, but the rise of broadband and cybercrime is persuading previously reluctant organisations to move into the cloud. The leading cloud providers such as Amazon, Google and Microsoft spend billions of US Dollars to make their digital clouds functional and secure in an era of soaring cybercrime, whereas many organisations lack the expertise and funds to build multi-layer defences of a similar standard.

Cautious businesses are opting for hybrid cloud storage, with their data split between private and public clouds.

The Internet of Things

The so-called "Internet of things" (IoT) is a growing network of everyday objects – from industrial machines to consumer goods – that automatically share information and complete tasks. Sensors on our cars, our homes, our major appliances and even our city streets can continuously stream data to the cloud to enable millions of automated processes to be run.

The purpose of IoT is to create a safer world that uses less power and other resources through efficient monitoring and automatic rebalancing.

Although competing standards are presently hindering the rollout of IoT, it will be a game changer and Sizwe Africa IT Group made a 75% investment in Connect IOT, a company with a portfolio of IoT technologies and products.

Challenges, opportunities and strategy

Strategy

Mustek does not aspire to lead or disrupt markets, but we are early and nimble market followers. The Group has the built-in flexibility to adapt to market shifts quickly. For example, our assembly line could shift rapidly to assembling augmented reality (AR) PCs should these suddenly become high demand.

We continually assess our brands and products for returns and remove non-performers from the portfolio, while finding additional brands, such as Apple, that will add appeal.

New brands should not cannibalise our existing offering, but add reach to the overall portfolio.

Apart from assembly, distribution and optimising brands, Mustek and our subsidiaries make strategic investments into networking, security, renewable energy, manufacturing and other solutions-based businesses that will diversify the Group's income streams.

Training and enterprise development

For decades Mustek has been involved in digital-based training and education technology through our Mecer Inter-Ed subsidiary, but these efforts have been relatively low key since the rollout of GautengOnline some years ago.

We have, however, continued investing in education technology and e-learning in the belief that this sector will grow. This initiative is gaining momentum as large corporations such as Telkom and MTN are commissioning Mustek to equip schools on their behalf.

Mecer Inter-Ed is SETA approved and we have established an in-house facility to provide training modules and enterprise development.

Chief Executive Officer's review (continued)

Technology outlook

Three emerging megatrends

A new Gartner report on emerging technologies has named Artificial Intelligence (AI), Virtual Reality (VR), and digital platforms as major tech trends.

AI is likely to be the biggest disruptor over the next decade, while VR and possibly Augmented Reality (AR) will gain traction as these technologies are developed to provide immersive experiences for users.

VR and AR can enable people to interact with each other in software generated immersive environments. For example, VR can be used for training situations and to virtually experience remote or inaccessible scenarios such as climbing Mt Everest. AR blends the real and virtual worlds so that graphics can be overlaid onto real-world objects, such as 3D models of planned buildings onto a desk surface.

Immersive experiences utilising AR or VR are becoming cheaper and more accessible, but will not replace other human and technology interfaces in the near future.

Digital platforms, the third megatrend, will emerge to support the rise of these emerging technologies, which will require vast quantities of data and computing power to become mainstream.

Outlook

Times are tough and consumers have become highly cost focused. They do not want to spend a cent more than they have to. Fortunately for Mustek, technology marches on regardless of economic circumstances, which compels our end-consumers to upgrade or replace from time to time, albeit in slower cycles.

The single biggest negative impact on our results over the past two years is the lack of government and public sector spending on ICT infrastructure. They cannot delay replacement cycles indefinitely as their systems will degrade severely and we have seen encouraging signs of public sector spend returning to the market.

In the current economic climate, the ICT distribution market is becoming saturated, so we seek out new investment opportunities in complementary niches to continue growing the company. Our recent investments into Sizwe and Khauleza are sustainable and delivering good returns, while our YOA fibre cable manufacturing facility should have a positive contribution to profits during the 2018 financial year.

30 years young

Over the past 30 years we have built up critical mass, executive capability and a momentum that has taken Mustek safely through all the historic events and economic vagaries that our chosen markets have thrown at us. At various times, we changed direction and boldly tackled opportunities. Inevitably, we have made errors or circumstances changed the parameters, but nothing ventured, nothing gained. We have always managed to self-correct and Mustek trades on as a stable and sustainable business.

This would not have been possible without the steadfast loyalty of shareholders, our employees and our thousands of clients and resellers. For that, I am deeply grateful.

In fiscal 2018, we will continue focusing on our strategic priorities, minimise costs and manage working capital as we aim for profitable growth, regardless of market conditions.

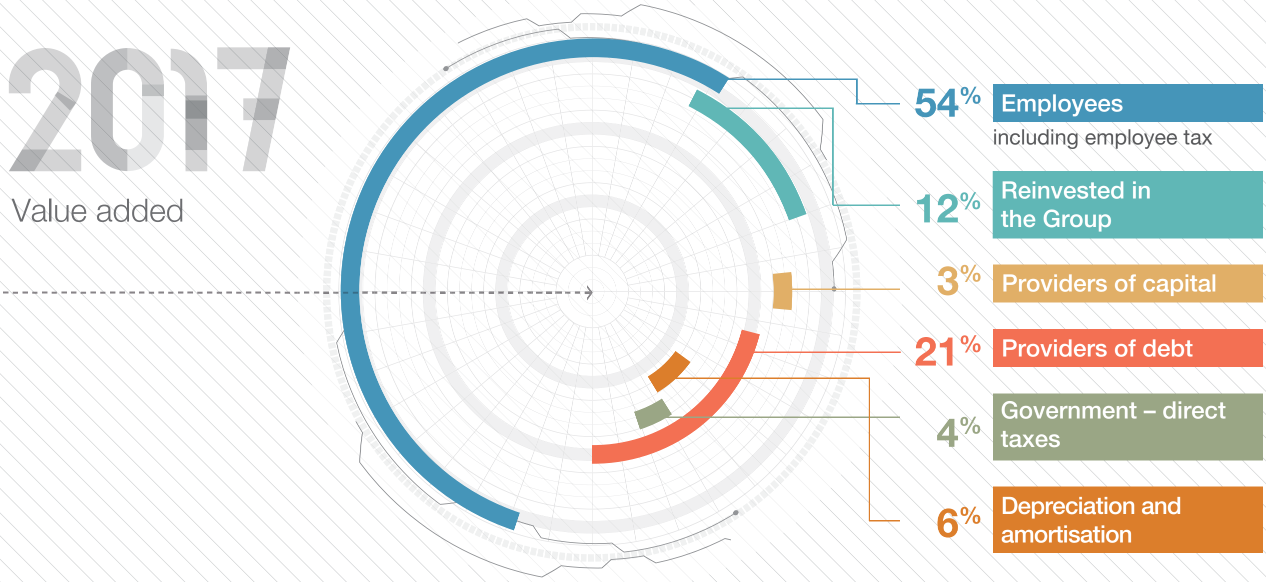
Here's to another 30 years of Mustek.

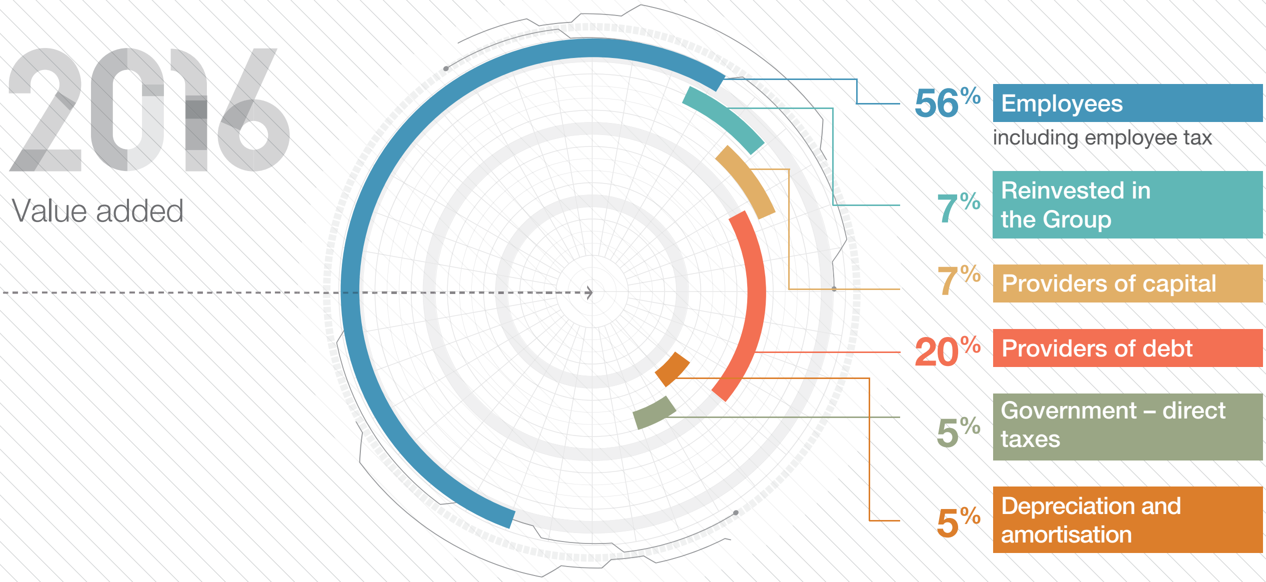
David Kan
Chief Executive Officer

Sharing across society

Mustek utilises the six capitals to create the value that sustains the business and provides shareholder returns. Created value is shared out with our stakeholders to support the economy, government and communities where our employees live.

Value added statement





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.

Financial capital

Generating funds

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

Our capitals (continued)

Financial capital (continued)

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

Highlights

- net asset value per share R11.69 (2016: R10.08)
- banking facilities R2 525.8 million, with 39.4% utilised at 30 June 2017 (2016: R2 366.9 million, 52.6% utilised at 30 June 2016)
- accounts payable funding R1 715.3 million (2016: R1 673.6 million).

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.

Material matter – South Africa's economy, its growth prospects and the Rand exchange rate

Mustek is exposed to events that occur in the markets from which it acquires its products and to the South African and broader African markets that it offers products and services. It is also affected by the varying exchange rates between currencies in all these markets. Financial results will naturally be impacted by these events.

Although Mustek does not have control over potential economic events, it does apply a hedging policy to minimise foreign currency exchange risk and ensures that it has 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.

Material matter – profitability and cash flow

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 is composed of 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.

Two key activities of the finance department to maximise profitability and cash flow are the management of foreign exchange risk and working capital management.

Foreign exchange risk management

The bulk of Mustek's inventory is imported from other countries, with purchases predominantly in US Dollar (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 a variety of 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.

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.

The Group performs ongoing credit valuations of the financial condition of customers and, where appropriate, credit insurance is purchased for 85% to 95% 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 from continuing operations decreased by 0.8% to R5.24 billion (2016: R5.29 billion). The major reason for the slowdown in growth was a reduction in government sector spending. The balance of the market showed signs of severe strain but both Mustek and Rectron were able to maintain, if not gain, market share
- the gross profit percentage from continuing operations reduced from 12.9% to 12.6% predominantly as a result of product mix, the drive to reduce inventory levels and an increase in inventory provisions. Although the gross profit percentages achieved by products such as Huawei Enterprise Solutions and Microsoft Volume Licensing are lower, their contributions to profit are expected to continue growing
- the Group's hedging policy proved effective, as forex losses from continuing operations, which includes the cost of forward points, was R0.5 million compared to R11.8 million in the comparative period
- distribution, administrative and other operating expenses from continuing operations were well controlled, increasing by only 1.5%
- net finance charges from continuing operations continues to decrease. After incurring net finance charges of R45.3 million during the first six months of the current financial year, the Group incurred net finance charges of R42.0 million during the second half of the financial year. As a result, net finance charges decreased from R90.7 million to R87.3 million

Our capitals (continued)

Financial capital (continued)

- the Group applies hedge accounting where the requirements of IAS 39 have been met to separate the interest and spot elements from the forward contracts, and R18.5 million (2016: R14.3 million) was classified as finance costs, as opposed to forex losses
- the contribution from our associates decreased mainly due to the start-up losses incurred at Yangtze Optics Africa Holdings Proprietary Limited (YOA). The Group's share of losses equity accounted amounted to R4.7 million. All the required manufacturing equipment was completely installed and commissioned during November 2016 and core employees are now fully trained. YOA started production during January 2017 and managed to grow its monthly revenue each month without exception from February 2017 to July 2017 and produced its first monthly operating profit during July 2017
- Mustek's headline earnings per share is 5.7% higher at 81.26 cents (2016: 76.88 cents) and basic earnings per share is 8.4% higher at 80.32 cents (2016: 74.13 cents).

Return on equity

- 7.5% (2016: 7.5%).

Inventory

- Group inventory days: 86 days (2016: 88 days)
- at year-end R69.0 million (2016: R53.6 million) of inventory was carried below its cost at net realisable value. This represents 6.4% (2016: 4.8%) of the Group's total inventory
- current ratio 1.3 times (2016: 1.3 times).

Group debtor's days

- 76 days (2016: 76 days).

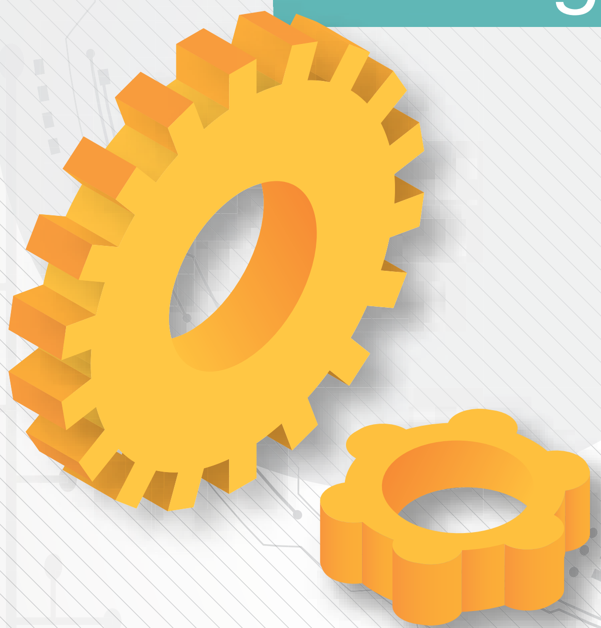
More information regarding the Group's operational and geographical segment performance can be found in note 1 to the annual financial statements.

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, in order to control cost increases, will continue to be investigated
- appropriate restructuring of commission payments for sales and product teams was implemented from July 2016 and the expected changes in behaviour should have a positive contribution to future results. Further opportunities to meet all stakeholder objectives will be pursued in the coming year
- the implementation of a new ERP system at both Mustek and Rectron will create opportunities to improve synergies between the two operations and will receive considerable attention in the 2018 financial year.

Manufactured capital

Leveraging infrastructure



Manufactured capital consists of the physical objects (as distinct from natural physical objects) 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)

Mustek's manufactured capital comprises:

- assembled and purchased inventory
- owned/leased offices and branches
- the Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa. It also 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, detailing the picker, builder, tester and packer
- warehousing
- logistics fleet (owned and outsourced).

Our assets and products

- the Group's financial capital is invested in a combination of manufactured capital and financial assets (accounts receivable and cash). The Group's single largest investment in manufactured assets, and indeed all its assets, is represented by its inventory of finished goods and inventory in transit
- at 30 June, the Group's inventory amounted to R1.078 billion (2016: R1.112 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
- the Group's other manufactured capital is its investment in offices, warehouses, branches, plant, equipment and motor vehicles. The majority of the assets 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.

How we manage them

- the governance and management of the Group's physical assets is similar to that of its financial capital
- Mustek applies its knowledge and understanding of 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
- specific aspects of this procurement process include 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 are fully aware of the distributor, reseller and customer relationship and are able to track inventory through their integrated reseller inventory software. They add value by remitting orders along with delivery notes to customers, thus simplifying life for the reseller
- the Group uses a combination of an in-house vehicle fleet and an outsourced courier service to maximise customer service and fleet utilisation, while minimising costs
- the Group's ability to customise products to meet customer demands means that much of the Group's stock is procured on a back-to-back basis for a specific customer order
- Mustek's management and personnel are committed to providing computer-related equipment and services of the highest quality
- 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 these being assembled
- a complaints register is consistently maintained and reviewed
- Mustek achieved certification to ISO 9002 in 1997, and converted to ISO 9001 in 2003. 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
- physical access controls and regular stock counts
- necessary physical controls in terms of the OHS Act
- adequate insurance of assets.

Our supply chain

The Group's supply chain is extremely simple. It procures 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 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 set-up and image loading. It holds distribution rights and authorised service agent agreements with the majority 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 of our own suppliers of ICT components.

Assembly and inventory performance

- 60 807 units assembled (2016: 67 743 units)
- 6.512 million items sold (2016: 4.425 million)
- 105 complaints logged (2016: 154)
- ISO 9001 certification verified by BSI
- inventory days 86 days (2016: 88 days).

2018 and beyond

- 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
- Rectron introduced MakerBot 3D printers in the 2015 financial year and Mustek introduced XYZ Printing 3D Printers during the 2016 financial year. The maker movement is a growing community that the Group is actively targeting
- this broad range of products (multinational brands and the Mecer brand) and the Group's reseller base allows market share growth in an expanding market
- Huawei, NEC, Lenovo ThinkServer and Asus Networking allows Mustek to 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 the present time due to inadequate infrastructure including roads, electricity and networks. However, the Group is actively growing its export business into mainly neighbouring countries
- the Group will continue to pursue solutions for education and distance learning.

Our capitals (continued)

Human capital

Strengthening skills

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

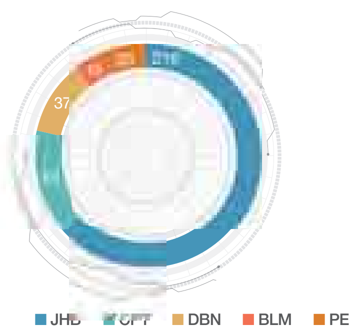
Headcount at 30 June 2017

Site	Number of employees	% breakdown
Mustek Gauteng	**380**	**67.14**
Mustek KwaZulu-Natal	**45**	**7.95**
Mustek Eastern Cape	**28**	**4.95**
Mustek Western Cape	**72**	**12.72**
Mustek Northern Cape	**8**	**1.41**
Mustek Free State	**13**	**2.30**
Mustek Limpopo	**8**	**1.41**
Mustek Mpumalanga	**8**	**1.41**
Mustek North West	**4**	**0.71**
Total	**566**	**100.00**

South African national employee diversity statistics

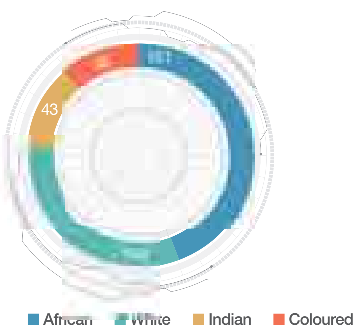
Race	Total	Race %	Female	Female %	Male	Male %
African	**332**	**58.66**	140	58.33	192	58.90
Coloured	**68**	**12.01**	30	12.50	38	11.66
Indian	**48**	**8.48**	11	4.58	37	11.35
Black sub-total	**448**	**79.15**	181	75.42	267	81.90
White	**118**	**20.85**	59	24.58	59	18.10
Total	**566**	**100.00**	240	100.00	326	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	**157**	**47.00**	98	55.10	59	37.80
Coloured	**34**	**10.20**	12	6.70	22	14.10
Indian	**56**	**16.80**	27	15.20	29	18.60
Black sub-total	**247**	**74.00**	137	77.00	110	70.50
White	**87**	**26.00**	41	23.00	46	29.50
Grand total	**334**	**100.00**	178	100.00	156	100.00

In total, 339 employees including five foreign nationals.

Our capitals (continued)

Human capital (continued)

Mustek's human capital philosophy

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

Approximately 18% (2016: 20%) of our employees are trade union members. None of the trade unions in our sector has 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, at the same time, 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.

Respect, dignity and fair treatment are core values and Mustek has adopted a policy of zero tolerance 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.

Material matter – 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. While remuneration is important to employees, working in an empowering environment with clear policies and procedures supports a culture of learning and development.

To embed a culture of learning, both Mustek and Rectron prioritise promoting or transferring people from within our joint workforces before advertising to the broader job market. Preference is given to employees from previously disadvantaged backgrounds.

Career development – our response
100% of Mustek's workforce receives regular performance and career development reviews.

Performance and career development reviews are conducted annually and a succession planning programme is 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 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:

The Group conducts a comprehensive HIV/Aids strategy and programme, based on the core principle 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. This programme also provides antiretroviral drugs 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 conforms 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 in terms of health, safety and related issues.

Minor injuries requiring first aid are recorded and reported by the 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.

Our capitals (continued)

Human capital (continued)

The Group's total investment in the training and development of employees during the 2017 financial year amounted to R13.67 million (2016: R10.26 million).

Rectron's training spend as at end-June 2017 was R7.49 million (2016: R4.35 million).

100% of senior management is hired from the local community.

Employee turnover for Mustek for the current year amounted to 17.0% (2016: 12.18%).

Employee turnover for Rectron for the current year amounted to 16.81% (2016: 11.93%).

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

Mustek's absenteeism rate was recorded as 1.45% (2016: 1.12%), and Rectron's as 2.06% (2016: 1.69%) for the 2017 year.

In total, 11 injuries were recorded, of which 10 injuries were recorded by Mustek, and one injury was recorded by Rectron during the year.

During FY17 Mustek lost 2 139 productivity/working days due mainly to sick leave taken by staff nationally (2016: 1 781).

Mustek was involved in two CCMA cases during the year (2016: three) and Rectron had two CCMA cases:

- 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:

Health and safety indicator	Mustek 2017	Mustek 2016	Rectron 2017	Rectron 2016#
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)	**98**	17	**31**	16
Medical treatment cases (MTCs, ie injuries on duty leading to medical treatment, but no lost days)	**2**	12	**0**	0
Lost time injuries (LTIs, ie injuries on duty leading to at least one lost day)	**8**	4	**1**	2
Lost time injury frequency rate (LTIFR, ie number of LTIs per 200 000 person hours worked)	**1.7**	0.8	**0.3**	4.3
Total number of recordable injuries, including MTCs, LTIs and fatalities	**10**	16	**1**	2
Total recordable injury frequency rate (TRIFR)	**2.1**	3.1	**0.3**	4.2

Rectron's human capital

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

Rectron's human capital highlights

- Training was conducted in accordance with each employee's personal development plan (PDP). A highlight was the communication skills class which assisted employees to bridge language gaps
- A diversity campaign was conducted, with each month highlighting South Africa's various cultures
- Updating of employee contracts, standard operating procedures (SOPs) and policies
- Three interns were brought in through the Microsoft Volume Licensing (VL) internship programme and continued their workplace experience at Rectron
- 150 learnerships were enrolled through the Torque IT learnership programme
- Rectron's growth resulted in 58 new employees recruited during the reporting period
- Rectron hosted an employee wellness day, with the focus on the journey of wellbeing. Employees learnt about healthy lifestyle choices such as being physically active, managing stress and healthy eating.

