Mustek
LIMITED

2016 Integrated Annual Report

MECER®

acer

APC™
by Schneider Electric

ASUS®

asustor

brother
at your side

Brand-Rex

B TECH
B-TECH AV MOUNTS

D-Link®

eBeam™

Mustek
ENERGY

EPSON®

EVERKI®
STYLE THAT WORKS

FUJITSU

HUAWEI

Lenovo™

Lenovo™
ThinkServer

LG

Microsoft

m2fx
miniflex

NComputing™

NEC

netis

NET Trace

Optoma

PHILIPS

Mustek
POS SOLUTIONS

POSIFLEX

SAMSUNG

SanDisk®
a Western Digital brand

MST
MUSTEK SECURITY TECHNOLOGIES

TOSHIBA

XYZprinting

Welcome

Welcome to Mustek's sixth Integrated Annual Report, in which we share the collective thinking behind our strategy for creating long-term value. Throughout the report we address the Group's challenges, our opportunities and the external factors that impact our operational performance and forward-looking strategy.

At a glance

Overview

Governance

Read more on:
www.mustek.co.za

Contents