Our capitals (continued)

Social and relationship capital

4 Enhancing relationships

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 stakeholders

We define stakeholders as 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:

Our capitals (continued)

Social and relationship capital (continued)

Stakeholder engagement

Proactive and sincere stakeholder engagement is fundamental to Mustek 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, or
- 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.

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.

Material matter – 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.

The Mustek division retained its level 2 B-BBEE contributor status, while Rectron reverted to level 4 due to recent changes tabled in the Amended B-BBEE ICT sector code (AICT).

Mustek submits annual employment equity and workplace skills plans and is fully compliant with the Employment Equity Act, 55 of 1998 and the Skills Development Act, 97 of 1998.

During the 2017 financial year, Mustek spent R13.67 million on staff training and skills development (2016: R10.26 million).

Corporate social investment (CSI)

The Group's CSI programme aims to improve the quality of, and access to, education for previously disadvantaged communities and people living with disabilities.

In this reporting period, the Group spent R1.14 million on CSI initiatives. 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 70% target for preferential procurement with BEE compliant suppliers. Approximately 47% of the total procurement spend is with local suppliers.

Mustek's weighted B-BBEE procurement spend constituted 92% of our total measured procurement spend (after eliminating imports).

We procure significant quantities of inputs from internationally recognised manufacturers in the Far East. We do not ignore the possibility that imports may be produced under unsatisfactory employment conditions, therefore we only procure from recognised vendors. Mustek personnel inspect vendor premises to monitor conditions under which their workers operate.

Material matter – maintaining key relationships

Maintaining strong relationships with both suppliers and resellers is fundamental to the Group's ongoing success and requires having the right people and processes in place. 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.

Accomplished product and brand managers oversee and nurture relationships with our suppliers.

Key account managers are charged with retaining reseller loyalty and helping them to gain additional business. Outstanding service, underpinned by open channels of communication, is fundamental to these relationships.

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. While this makes Mustek an exceptional distributor, this status places the Group under pressure to ensure our products are always available and of the highest standard.

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.

Our capitals (continued)

Social and relationship capital (continued)

Protection of customer data

Our customers register themselves with us through a website portal. We have a strict policy of protecting customer-related data. In the last year of review, no complaints related to breach of privacy and loss of customer data was reported.

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

Critical information such as passwords and credit card details are not stored. Customer information that is kept by us is stored on a secure SQL server situated behind a firewall 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, introduced in the previous financial year, is proving highly successful in retaining reseller loyalty. Rectron Rewards enables resellers to seamlessly order online, check stock availability and review their account balances. They can also engage in online training on products.

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

FY17

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

FY16

- Lenovo ThinkServer – Mustek: Distributor of the Year 2015/2016
- Lenovo – Mustek: Best Distributor Revenue Growth in Southern Africa 2015/2016
- SanDisk – Mustek: Distributor FY16
- Toshiba – Mustek: Distributor of the Year FY16.

Natural capital

Environmental care

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. It includes:

- Air, water, land, minerals and forests
- Biodiversity and eco-system health

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 the overall cost of electricity, including the "demand charge" from municipal authorities
- Manufactured components for Mecer hardware
- Packaging material.

Management approach

We motivate our people to contribute to using the earth's resources efficiently with minimal depletion. Mustek does so by making environmental performance a strategic initiative and utilising a systematic approach to improving energy usage and incorporating environmental goals into routine operations. Procedures and processes are integrated into employee training and our environmental impacts are monitored.

Mustek's energy and environmental management goals are to increase compliance, improve efficiency and reduce waste. The Mustek division uses ISO 14001, the global benchmark standard, for implementing best practice environmental management.

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 fuel usage. 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.

The Rectron subsidiary is adopting the Mustek approach to reporting on energy consumption and recycled waste.

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 implement and 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 if any of these environmental "aspects" can cause an impact on the environment, beneficial or adverse.

From this process of assessment, Mustek has implemented operational controls and targeted programmes to reduce significant potential impacts on the environment.

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
- There were no issues of non-compliance with regulations and voluntary codes concerning product and service information and labelling
- Mustek has reduced its energy consumption by a further 3% due to the cost-saving initiatives introduced through the maintenance of the ISO 50001 energy management system.
- All products include labelling that indicates:
  - model number
  - input rating
  - output rating (if relevant)
  - a recycling statement is included on all Mecer computer boxes
- Electronic waste is classified as hazardous in its waste form. It is thus collected and responsibly recycled, with 40 tonnes of e-waste recycled by Mustek and its bigger branches in this financial year
- Rectron has recycled 11 tonnes of waste and generated 1 220 GJ of energy from their national photovoltaic (solar) plants.

Material matter – energy consumption and greenhouse gas (GHG) emissions

Reducing our 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 also demonstrate the viability of renewable energy for powering corporate infrastructure.

Since 2011, lighting electrical energy contribution was reduced from more than 30% to less than 10% through the lighting retrofits.

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.

As part of the continual improvement, this year we optimised operational controls to deliver an energy saving of 3%.

Over the past five years Mustek's energy-saving initiatives have managed to reduce the Group's emissions by 48%. In 2012, Mustek had emitted over 4 900 tonnes CO_2e for the direct and indirect energies of Scope 1 and Scope 2. In the 2017 year this had reduced to 2 550 tonnes CO_2e emitted.

The Group acknowledges that its supply chain is responsible for emissions and has, in previous periods, attempted to report Scope 3 emissions. This exercise was frustrated by the unavailability of data from certain outsourced freight transport providers and therefore we are unable to include reliable Scope 3 figures in this report. Mustek does, however, continue identifying logistics efficiencies to reduce costs and emissions.

Waste abatement and disposal

The management of waste is an environmental issue that receives significant attention. The majority of the Group'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 has to be recycled or disposed of in a legally compliant manner. Mustek thus utilises service providers that can demonstrate compliance and are ISO 14001 certified. Appropriate controls and procedures are in place to ensure our employee 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 increased in relation to last year's numbers, along with a significant rise in recycled waste. During the reporting period, 182 tonnes of waste was recycled at the Mustek Gauteng operation, representing a recycling increase of 15%.

An additional 23 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)

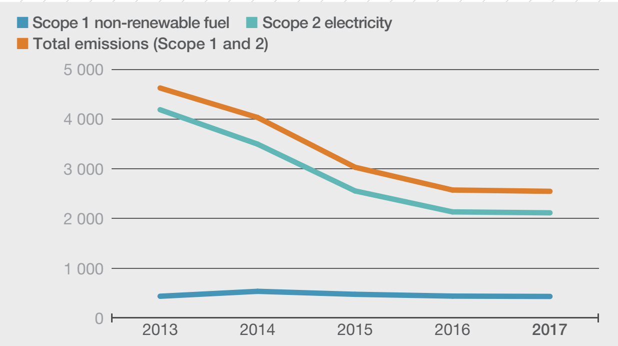
Natural capital (continued)

Emissions

Carbon emissions

Mustek	Emissions (tonnes CO_2e)	2013	2014	2015	2016	**2017**
Scope 1	Stationary fuels	12	10	15	9	**8**
	Company-owned vehicles	404	403	398	404	**372**
	Other fugitive emissions (tonnes CO_2e) (non-Kyoto gases)	22	123	63	27	**53**
	Total	437	536	476	440	**433**
Scope 2	Electricity emissions (tonnes CO_2e)	4 189	3 497	2 556	2 134	**2 115**
	Emissions	4 626	4 033	3 032	2 574	**2 548**

Mustek – emissions (tonnes CO_2e)



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

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

Percentage reduction in emissions

Mustek	Emissions (tonnes CO_2e)	2013	2014	2015	2016	**2017**
	Total emissions (tonnes CO_2e)	4 626	4 033	3 032	2 574	**2 548**
	Reduction of tonnes CO_2e	270	593	1 001	458	**26**
		6%	13%	11%	11%	**1%**

Emissions intensity

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

Mustek	Emissions (tonnes CO_2e)	2013	2014	2015	2016	**2017**
	Total emissions (tonnes CO_2e)	4 626	4 033	3 032	2 574	**2 548**
	Number of staff nationally	574	632	614	613	**576**
	Number of staff Comztek	126	175	n/a	n/a	**n/a**
	Number of tenants				20	**47**
		700	807	614	633	**623**
	Tonnes CO_2e/employee	6.6	5.0	4.9	4.1	**4.1**

Rectron	Emissions (tonnes CO_2e)	2016	**2017**
	Total emissions (tonnes CO_2e)	539	**774***
	Number of staff nationally	335	**347**
	Tonnes CO_2e/employee	1.6	**2.2**

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

Waste management

Mustek and Rectron

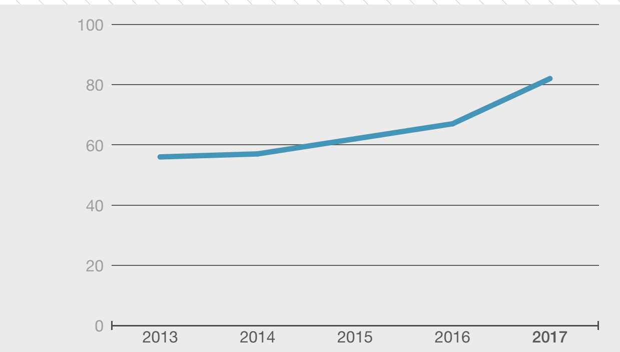
The following values reflect the recycling efforts of Mustek's and Rectron's Gauteng branch and Mustek's larger coastal branches:

Mustek and Rectron (tonnes)	2015	2016	**2017**
Mustek recycled waste (including branches)	155	129	**206**
Rectron recycled waste (only Gauteng)	23	13	**11**

Mustek Gauteng

Mustek Gauteng is ISO 14001 certified and is steadily increasing its ratio of recycled waste to waste being sent to landfill.

Mustek Gauteng – waste recycled (%)



Our capitals (continued)

Natural capital (continued)

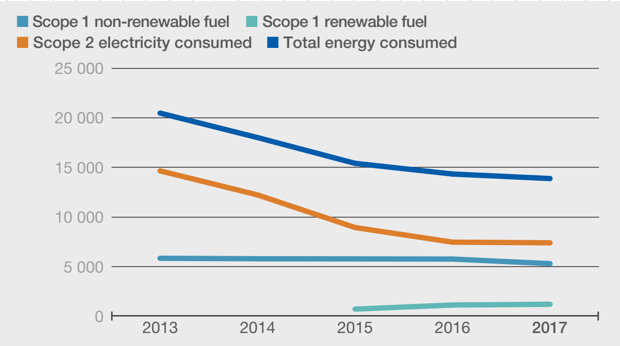
Energy consumption

Mustek utilises various forms of energy, which we manage efficiently through the ISO 50001 standard. In the 2014 and 2015 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)	2013	2014	2015	2016	**2017**
Scope 1	Stationary fuels	159	134	198	125	**113**
	Company-owned vehicles (P)	4 377	3 956	3 660	3 321	**2 734**
	Company-owned vehicles (D)	1 295	1 693	1 911	2 312	**2 444**
Scope 1	Non-renewable fuel	5 831	5 783	5 769	5 758	**5 291**
	Renewable fuel (solar) (Mustek Gauteng)			706	1 116	**1 192**
Scope 2	Electricity (GJ)	14 640	12 223	8 934	7 457	**7 391**
Total	**Total energy consumed**	20 471	18 006	15 409	14 331	**13 874**

Mustek – energy consumption (GJ)



Rectron	Energy consumed (GJ)	2015	2016	**2017**
Scope 1	Stationary fuels			**69**
	Company-owned vehicles (P)			**257**
	Company-owned vehicles (D)			**2 420**
Scope 1	Non-renewable fuel			**2 746**
	Renewable fuel (solar)		1 355	**1 220**
			1 355	**3 966**
Scope 2	Electricity (GJ)	1 226	1 886	**2 007**
Total	**Total energy consumed**	1 226	3 241	**5 973***

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

Energy consumption intensity

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

Mustek	Energy (GJ)	2013	2014	2015	2016	2017
Total	**Total energy consumed**	20 471	18 006	15 409	14 331	**13 874**
	Number of staff Mustek	574	632	614	613	**576**
	Number of staff Comztek	126	175	n/a	n/a	**n/a**
	Number of tenants				20	**47**
		700	807	614	633	**623**
	Energy intensity (GJ/per person)	29.2	22.3	25.1	22.6	**22.3**

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

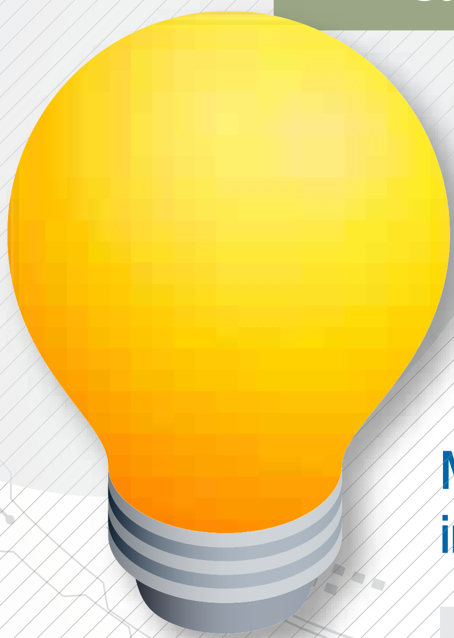
The energy consumption value for FY17 is higher as this is the first year that fuel usage is being reported for Rectron.

Energy saving

Mustek	Energy (GJ)	2013	2014	2015	2016	2017
	Energy saved	2 395	2 465	2 597	1 078	**457**
	Percentage energy saved year on year	10%	12%	14%	7%	**3%**

Intellectual capital

Intangible assets



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 30 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 whatever scale throughout South Africa.

Mustek's intellectual capital includes:
- 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 needs to understand industry and consumer trends 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 adopt or 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:

- NEC – Mustek EMEA Smart Government Solution Partner of the Year Award 2017
- Toshiba Storage – Mustek Distributor of the Year for Toshiba HDD 2017
- Huawei Enterprise – Mustek: Distributor of the Year 2016
- Huawei Enterprise – Siobhan Hanvey, Product Manager: Champion of the Year 2016.

Mustek's certifications:

- ISO 9001:2008 (quality)
- ISO 14001:2004 (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.

King III principles

as at 30 June 2017

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 1	Principle 1.1	The Board provides effective leadership based on ethical foundation.	Applied	AAA	Code of Ethics and Business Conduct Policy	The ethical foundation on which the Board provides effective leadership is incorporated in the Code of Ethics and Business Conduct, the Social and Ethics Committee and Board Charter. The Group's values on which it builds its foundation is included in the 2017 Integrated Annual Report.
Chapter 1	Principle 1.2	The Board ensures that the company is and is seen to be a responsible corporate citizen.	Applied	AAA	Code of Ethics and Business Conduct Policy	The Board ensures that the company is and is seen to be a responsible corporate citizen and this is also included in the Board Charter as part of the role of the Board.
Chapter 1	Principle 1.3	The Board ensures that the company ethics are managed effectively.	Applied	AAA	Code of Ethics and Business Conduct Policy	The Board adopted the Code of Ethics and Business Conduct, hereby committing that the company's ethics are being managed effectively. An independent external whistle-blowing process is in place demonstrating this.
Chapter 2	Principle 2.1	The Board acts as the focal point for and custodian of corporate governance.	Applied	AAA	Board Charter	The Board Charter sets out its responsibilities and the Board meets at least four times per year. Proper minutes are maintained of Board deliberations to ensure that proper corporate governance is being implemented on an ongoing basis.
Chapter 2	Principle 2.2	The Board appreciates that the strategy, risk, performance and sustainability are inseparable.	Applied	AAA	Board Charter	The Board informs and approves the strategy and it is aligned with the purpose of the company, its value drivers and the legitimate interests and expectations of its stakeholders to ensure sustainable outcomes. This principle is also included in the Board Charter.
Chapter 2	Principle 2.3	The Board provides for effective leadership based on an ethical foundation.	Applied	AAA	Code of Ethics and Business Conduct Policy	The Code of Ethics and Business Conduct is a fundamental policy of the Group to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 2	Principle 2.4	The Board ensures that the company is and is seen as a responsible corporate citizen.	Applied	AAA		Through the Audit and Risk Committee, the Board identifies and monitors the non-financial aspects relevant to the business and reviews appropriate non-financial information that goes beyond assessing the financial and quantitative performance of the Group, and looks at other qualitative performance factors, which takes into account broad stakeholder issues.
Chapter 2	Principle 2.5	The Board ensures that the company's ethics are managed effectively.	Applied	AAA	Code of Ethics and Business Conduct Policy	All directors and employees are required to comply with the spirit as well as the letter of the Code of Ethics and Business Conduct and maintain the highest standards of conduct in all dealings.
Chapter 2	Principle 2.6	The Board ensures that the company has an effective and independent Audit Committee.	Applied	AAA		The Audit and Risk Committee consists of three independent non-executive directors.
Chapter 2	Principle 2.7	The Board is responsible for the governance of risk.	Applied	AAA	Group risk register	Through the Audit and Risk Committee, the Board identifies the key risk areas and key performance indicators for the Group. The Board has a process by which these risks are updated regularly.
Chapter 2	Principle 2.8	The Board is responsible for information technology (IT) governance.	Applied	AA	Audit and Risk Committee Terms of Reference	The Board delegated this function to the Audit and Risk Committee to ensure that IT governance is properly implemented. The Chief Information Officer and Chief Technical Officer attends Audit and Risk Committee meetings by invitation to report on the relevant IT matters. An IT Steering Committee has also been established.
Chapter 2	Principle 2.9	The Board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Applied	AA	Audit and Risk Committee Terms of Reference	The Audit and Risk Committee oversees this function, together with the Social and Ethics Committee.
Chapter 2	Principle 2.10	The Board ensures that there is an effective risk-based internal audit conducted.	Applied	AA	Internal audit plan	Internal audit assists the Group in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

King III principles (continued)

as at 30 June 2017

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 2	Principle 2.11	The Board appreciates that stakeholders' perceptions affect the company's reputation.	Applied	AA		We are working hard at improving our engagement with all our stakeholders. We engage and speak openly on important issues. We have also made it a priority to partner proactively with them in appropriate areas.
Chapter 2	Principle 2.12	The Board ensures the integrity of the company's Integrated Annual Report.	Applied	AAA		This responsibility was delegated to the Audit and Risk Committee to review the integrity of the company's Integrated Annual Report prior to tabling this to the Board for final approval, and publication thereafter.
Chapter 2	Principle 2.13	The Board reports on the effectiveness of the company's internal controls.	Applied	AAA		The internal auditor's primary mandate is to examine and evaluate the effectiveness of the systems of internal financial control, so as to bring material deficiencies, instances of non-compliance and development needs to the attention of the Board through the Audit and Risk Committee.
Chapter 2	Principle 2.14	The Board and its directors act in the best interests of the company.	Applied	AAA	Declaration and Conflict of Interest Policy	A standard conflict of interest agenda item allows directors to report on real or perceived conflicts. The Board and committees are free to take professional advice in the exercise of their duties. A formal policy on insider trading and dealing with shares was adopted by the Board.
Chapter 2	Principle 2.15	The Board will consider business rescue proceedings or other turnaround mechanisms as soon as the company may be financially distressed, as defined in the Companies Act, 71 of 2008.	Applied	AAA	Board Charter	This was included in the Board Charter and will be applied if necessary.
Chapter 2	Principle 2.16	The Board has elected a Chairman of the Board who is an independent non-executive director. The CEO of the company does not also fulfil the role of Chairman of the Board.	Applied	AAA		Vukile Mehana is a non-executive director and Chairman of the Board. His role is separate to that of the Chief Executive Officer. Mdu Gama is the lead independent director.
Chapter 2	Principle 2.17	The Board has appointed the CEO and has established a framework for the delegation of authority.	Applied	AAA	Delegation of Authority Policy	A Delegation of Authority framework was adopted and the Chief Executive Officer's role was formalised and his performance is evaluated against specific criteria.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 2	Principle 2.18	The Board comprises a balance of power, with a majority of non-executive directors. The majority of non-executive directors are independent.	Applied	AAA	Board Charter	Four of the seven directors are non-executive directors, three of whom are independent. The Board size, diversity and demographics were considered and the Board of seven members is seen to be effective.
Chapter 2	Principle 2.19	Directors are appointed through a formal process.	Applied	AAA	Appointment of directors to the Board Policy	Directors are appointed through a formal process and this is overseen by the Remuneration and Nominations Committee and confirmed by the Board. An appointment of directors to the Board Policy is in place.
Chapter 2	Principle 2.20	The induction, ongoing training, as well as the development of directors are conducted through a formal process.	Applied	AA		Following the appointment of new directors, they visit the Group's businesses and meet with senior management, as appropriate, and are offered to facilitate their understanding of the Group and their fiduciary responsibilities. Directors receive training as and when required on company-specific matters.
Chapter 2	Principle 2.21	The Board is assisted by a competent, suitably qualified and experienced company secretary.	Applied	AAA		Sirkien van Schalkwyk was appointed company secretary. She is suitably qualified and was found by the Board to have the necessary knowledge and skills. She is a consultant and remains on an arm's length basis with the Board.
Chapter 2	Principle 2.22	The evaluation of the Board, its committees and individual directors is performed every year.	Applied	AA		A self-evaluation was conducted by the Board and its sub-committees during 2017. The results were discussed as well as plans to address the identified improvement areas.
Chapter 2	Principle 2.23	The Board delegates certain functions to well-structured committees without abdicating from its own responsibilities.	Applied	AAA	Board committee Terms of References	Specific responsibilities have been formally delegated to the Board committees with defined Terms of Reference, duration and function, clearly agreed upon reporting procedures and written scope of authority documented in its formal charters.
Chapter 2	Principle 2.24	A governance framework has been agreed upon between the Group and its subsidiary boards.	Applied	AA		The managing directors of the major subsidiaries attend the Board meetings by invitation and provide a written report on progress in their respective businesses. Management meetings are held in the respective subsidiary companies.

King III principles (continued)

as at 30 June 2017

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 2	Principle 2.25	The company remunerates its directors and executives fairly.	Applied	AAA		An approved remuneration philosophy, consisting of fixed pay, a bonus component and participation in an incentive scheme is in place.
Chapter 2	Principle 2.26	The company has disclosed the remuneration of each individual director and prescribed officer.	Applied	AAA		The directors' remuneration is disclosed in the 2017 Integrated Annual Report.
Chapter 2	Principle 2.27	The shareholders have approved the company's remuneration policy.	Applied	AAA		The remuneration philosophy was approved by shareholders at the AGM that was held in 2016 and would again be tabled for shareholder approval at the AGM to be held during 2017.
Chapter 3	Principle 3.1	The Board has ensured that the company has an effective and independent Audit and Risk Committee.	Applied	AAA		The committee comprises three independent non-executive directors.
Chapter 3	Principle 3.2	Audit Committee members are suitably skilled and experienced independent non-executive directors.	Applied	AAA		The members and Audit and Risk Committee attendees have the required financial knowledge and experience to oversee and guide the Board and the Group in respect of the audit and corporate governance disciplines.
Chapter 3	Principle 3.3	The Audit Committee is chaired by an independent non-executive director.	Applied	AAA		The committee is chaired by Lindani Dhlamini, who is an independent non-executive director. It is the intention that Lindani Dhlamini take over chairmanship of the committee in the next financial year.
Chapter 3	Principle 3.4	The Audit Committee oversees integrated reporting.	Applied	AA	Audit and Risk Committee Terms of Reference	This function is included in the Audit and Risk Committee's Terms of Reference.
Chapter 3	Principle 3.5	The Audit Committee has ensured that a combined assurance model has been applied which provides a coordinated approach to all assurance activities.	Applied	AAA		A combined assurance model is being considered for all assurance activities.
Chapter 3	Principle 3.6	The Audit Committee is satisfied with the expertise, resources and experience of the company's finance function.	Applied	AAA		The committee has satisfied itself with Neels Coetzee's work experience, performance and technical skills in fulfilling his role as Financial Director and providing leadership to the rest of the financial team.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 3	Principle 3.7	The Audit Committee should be responsible for overseeing internal audit.	Applied	AAA	Internal audit plan	The internal audit department continues to grow and mature and is being reviewed by the committee at each meeting. The company is considering expanding the internal audit department.
Chapter 3	Principle 3.8	The Audit Committee is an integral component of the risk management process.	Applied	AAA		The internal audit plan, approved by the Audit and Risk Committee, is based on risk assessments, which are of a continuous nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.
Chapter 3	Principle 3.9	The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	Applied	AAA		The Audit and Risk Committee approves the appointment of the external auditor as well as its engagement letter and terms, nature and scope of the audit function and the audit fee.
Chapter 3	Principle 3.10	The Audit Committee has reported to the Board and the shareholders as to how it has discharged its duties.	Applied	AAA		The Audit and Risk Committee advises the Board on issues ranging from the application of accounting standards to published financial information and feedback is provided at each Board meeting. A report from the Audit and Risk Committee is included in the 2017 Integrated Annual Report.
Chapter 4	Principle 4.1	The Board is responsible for the governance of risk.	Applied	AAA		The Board has established a comprehensive control environment ensuring that risks are mitigated and the Group's objectives are attained. Oversight function in terms of risk is delegated to the Audit and Risk Committee and discussed at each meeting with feedback to the Board.
Chapter 4	Principle 4.2	The Board has determined the levels of risk tolerance.	Applied	AAA		The risk tolerance levels have been determined and are discussed at each Audit and Risk Committee meeting.

King III principles (continued)

as at 30 June 2017

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 4	Principle 4.3	The Risk Committee and/or Audit Committee have assisted the Board in carrying out its risk responsibilities.	Applied	AAA		The Board's risk responsibilities are delegated to the Audit and Risk Committee. The internal audit plan is based on risk assessments, which are of a continuous nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.
Chapter 4	Principle 4.4	The Board has delegated to management the responsibility to design, implement and monitor the risk management plan.	Partially applied	C		All inherent and residual risks are discussed at each Audit and Risk Committee meeting, with feedback provided to the Board. The risk register includes the risks, ratings, internal controls and mitigating actions.
Chapter 4	Principle 4.5	The Board has ensured that risk assessments are performed on a continual basis.	Applied	AA	Group risk register	The inherent and residual risks are discussed at the quarterly Audit and Risk Committee meetings.
Chapter 4	Principle 4.6	The Board has ensured that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	Applied	AAA	Group risk register	The risk registers are continuously reviewed and discussed at the quarterly Audit and Risk Committee meetings.
Chapter 4	Principle 4.7	The Board has ensured that management has considered and has implemented appropriate risk responses.	Applied	AAA		Responses in terms of the risk register are being enhanced so as to include detailed responses from subsidiary level.
Chapter 4	Principle 4.8	The Board has ensured the continual risk monitoring by management.	Applied	AAA		The Board has established a comprehensive control environment, ensuring that risks are mitigated and the Group's objectives are attained.
Chapter 4	Principle 4.9	The Board has received assurance regarding the effectiveness of the risk management process.	Applied	AAA		External consultants conduct continuous reviews in terms of internal controls and systems and attend the Audit and Risk Committee meetings to table their working report.
Chapter 4	Principle 4.10	The Board has ensured that there are processes in place which enable complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	Applied	AAA		The major risks are disclosed in the 2017 Integrated Annual Report.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 5	Principle 5.1	The Board is responsible for information technology (IT) governance.	Partially applied	AAA		The Board delegated this function to the Audit and Risk Committee and is included in its Charter as well as the responsibility of the Audit and Risk Committee.
Chapter 5	Principle 5.2	IT has been aligned with the performance and sustainability objectives of the company.	Applied	AAA	IT Steering Committee Terms of Reference	The IT Steering Committee has its own Terms of Reference. The Chief Information Officer attends Audit and Risk Committee meetings by invitation and reports on IT matters.
Chapter 5	Principle 5.3	The Board has delegated to management the responsibility for the implementation of an IT governance framework.	Applied	AAA	IT Steering Committee Terms of Reference	The IT Steering Committee has its own Terms of Reference. The Chief Information Officer attends Audit and Risk Committee meetings by invitation and reports on IT matters.
Chapter 5	Principle 5.4	The Board monitors and evaluates significant IT investments and expenditure.	Applied	AAA		IT investments and expenditure are being monitored and approved in terms of the delegation of authority framework.
Chapter 5	Principle 5.5	IT is an integral part of the company's risk management plan.	Applied	AAA		Inherent and residual IT risks are included in the company risk register and also dealt with separately on a semi-annual basis.
Chapter 5	Principle 5.6	The Board ensures that information assets are managed effectively.	Applied	AAA	Policy regarding backups	The IT Steering Committee has its own Terms of Reference which include the protection and management of information assets.
Chapter 5	Principle 5.7	A Risk Committee and Audit Committee assist the Board in carrying out its IT responsibilities.	Applied	AAA	Audit and Risk Committee Terms of Reference	The Audit and Risk Committee assists the Board in carrying out its IT responsibilities.
Chapter 6	Principle 6.1	The Board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Applied	AAA		The Audit and Risk Committee assists the Board in complying with the applicable laws, rules, codes and standards in the ambit of its Terms of Reference. The balance of the compliance matters will be delegated to the Social and Ethics Committee.

King III principles (continued)

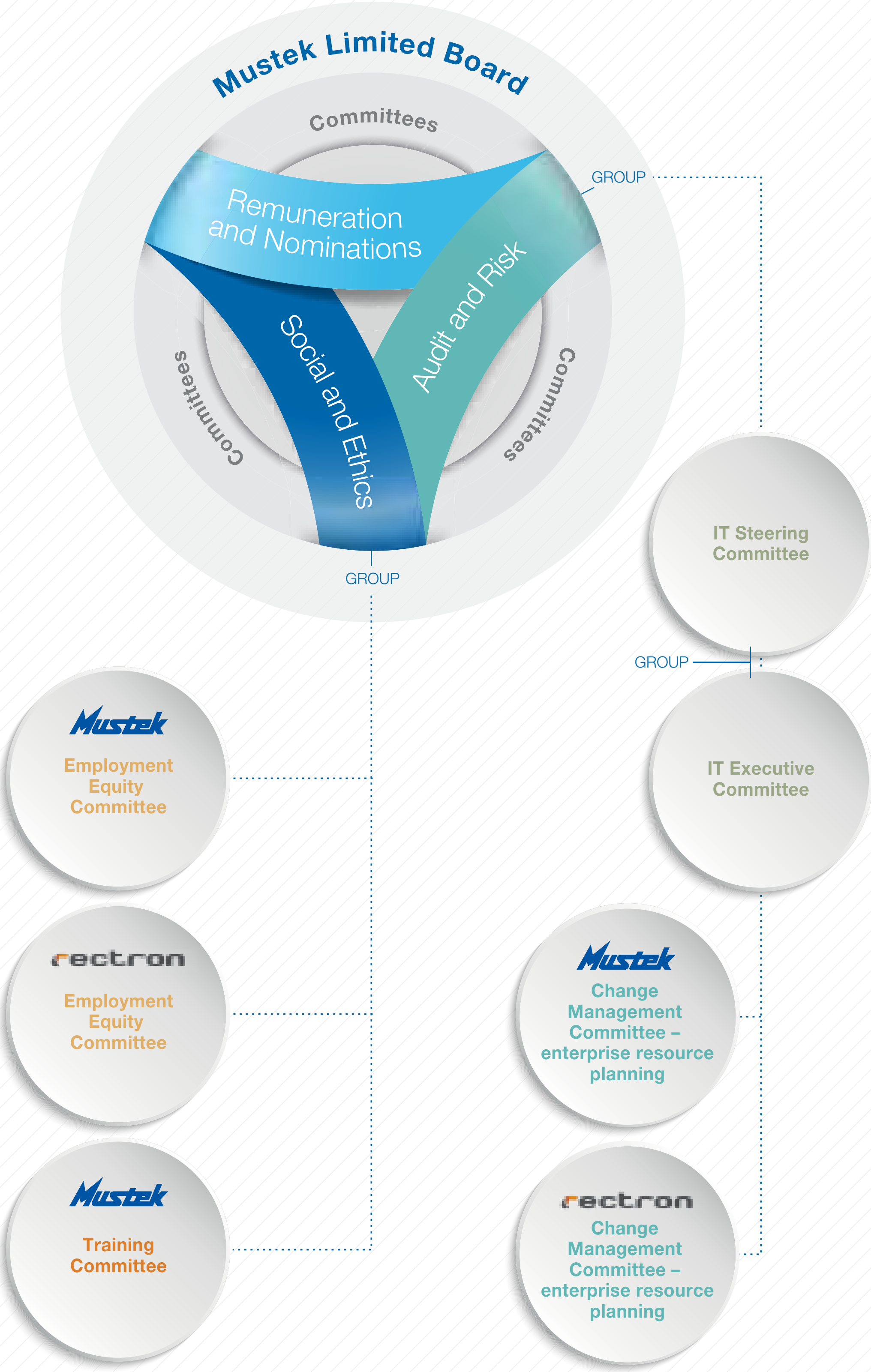
as at 30 June 2017

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 6	Principle 6.2	The Board and each individual director have a working understanding of the effect of applicable laws, rules, codes and standards on the company and its business.	Applied	AA		Directors have a working understanding of all applicable laws, rules, codes and standards applicable to the company.
Chapter 6	Principle 6.3	Compliance risk should form an integral part of the company's risk management process.	Applied	AAA		External assurance providers report all non-compliance areas to the Board via the relevant Board committee.
Chapter 6	Principle 6.4	The Board should delegate to management the implementation of an effective compliance framework and processes.	Not applied	AA		The company developed a compliance framework to assist the relevant Board committees in fulfilling their responsibilities in this regard.
Chapter 7	Principle 7.1	The Board should ensure that there is an effective risk-based internal audit function.	Applied	AAA		The internal audit plan, approved by the Audit and Risk Committee, is based on risk assessments, which are of a continuous nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.
Chapter 7	Principle 7.2	Internal audit should follow a risk-based approach to its plan.	Applied	AAA		Refer to 7.1.
Chapter 7	Principle 7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management.	Applied	AAA		A quarterly report from the internal auditors is submitted to the Audit and Risk Committee meetings.
Chapter 7	Principle 7.4	The Audit Committee should be responsible for overseeing internal audit.	Applied	AAA		The internal audit function forms part of the Audit and Risk Committee's responsibility as set out in its Terms of Reference.
Chapter 7	Principle 7.5	Internal audit should be strategically positioned to achieve its objectives.	Applied	AAA		The internal audit plan was adopted. This is reviewed at the quarterly Audit and Risk Committee meetings which the internal auditors attend by invitation.
Chapter 8	Principle 8.1	The Board should appreciate that stakeholders' perceptions affect a company's reputation.	Applied	AAA		Although a formal stakeholder engagement process is not yet in place, the Group interacts with its major stakeholders on an ad hoc basis in the normal course of business.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/compensating practices
Chapter 8	Principle 8.2	The Board should delegate to management to proactively deal with stakeholder relationships.	Applied	AA		Refer to 8.1.
Chapter 8	Principle 8.3	The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	Applied	AAA		Refer to 8.1.
Chapter 8	Principle 8.4	Companies should ensure the equitable treatment of shareholders.	Applied	AAA		Shareholders are all treated equally, notwithstanding their percentage of shareholding in the company.
Chapter 8	Principle 8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	Applied	AAA		The Board strives to ensure that reporting to stakeholders is relevant, transparent and accurate.
Chapter 8	Principle 8.6	The Board should ensure that disputes are resolved effectively and expeditiously as possible.	Applied	AAA		All internal dispute resolution mechanisms are in place.
Chapter 9	Principle 9.1	The Board should ensure the integrity of the company's Integrated Annual Report.	Applied	AAA		This forms part of the responsibilities of the Audit and Risk Committee and is included as such in its Terms of Reference prior to presenting the report to the Board.
Chapter 9	Principle 9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting.	Applied	AAA		The Group endeavours to integrate all information to stakeholders in the form of the Integrated Annual Report, focusing on sustainability on all levels, including finances.
Chapter 9	Principle 9.3	Sustainability reporting and disclosure should be independently assured.	Not applied	L		Sustainability reporting is currently being self-assured. However, this is being reviewed.

Corporate governance report

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
Non-executive board chairman 64 Black male	Independent non-executive director 65 White male	Lead independent, non-executive director 48 Black male	Financial director 42 White male	Independent non-executive director 44 Black female	Chief executive officer 58 Coloured male	Managing director 48 White male

Social and Ethics Committee

Mdu Gama	Hein Engelbrecht	Spencer Chen
Chairman 48 Black male	48 White male	41 Coloured male

IT Steering Committee

David Kan	Olga-Lee Levey	Dimitri Tserpes	Spencer Chen	Hein Engelbrecht	Neels Coetzee	Gerhard Malan	Alan Michas
Chairman 58 Coloured male	Chief Information Officer 45 White female	Chief Technical Officer 52 White male	Rectron Managing Director 41 Coloured male	Mustek Managing Director 48 White male	Group Financial Director 42 White male	Rectron Financial Director 35 White male	Rectron Group IT Manager 65 White male

Audit and Risk Committee

Lindani Dhlamini	Ralph Patmore	Mdu Gama	*Standing invitees*
Chairperson 44 Black female	65 White male	48 Black male	*CEO, MD, FD, internal auditor, external auditors and Company Secretary*

Remuneration and Nominations Committee

Ralph Patmore	Mdu Gama	Vukile Mehana	*Standing invitees*
Chairman 65 White male	48 Black male	64 Black male	*CEO, MD, FD, HR Manager and Company Secretary*

Corporate governance report (continued)

The Board of directors believes that sound corporate governance structures and processes are crucial to delivering responsible and sustained growth of the company for the benefit of all stakeholders. The company has implemented controls to provide reasonable assurance of its compliance with these requirements, insofar as they are applicable.

Transparency, fairness, accountability, responsibility and openness in reporting and disclosure of information, both operational and financial, are internationally accepted to be vital to the practice of good corporate governance. We recognise that the tone on ethical behaviour needs to come from the top. Achieving this objective demonstrates the Group's public accountability and that it conducts its business within acceptable ethical standards.

Statement of compliance

The Board has acquainted itself with the extent to which the company complies with the JSE Listings Requirements and King III. The Group has applied the King Code of Corporate Principles 2009 (King III) and reporting complies with International Financial Reporting Standards, the Companies Act, 2008 as amended, and the JSE Listings Requirements. While the Group is only required to adopt the King IV Report on Corporate Governance in its 2018 financial year, encouraging progress has been made by management in aligning governance practices with the new code. The company complies with all requirements, except for the following:

Principle 6.4	The Board should delegate to management the implementation of an effective compliance framework and processes.	Partially applied	The company is in the process of further developing a compliance framework to assist in fulfilling its responsibility fully in this regard.
Principle 9.3	Sustainability reporting and disclosure should be independently assured.	Not applied	Sustainability reporting is currently being self-assured; however, this is being reviewed. There is adequate internal capacity to do so presently.

Shareholders are referred to pages 66 to 75 for an analysis of the application of the 75 Corporate Governance Principles as recommended in King III.

The Board is satisfied that there have been no material instances of non-compliance during the review period.

Ethical leadership and corporate citizenship

The Group is committed to achieving its goals with integrity, high ethical standards and in compliance with all applicable laws. The Board has adopted a Code of Ethics and Business Conduct which is continuously reviewed and updated as appropriate. The directors are fully committed to these principles, which ensure that the business is managed according to its highest standards within the IT industry, as well as social, political and physical environment within which the Group operates.

No material ethical leadership and corporate citizenship deficiencies were identified or arose during the review period. The Board, through the Audit and Risk Committee as well as the Social and Ethics Committee, monitors compliance with Mustek's Code of Ethics and Business Conduct through various reporting channels, including its internal audit department and the whistle-blower hotline.

Mustek did not receive any requests during the financial year in terms of the Promotion of Access to Information Act. During the financial year, Mustek complied in all material respects with all relevant legislation and was not subject to any material penalties, fines or criminal procedures or sanctions.

Board and directors

The Board acts as the focal point and custodian of corporate governance. Substance above form is effective at all levels, and is an integral part of the Group's corporate culture.

Composition of the Board

The Board is based on a unitary structure and exercises full and effective control over the Group. It comprises seven members, being four non-executive directors and three executive directors. There were no changes made to the Board during the reporting period.

The Board comprises a majority of non-executive directors, who bring specific skills and experience to the Board. The responsibility of all directors is clearly divided to ensure a balance of power and authority to prevent unfettered powers of decision-making. The executive directors have an overall responsibility for implementing the Group's strategy and managing its day-to-day operations. The Board is of the view that all non-executive directors bring independent judgement to bear on material decisions of the company.

Members of the Board are appointed by the Group's shareholders, although the Board also has the authority to appoint directors to fill any vacancy that may arise from time to time. These appointments, which are a matter for the Board as a whole, are made in terms of a formal and transparent procedure within the appointments to the Board policy and subject to ratification by shareholders at the next annual general meeting. A gender diversity policy was adopted during the reporting period and a voluntary target of 30% accepted of members of the Board to be female.

Members are appointed on the basis of skills, experience and their level of contribution to the activities of the Group. The Remuneration and Nominations Committee is mandated to identify and recommend candidates for the Board's consideration through a formal and transparent process. New appointments are appropriately familiarised with the Group's business through an induction programme. The composition of the Board is reviewed on a regular basis and changes will be considered to comply with King IV in the current financial year.

In terms of the company's memorandum of incorporation, one-third of the directors retire at the annual general meeting. David Kan, Ralph Patmore and Lindani Dhlamini will retire and, being eligible, offer themselves for re-election.

The strategy of the Group is mapped by the Board in annual conference with the executive team. The Board and the executive team met in July 2017 to review and agree on the Group's strategic objectives and the Group's area of focus and growth.

The Board is responsible for monitoring and reporting on the effectiveness of the company's system of internal control. It is assisted by the Audit and Risk Committee in the discharge of this responsibility.

The non-executive directors derive no benefit from the company other than their fees and emoluments as proposed by the Board through the Remuneration and Nominations Committee and approved by shareholders at the Group's annual general meeting.

The Chairman

The Chairman's role is to set the ethical tone for the Board and to ensure that the Board remains efficient, focused and operates as a unit. Vukile Mehana is a non-executive Chairman and his role is separate from that of the Chief Executive Officer. Mdu Gama is the lead independent director.

Vukile Mehana provides overall leadership to the Board and Chief Executive Officer, without limiting the principle of collective responsibility for Board decisions. The Chairman is also responsible for the annual appraisal of the Chief Executive Officer's performance and he oversees the formal succession plan of the Board.

The Chief Executive Officer

The Chief Executive Officer reports to the Board and is responsible for the day-to-day business of the Group and the implementation of policies and strategies approved by the Board. The Executive Committee assists him with this task. Board authority conferred on management is delegated through the Chief Executive Officer, against approved authority levels.

Non-executive directors

All members of the Board have a fiduciary responsibility to represent the best interests of the Group and all of its stakeholders. The Group's non-executive directors contribute to the Board's deliberations and decisions. They have skills and experience to exercise judgement in areas such as strategy, performance, transformation, diversity and employment equity. They are not involved in the daily operations of the company.

Company Secretary

The Board has direct access to the Company Secretary, Sirkien van Schalkwyk. Sirkien van Schalkwyk, aged 40, holds a BLC, LLB and was appointed in 2012 as Mustek's Company Secretary. She has 17 years' experience across a broad spectrum of disciplines including compliance, statutory services and contract management and has acted as Company Secretary for a number of companies including JSE listed companies.

The Company Secretary undergoes an annual evaluation by the Board whereby the Board satisfies itself as to the competence, qualifications and experience of the Company Secretary. The Board has considered the Company Secretary's performance and delivery during the year and is satisfied with the competence, qualifications, independence and experience of the Company Secretary.

The Company Secretary is not a member of the Board and has an arm's length relationship with the Board. The Board considered and is satisfied with the Company Secretary's independence and that an arm's length relationship is maintained between the company and Sirkien van Schalkwyk.

The Company Secretary arranges training on changing regulations and legislation and may involve the company's sponsors and auditors. The Board recognises the key role that the Company Secretary plays in the achievement of good corporate governance and empowers the Company Secretary accordingly. The Board attended training in terms of King IV.

The Company Secretary is accountable to the Board to:

- ensure that Board procedures are followed and reviewed regularly
- ensure that applicable rules and regulations for the conduct of the affairs of the Board are complied with
- maintain statutory records in accordance with legal requirements
- guide the Board as to how its responsibilities should be properly discharged in the best interests of the company
- keep abreast of, and inform, the Board of current and new developments regarding corporate governance thinking and practice.

Sirkien van Schalkwyk carried out the foregoing duties in an exemplary manner.

Board processes

The role of the Board is to establish, review and monitor strategic objectives, the approval of disposals and capital expenditure, and to oversee the Group's systems of internal control, governance and risk management. The Board meets at least four times per year and more often if and when the need arises.

An approved Board Charter is in place and outlines the responsibilities of the Board. Information is supplied to the Board timeously to allow it to comply with its duties and carry out its responsibilities. The Board also enjoys unrestricted access to all company information, records, documents and property. Non-executive directors have access to management without the attendance of executive directors. A range of non-financial information is made available to the Board to enable its members to consider qualitative performance that involves broader stakeholder interest.

The daily management of the company's affairs has been delegated to the Chief Executive Officer, Managing Director and Financial Director who coordinate the implementation of Board policies through the Executive Committee.

Full and effective control over all operations of the company is retained by the Board at all times.

Interest in contracts

During the year ended 30 June 2017, 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 26 to the annual financial statements.

Directors are required to inform the Board timeously of conflicts or potential conflicts of interest 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. A conflict of interest policy is in place.

Insider trading

No employee of the Group may deal directly or indirectly in the company's shares on the basis of unpublished price-sensitive information regarding its business. No director or officer of the Group may disclose trade information regarding its business to any external party. Directors or officers of the Group are precluded from trading in the shares of the Group during a closed period or prohibited period determined by the Board.

Any director wishing to trade in ordinary shares of the company, obtains clearance from the Chairman of the Board or in his absence, the Chief Executive Officer. The directors of the company keep the Company Secretary advised of all their dealings in securities and details of dealings are placed on SENS in line with the JSE Listings Requirements.

In line with practice note 2/2015 of the JSE, the Board adopted a price-sensitive information Group policy during the reporting period to be used as guidance in determining what will constitute price-sensitive information in the market.

Evaluation of Board performance

The Company Secretary conducted a self-evaluation exercise of the Board's performance, mix of skills and individual contributions of directors, its achievements in terms of corporate governance and the effectiveness of its Board committees. The Board was found to have operated and functioned effectively during the period.

Board meeting attendance

The following Board meetings were held during the reporting period, and the attendance is as follows:

Name	25 August 2016	15 November 2016	17 February 2017	17 May 2017
Vukile Mehana	✓	✓	✓	✓
David Kan	✓	✓	✓	✓
Neels Coetzee	✓	✓	✓	✓
Ralph Patmore	✓	✓	✓	✓
Mdu Gama	✓	✓	✓	✓
Lindani Dhlamini	✓	✓	✓	✓
Hein Engelbrecht	✓	✓	✓	✓

Board committees

While the Board remains accountable and responsible for the performance and affairs of the company, it delegates certain functions to management and Board committees to assist it in properly discharging its duties. The nature and scope of authority of each committee is detailed in its terms of reference, which is approved by the Board.

The Chairman of each Board committee reports at each scheduled meeting of the Board and minutes of Board committee meetings are provided to the entire Board.

Both the directors and the members of the Board committees are supplied with full and timely information that enable them to properly discharge their responsibilities. All directors have unrestricted access to all Group information.

The Chairman of each Board committee is required to attend the annual general meeting to respond to issues or answer questions raised by shareholders.

The established Board committees are:

Executive Committee

The Executive Committee consists of the Chief Executive Officer, Managing Director, Financial Director and operations directors. The committee meets regularly to review current operations, identify risks and the management thereof, develop strategies and recommend policies for consideration by the Board and 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 operate as a combined committee. The agenda is divided into sections to address audit and risk management responsibilities. The composition of the committee meets the requirements of the Act and King III, consisting of a minimum of three non-executive directors, acting independently.

The committee consists of three non-executive directors, all of whom are independent. The members of the committee are Lindani Dhlamini (Chairman), Mdu Gama and Ralph Patmore. During the reporting period, Lindani Dhlamini took over chairmanship of the committee on 30 August 2016 and Ralph Patmore remain a member of the committee. The committee's composition is in line with the requirements of the Companies Act, 2008 as amended (the Companies Act).

The Chief Executive Officer, Managing Director, Financial Director, the head of internal audit and the external auditors attend all committee meetings. Four meetings were held during the reporting period.

The report of the Audit and Risk Committee on pages 100 to 102 of this report sets out its responsibilities and described how they have been fulfilled as well as the attendance of meetings.

IT Steering Committee

The IT Steering Committee governs information technology (IT) responsibilities as recommended by King III. The committee met five 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 and 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. The IT Steering Committee's composition was reviewed and found to represent members across all the branches of Mustek and Rectron. The Executive Committee of both Mustek and Rectron provide feedback on IT matters at the IT Steering Committee meetings.

During the period under review, a decision was taken to implement an enterprise resource planning (ERP) system, expected to go live in January 2018.

The IT infrastructure and applications which provide support for the financial systems, is audited on an annual basis by the external auditors. The Audit and Risk Committee is supported by business system managers, while the IT management team is responsible for evaluating the security of computer systems and applications, and for devising contingency plans for processing financial information in the event of system breakdowns.

Remuneration and Nominations Committee

The committee comprises Ralph Patmore (Remuneration Chairman), Vukile Mehana (Nominations Chairman) and Mdu Gama. The Chief Executive Officer, Managing Directors of both Mustek and Rectron and Financial Director attend by invitation. There were no changes to the committee during the reporting period, but this will be reviewed to align with the requirements of King IV in the current financial period.

Although the Board evaluates the Chairman annually, election of the Chairman does not occur annually, but only when required.

The report of the Remuneration and Nominations Committee, including the remuneration philosophy and attendance of meetings, appears on pages 86 and 87 of this report and sets out its responsibilities and describes how it has been fulfilled.

Social and Ethics Committee

The members comprise Mdu Gama (Chairman), Hein Engelbrecht and Spencer Chen. The Chief Executive Officer, Financial Director as well as senior members of management, attend the meetings by invitation. There were no changes to the composition of the committee during the reporting period and the composition will be reviewed to align with the recommendations of King IV.

The committee operates under formal terms of reference in terms of which it is required to meet at least twice a year in order to fulfil the functions assigned to it in terms of the Companies Act and such other functions as are 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. Four meetings were held during the reporting period.

The report of the Social and Ethics Committee on pages 84 and 85 of this report sets out its responsibilities and described how they have been fulfilled, including attendance at meetings.

Accountability and audit

Auditing and accounting

The Board is of the opinion that the auditors observe the highest level of business and professional ethics and that their independence is not in any way impaired. The Group aims for efficient audit processes using its external auditors in combination with the internal audit function and management encourages unrestricted consultation between external and internal auditors. The cooperation of efforts involves periodic meetings to discuss matters of mutual interest, management letters and reports, and a common understanding of audit techniques, methods and terminology.

Risk management

The focus of risk management in Mustek is on identifying, assessing, mitigating, managing and monitoring all known forms of risk across the Group. Management is involved in a continuous process of developing and enhancing its comprehensive systems for risk identification and management. The risks to the business encompass such areas as the world IT component and product prices, exchange rates, political and economic factors, local and international competition, legislation and national regulations, interest rates, people skills, and general operational and financial risks.

The major risks are the subject of the ongoing attention of the Board of directors and are given particular consideration in the annual strategic plan which is approved by the Board. A strategic risk assessment is carried out on an annual basis.

The management of operational risk is a line function, conducted in compliance with a comprehensive set of Group policies and standards to cover all aspects of operational risk control. Performance is measured on a regular basis by means of both self-assessments and audits by independent consultants. In addition, the Group promotes ongoing commitment to risk management and control by participating in externally organised risk management and safety systems.

Insurance cover on assets is based on current replacement values. Consistent with the high standard of risk management, a substantial portion of risk is self-insured at costs well below market premiums. All risks are adequately covered, except where the premium cost is excessive in relation to the probability and extent of loss.

Internal financial controls

The Board is responsible for ensuring that internal control systems exist that provide reasonable assurance regarding the safeguarding of assets and the prevention of their unauthorised use or disposition, proper accounting records are maintained and the financial and operational information used in the businesses are reliable.

Internal audit function

The internal audit department is an independent appraisal function whose primary mandate is to examine and evaluate the effectiveness of the applicable operational activities, the attendant business risks, including those that arise subsequent to year-end and the systems of internal financial control, so as to bring material deficiencies, instances of non-compliance and development needs to the attention of the Audit and Risk Committee, external auditors and operational management for resolution.

Internal audit is an independent, objective assurance and consulting activity to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

It provides:

- assurance that the management processes are adequate to identify and monitor significant risks
- confirmation of the adequacy and effective operation of the established internal control systems
- credible processes for feedback on risk management and assurance.

The internal audit function makes its reports available to the external auditors to ensure proper coverage and to minimise duplication of effort. Internal audit plans are tabled periodically to take account of changing business needs. Follow-up audits are conducted in areas where weaknesses are identified.

The internal audit plan, approved by the Audit and Risk Committee, is based on risk assessments, which are of a continuous nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.

Relations with stakeholders

Communication and engagement with stakeholders is vital to ensure transparency. The Board is committed to appropriate disclosure in its communication and interaction with stakeholders. The Chief Executive Officer and Financial Director act as chief spokespersons for the company and all investor-related correspondence is dealt with by them.

It is the policy of the Group to pursue dialogue with institutional investors, engaging constructively within the frameworks provided by statutory and regulatory environments with regard to the dissemination of information.

The company's annual general meeting provides an important platform for engagement with shareholders as attendance of these meetings offers them an opportunity to participate in discussions relating to company agenda items and to raise potential issues and concerns. Explanatory notes setting out the effects and all proposed resolutions will be included in the notice of annual general meeting.

Social and Ethics Committee report

The committee comprises three members, being Mdu Gama (Chairman), Hein Engelbrecht and Spencer Chen. During the reporting period Lindi Shortt resigned as Managing Director and member and Spencer Chen was appointed in her stead. There were no changes to the composition of the committee during the reporting period and its composition will be reviewed to align with the recommendations of King IV.

The FD, executive members and Company Secretary attend meetings by invitation.

The committee operates under formal terms of reference which requires the committee to meet at least twice a year in order to fulfil the functions assigned to it. The terms of reference are in the process of being updated to include the requirements of King IV.

During the period under review, the following meetings were held and the attendance of the meetings was as follows:

Name and surname	25 August 2016	15 November 2016	17 February 2017	17 May 2017
Mdu Gama	✓	✓	✓	✓
Hein Engelbrecht	✓	✓	✓	✓
Lindi Shortt	✓	n/a	n/a	n/a
Spencer Chen	✓	✓	✓	✓

✓ *Attended*
n/a Resigned

This report, which describes how the committee has discharged its responsibilities in respect of the financial year ended 30 June 2017, will be presented to the shareholders at the AGM to be held on 2 November 2017.

Performance for 2016/2017

During the year under review, the committee met on a quarterly basis.

UN Global Compact Principles

In accordance with the Regulations to the Companies Act, the Group's activities are examined against the 10 UN Global Compact Principles. It is recognised that this will be an ongoing process, and the committee has elected to begin the process by focusing on the following three principles: human rights, anti-corruption and the environment.

The respects in which the Group has espoused these principles and complied therewith are reported on more fully elsewhere in this report.

The precautionary approach to environmental challenges, required by principles 7 and 8, is dealt with under the environmental impact section of this report. Our initiatives relative to the development and diffusion of environmentally friendly technologies are also reported in under "natural capital" in this report.

Ethics management

The Code of Ethics and Business Conduct, which embodies our key principles and values, was reviewed during the year and confirmed to be relevant and effective. For the next annual review additional recommended practices in terms of King IV will be considered.

The Group's fraud prevention policy was reviewed and found to be an appropriate balance between encouraging reporting and discouraging malicious and frivolous reporting. The whistle-blowing facility is working as intended and reported calls are being discussed at quarterly meetings.

Labour

Employment equity policies embody our commitment to implementing employment equity across the Group. Our employment equity forums continue to provide input into the employment equity management of the Group. During the year under review, further attention was given to our compliance with the South African Broad-Based Black Economic Empowerment Act (B-BBEE Act), as well as to the development and advancement of local talent in the other countries in which the Group operates. A Group Transformation Executive was appointed to ensure achievement of Mustek's transformation goals including skills development and succession planning.

Skills development remains an area of focus and the various skills development programmes that have been implemented are reported on more fully throughout this report.

Health and safety

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

Socio-economic development

In line with our strategic intent to be welcomed in the communities in which we operate, Mustek strives to support the advancement of all communities where its operations are located. Our corporate social investment (CSI) policy entrenches this philosophy. Sustainable community development is achieved, inter alia, through employment, procurement and supply chain development.

The Group provides much needed employment and other social benefits in the areas in which it operates.

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.

The key sustainability risks and opportunities which received focus in the year under review were:

- energy and carbon management
- waste management
- a culture of continuous improvement, an initiative to be embedded across the Group.

Consumer legislation

The Group's adherence to the consumer protection laws in the countries in which it operates is complied with and is regularly monitored.

Empowerment and employment equity

Mustek places particularly high value on the abilities and contributions made by employees in the development and achievements of its businesses.

The Group is open to new partnerships that will increase shareholder value as well as plough back skills and resources into the South African community.

The Group has employment policies which it believes are appropriate to the business and the market in which it trades. They are designed to attract, motivate and retain quality staff at all levels.

In terms of the Employment Equity Act, the Group strives to afford all staff members opportunities to realise their full potential and advance their careers. The Group is committed to a working environment that is free from any discrimination and seeks to develop skills and talent inherent in its workforce.

Four meetings were held by the Employment Equity Committee. The second year of the five-year employment equity plan was reviewed and the targets achieved for the financial year in line with the current economically active population in South Africa.

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.

Management reporting

Management reporting disciplines include the preparation of annual budgets by operating entities. Monthly results and the financial status of operating entities are reported against the approved budgets. Profit projections and cash flow forecasts are reviewed regularly, while working capital and borrowing levels are monitored on an ongoing basis.

Broad-based black economic empowerment (B-BBEE)

Mustek remains focused on delivering the identified initiatives in order to reach and improve its targets relating to B-BBEE recognition levels. Mustek has been certified as a level 3 contributor, which means that Mustek's customers can claim 125 cents in every Rand procured from Mustek.

Evaluation of committee performance

The Company Secretary conducted a self-evaluation on the performance of the committee. The results were reviewed by the committee, which was satisfied with the overall assessment.

Dr Mdu Gama
Social and Ethics Committee Chairman

29 August 2017

Remuneration and Nominations Committee report

The committee comprises three directors, being Ralph Patmore (Chairman), Vukile Mehana and Mdu Gama, two of whom are independent non-executive directors. There were no changes made to the composition of the committee during the reporting period.

The Chief Executive Officer, Financial Director, Managing Directors of both Mustek and Rectron and Company Secretary attend the meetings by invitation.

The committee operates under formal terms of reference in terms of which it is required to meet at least twice a year in order to fulfil the functions assigned to it. The term of reference are in the process of being updated with the requirements of King IV.

The Chairman of the Board is not eligible for appointment as Chairman of the committee, but presides as Chairman when the committee fulfils its oversight responsibilities on nomination matters and Board/director interactions.

During the period under review, the following meetings were held and the attendance of the meetings was as follows:

Member	11 August 2016	27 June 2017
Ralph Patmore (Chairman)	✓	✓
Vukile Mehana	✗	✓
Mdu Gama	✓	✓

✗ Apology

This report, which describes how the committee has discharged its responsibilities in respect of the financial year ended 30 June 2017, will be presented to the shareholders at the annual general meeting to be held on 2 November 2017.

Remuneration philosophy

Recognising that the Group is operating in a competitive environment, the Mustek remuneration philosophy:

- plays an integral part in supporting the implementation of Mustek's business strategies
- motivates and reinforces individual and team performance
- is applied equitably, fairly and consistently in relation to job responsibility, the employment market and personal performance.

Mustek's application of remuneration practices in all businesses and functions:

- aims to be market competitive in specific labour markets in which people are employed
- determines the value proposition of the various positions within job families or functions
- ensures that performance management forms an integral part of remuneration, thereby influencing the remuneration components of base pay and incentives
- applies good governance to remuneration practices within approved structures.

The alignment of these remuneration principles aims to meet the strategic objectives of:

- attracting, retaining and motivating key and talented people
- competing in the marketplace with the intention of being a preferred employer
- rewarding individual and business performance and encouraging superior performance.

The remuneration philosophy is based on the following key principles:

- remuneration should support the Group's strategies and be consistent with the organisation's culture of fairness and equity
- remuneration directly correlates with the growth objectives and financial performance targets and actual achievements of the business of the Group
- remuneration should be reviewed and benchmarked regularly through independent external professional service providers to ensure that the Group remains competitive in the diverse markets in which its operates, not applying percentiles rigidly but taking into account industry type, skills scarcity, performance, and legislative structure requirements
- remuneration should be motivated and allow for differentiation to reward higher performers
- individual contribution based on the role and responsibilities should have a direct bearing on the levels of remuneration.

Remuneration mix

Mustek's remuneration structure comprises the following:

- guaranteed packages
- short-term incentives
- long-term incentives.

Guaranteed packages

Following established best market practice, salaries are set with reference to the scope and nature of an individual's role and his or her performance and experience, comparing with the 25th to 75th quartile pay levels of South African companies to ensure sustainable performance and market competitiveness.

Employees receive guaranteed packages which include membership of one of the Group's medical healthcare schemes and a travel or vehicle allowance for necessary business travel. Retirement and risk benefits, including death in-service benefits, also apply, subject to the rules of the post-retirement funds.

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

Short-term incentives

In addition to guaranteed packages, executive directors and members of senior management participate in an annual performance bonus scheme to reward the achievement of agreed Group financial, strategic and personal performance objectives. These targets are determined by the Remuneration and Nominations Committee and include measures of corporate performance.

For the year ending 30 June 2018, the weighting for short-term incentives will be as follows:

- 20% return on equity
- 40% profit before tax

- 20% working capital management
- 20% discretionary.

These components will be scored as follows:

Return on equity (ROE)
- if the ROE achieved is 15% or above a score of 100% for this component would be awarded
- if the ROE achieved is below 15% but 10% or more, then all the remaining elements of the scheme will apply
- if the ROE achieved is below 10% then only the discretionary element will qualify
- ROE will be calculated using the opening equity less dividends to be paid in the year and less the share buy backs done during the year.

Profit before tax (PBT)
- on budget = score of 50%
- 5% above = score of 75%
- 10% above = score of 100%.

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

Net working capital is calculated by adding receivables and inventory and then dividing it by annualised revenue. The calculation will be done on a quarterly basis 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. Rectron Proprietary Limited's (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' bonuses will be calculated based on Mustek's performance, whereas Rectron's executive directors' bonuses will be calculated based on Rectron's performance. The Mustek Group executive directors' bonus calculation will be calculated on the Mustek Group's performance.

Long-term incentives – Mustek share appreciation rights schemes
Executive directors and a limited number of executive management members participate in the Mustek share appreciation rights schemes, which is designed to recognise the contributions of senior staff to the growth in the value of the Group's financial position and performance and to retain key employees.

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

Policy on directors' fees and remuneration
The executive directors do not receive directors' fees for attending Board or sub-committee meetings.

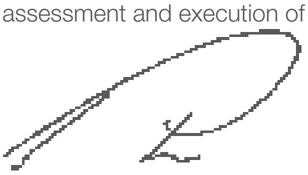
Directors' service contracts
There are no fixed-term service contracts for executive or non-executive directors.

Non-executive directors
It is the Group's policy to identify, attract and retain non-executive directors who can add significant value to Mustek. It is also the Group's policy to refresh the Board and committees in line with the needs of the business and shareholders from time to time.

The Executive Committee and other directors at Mustek recommend fees payable to the Chairman and directors for approval by the shareholders. Fees are approved for an annual period commencing from 2 November 2017 until the next annual general meeting in 2018. The annual fees payable to non-executive directors for this period will be recommended to shareholders at the annual general meeting of members to be held on 2 November 2017. Please refer to page 162 for a summary of the fees included in the notice of annual general meeting.

Nomination responsibilities
The committee is responsible for regularly reviewing and making recommendations on the Group's Board structure and the size and composition of the Board. The committee furthermore ensures that an appropriate balance exists between executive, non-executive and independent directors and considers and approves the classification of directors as being independent, in line with King III. It assists with the identification and nomination of new directors and appointment by the Board and/or shareholders and oversees induction and training of directors.

Committee evaluation
The Company Secretary conducted a self-evaluation of the committee's performance, mix of skills and individual contributions of members, and its achievements in terms of its mandate from the Board. The results were reviewed by the committee, which was satisfied with the overall assessment and execution of its responsibilities.

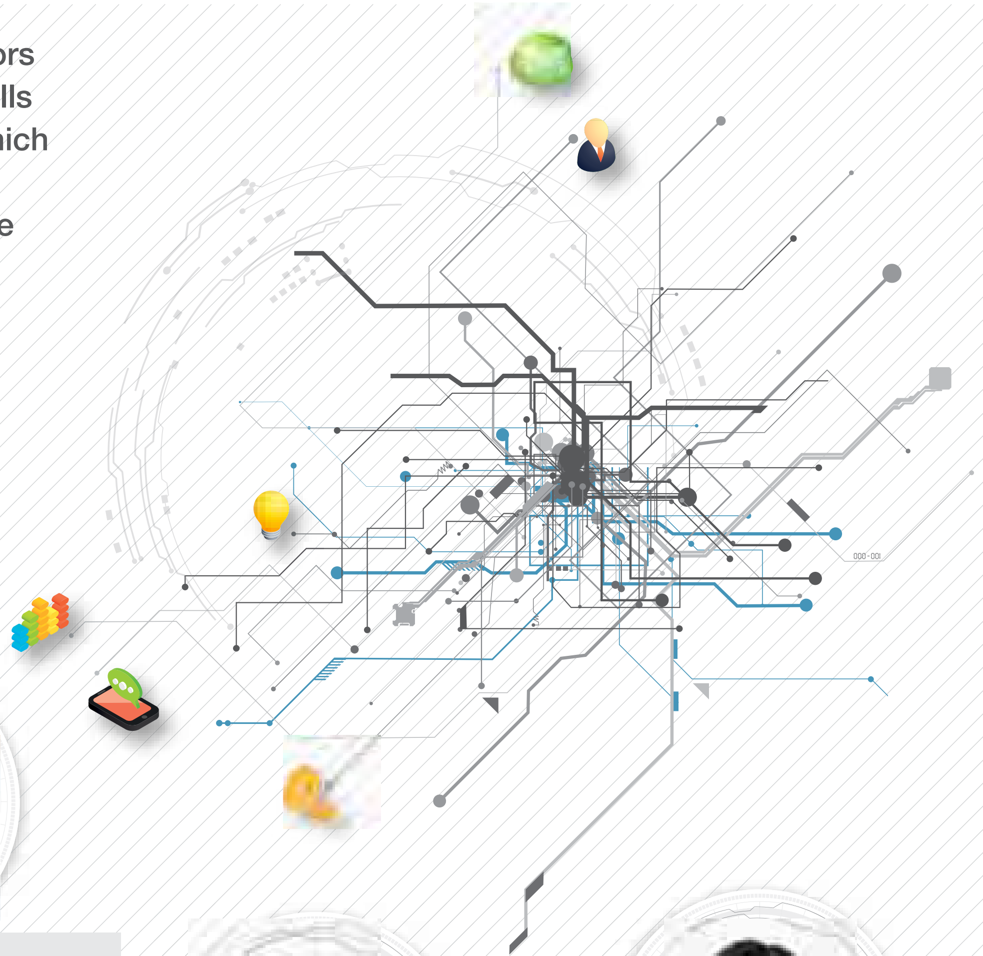


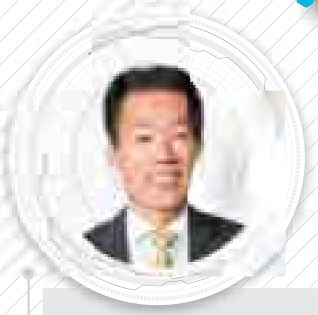
Ralph Patmore
Remuneration and Nominations Committee Chairman

29 August 2017

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

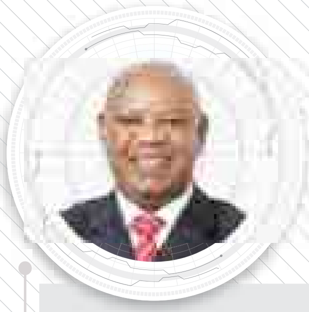
David Kan, aged 58, is the co-founder and a major shareholder of Mustek, and its CEO since the Group's inception in 1987. He holds a BSc (Eng), with a major in mechanical engineering.

Hein Engelbrecht
Managing director

Hein Engelbrecht, aged 48, 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 42, 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.



Rev Dr Vukile Mehana
Non-executive Chairman

Rev Dr Mehana, aged 64, 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.

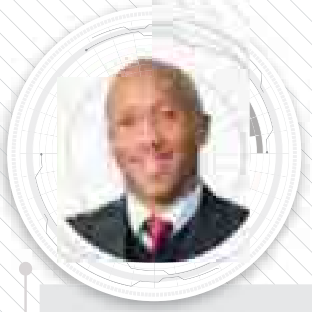
He is currently the chairman of the management consulting firm LRMG Performance Agency, the chairman of Mazwe Financial Services and has recently been appointed chairman of Community Schemes Ombud Services, an entity of the Ministry/Department of Human Settlements. He serves as a non-executive director 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.

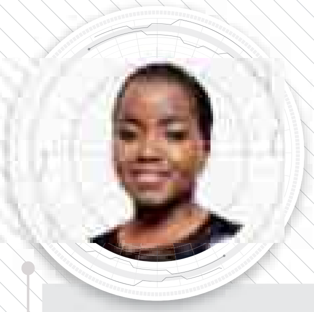
Ralph Patmore
Independent non-executive director

Ralph Patmore, aged 65, 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 Sentula Mining Limited, Calgro M3 Holdings Limited and ARB Holdings Limited.



Dr Mdu Gama
Lead independent non-executive director

Mdu Gama, aged 48, 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.



Lindani Dhlamini
Independent non-executive director

Ms Lindani Dhlamini, aged 44, 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.

GRI content index

This integrated report was prepared to be in accordance with the GRI's G4 core standard.

GENERAL STANDARD DISCLOSURES

Disclosure:	Section and page number
STRATEGY AND ANALYSIS	
G4-1	Chairman's address pages 31 and 32, CEO's review pages 33 to 36
ORGANISATIONAL PROFILE	
G4-3	Outside front cover, inside front cover
G4-4	Corporate profile page 4, Inside front cover (logos)
G4-5	Corporate profile page 4
G4-6	Corporate profile page 4, maps on pages 12 and 14
G4-7	Corporate profile page 4
G4-8	Mustek's core operations and geographical representation pages 12 to 24
G4-9	Our workforce page 47
	Mustek's core operations and geographical representation page 12
	Six-year financial review pages 6 and 7
	Manufactured capital pages 44 and 45
G4-10	Human capital pages 46 to 51
G4-11	Our workforce page 47
G4-12	Our supply chain page 45
G4-13	CEO's review pages 33 to 36
G4-14	Mustek's precautionary approach page 58
G4-15	Inside front cover
	Transformation and maintaining our social licence to operate page 30
	UN Global Compact Principles page 84
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES	
G4-17	Annual financial statements pages 106 to 157
G4-18	Scope and boundaries, inside front cover
G4-19	Mustek's material matters pages 29 and 30
G4-20	Mustek's material matters pages 29 and 30
G4-21	Mustek's material matters pages 29 and 30
G4-22	Restatements, inside front cover
G4-23	Scope and boundaries, inside front cover
STAKEHOLDER ENGAGEMENT	
G4-24	Social and relationship capital pages 52 to 56
G4-25	Our stakeholders pages 53 to 56
G4-26	Stakeholder engagement page 54
G4-27	Stakeholder issues page 54
REPORT PROFILE	
G4-28	Welcome, inside front cover
G4-29	Welcome, inside front cover
G4-30	Welcome, inside front cover
G4-31	Feedback on report, inside front cover
G4-32	GRI content index page 90
G4-33	Assurance, inside front cover
GOVERNANCE	
G4-34	Corporate governance report pages 76 to 87
ETHICS AND INTEGRITY	
G4-52	Remuneration philosophy page 86
G4-56	Ethical leadership and corporate citizenship page 78

SPECIFIC STANDARD DISCLOSURES

Disclosure:	Section and page number
ECONOMIC	
Material aspect: Economic performance	
G4-DMA	Financial capital pages 39 to 42
G4-EC1	Financial capital pages 39 to 42
Material aspect: Market presence	
G4-DMA	Mustek's core operations and geographical representation pages 12 to 24
G4-EC6	Human capital, performance page 51
Material aspect: Indirect economic impacts	
G4-DMA	Material matter – maintaining key relationships page 29
G4-EC8	Material matter – maintaining key relationships (SMEs) page 29
Material aspect: Procurement practices	
G4-DMA	Material matter – transformation and maintaining our social licence to operate page 30
G4-EC9	Material matter – transformation and maintaining our social licence to operate page 30
ENVIRONMENTAL	
Material aspect: Materials	
G4-DMA	Natural capital pages 57 to 63
Material aspect: Energy	
G4-DMA	Material matter – energy consumption and GHG emissions page 59
G4-EN3	Mustek energy consumed (GJ) page 62
G4-EN5	Natural capital page 63
G4-EN6	Natural capital page 62
Material aspect: Emissions	
G4-DMA	Material matter – energy consumption and GHG emissions page 60
G4-EN15	Natural capital pages 60 and 61
G4-EN16	Natural capital pages 60 and 61
G4-EN17	Natural capital pages 60 and 61
G4-EN19	Natural capital pages 60 and 61
Material aspect: Effluents and waste	
G4-DMA	Material matter – waste – abatement and disposal page 59
G4-EN23	Material matter – waste – abatement and disposal page 59
G4-EN27	Mustek's precautionary approach page 58
G4-EN30	Environmental key performance GRI indicators page 58
Material aspect: Compliance	
G4-DMA	Our management approach page 58
G4-EN29	No fines or other sanctions were imposed in Mustek during the year
Material aspect: Supplier environmental assessment	
G4-EN32	Environmental key performance GRI indicators page 58

SOCIAL

Disclosure:	Section and page number
Sub-category: Labour practices and decent work	
Material aspect: Employment	
G4-DMA	Mustek's human capital philosophy page 48
G4-LA1	Human capital performance page 51
G4-LA2	Mustek's human capital philosophy page 48
Material aspect: Labour/management relations	
G4-DMA	Mustek's human capital philosophy page 48
G4-LA3	Human capital performance page 51
G4-LA4	No collective bargaining agreements are relevant to the Mustek or Rectron workforce
Material aspect: Occupational health and safety	
G4-DMA	Mustek's human capital philosophy page 48
G4-LA5	100%
Material aspect: Training and education	
G4-DMA	Material matter – attract, develop and retain adequately skilled employees page 48
G4-LA10	Material matter – attract, develop and retain adequately skilled employees page 48
G4-LA11	Career development – our response page 48
G4-LA14	Our supply chain page 45
Material aspect: Diversity and equal opportunity	
G4-DMA	Mustek's human capital philosophy page 48
G4-LA12	Human capital pages 47 to 51, Committee members page 77
G4-LA16	Performance page 51

Disclosure:	Section and page number
Sub-category: Human rights	
Material aspect: Freedom of association and collective bargaining	
G4-DMA	Mustek's human capital philosophy page 48
G4-HR3	Performance page 51
G4-HR4	No collective bargaining agreements are relevant to the Mustek or Rectron workforce
Sub-category: Society	
G4-DMA	Social and relationship capital pages 53 to 56
Material aspect: Compliance	
G4-DMA	Material matter – transformation and maintaining our social licence to operate page 54
G4-SO4	Performance page 50
G4-SO5	Performance page 50
G4-SO7	None
G4-SO8	No fines or other sanctions were imposed on Mustek during the year
Sub-category: Product responsibility	
G4-PR2	Environmental key performance GRI indicators page 58
G4-PR3	Environmental key performance GRI indicators page 58
G4-PR4	Environmental key performance GRI indicators page 58
G4-PR8	Protection of customer data page 56

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 III	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
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
DVR	Digital video recorder
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EnMS	Energy management system
EnPIs	Energy performance indicators
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
LTIFR	Lost time injury frequency rate
MICT SETA	Media, Information and Communications Technologies Sector Education and Training Authority
MSP	Managed service provider
MST	Mustek security division
NVR	Network video recorder
OEM	Original equipment manufacturer
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
SAAS	Software as a service
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)
TRIFR	Total recordable injury frequency rate
UPS	Uninterrupted power supply
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 2017

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 company 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 company 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 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 106 to 157 were approved by the Board of directors on 29 August 2017 and are signed on its behalf by:

Rev Dr VC Mehana
Chairman

DC Kan
Chief Executive Officer

29 August 2017

Certification by Company Secretary

for the year ended 30 June 2017

In terms of section 88(2)(e) of the Companies Act of South Africa, 71 of 2008, as amended (the Act), I certify that for the year ended 30 June 2017, 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 2017

The annual financial statements have been prepared by Ernst Nieuwoudt (Group Accountant, CA(SA)), under supervision of Neels Coetzee (Financial Director, CA(SA)).

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 106 to 157, which comprise the statements of financial position as at 30 June 2017, 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 2017, 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 R1.21 billion (2016: R1.21 billion). R56.8 million (2016: R32.6 million) of the Group's inventory balance is stated at net realisable value. The Group has provided R43.0 million (2016: R36.7 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. 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. These factors have resulted in a risk that inventory might be carried in excess of net realisable value and the provision for inventory obsolescence may not include all aged or obsolete items. 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.	To address the key audit matter we have completed the following audit procedures: • 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 the directors' estimated net realisable values; • Performed a retrospective analysis on the prior year net realisable values estimated to the actual selling prices in the current year; • Detailed procedures were also performed on the cost price by agreeing purchases to supplier invoices, assessing whether all costs are accounted for, assessing whether the correct exchange rates were used to record foreign purchases and testing Mustek Studio to ensure that the weighted average prices are correctly calculated; • In considering the reasonableness of the provision for inventory obsolescence we performed detailed procedures on the inventory provision that includes the accuracy and completeness of the provision; • Tested the system's calculation of the ageing of inventory based on inventory movements. By relying on the inventory ageing from the system we performed detailed analytics on the ageing of the inventory to identify trends, slow moving inventory and potential obsolete inventory within certain product categories and ageing buckets; • Performed a retrospective analysis on the current year write offs to the prior year provision; and • To address the risk of management bias, we evaluated the results of our procedures against audit procedures on other key balances to assess whether or not there is an indication of bias. We concurred with the directors' estimate of the write down of inventory to net realisable value and provision for stock obsolescence. The related disclosure was adequate in terms of the accounting standards.

Independent auditor's report (continued)

for the year ended 30 June 2017

Key audit matter	How the matter was addressed in the audit
Impairment of goodwill (consolidated financial statements)	
Goodwill arises as a result of acquisitions by the Group. As disclosed in note 8 of the consolidated financial statements the directors conducted their annual impairment test to assess the recoverability of goodwill. In order to establish whether an impairment exists, the value in use is determined and compared to the carrying value of the goodwill. As detailed in the "critical accounting judgements and key sources of estimation uncertainty" section of the accounting policies, this determination of an impairment is highly subjective as significant judgement is required by the directors in determining the value in use as appropriate. The value in use is based on the cash flow forecast model for each cash-generating unit and requires the estimation of model assumptions, most importantly the discount rate and growth rate. Accordingly, due to the high estimation uncertainty, the impairment assessment of goodwill is considered to be a key audit matter. The directors' valuations resulted in significant surpluses over the carrying values of goodwill and the directors consequently concluded that a reasonably possible change in these multiples would not result in an impairment.	We focused our testing of the impairment of goodwill on the key assumptions made by the directors. Our audit procedures included: - Critically evaluating the determination of cash-generating units; - Evaluating whether the model used to calculate the value in use of the individual cash-generating units complies with the requirements of IAS 36 Impairment of Assets; - Validating the assumptions applied and inputs in the respective models by comparing it to historical information and approved budgets; - Assessed the various components used to calculated the weighted average cost of capital against industry norms; and - Subjecting the key assumptions to sensitivity analyses. Overall, we found the models and assumptions applied in the goodwill impairment assessments to be appropriate. We considered the disclosure of the goodwill to be appropriate for purposes of the consolidated financial statements.

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 and the certification by Company Secretary, 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 IFRS 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 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 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 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 21 years.

Deloitte & Touche
Registered Auditor

Per: Martin Bierman
Partner

29 August 2017

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, 71 of 2008 (the Act) and incorporating the recommendations of the King Code of Corporate Governance (King III).

In summary, this committee assists the Board in its responsibilities covering 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
- 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.

AUDIT AND RISK COMMITTEE MEMBERS

The Audit Committee consists of three non-executive directors listed below and all members act independent as described in the Act. The members of the committee in respect of the year ended 30 June 2017 comprised Lindani Dhlamini (Chairperson), Ralph Patmore and Mdu Gama, all of whom are independent non-executive directors of the company.

During the year under review, four meetings were held and attendance of those meetings is set out in the table below:

Member	25 Aug 2016	15 Nov 2016	17 Feb 2017	17 May 2017
Lindani Dhlamini	✓	✓	✓	✓
Ralph Patmore	✓	✓	✓	✓
Mdu Gama	✓	✓	✓	✓

The external and internal auditors attend and report at all Audit and Risk Committee meetings. The Chief Executive Officer, Managing Director and Financial Director and other relevant senior managers attend meetings by invitation.

ROLE OF THE AUDIT COMMITTEE

The Audit and Risk Committee has adopted a 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 is in the process of updating the terms of reference with the requirements of King IV.

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 and internal 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
- conduct 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
- reviewed the proactive monitoring process in terms of the letter from the JSE dated 14 February 2017.

EXECUTION OF FUNCTIONS DURING THE YEAR

The committee is satisfied that, for the 2017 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 as the external auditor and designated auditor respectively to shareholders for appointment as auditor for the financial year ended 30 June 2017, 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
- reviewed the audit effectiveness and evaluated the external auditor's internal quality control procedures
- obtained an annual confirmation from the auditor that its 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, 26 of 2005
- considered any reported control weaknesses, management's response for their improvement and assessed their impact on the general control environment.

The committee is satisfied that Deloitte is independent of the Group after taking the following factors into account:
- representations made by Deloitte 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
- the criteria specified for independence by the Independent Regulatory Board for auditors and international regulatory bodies.

INTERNAL AUDIT

The committee:
- reviewed and approved the internal audit charter and 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
- 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.

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 the maintenance of effective material control systems.

FINANCIAL REPORTING

The Audit and Risk Committee ensured 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 its 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
- 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 looked at 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.

Audit and Risk Committee report (continued)

- Impairment of goodwill
  Goodwill arises as a result of acquisitions by the Group. Management conducts annual impairment tests to assess the recoverability of goodwill. The assessment is based on the cash flow forecast models for each cash-generating unit and requires the estimation of model assumptions, most importantly the discount rate and growth rate. The management valuations of goodwill resulted in significant surpluses over the carrying values. The Audit and Risk Committee has thus satisfied itself that goodwill carried in the annual financial statement is not impaired. Refer to note 8.

RISK MANAGEMENT AND INFORMATION TECHNOLOGY (IT) GOVERNANCE

The committee:

- reviewed the Group's policies on risk assessment and risk management, including fraud risks and IT risks as they pertain to financial reporting and the going concern assessment, and found them to be sound.

LEGAL AND REGULATORY REQUIREMENTS

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

- 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
- 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 on 2 November 2017 that Lindani Dhlamini (Chairman), Ralph Patmore and Mdu Gama be reappointed as members of the Audit and Risk Committee until the next annual general meeting in 2018.

EVALUATION OF THE COMMITTEE

The Company Secretary conducted a self-evaluation of the committee's performance, mix of skills and individual contributions of members, its achievements in terms of its mandate from the Board. The results were reviewed by the committee, which was satisfied with the overall assessment.

INTEGRATED ANNUAL REPORT

Following the review by the committee of the consolidated and company annual financial statements of Mustek Limited for the year ended 30 June 2017, 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 company 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 2017 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 Chairperson

29 August 2017

Report of the directors

for the year ended 30 June 2017

INTRODUCTION

The directors have pleasure in presenting their report on the activities of the company and the Group for the year ended 30 June 2017.

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 from continuing operations was R93.9 million (2016: R113.5 million).

SHARE CAPITAL

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

Mustek acquired 15 000 000 (2016: 5 623 471) ordinary shares of its issued share capital on the open market for a purchase consideration in aggregate of R68 986 289 (2016: R42 822 936) (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 11 December 2015 and 8 December 2016 and comprises 16.13% of the total issued ordinary shares of Mustek at the date of the 2016 AGM.

The general repurchase commenced on 1 September 2016 and continued on a day-to-day basis as market conditions allowed and in accordance with the JSE Limited (JSE) Listings Requirements until 23 June 2017. 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 500 cents and 400 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] (Chairman)	DC Kan[5] (Chief Executive Officer)	322 15th Road	PO Box 1638
ME Gama[1, 2, 3, 4]	H Engelbrecht[4]	Randjespark	Parklands
LL Dhlamini[1, 2, 5]	CJ Coetzee	Midrand	2121
RB Patmore[1, 2, 3, 5]		1685	

[1] Independent.
[2] Audit and Risk Committee member.
[3] Remuneration and Nominations 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, LL Dhlamini, RB Patmore and DC Kan are available for re-election at the next AGM. Biographical details of all the directors are set out on pages 88 and 89.

COMPANY SECRETARY

S van Schalkwyk

DIVIDENDS

A final dividend of 15 cents per ordinary share was declared on 28 September 2016 and paid on 3 October 2016. During the previous financial year, a final dividend of 35 cents per ordinary share was declared on 25 September 2015 and paid on 5 October 2015.

Report of the directors (continued)

for the year ended 30 June 2017

SHAREHOLDERS' SPREAD

At 30 June 2017, 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	18.1
DK Trust	9 032 442	10.9
NGI Growth Fund	4 472 530	5.4
	28 538 143	34.4

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

At 30 June 2016, 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	15.3
DK Trust	9 032 442	9.2
NGI Growth Fund	4 972 798	5.1
	29 038 411	29.6

2016

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	804	72.2	949 747	1.0
5 001 – 10 000	102	9.2	826 223	0.8
10 001 – 50 000	97	8.7	2 319 128	2.4
50 001 – 100 000	24	2.1	1 647 469	1.7
100 001 – 1 000 000	63	5.7	22 629 661	23.1
Over 1 000 000	24	2.1	69 627 772	71.0
	1 114	100.0	98 000 000	100.0

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	3	0.3	4 773 046	4.9
Companies controlled by directors	1	0.1	2 460 083	2.5
Trusts with directors as trustees	1	0.1	9 032 442	9.2
Public shareholders	1 109	99.5	81 734 429	83.4
	1 114	100.0	98 000 000	100.0

FAIR VALUE ADJUSTMENTS TO AND IMPAIRMENTS OF GOODWILL, OTHER INTANGIBLE ASSETS, INVESTMENTS IN AND LOANS TO SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS

The directors considered the fair value of Mustek's goodwill, 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. The following matters are highlighted with regard to the aforementioned consideration:

Zinox Technologies Limited

Zinox Technologies Limited (Zinox) is a company incorporated in Nigeria. On 9 July 2013, Zinox disposed of its investments in Task Systems Limited and Technology Distributions Limited in exchange for Zinox shares. As part of the transaction, the Group increased its shareholding in Zinox to 30% and then disposed of a portion of its investment for a cash consideration of USD850 000. The Group retains its 20% investment in Zinox. The investment is classified as an available-for-sale investment. 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, 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.

ACQUISITION OF LAND

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.

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 will be charged at the South African repo rate plus 1% whereafter the loans will be interest free. As at year-end the balance on these loans was R46.7 million (2016: R43.8 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.

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, 71 of 2008, as amended, the Listings Requirements of the JSE and the memorandum of incorporation of the company
- with effect from 8 December 2016, 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 16 cents per ordinary share was declared as follows after the end of the financial year:

Last day of trade *cum* dividend	Tuesday, 26 September 2017
First day to trade *ex* dividend	Wednesday, 27 September 2017
Record date	Friday, 29 September 2017
Payment date	Monday, 2 October 2017

POST-STATEMENT OF FINANCIAL POSITION EVENTS

There have been no 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 2017

	Notes	2017 R000	2016 R000
Continuing operations			
Revenue	2	**5 243 147**	5 286 384
Cost of sales		**(4 581 639)**	(4 605 634)
Gross profit		**661 508**	680 750
Foreign currency losses		**(464)**	(11 784)
Distribution, administrative and other operating expenses		**(487 352)**	(480 138)
Profit from operations	3	**173 692**	188 828
Investment revenues	4	**20 937**	19 278
Finance costs	5	**(108 266)**	(109 950)
Other losses	8	**(468)**	—
Share of profit of associates	10	**7 956**	15 352
Profit before tax		**93 851**	113 508
Income tax expense	6	**(20 131)**	(28 753)
Profit for the year from continuing operations		**73 720**	84 755
Discontinued operations			
Loss for the year from discontinued operations		**—**	(5 811)
Profit for the year		**73 720**	78 944
Other comprehensive income			
Exchange differences on translation of foreign operations (not reclassified to profit and loss)		**(7 740)**	4 262
Other comprehensive income for the year, net of tax		**(7 740)**	4 262
Total comprehensive income for the year		**65 980**	83 206
Profit attributable to:			
Equity holders of the parent		**73 091**	74 630
Non-controlling interest		**629**	4 314
		73 720	78 944
Total comprehensive income attributable to:			
Equity holders of the parent		**65 351**	78 590
Non-controlling interest		**629**	4 616
		65 980	83 206
Earnings per share (cents)	15		
From continuing and discontinued operations			
Basic earnings per ordinary share		**80.32**	74.13
Diluted basic earnings per ordinary share		**80.32**	74.13
From continuing operations			
Basic earnings per ordinary share		**80.32**	79.59
Diluted basic earnings per ordinary share		**80.32**	79.59
From discontinued operations			
Basic loss per ordinary share		**—**	(5.46)
Diluted basic loss per ordinary share		**—**	(5.46)

Consolidated statement of financial position

as at 30 June 2017

	Notes	2017 R000	2016 R000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**156 237**	152 458
Goodwill	8	**55 627**	48 018
Intangible assets	8	**37 889**	19 041
Investments in associates	10	**103 006**	84 848
Other investments and loans	11	**77 920**	67 809
Deferred tax assets	6	**16 572**	17 312
		447 251	389 486
Current assets			
Inventories	12	**1 078 035**	1 111 929
Inventories in transit	12	**128 375**	95 753
Trade and other receivables	13	**1 093 565**	1 101 718
Foreign currency assets	16	**2 602**	3 059
Bank balances and cash	14	**230 371**	383 613
		2 532 948	2 696 072
TOTAL ASSETS		**2 980 199**	3 085 558
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	15	**–**	50 531
Retained earnings		**969 164**	927 669
Non-distributable reserve		**–**	809
Foreign currency translation reserve		**1 169**	8 909
Equity attributable to equity holders of the parent		**970 333**	987 918
Non-controlling interest		**8 128**	(581)
Total equity		**978 461**	987 337
Non-current liabilities			
Long-term borrowings	16	**5 637**	499
Deferred tax liability	6	**10 617**	4 504
Deferred income	2	**13 215**	12 632
		29 469	17 635
Current liabilities			
Trade and other payables	17	**1 715 277**	1 673 558
Foreign currency liabilities	16	**4 481**	10 031
Deferred income	2	**13 233**	19 284
Bank overdrafts	16	**239 278**	377 713
		1 972 269	2 080 586
Total liabilities		**2 001 738**	2 098 221
TOTAL EQUITY AND LIABILITIES		**2 980 199**	3 085 558

Consolidated statement of changes in equity

for the year ended 30 June 2017

	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 2015	93 354	894 636	809	4 949	993 748	19 268	1 013 016
Net profit for the year	—	74 630	—	—	74 630	4 314	78 944
Other comprehensive income	—	—	—	3 960	3 960	302	4 262
Dividends paid	—	(35 605)	—	—	(35 605)	—	(35 605)
Buy back of shares (refer note 15)	(42 823)	—	—	—	(42 823)	—	(42 823)
Acquisition of additional shareholding in a controlled entity (refer note 9)	—	—	—	—	—	(24 465)	(24 465)
Premium on acquisition of additional shareholding in a controlled entity	—	(5 992)	—	—	(5 992)	—	(5 992)
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 note 15)	**(50 531)**	**(18 455)**	**—**	**—**	**(68 986)**	**—**	**(68 986)**
Acquisition of subsidiary (refer 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**

** 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.*

	2017	2016
Dividend per share (cents)		
Dividend per ordinary share – paid	**15.00**	35.00
Dividend per ordinary share – proposed	**16.00**	15.00

Consolidated statement of cash flows

for the year ended 30 June 2017

	Notes	2017 R000	2016 R000
OPERATING ACTIVITIES			
Cash receipts from customers		**5 251 783**	5 563 726
Cash paid to suppliers and employees		**(5 023 008)**	(5 388 679)
Net cash from operations	14	**228 775**	175 047
Investment revenues received	4	**20 937**	19 281
Finance costs paid	5	**(108 266)**	(110 793)
Dividends paid		**(13 950)**	(35 605)
Income taxes paid		**(27 637)**	(34 697)
Net cash from operating activities		**99 859**	13 233
INVESTING ACTIVITIES			
Additions to property, plant and equipment	7	**(23 750)**	(24 858)
Proceeds from sale of property, plant and equipment		**153**	271
Proceeds on disposal of subsidiary, net of cash disposed		**—**	(1 263)
Acquisition of subsidiaries, net of cash acquired	14	**(6 256)**	(19 842)
Increase in investments in and loans to associates	10	**(10 202)**	(8 018)
(Increase) decrease in investments and loans	11	**(2 518)**	9 844
Additions to intangible asset	8	**(9 781)**	(13 083)
Net cash used in investing activities		**(52 354)**	(56 949)
FINANCING ACTIVITIES			
Buy back of ordinary shares	15	**(68 986)**	(42 823)
Increase in long-term borrowings	16	**5 721**	9 164
Increase (decrease) in short-term borrowings	16	**953**	(14 808)
(Decrease) increase in bank overdrafts	16	**(138 435)**	15 964
Net cash used in financing activities		**(200 747)**	(32 503)
Net decrease in cash and cash equivalents		**(153 242)**	(76 219)
Cash and cash equivalents at the beginning of the year		**383 613**	459 832
Cash and cash equivalents at the end of the year	14	**230 371**	383 613

Company statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 R000	2016 R000
Revenue	2	**3 097 262**	3 202 563
Cost of sales		**(2 687 757)**	(2 781 596)
Gross profit		**409 505**	420 967
Other income		**2 407**	3 314
Foreign currency losses		**(698)**	(21 664)
Distribution, administrative and other operating expenses		**(319 041)**	(305 094)
Profit from operations	3	**92 173**	97 523
Investment revenues	4	**31 579**	24 929
Finance costs	5	**(57 028)**	(66 066)
Other losses	9	**(3 400)**	—
Profit before tax		**63 324**	56 386
Income tax expense	6	**(10 995)**	(13 100)
Profit for the year		**52 329**	43 286
Other comprehensive income, net of tax		**—**	—
Total comprehensive income for the year		**52 329**	43 286

Company statement of financial position

as at 30 June 2017

	Notes	2017 R000	2016 R000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**31 101**	36 771
Intangible assets	8	**13 015**	13 721
Investments in subsidiaries	9	**283 649**	290 315
Investments in associates	10	**38 325**	22 123
Other investments and loans	11	**60 586**	58 068
Deferred tax asset	6	**8 447**	9 707
		435 123	430 705
Current assets			
Inventories	12	**657 865**	703 740
Inventories in transit	12	**97 690**	51 080
Trade and other receivables	13	**731 730**	680 389
Foreign currency assets	16	**2 041**	1 922
Bank balances and cash	14	**101 626**	207 084
		1 590 952	1 644 215
TOTAL ASSETS		**2 026 075**	2 074 920
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	15	**–**	50 531
Retained earnings		**625 891**	605 967
Total equity		**625 891**	656 498
Non-current liabilities			
Long-term borrowings	16	**4 052**	1 076
Deferred income	2	**13 215**	12 632
		17 267	13 708
Current liabilities			
Trade and other payables	17	**1 052 084**	922 742
Foreign currency liabilities	16	**2 662**	2 301
Loans owing to subsidiaries	9	**88 860**	107 275
Deferred income	2	**12 662**	15 680
Bank overdrafts	16	**226 649**	356 716
		1 382 917	1 404 714
Total liabilities		**1 400 184**	1 418 422
TOTAL EQUITY AND LIABILITIES		**2 026 075**	2 074 920

Company statement of changes in equity

for the year ended 30 June 2017

	Ordinary stated capital R000	Retained earnings R000	Total R000
Balance at 30 June 2015	93 354	598 286	691 640
Net profit for the year	—	43 286	43 286
Other comprehensive income	—	—	—
Dividends paid	—	(35 605)	(35 605)
Buy back of shares (refer note 15)	(42 823)	—	(42 823)
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 note 15)	**(50 531)**	**(18 455)**	**(68 986)**
Balance at 30 June 2017	**—**	**625 891**	**625 891**

Company statement of cash flows

for the year ended 30 June 2017

	Notes	2017 R000	2016 R000
OPERATING ACTIVITIES			
Cash receipts from customers		**3 052 635**	3 324 043
Cash paid to suppliers and employees		**(2 857 740)**	(3 272 612)
Net cash from operations	14	**194 895**	51 431
Interest received	4	**7 645**	12 905
Finance costs paid	5	**(57 028)**	(66 066)
Dividends received	4	**23 934**	12 024
Dividends paid		**(13 950)**	(35 605)
Income taxes paid		**(16 211)**	(16 953)
Net cash from (used in) operating activities		**139 285**	(42 264)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	7	**(7 483)**	(15 152)
Proceeds from sale of property, plant and equipment		**122**	—
Acquisition of subsidiaries, net of cash acquired	14	**—**	(10 163)
Increase in loans to subsidiaries	9	**(15 149)**	(11 751)
Increase in investments in and loans to associates	10	**(16 202)**	(8 018)
Additions to intangible assets	8	**(7 629)**	(9 750)
(Increase) decrease in investments and loans	11	**(2 518)**	9 844
Net cash used in investing activities		**(48 859)**	(44 990)
FINANCING ACTIVITIES			
Buy back of ordinary shares	15	**(68 986)**	(42 823)
Increase (decrease) in long-term borrowings	16	**3 559**	(3 027)
Decrease in short-term borrowings	16	**(390)**	(1 003)
(Decrease) increase in bank overdrafts	16	**(130 067)**	13 185
Net cash used in financing activities		**(195 884)**	(33 668)
Net decrease in cash and cash equivalents		**(105 458)**	(120 922)
Cash and cash equivalents at the beginning of the year		**207 084**	328 006
Cash and cash equivalents at the end of the year	14	**101 626**	207 084

Accounting policies

for the year ended 30 June 2017

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, 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 2016.

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 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 principal classification categories for financial assets:

- measured at amortised cost
- fair value through other comprehensive income and
- 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 lease smoothing assets and 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 term 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. The Group is currently in the process of performing a detailed assessment of the impact resulting from the application of IFRS 16 and the related disclosures.

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 the investment in Yangtze Optics Africa (refer to note 10)
- impairment assessment of loans made to executive management and directors by the Mustek Executive Share Trust (refer to note 11)
- recoverability of deferred tax assets (refer to note 6)
- fair value of the intangible asset on the acquisition of RCT Software Solutions Proprietary Limited (refer to note 9)
- tangible NAV compared to market share price.

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 2017

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.

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 note 10)	**—**	**—**	**7 956**	**—**	**7 956**
Profit before tax	**63 470**	**39 524**	**(9 143)**	**—**	**93 851**
Income tax expense	**(13 933)**	**(9 273)**	**3 075**	**—**	**(20 131)**
Profit for the year	**49 537**	**30 251**	**(6 068)**	**—**	**73 720**

2016	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
REVENUE					
External sales	3 226 672	2 059 712	—	—	5 286 384
Inter-segment sales	47 870	282 069	—	(329 939)	—
Total revenue from continuing operations	3 274 542	2 341 781	—	(329 939)	5 286 384
SEGMENT RESULTS					
EBITDA*	128 690	97 092	(8 137)	—	217 645
Depreciation and amortisation	(20 867)	(7 950)	—	—	(28 817)
Profit from operations	107 823	89 142	(8 137)	—	188 828
Investment revenues	10 395	6 187	9 268	(6 572)	19 278
Finance costs	(66 591)	(43 359)	(6 572)	6 572	(109 950)
Share of associates' net profit (refer note 10)	—	—	15 352	—	15 352
Profit before tax	51 627	51 970	9 911	—	113 508
Income tax expense	(13 680)	(14 756)	(317)	—	(28 753)
Profit for the year from continuing operations	37 947	37 214	9 594	—	84 755
Discontinued operations					
Loss for the year from discontinued operations	—	(5 811)	—	—	(5 811)
Profit for the year	37 947	31 403	9 594	—	78 944

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

1. SEGMENTAL REPORTING (continued)

Business segments (continued)

2017	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
OTHER INFORMATION					
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

2016	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
OTHER INFORMATION					
Capital expenditure	29 671	7 596	—	—	37 267
ASSETS					
Segment assets	1 855 798	1 022 139	115 827	(7 273)	2 986 491
Investment in associates	—	—	84 848	—	84 848
Current tax assets	14 219	—	—	—	14 219
Consolidated total assets	1 870 017	1 022 139	200 675	(7 273)	3 085 558
LIABILITIES					
Segment liabilities	1 345 556	714 070	—	36 187	2 095 813
Current tax liabilities	921	1 487	—	—	2 408
Consolidated total liabilities	1 346 477	715 557	—	36 187	2 098 221
Number of employees at year-end	657	336	—	—	993

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

1. SEGMENTAL REPORTING (continued)

Geographical segments

2017	Mustek East Africa R000	Mecer Technology R000	Rectron Australia R000	South Africa R000	Total R000
Revenue	**37 762**	**1 129**	**—**	**5 204 256**	**5 243 147**
(Loss) profit for the year	**(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**

2016	Mecer East Africa R000	Mecer Technology R000	Rectron Australia R000	South Africa R000	Total R000
Revenue	51 761	20 229	146 233	5 214 394	5 432 617
(Loss) profit for the year	(3 055)	7 470	(3 533)	83 873	84 755
OTHER INFORMATION					
Capital expenditure	196	—	1 374	35 697	37 267
Segment assets	66 271	120 935	—	2 884 133	3 071 339
Current tax assets	388	—	—	13 831	14 219
Consolidated total assets	66 659	120 935	—	2 897 964	3 085 558

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	
	2017 R000	2016* R000	**2017 R000**	2016 R000
Sales of goods	**5 226 627**	5 278 056	**3 081 102**	3 194 235
Rendering of services	**16 520**	8 328	**16 160**	8 328
	5 243 147	5 286 384	**3 097 262**	3 202 563

** From continuing operations.*

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.

Sales 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
- 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 consists 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
- 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 on-site 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 2017

3. PROFIT FROM OPERATIONS

	GROUP		COMPANY	
	2017 R000	2016* R000	**2017 R000**	2016 R000
Profit from operations has been arrived at after taking the following items into account:				
Auditor's remuneration:				
Audit fees	**5 082**	4 436	**3 328**	2 910
Fees for other services	**255**	295	**75**	130
	5 337	4 731	**3 403**	3 040
Depreciation of property, plant and equipment (refer note 7)	**17 771**	20 120	**12 953**	12 495
Net loss on disposal of property, plant and equipment	**(219)**	(350)	**(78)**	(80)
Amortisation of intangible assets (refer note 8)	**11 001**	8 698	**8 335**	7 877
Foreign exchange (losses) gains:				
Realised	**2 727**	(30 614)	**730**	(46 009)
Unrealised	**(1 312)**	25 801	**(807)**	24 725
	1 415	(4 813)	**(77)**	(21 284)
Fair value adjustments:				
Open foreign exchange contracts (losses) gains	**(1 879)**	(6 971)	**(621)**	(380)
	(1 879)	(6 971)	**(621)**	(380)

** From continuing operations.*

4. INVESTMENT REVENUES

	GROUP		COMPANY	
	2017 R000	2016* R000	**2017 R000**	2016 R000
Investment revenue on financial instruments not at fair value through profit or loss:				
Interest received on bank balances and cash	**20 937**	19 278	**3 437**	8 708
Interest received from subsidiaries and joint venture	**—**	—	**4 208**	4 197
Dividends from subsidiaries and joint venture	**—**	—	**23 934**	12 024
	20 937	19 278	**31 579**	24 929

** From continuing operations.*

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	
	2017 R000	2016* R000	**2017 R000**	2016 R000
Finance costs on financial instruments not at fair value through profit or loss:				
Interest paid on bank overdrafts	**32 489**	41 732	**31 216**	40 795
Interest paid on loans	**—**	901	**—**	—
Interest paid on letters of credit and trade finance	**57 256**	53 058	**25 812**	25 271
Other interest paid	**1**	2	**—**	—
Interest on forward points	**18 520**	14 257	**—**	—
	108 266	109 950	**57 028**	66 066

6. TAXATION

Income tax expense

	GROUP		COMPANY	
	2017 R000	2016* R000	**2017 R000**	2016 R000
South African normal tax	**(20 837)**	(28 357)	**(10 995)**	(13 100)
Foreign tax	**732**	(335)	**—**	—
Withholding tax	**(26)**	(61)	**—**	—
	(20 131)	(28 753)	**(10 995)**	(13 100)
Comprising:				
Normal current tax				
– Current year	**(19 024)**	(21 778)	**(9 537)**	(4 249)
– Prior year	**(491)**	(511)	**(198)**	(232)
Normal deferred tax				
– Current year	**(1 776)**	(8 495)	**(1 587)**	(8 581)
– Prior year	**1 186**	2 092	**327**	(38)
Withholding tax	**(26)**	(61)	**—**	—
Income tax expense for the year	**(20 131)**	(28 753)	**(10 995)**	(13 100)

** From continuing operations.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

6. TAXATION (continued)

Tax rate reconciliation

	GROUP Total		COMPANY	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Profit before tax from continued operations	**93 851**	113 508	**63 324**	56 386
South African statutory rate of tax	**28.0%**	28.0%	**28.0%**	28.0%
Dividends received	**0.0%**	0.0%	**(10.6%)**	(6.0%)
Dividends tax	**0.0%**	0.1%	**0.0%**	0.0%
Current tax prior year underprovision	**0.5%**	0.5%	**0.3%**	0.4%
Deferred tax prior year overprovision	**(1.3%)**	(1.8%)	**(0.5%)**	0.1%
Profits from associates already taxed	**(2.4%)**	(2.0%)	**0.0%**	0.0%
Income from learnership agreements exempt	**(3.6%)**	0.0%	**(2.0%)**	0.0%
Non-taxable income	**0.2%**	(0.2%)	**0.0%**	0.0%
Disallowed expenses	**0.0%**	0.7%	**2.2%**	0.7%
Effective tax rate on continuing operations	**21.4%**	25.3%	**17.4%**	23.2%

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% (2016: 28%) except if otherwise indicated:

	GROUP		COMPANY	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Tax loss	**7 997**	7 261	**—**	—
Provision for doubtful debts	**984**	2 134	**1 088**	2 325
Amortisation of intangible assets	**12**	15	**12**	15
Salary-related provisions	**4 165**	4 657	**4 165**	4 657
Accelerated wear and tear for tax purposes	**(6 862)**	(7 152)	**(2 598)**	(2 837)
Prepayments	**(708)**	(620)	**(430)**	(440)
Minor assets	**8**	11	**7**	10
Operating lease liabilities	**775**	420	**756**	344
Provision for commission	**1 625**	1 813	**1 079**	1 403
Other provisions	**2 435**	4 372	**651**	897
Unrealised exchange gains and losses	**(4 299)**	(6 051)	**(3 529)**	(4 594)
Deferred revenue	**7 246**	7 927	**7 246**	7 927
Unrealised capital gains	**(2 120)**	(2 120)	**—**	—
Unrealised fair value capital gain on investment	**141**	141	**—**	—
Arising from the acquisition of subsequently	**(5 444)**	—	**—**	—
	5 955	12 808	**8 447**	9 707
Deferred tax assets	**16 572**	17 312	**8 447**	9 707
Deferred tax liabilities	**(10 617)**	(4 504)	**—**	—
	5 955	12 808	**8 447**	9 707

6. TAXATION (continued)

	GROUP		COMPANY	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Reconciliation between opening and closing balances:				
Deferred tax asset at the beginning of the year	**12 808**	25 017	**9 707**	18 326
Net movement in taxable loss	**736**	(2 243)	**–**	–
Differences on taxable loss	**736**	7 193	**–**	–
Disposal of subsidiary	**–**	(9 436)	**–**	–
Differences on provision for doubtful debts	**(1 150)**	1 104	**(1 237)**	1 082
Differences on amortisation of intangible assets	**(3)**	(2)	**(3)**	(2)
Differences on salary-related provisions	**(492)**	(3 935)	**(492)**	(3 935)
Differences on accelerated wear and tear	**290**	(466)	**239**	(618)
Differences on prepayments	**(88)**	284	**10**	(4)
Differences on minor assets	**(3)**	(3)	**(3)**	(3)
Differences on lease liability	**355**	(341)	**412**	(290)
Differences on provision for commission	**(188)**	(384)	**(324)**	(610)
Differences on other provisions	**(1 937)**	(1 420)	**(246)**	36
Differences on unrealised exchange gains and losses	**1 752**	(2 128)	**1 065**	(1 600)
Differences on deferred revenue	**(681)**	(2 675)	**(681)**	(2 675)
Differences on unrealised capital gains	**–**	–	**–**	–
Foreign currency translation reserve	**819**	(2 114)	**–**	–
	(590)	(14 323)	**(1 260)**	(8 619)
Deferred tax movement through the statement of comprehensive income – continuing operations	**(590)**	(14 323)	**(1 260)**	(8 619)
Deferred tax movement through the statement of financial position	**(6 263)**	2 114	**–**	–
Foreign currency translation reserve	**(632)**	2 114	**–**	–
Intangible asset through acquisition of subsidiary (refer note 14)	**(5 631)**	–	**–**	–
	5 955	12 808	**8 447**	9 707

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 2017

7. PROPERTY, PLANT AND EQUIPMENT

	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

7. PROPERTY, PLANT AND EQUIPMENT (continued)

	Opening balance R000	Disposal of subsidiary R000	Additions R000	Disposals R000	Exchange differences R000	Closing balance R000
GROUP – 2016						
Cost						
Land and buildings	94 220	(32 023)	4 895	—	7 949	75 041
Improvements to leased premises	52 144	—	501	—	72	52 717
Plant and machinery	54 665	—	1 859	(189)	123	56 458
Furniture, fixtures and office equipment	41 215	(6 624)	2 197	(478)	1 324	37 634
Computer equipment	43 938	—	14 744	(908)	204	57 978
Motor vehicles	15 227	(411)	662	(464)	264	15 278
	301 409	(39 058)	24 858	(2 039)	9 936	295 106

	Opening balance R000	Disposal of subsidiary R000	Current year R000	Disposals R000	Exchange differences R000	Closing balance R000
Accumulated depreciation						
Land and buildings	5 715	(32)	377	—	470	6 530
Improvements to leased premises	25 515	—	4 094	—	33	29 642
Plant and machinery	28 285	—	3 425	(10)	81	31 781
Furniture, fixtures and office equipment	30 106	(4 324)	2 622	(392)	844	28 856
Computer equipment	31 490	—	8 738	(811)	174	39 591
Motor vehicles	5 589	(411)	1 077	(187)	180	6 248
	126 700	(4 767)	20 333	(1 400)	1 782	142 648

	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
COMPANY – 2016				
Cost				
Land	784	—	—	784
Improvements to leased premises	16 001	419	—	16 420
Plant and machinery	20 208	1 859	—	22 067
Furniture, fixtures and office equipment	13 589	302	—	13 891
Computer equipment	36 147	12 044	(29)	48 162
Motor vehicles	13 227	528	(119)	13 636
	99 956	15 152	(148)	114 960

	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Accumulated depreciation				
Improvements to leased premises	13 981	1 739	—	15 720
Plant and machinery	11 927	1 900	—	13 827
Furniture, fixtures and office equipment	9 684	744	—	10 428
Computer equipment	25 982	7 161	(29)	33 114
Motor vehicles	4 188	951	(39)	5 100
	65 762	12 495	(68)	78 189

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

7. PROPERTY, PLANT AND EQUIPMENT (continued)

	GROUP		COMPANY	
	2017 R000	2016 R000	2017 R000	2016 R000
Net book value				
Land and buildings	**81 487**	68 511	**784**	784
Improvements to leased premises	**20 916**	23 075	**795**	700
Plant and machinery	**21 155**	24 677	**6 264**	8 240
Furniture, fixtures and office equipment	**9 185**	8 778	**3 102**	3 463
Computer equipment	**14 731**	18 387	**11 769**	15 048
Motor vehicles	**8 763**	9 030	**8 387**	8 536
	156 237	152 458	**31 101**	36 771

The following useful lives were applied in the current and previous financial years 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.

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 and no property, plant and equipment have been placed as security for any liabilities.

8. INTANGIBLE ASSETS

	GROUP 2017 R000	GROUP 2016 R000	COMPANY 2017 R000	COMPANY 2016 R000
Goodwill				
Cost	**62 344**	54 267	**—**	—
At the beginning of the year	**54 267**	54 267	**—**	—
Amount arising from acquisition of a subsidiary (refer to note 9 and 14)	**8 077**	—	**—**	—
Accumulated impairments	**(6 717)**	(6 249)	**—**	—
At the beginning of the year	**(6 249)**	(6 249)	**—**	—
Impairment of goodwill that arose from the acquisition of Mustek East Africa Limited	**(468)**	—	**—**	—
Carrying amount	**55 627**	48 018	**—**	—
Software*				
Cost	**120 999**	92 188	**73 527**	65 898
At the beginning of the year	**92 188**	79 281	**65 898**	56 148
Acquisition of subsidiary (refer note 14)	**20 201**	—	**—**	—
Disposal of subsidiary	**—**	(272)	**—**	—
Additions	**10 469**	13 134	**7 629**	9 750
Disposals	**(1 796)**	(66)	**—**	—
Exchange differences	**(63)**	111	**—**	—
Accumulated amortisation*	**(83 110)**	(73 147)	**(60 512)**	(52 177)
At the beginning of the year	**(73 147)**	(64 456)	**(52 177)**	(44 300)
Acquisition of subsidiary (refer note 14)	**(89)**	—	**—**	—
Disposal of subsidiary	**—**	13	**—**	—
Amortisation	**(11 001)**	(8 709)	**(8 335)**	(7 877)
Disposals	**1 108**	15	**—**	—
Exchange differences	**19**	(10)	**—**	—
Carrying amount	**37 889**	19 041	**13 015**	13 721
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	**93 516**	67 059	**13 015**	13 721

* *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.*

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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

8. INTANGIBLE ASSETS (continued)

	Pre-tax discount rate %	Post-tax discount rate %	Forecast cash flows	2017 R000	2016 R000
The carrying amount of goodwill had been allocated as follows:					
Mustek Limited	19.58	14.10	Five-year cash forecast, based on current year profits after tax, with perpetual cash forecast thereafter	**20 274**	20 274
Mustek East Africa			Fully impaired	**—**	468
Palladium Business Solutions	21.10	15.19	10-year cash forecast, with discounted cash flows calculated as a percentage of profit before tax	**8 077**	—
Rectron	19.58	14.10	Five-year cash forecast, based on current year profits after tax, with perpetual cash forecast thereafter	**27 276**	27 276
				55 627	48 018

Cash-generating units (CGUs) have been reassessed in the current financial year, resulting in changed allocations from the previous financial year.

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs 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 CGUs 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 its views on the risks specific to the CGUs. 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 its expectation 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 further 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 2017 R000	2016 R000
Shares at cost	**304 698**	304 698
– Opening balance	**304 698**	283 921
– Additions	**—**	20 777
Impairment charges	**(122 422)**	(119 022)
Opening carrying value adjustments	**(119 022)**	(119 022)
Current year impairment of investments and loans	**(3 400)**	—
Loans owing by subsidiaries	**101 373**	104 639
Non-current investments in subsidiaries	**283 649**	290 315
Loans owing to subsidiaries	**(88 860)**	(107 275)
	194 789	183 040

	Ownership interest 2017 %	2016 %	Shares at cost 2017 R000	2016 R000	Loans to (from) 2017 R000	2016 R000	Net investment 2017 R000	2016 R000
DIRECT								
Unlisted								
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	**(48 014)**	(60 518)	**23 454**	10 950
CIS Thuthukani Technology Proprietary Limited[2, 3]	**100**	100	**6 793**	6 793	**(10 212)**	(10 212)	**(3 419)**	(3 419)
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 East Africa Limited[4, 8, 9]	**100**	100	**12 315**	12 315	**28 959**	32 246	**35 542**	38 829
MFS Technologies Proprietary Limited[2, 3]	**100**	100	*****	*	**(1 271)**	(1 271)	**(1 271)**	(1 271)
Quickstep 94 Proprietary Limited[1, 2, 7]	**100**	100	**2 581**	2 581	**18 422**	18 693	**1 621**	1 892
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	**—**	(11 911)	**—**	(8 511)
Zatophase Proprietary Limited	**100**	100	**35 944**	35 944	**(6 000)**	—	**29 944**	35 944
INDIRECT								
Unlisted								
Mecer Inter-Ed Proprietary Limited[1, 5]	**100**	100	**—**	—	**83**	—	**83**	—
Palladium Business Solutions Proprietary Limited[11]	**50.1**	—	**—**	—	**—**	—	**—**	—
Soft 99 Proprietary Limited[7, 10]	**68**	68	**—**	—	**2 657**	2 448	**2 657**	2 448
			304 698	304 698	**12 513**	(2 636)	**194 789**	183 040

The net investment is after impairment charges against the investments and loans of R122.4 million (2016: R119.0 million). During the current financial year, the investment of R3.4 million in Tradeselect 38 Proprietary Limited was fully impaired, after all the reserves of the company were 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.

See page 130 for footnote references.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

9. INVESTMENTS IN SUBSIDIARIES (continued)

[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 in 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 2% 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. In total, R7.9 million of the total consideration is conditional upon the achievement of profit guarantees over the next two financial years.*

The interest of the company in the aggregate net profit (loss) after tax of subsidiaries is:

	2017 R000	2016 R000
Net aggregate profits	**50 509**	39 819
Net aggregate losses	**(10 564)**	(5 243)

10. INVESTMENTS IN ASSOCIATES

	GROUP		COMPANY	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Shares at cost	**88 026**	69 878	**40 246**	22 098
– Opening balance	**69 878**	51 969	**22 098**	4 189
– Acquisitions	**18 148**	17 909	**18 148**	17 909
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	**37 251**	35 295	**–**	–
– Opening balance	**35 295**	19 943	**–**	–
– Current year share of post-acquisition gains	**7 956**	15 352	**–**	–
– Current year dividends received from associates	**(6 000)**	–	**–**	–
Loans owing by associates	**9 568**	11 514	**2 268**	4 214
Opening balance	**11 514**	21 405	**4 214**	14 105
Decrease in loans	**(1 946)**	(9 891)	**(1 946)**	(9 891)
Fair valuation adjustments to loans	**(7 300)**	(7 300)	**–**	–
Investments in associates	**103 006**	84 848	**38 325**	22 123

10. INVESTMENTS IN ASSOCIATES (continued)

The assets, liabilities and results of operations of significant associates at year-end are summarised as follows:

Group	Yangtze Optics Africa Holdings Proprietary Limited 2017 R000	2016 R000	Zaloserve Proprietary Limited 2017 R000	2016 R000	Khauleza IT Solutions Proprietary Limited 2017 R000	2016 R000	Continuous Power Systems Proprietary Limited 2017 R000	2016 R000	Mustek Zimbabwe Private Limited 2017 R000	2016 R000	Preworx Proprietary Limited 2017 R000	2016 R000
Total assets	143 727	–	402 219	384 454	50 417	68 497	30 904	16 521	7 693	8 355	963	963
Total liabilities	19 671	–	274 980	270 468	17 390	38 925	26 618	11 649	3 467	3 946	8 757	8 757
Revenue	23 973	–	926 461	905 301	151 098	272 357	28 233	36 237	20 534	24 857	–	–
(Loss) profit before tax	(22 976)	–	41 378	50 539	4 799	9 637	(585)	(1 540)	223	(711)	–	–
Income tax benefit (expense)	4 435	–	(12 655)	(16 926)	(1 344)	(2 698)	164	431	(57)	183	–	–
Net (loss) profit for the year	(18 541)	–	28 723	33 613	3 455	6 939	(421)	(1 109)	166	(528)	–	–

Company	Yangtze Optics Africa Holdings Proprietary Limited 2017 R000	2016 R000	Khauleza IT Solutions Proprietary Limited 2017 R000	2016 R000	Continuous Power Systems Proprietary Limited 2017 R000	2016 R000	Mustek Zimbabwe Private Limited 2017 R000	2016 R000
Total assets	143 727	–	50 417	68 497	30 904	16 521	7 693	8 355
Total liabilities	19 671	–	17 390	38 925	26 618	11 649	3 467	3 946
Revenue	23 973	–	151 098	272 357	28 233	36 237	20 534	24 857
(Loss) profit before tax	(22 976)	–	4 799	9 637	(585)	(1 540)	223	(711)
Income tax benefit (expense)	4 435	–	(1 344)	(2 698)	164	431	(57)	183
Net (loss) profit for the year	(18 541)	–	3 455	6 939	(422)	(1 109)	166	(528)

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

10. INVESTMENTS IN ASSOCIATES (continued)

	Percentage holding		Cost		Loans to		Equity-accounted share of earnings		Net investment	
	2017 R000	2016 R000	**2017 R000**	2016 R000	**2017 R000**	2016 R000	**2017 R000**	2016 R000	**2017 R000**	2016 R000
COMPANY										
Unlisted										
Mustek Zimbabwe Private Limited[1]	**–**	–	**4 189**	4 189	**–**	–	**–**	–	**–**	–
Khauleza IT Solutions Proprietary Limited	**36**	36	**–**	–	**–**	–	**–**	–	**–**	–
Continuous Power Systems Proprietary Limited[4]	**40**	40	**–**	–	**2 268**	4 214	**–**	–	**2 268**	4 214
Yangtze Optics Africa Holdings Proprietary Limited[5]	**25.1**	25.1	**36 057**	17 909	**–**	–	**–**	–	**36 057**	17 909
			40 246	22 098	**2 268**	4 214	**–**	–	**38 325**	22 123
GROUP										
Unlisted										
Mustek Zimbabwe Private Limited[1]	**–**	–	**–**	–	**–**	–	**554**	508	**554**	508
A Open Proprietary Limited[2]	**43**	43	**–**	–	**–**	–	**–**	–	**–**	–
Preworx Proprietary Limited[3]	**38**	38	**24 447**	24 447	**7 300**	7 300	**(4 097)**	(4 097)	**–**	–
Khauleza IT Solutions Proprietary Limited	**36**	36	**–**	–	**–**	–	**11 610**	10 366	**11 610**	10 366
Continuous Power Systems Proprietary Limited[4]	**40**	40	**–**	–	**–**	–	**1 515**	1 684	**1 515**	1 684
Zaloserve Proprietary Limited	**40**	40	**23 333**	23 333	**–**	–	**32 323**	26 834	**55 656**	50 167
Yangtze Optics Africa Holdings Proprietary Limited[5]	**25.1**	25.1	**–**	–	**–**	–	**(4 654)**	–	**(4 654)**	–
			88 026	69 878	**9 568**	11 514	**37 251**	35 295	**103 006**	84 848

The net investment is after impairment charges against and fair value adjustments of the investments and loans of R31.8 million (2016: R31.8 million) for the Group and R4.2 million (2016: R4.2 million) for the company.

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 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.

10. INVESTMENTS IN ASSOCIATES (continued)

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 (2016: 12 months)
Khauleza IT Solutions Proprietary Limited	Provider of IT support solutions	South Africa	12 months (2016: 12 months)
Continuous Power Systems Proprietary Limited	Provider of uninterrupted power supply solutions	South Africa	12 months (2016: 12 months)
Zaloserve Proprietary Limited	Group of IT support solutions provider companies	South Africa	12 months (2016: 12 months)
A Open Proprietary Limited	Dormant	South Africa	12 months (2016: 12 months)
Preworx Proprietary Limited	Remote access diagnostics technology	South Africa	12 months (2016: 12 months)
Yangtze Optics Africa Holdings Proprietary Limited	Fibre optics technology	South Africa	6 months (2016: 0 months)

[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] Dormant company registered and incorporated in South Africa.

[3] This loan is unsecured, interest-free and has no fixed terms of repayment. The investment and loan in this company were impaired to Rnil in previous financial years.

[4] 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 1% and have no fixed repayment terms.

[5] 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 only started during the current financial year and therefore no results were equity accounted for the previous financial year.

11. OTHER INVESTMENTS AND LOANS

	GROUP		COMPANY	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Shares at cost	**24 506**	24 506	**9 251**	9 251
– Opening balance	**24 506**	24 506	**9 251**	9 251
Loans	**59 832**	49 721	**52 239**	49 721
Fair value adjustments	**(6 418)**	(6 418)	**(904)**	(904)
– Opening balance	**(6 418)**	(6 418)	**(904)**	(904)
	77 920	67 809	**60 586**	58 068

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

11. OTHER INVESTMENTS AND LOANS (continued)

	Ownership interest 2017 %	Ownership interest 2016 %	Shares at cost 2017 R000	Shares at cost 2016 R000	Loans to 2017 R000	Loans to 2016 R000	Net investment 2017 R000	Net investment 2016 R000
COMPANY								
Unlisted								
A Lai[2]	**—**	—	**—**	—	**1 000**	1 000	**1 000**	1 000
Columbus Technologies Proprietary Limited[1]	**—**	—	**—**	—	**370**	1 089	**370**	1 089
M Cameron[3]	**—**	—	**—**	—	**972**	880	**972**	880
Zinox Technologies Limited[4]	**20**	20	**9 001**	9 001	**—**	—	**9 001**	9 001
Elimu Technologies Proprietary Limited[5]	**—**	—	**—**	—	**2 536**	2 286	**2 536**	2 286
Omni Capital Proprietary Limited	**—**	—	**—**	—	**—**	—	**—**	—
Mustek Executive Share Trust[6, 7]	**—**	—	**—**	—	**46 707**	43 812	**46 707**	43 812
			9 251	9 251	**52 239**	49 721	**60 586**	58 068
GROUP								
Unlisted								
Casetek International Co Limited	**8**	8	**5 514**	5 514	**—**	—	**—**	—
Zinox Technologies Limited[4]	**20**	20	**9 741**	9 741	**—**	—	**9 741**	9 741
DC Kan[6]	**—**	—	**—**	—	**25 857**	24 211	**25 857**	24 211
H Engelbrecht[6]	**—**	—	**—**	—	**14 173**	13 272	**14 173**	13 272
CJ Coetzee[6]	**—**	—	**—**	—	**3 328**	3 115	**3 328**	3 115
JW Viviers[8]	**—**	—	**—**	—	**627**	587	**627**	587
O Levey[8]	**—**	—	**—**	—	**942**	884	**942**	884
JL Chen[8]	**—**	—	**—**	—	**1 157**	1 084	**1 157**	1 084
VL Chunilal[8]	**—**	—	**—**	—	**141**	208	**141**	208
MR de Klerk[8]	**—**	—	**—**	—	**482**	451	**482**	451
Mustek Executive Share Trust[6, 7]	**—**	—	**—**	—	**(46 707)**	(43 812)	**(46 707)**	(43 812)
IG3 Education Limited[9]	**—**	—	**—**	—	**7 593**	—	**7 593**	—
			24 506	24 506	**59 832**	49 721	**77 920**	67 809

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 in order to align the carrying value of the investment or loan to the fair value thereof.

[1] *The loan is unsecured, bears interest at 8.5% and was payable on 31 July 2014. The loan is guaranteed by Brainware Solutions AG (a company registered in Switzerland).*

[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 at 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.*

[5] *This loan is unsecured, bears interest at prime and has no fixed repayment terms.*

[6] *In total, 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. All of these loans bear interest at the South African repo rate plus 1% and 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 1% 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 interest 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).*

12. INVENTORIES

	GROUP		COMPANY	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Trading inventory	**1 121 016**	1 148 623	**684 313**	729 925
Provision for obsolescence	**(42 981)**	(36 694)	**(26 448)**	(26 185)
Trading inventory, net of provision for obsolescence	**1 078 035**	1 111 929	**657 865**	703 740
Inventories in transit	**128 375**	95 753	**97 690**	51 080
Total inventories	**1 206 410**	1 207 682	**755 555**	754 820

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 R69.0 million (2016: R53.6 million) and R45.7 million (2016: R40.0 million) respectively.

The cost of inventories recognised as an expense during the year was R4 521.8 million (2016: R4 787.4 million) and R2 656.1 million (2016: R2 708.5 million) for the Group and company respectively.

The cost of inventories recognised includes R14.2 million (2016: R2.4 million) in respect of write-downs to net realisable value.

Sales between Group entities were made at an average mark-up of 0.8%.

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	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Gross trade receivables	**874 784**	931 370	**561 290**	541 594
Doubtful debt allowance	**(6 663)**	(15 607)	**(5 180)**	(12 403)
Net trade receivables	**868 121**	915 763	**556 110**	529 191
Other receivables	**161 001**	157 387	**130 874**	137 366
VAT receivable	**41 695**	1 673	**24 200**	—
Tax assets	**20 931**	14 219	**20 308**	13 832
Short-term loans	**1 817**	12 676	**238**	—
Total current trade and other receivables	**1 093 565**	1 101 718	**731 730**	680 389

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% (2016: 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).

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

13. TRADE AND OTHER RECEIVABLES (continued)

Other information (continued)

The average credit period on sale of goods and services is between 30 and 60 days (2016: 30 and 60 days) from date of invoice. Generally, no interest is charged on trade receivables. Of the trade receivable balance at year-end, R166.8 million (2016: R200.2 million) and R44.4 million (2016: R63.3 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	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Balance at the beginning of the year	**15 607**	15 795	**12 403**	11 881
Net amounts written off as uncollectible	**(4 801)**	(7 846)	**(1 533)**	(7 317)
Charged to profit and loss	**(4 143)**	7 658	**(5 690)**	7 839
Balance at the end of the year	**6 663**	15 607	**5 180**	12 403

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 among 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 R714.0 million (2016: R685.8 million) and R407.4 million (2016: R359.8 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.

13. TRADE AND OTHER RECEIVABLES (continued)

Credit risk management (continued)

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	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Trade and other receivables	**74 992**	104 773	**74 094**	99 824

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.

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.

	Total R000
GROUP 2017	
Non-interest-bearing	**944 388**
Variable interest rate instruments	**1 006 539**
	1 950 927
GROUP 2016	
Non-interest-bearing	783 180
Variable interest rate instruments	1 265 129
	2 048 309
COMPANY 2017	
Non-interest-bearing	**636 979**
Variable interest rate instruments	**641 754**
	1 278 733
COMPANY 2016	
Non-interest-bearing	493 308
Variable interest rate instruments	785 998
	1 279 306

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

14. BANK BALANCES AND CASH (continued)

Net cash from operations

	GROUP		COMPANY	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Profit for the year	**73 720**	78 944	**52 329**	43 286
Adjustments for:				
Income tax expense	**20 131**	27 237	**10 995**	13 100
Interest income	**(20 937)**	(19 281)	**(7 645)**	(12 905)
Finance costs	**108 266**	110 793	**57 028**	66 066
Dividend income	**—**	—	**(23 934)**	(12 024)
Depreciation of property, plant and equipment	**17 771**	20 333	**12 953**	12 495
Net loss on disposal of plant and equipment	**219**	368	**78**	80
Unrealised foreign exchange (profits) losses	**1 312**	(25 801)	**807**	(24 725)
Fair value adjustments of derivative instruments	**1 879**	6 971	**621**	380
Share-based payments	**(1 403)**	(12 704)	**(1 220)**	(11 292)
Impairment of goodwill	**468**	—	**—**	—
Impairment of investment in subsidiary	**—**	—	**3 400**	—
Amortisation of intangible assets	**11 001**	8 709	**8 335**	7 877
Loss on disposal of subsidiary	**—**	2 278	**—**	—
Share of profit of associates	**(7 956)**	(15 352)	**—**	—
Operating cash flows before movements in working capital	**204 471**	182 495	**113 747**	82 338
Working capital movements	**24 304**	(7 448)	**81 148**	(30 907)
Decrease (increase) in inventories	**1 329**	62 243	**(735)**	52 139
Decrease (increase) in trade and other receivables	**8 636**	131 109	**(44 627)**	121 480
Decrease in deferred income	**(6 051)**	(2 954)	**(3 018)**	(6 558)
Increase (decrease) in trade and other payables	**20 390**	(197 846)	**129 528**	(197 968)
Net cash from operations	**228 775**	175 047	**194 895**	51 431

14. BANK BALANCES AND CASH (continued)

Acquisition of subsidiary

The aggregated fair value of the assets acquired and liabilities assumed were as follows:

	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	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)

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 mainly 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 does not 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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

14. BANK BALANCES AND CASH (continued)

Acquisition of subsidiary (continued)

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 and is 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 R7.875 million over the next two years 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 R7.875 million.

Total non-controlling interest to the amount of R8.1 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 four months ended 30 June 2017 was R1.8 million, of which the Group's share of 50.1% was included at R0.9 million.

15. STATED CAPITAL AND EARNINGS PER SHARE

	GROUP AND COMPANY	
	2017 R000	2016 R000
Authorised share capital		
250 000 000 ordinary shares (2015: 250 000 000)		
Issued share capital/ordinary stated capital		
Opening balance: 98 000 000 ordinary shares (2016: 103 623 471 ordinary shares)	**50 531**	93 354
Shares bought back: 15 000 000 ordinary shares (2016: 5 623 471 ordinary shares)	**(68 986)**	(42 823)
Share buy backs funded by retained income	**18 455**	—
Closing balance: 83 000 000 ordinary shares (2016: 98 000 000)	**—**	50 531

	Number of shares 2017 000	Number of shares 2016 000
Ordinary shares		
Balance at the beginning of the year	**98 000**	103 623
Shares bought back and cancelled	**(15 000)**	(5 623)
Balance at the end of the year	**83 000**	98 000

15. STATED CAPITAL AND EARNINGS PER SHARE (continued)

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	
	2017 R000	2016 R000
From continuing and discontinued operations		
Basic earnings (profit for the year attributable to equity holders of the parent)	**73 091**	74 630
Group's share of after tax loss on disposal of property, plant and equipment	**391**	488
Group's share of loss from disposal of shares in subsidiary	**—**	2 278
Group's share of loss from impairment of goodwill (refer note 8)	**468**	—
Headline earnings from continuing and discontinued operations	**73 950**	77 396
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**91 003**	100 674
Effect of dilutive potential ordinary shares – share options	**—**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**91 003**	100 674
From continuing operations		
Basic earnings (profit for the year attributable to equity holders of the parent)	**73 091**	74 630
Group's share of loss for the year from discontinued operations	**—**	5 495
Basic earnings from continuing operations	**73 091**	80 125
Group's share of after tax loss on disposal of property, plant and equipment	**391**	488
Group's share of loss from impairment of goodwill (refer note 9)	**468**	—
Headline earnings from continuing operations	**73 950**	80 613

At year-end, no share options were outstanding (2016: no share options were outstanding). The weighted average market price for the current financial year was R4.65 per share (2016: R7.56 per share).

Notes to the annual financial statements (continued)
for the year ended 30 June 2017

15. STATED CAPITAL AND EARNINGS PER SHARE (continued)
Capital risk management (continued)

	GROUP 2017 Cents	GROUP 2016 Cents
Earnings per share		
From continuing and discontinued operations		
– Headline earnings per ordinary share	**81.26**	76.88
– Basic earnings per ordinary share	**80.32**	74.13
– Diluted headline earnings per ordinary share	**81.26**	76.88
– Diluted basic earnings per ordinary share	**80.32**	74.13
From continuing operations		
– Headline earnings per ordinary share	**81.26**	80.07
– Basic earnings per ordinary share	**80.32**	79.59
– Diluted headline earnings per ordinary share	**81.26**	80.07
– Diluted basic earnings per ordinary share	**80.32**	79.59
From discontinued operations		
– Headline loss per ordinary share	**–**	(3.20)
– Basic loss per ordinary share	**–**	(5.46)
– Diluted headline loss per ordinary share	**–**	(3.20)
– Diluted basic loss per ordinary share	**–**	(5.46)

16. BORROWINGS

	GROUP 2017 R000	GROUP 2016 R000	COMPANY 2017 R000	COMPANY 2016 R000
Interest-bearing				
Unsecured – at amortised cost				
Bank overdrafts	**239 278**	377 713	**226 649**	356 716
Total interest-bearing borrowings	**239 278**	377 713	**226 649**	356 716
Interest-free				
Unsecured – non-financial liabilities				
Operating lease liabilities	**2 117**	1 054	**2 701**	1 228
Share-based payment liabilities	**1 557**	3 085	**1 113**	2 457
Amount due on acquisition of subsidiary	**2 250**	–	**–**	–
Total interest-free borrowings	**5 924**	4 139	**3 814**	3 685
Total borrowings	**245 202**	381 852	**230 463**	360 401
The borrowings are repayable as follows:				
On demand or within one year	**239 565**	381 353	**226 411**	359 325
In the second year	**2 062**	119	**(53)**	119
In the third to fifth years inclusive	**3 575**	380	**4 105**	957
Total borrowings	**245 202**	381 852	**230 463**	360 401
Bank overdrafts	**(239 278)**	(377 713)	**(226 649)**	(356 716)
Amounts due for settlement within 12 months	**(287)**	(3 640)	**238**	(2 609)
Long-term borrowings	**5 637**	499	**4 052**	1 076
Consisting of:				
Interest-bearing borrowings	**239 278**	377 713	**226 649**	356 716
Interest-free borrowings	**5 924**	4 139	**3 814**	3 685
	245 202	381 852	**230 463**	360 401

16. BORROWINGS (continued)

Additional information

Included in borrowings are the following:

Accounts receivable securitisation loans

Included in bank overdrafts is an amount of R356.6 million (2016: R357.2 million), which represents a general banking facility from the Bank of China Limited, bearing interest at JIBAR plus 2% (2016: JIBAR plus 2%) and is repayable by 28 May 2018 (2016: 11 November 2016). 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 (2016: 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.

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	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Cash due:				
During the ensuing year	**25 296**	13 492	**23 569**	11 867
In the second year	**23 961**	4 886	**22 450**	5 698
In the third to fifth year inclusive	**50 683**	6 457	**50 232**	9 732
	99 940	24 835	**96 251**	27 297
Operating lease liability	**2 117**	1 054	**2 701**	1 228
To be expensed:				
During the ensuing year	**26 607**	12 817	**24 704**	11 618
In the second year	**24 167**	4 767	**22 504**	5 579
In the third to fifth year inclusive	**47 049**	6 197	**46 342**	8 872
	99 940	24 835	**96 251**	27 297
Operating lease expenses	**29 157**	26 732	**27 636**	24 453

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Operating leases 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 is 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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Financial liabilities				
Loans received and bank borrowings linked to LIBOR	**779 890**	908 413	**415 105**	429 283
Loans received and bank borrowings linked to JIBAR	**226 649**	356 716	**226 649**	356 716
	1 006 539	1 265 129	**641 754**	785 999
Financial assets				
Loans granted at fixed rates of interest	**1 342**	1 969	**1 342**	1 969
Loans granted and bank deposits linked to South African prime rates	**170 489**	148 685	**44 301**	39 122
Bank deposits linked to LIBOR	**72 294**	191 269	**40 821**	165 737
Bank deposits linked to money market rates	**16 624**	4 775	**16 504**	2 225
Bank deposits linked to Kenyan prime rates	**1 852**	1 285	**—**	—
Bank deposits linked to other foreign prime rates	**137**	36 299	**—**	—
	262 738	384 282	**102 968**	209 053

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 or lower and all other variables were held constant, the Group and company's profit before tax for the year ended 30 June 2017 would decrease or increase by R7.2 million (2016: R8.8 million) and R5.4 million (2016: R5.8 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 525.8 million (2016: R2 366.9 million):

	GROUP	
	2017 R000	2016 R000
General overdraft and similar facilities	**1 176 532**	1 191 142
Letters of credit facilities	**1 349 237**	1 175 800
Total facilities	**2 525 769**	2 366 942
Utilised facilities	**(993 909)**	(1 244 132)
Unutilised facilities	**1 531 860**	1 122 810

17. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2017 **R000**	2016 R000	**2017** **R000**	2016 R000
Letters of credit and trade finance payables	**767 260**	887 415	**415 105**	429 282
Trade payables	**902 293**	721 415	**619 903**	456 192
Other payables	**23 156**	34 021	**3 313**	17 273
Accruals	**18 939**	23 238	**13 763**	14 176
VAT payable	**1 927**	4 506	**—**	5 667
Tax liabilities	**1 702**	2 408	**—**	—
Short-term borrowings	**—**	555	**—**	152
Total trade and other payables	**1 715 277**	1 673 558	**1 052 084**	922 742

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 349.2 million (2016: R1 175.8 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 137 days (2016: 131 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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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)	
	2017 R	2016 R	**2017 R000**	2016 R000	**2017 R000**	2016 R000	**2017 R000**	2016 R000
GROUP								
Buy:								
US Dollar								
Less than three months	**13.42**	15.06	**76 563**	32 367	**1 027 310**	487 566	**(1 995)**	(6 292)
Three to six months	**12.97**	15.57	**1 710**	1 416	**22 187**	22 051	**116**	(680)
							(1 879)	(6 972)
Foreign currency assets							**2 602**	3 059
Foreign currency liabilities							**(4 481)**	(10 031)
							(1 879)	(6 972)
COMPANY								
Buy:								
US Dollar								
Less than three months	**13.44**	14.80	**66 450**	16 522	**893 183**	244 560	**(621)**	(379)
							(621)	(379)
Foreign currency assets							**2 041**	1 922
Foreign currency liabilities							**(2 662)**	(2 301)
							(621)	(379)

The following significant exchange rates applied for both the Group and the company during the year:

	Average spot rate		Closing spot rate	
	2017 R	2016 R	**2017 R**	2016 R
US Dollar	**13.61**	14.50	**13.03**	14.72
Euro	**14.84**	16.11	**14.89**	16.49

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.

	2017			2016		
	United States Dollar	**Euro**	**Other***	United States Dollar	Euro	Other*
Functional currency (liabilities) assets						
GROUP						
South African Rand	**(708 339)**	**(4 421)**	**137**	(623 914)	(1 778)	35 818
Kenyan Shilling	**(14 098)**	**—**	**14 992**	(20 563)	—	1 285
	(722 437)	**(4 421)**	**15 129**	(644 477)	(1 778)	37 103
COMPANY						
South African Rand	**(518 267)**	**(4 422)**	**—**	(364 839)	(2 123)	—
	(518 267)	**(4 422)**	**—**	(364 839)	(2 123)	—

** Other currencies include British Pound, United Arab Emirates Dirham, Namibia Dollar, Lesotho Loti 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 while 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.

	2017 R000	2016 R000
GROUP		
Profit before tax	**73 315**	67 980
COMPANY		
Profit before tax	**51 385**	36 272

Mustek at a glance
Leadership review
The capitals
Governance
Annual financial statements

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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)
- 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 to 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 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	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

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			
2017			
Opening balance	**—**	**—**	**18 741**
Closing balance	**—**	**—**	**18 741**
COMPANY			
2017			
Opening balance	**—**	**—**	**9 001**
Closing balance	**—**	**—**	**9 001**

	Level 1	Level 2	Level 3
GROUP			
2016			
Held-for-trading			
Foreign currency assets	—	3 059	—
Foreign currency liabilities	—	(10 031)	—
Total – held-for-trading	—	(6 972)	—
Available-for-sale			
Other investments and loans	—	—	18 741
Total – available-for-sale	—	—	18 741
Total financial assets and (liabilities) at fair value	—	(6 972)	18 741
COMPANY			
2016			
Held-for-trading			
Foreign currency assets	—	1 922	—
Foreign currency liabilities	—	(2 301)	—
Total – held-for-trading	—	(379)	—
Available-for-sale			
Other investments and loans	—	—	9 001
Total – available-for-sale	—	—	9 001
Total financial assets and (liabilities) at fair value	—	(379)	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			
2016			
Opening balance	—	—	18 742
Closing balance	—	—	18 742
COMPANY			
2016			
Opening balance	—	—	9 001
Closing balance	—	—	9 001

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

19. STAFF COST AND RETIREMENT BENEFIT PLANS

	GROUP		COMPANY	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Staff costs	**265 622**	286 820	**177 906**	179 666
Pension contributions (defined contribution plan)	**10 789**	10 014	**8 014**	8 467

Refer to note 21 for details with regard 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, 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 US$0.5 million.
- US$3.0 million guarantee of payment in favour of Bank of China Limited on behalf of Mustek East Africa Proprietary Limited.
- US$0.5 million guarantee of payment in favour of Lenovo PC HK Limited on behalf of Mustek East Africa Proprietary Limited.
- R5.75 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.

Legal dispute

During the current financial year, the South African Revenue Service filed an application for leave to appeal a finding in favour of Mustek Limited with regard to a tariff heading used for certain imported goods. As at 30 June 2017, a decision regarding the application was not yet handed down and therefore the existence of an obligation will only be confirmed if leave to appeal is granted and the outcome is determined.

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
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

21. RELATED-PARTY TRANSACTIONS

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.

Refer to note 9 for a complete list of subsidiaries and further details about these entities.

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.

Refer to note 10 for a complete list of associates.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

21. RELATED-PARTY TRANSACTIONS (continued)

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.*

During the 2016 financial year the company had the following related parties:

Subsidiaries

2016 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	(5 320)	(60 518)
Mecer Technology Limited	Management fees	(6 902)	–
Makeshift 1000 Proprietary Limited[4]	Purchases	(587)	–
Mustek Capital Proprietary Limited[1]	Loan	–	43 192
Mustek East Africa Limited[1]	Loan	–	(10 520)
	Sales	–	(913)
Mustek Lesotho Proprietary Limited[6]	Loan	(5 884)	32 246
	Loan	–	952
Mustek Limited Company Limited[2]	Loan	–	3 511
Mustek Middle East FZCO[1, 5]	Loan	–	1 118
Quickstep 94 Proprietary Limited[3]	Purchases	(10)	–
	Management fees	120	–
	Loan	(457)	21 139
Rectron Holdings Limited[1]	Sales	47 870	7 273
	Purchases	(282 069)	(28 914)
Tradeselect 38 Proprietary Limited	Loan	–	(11 912)

[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.*

Refer to note 9 for a complete list of subsidiaries and further details about these entities.

21. RELATED-PARTY TRANSACTIONS (continued)

Associates

2015 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Continuous Power Systems Proprietary Limited[1]	Loan	2 390	4 214

[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.*

Refer to note 10 for a complete list of associates.

Other related parties

2016 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	215	1 089
Mustek Electronics Properties Proprietary Limited[2]	Common directorship	Operating lease	(16 845)	—

[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 during the 2015 financial year that terminates 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 R16.9 million (2016: R16.8 million) were paid with regard 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 regard to directors' interest in contracts does not exist.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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	
	2017 R000	2016 R000	**2017 R000**	2016 R000
Short-term benefits	**16 967**	21 165	**9 076**	11 547
Share-based payments	**(1 403)**	(12 704)	**(1 220)**	(11 292)
	15 564	8 461	**7 856**	255

Directors' emoluments, consisting of short-term benefits during the year, were as follows:

2017	**Fees for services R000**	**Basic salary R000**	**Expense allowances R000**	**Pension contributions R000**	**Bonus and performance-related R000**	**Share-appreciation rights exercised R000**	**Total R000**
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[1]	**411**	**—**	**—**	**—**	**—**	**—**	**411**
LL Dhlamini[2]	**243**	**—**	**—**	**—**	**—**	**—**	**243**
ME Gama	**388**	**—**	**—**	**—**	**—**	**—**	**388**
RB Patmore	**339**	**—**	**—**	**—**	**—**	**—**	**339**
	1 381	**7 883**	**606**	**587**	**—**	**—**	**10 457**
2016							
Executive directors	—	7 467	566	558	—	2 956	11 547
DC Kan	—	2 777	200	224	—	2 190	5 391
H Engelbrecht	—	2 591	270	228	—	—	3 089
CJ Coetzee	—	2 099	96	106	—	766	3 067
Non-executive directors	1 232	—	—	—	—	—	1 232
VC Mehana[1]	146	—	—	—	—	—	146
LL Dhlamini[2]	117	—	—	—	—	—	117
ME Gama	355	—	—	—	—	—	355
RB Patmore	363	—	—	—	—	—	363
D Konar[3]	184	—	—	—	—	—	184
T Dingaan[4]	67	—	—	—	—	—	67
	1 232	7 467	566	558	—	2 956	12 779

[1] *Appointed on 2 February 2016.*
[2] *Appointed on 4 December 2015.*
[3] *Resigned on 4 December 2015.*
[4] *Resigned on 13 October 2015.*

21. RELATED-PARTY TRANSACTIONS (continued)

Directors' shareholding

At 30 June 2017, the directors collectively held the following direct and indirect interests in shares in the company, which represents 19.8% (2016: 16.6%) of the issued share capital of the company. (No change occurred between 30 June 2017 and 30 August 2017):

	Beneficial			
	Direct		Indirect	
	2017	2016	**2017**	2016
DC Kan	**2 288 046**	2 288 046	**11 625 412**	11 492 525
H Engelbrecht	**1 750 000**	1 750 000	**—**	—
CJ Coetzee[1]	**735 000**	735 000	**—**	—
	4 773 046	4 773 046	**11 625 412**	11 492 525

[1] Includes 300 000 shares held through contracts for difference (2016: 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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

21. RELATED PARTY TRANSACTIONS (continued)

Share-based payments (continued)

Share appreciation rights scheme (continued)

	Weighted average price (Rand)		Number of options	
	2017	2016	**2017**	2016
Phantom shares outstanding at the beginning of the year	**7.24**	4.98	**6 811 000**	4 050 000
Phantom shares granted during the year	**5.50**	8.64	**2 260 000**	4 296 000
Phantom shares exercised during the year	**4.71**	4.71	**–**	(1 350 000)
Phantom shares that lapsed during the year	**8.64**	8.64	**(1 487 000)**	(185 000)
Phantom shares outstanding at year-end	**4.95**	7.24	**7 584 000**	6 811 000

The fair values were calculated using a trinomial tree that adheres to all the binominal option pricing model principles. All these share options are cash-settled. The inputs into the model were as follows:

	30 June 2017	30 June 2016
Share price	**R4.23**	R5.30
Grant price	**R4.71/R6.16/R8.64/R6.92**	R4.71/R6.16/R8.64
Expected volatility	**34.56%/30.5%/34.56%/32.21%**	29.50%/34%/30.7%
Expected life	**0 years/0 years/1 year/2 years**	0 years/1 year/2 years
Risk-free rate	**7.50%/6.28%/6.14%/6.55%**	6.99%/7.60%/7.10%
Expected dividend yield	**3%/3%/3%/3%**	4%/4%/4%

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 income of R1 402 699 and R1 220 170 respectively (2016: income of R12 703 904 and R11 292 425 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	**2018**	**2019**	**2020**	**Number of undelivered phantom shares**	**Total Rand value**
R4.71	1 950 000	–	–	1 950 000	9 184 500
R6.16	750 000	–	–	750 000	4 620 000
R8.64	1 337 000	1 337 000	–	2 674 000	23 103 360
R5.50	–	–	2 210 000	2 210 000	12 155 000
	4 037 000	1 337 000	2 210 000	7 584 000	49 062 860

21. RELATED PARTY TRANSACTIONS (continued)

Share-based payments (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 2017	Undelivered phantom shares at 30 June 2016
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	**493 333**	740 000
H Engelbrecht	R8.64	13 November 2015	**419 333**	629 000
CJ Coetzee	R8.64	13 November 2015	**345 333**	518 000
DC Kan	R5.50	14 November 2016	**400 000**	—
H Engelbrecht	R5.50	14 November 2016	**340 000**	—
CJ Coetzee	R5.50	14 November 2016	**280 000**	—
			4 228 000	3 837 000

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

There have been no 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.

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, 2 November 2017 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 2017; 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

Record date in order to be eligible to receive the AGM notice	Friday, 22 September 2017
AGM notice posted to shareholders	Friday, 29 September 2017
Last date to trade in order to be eligible to vote at the AGM	Tuesday, 24 October 2017
Record date in order to be eligible to vote at the AGM	Friday, 27 October 2017
Submit forms of proxy for administration purposes for the AGM (by 10:00)	Wednesday, 1 November 2017
AGM (at 10:00)	Thursday, 2 November 2017
Results of the AGM released on SENS	Thursday, 2 November 2017

1. Shareholders entitled to attend and vote at the AGM 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 AGM. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the AGM.

2. The instrument appointing a proxy and the authority (if any) under which it is signed must reach the company's transfer secretaries at the address given below by 10:00 on Wednesday, 1 November 2017. It can also be given to the Chairman of the AGM up to the commencement of the AGM.

3. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who wish to attend the AGM 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 AGM 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 AGM must be able to present reasonably satisfactory identification at the meeting for such shareholder or proxy to attend and participate at the AGM. 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 AGM 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 2017 as set out in the company's Integrated Annual Report 2017 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 number 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 number 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.

ORDINARY BUSINESS

1. Ordinary resolution number 1: Re-election of David Kan

"Resolved that David Kan, 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 David Kan may be viewed on page 88 of the Integrated Annual Report of which this notice forms part.

The Remuneration and Nominations Committee has considered David Kan'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 David Kan is re-elected as a director of the company.

2. Ordinary resolution number 2: Re-election of Ralph Patmore

"Resolved that Ralph Patmore, 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 Ralph Patmore may be viewed on page 89 of the Integrated Annual Report of which this notice forms part.

The Remuneration and Nominations Committee has considered Ralph Patmore'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 Ralph Patmore is re-elected as a director of the company.

3. Ordinary resolution number 3: Re-election of Lindani Dhlamini

"Resolved that Lindani Dhlamini, 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 Lindani Dhlamini may be viewed on page 89 of the Integrated Annual Report of which this notice forms part.

The Remuneration and Nominations Committee has considered Lindani Dhlamini'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 Lindani Dhlamini is re-elected as a director of the company.

Reason for ordinary resolutions number 1 to 3

The reason for ordinary resolutions number 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 AGM and, being eligible, may offer themselves for re-election as directors.

Notice of annual general meeting (continued)

4. **Ordinary resolution number 4: Confirmation of the reappointment of the auditors**

"Resolved that the reappointment 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 reappointed each year at the AGM 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 AGM in terms of section 94(2) of the Companies Act."

An abbreviated curriculum vitae in respect of Lindani Dhlamini may be viewed on page 89 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 AGM in terms of section 94(2) of the Companies Act."

An abbreviated curriculum vitae in respect of Ralph Patmore may be viewed on page 89 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 AGM in terms of section 94(2) of the Companies Act."

An abbreviated curriculum vitae in respect of Mdu Gama may be viewed on page 89 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 reappointed, as the case may be, at each AGM of a company.

8. **Ordinary resolution number 8: Endorsement of remuneration philosophy**

To endorse the company's remuneration philosophy, as set out in the remuneration report on pages 86 and 87 of the Integrated Annual Report, by way of a non-binding advisory note.

Reason for ordinary resolution number 8

The reason for ordinary resolution number 8 is that King III recommends that the remuneration policy of the company be endorsed through a non-binding advisory vote by shareholders at the AGM of a company.

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 2 November 2017, be and are hereby placed under the control of the directors until the next AGM 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 2 November 2017 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% (4 150 000 shares) of the issued share capital at 15 September 2017, provided that:

- the approval shall be valid until the date of the next AGM of the company, provided it shall not extend beyond 15 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 (4 150 000) 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;
- 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."

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 AGM.

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 AGM at which these resolutions will be considered."

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.

Notice of annual general meeting (continued)

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 AGM until the next AGM held in 2018:

CATEGORY	RECOMMENDED REMUNERATION
Chairman	R355 400 annual retainer
Board member	R94 850 annual retainer R14 050 per meeting attended
Audit and Risk Committee	
Chairman	R75 800 annual retainer R17 750 per meeting attended
Member	R41 950 annual retainer R11 150 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"

Reason 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 AGM.

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 2), 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 AGM of the company, provided that it shall not extend beyond 15 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 for 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.

OTHER BUSINESS

To transact such other business as may be transacted at an AGM 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 and company's position would not be compromised as to the following:
   - the Group and company's ability in the ordinary course of business to pay its debts for a period of 12 months after the date of this AGM and for a period of 12 months after the purchase;
   - the consolidated assets of the Group and company will at the time of the AGM and at the time of making such determination be in excess of the consolidated liabilities of the Group and company. 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 and company;

Notice of annual general meeting (continued)

- the ordinary capital and reserves of the Group and company after the purchase will remain adequate for the purpose of the business of the Group and company for a period of 12 months after the AGM and after the date of the share purchase; and
- the working capital available to the Group and company after the purchase will be sufficient for the Group and company'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 AGM is included, at the places indicated:
   - Directors and management (pages 88 and 89);
   - Major shareholders (page 104);
   - Directors' interests in securities (page 155);
   - Share capital of the company (page 140);
   - Contingent liabilities (page 150);
   - Responsibility statement (page 164); and
   - Material changes (page 164).

3. For purposes of special resolution number 2, the Board of directors 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 has passed a resolution authorising the grant of said financial assistance (the Board resolution) under its 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

13 September 2017

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, 2 November 2017 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/our 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 2017			
Ordinary resolution number 1: To re-elect David Kan as director			
Ordinary resolution number 2: To re-elect Ralph Patmore as director			
Ordinary resolution number 3: To re-elect Lindani Dhlamini as director			
Ordinary resolution number 4: Confirmation of auditor's reappointment			
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: Endorsement of remuneration philosophy			
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 ______ 2017

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 Avenue, Rosebank, Johannesburg, 2196 (PO Box 61051, Marshalltown, 2107) so as to be received by 10:00 on Wednesday, 1 November 2017. 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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Transfer secretaries
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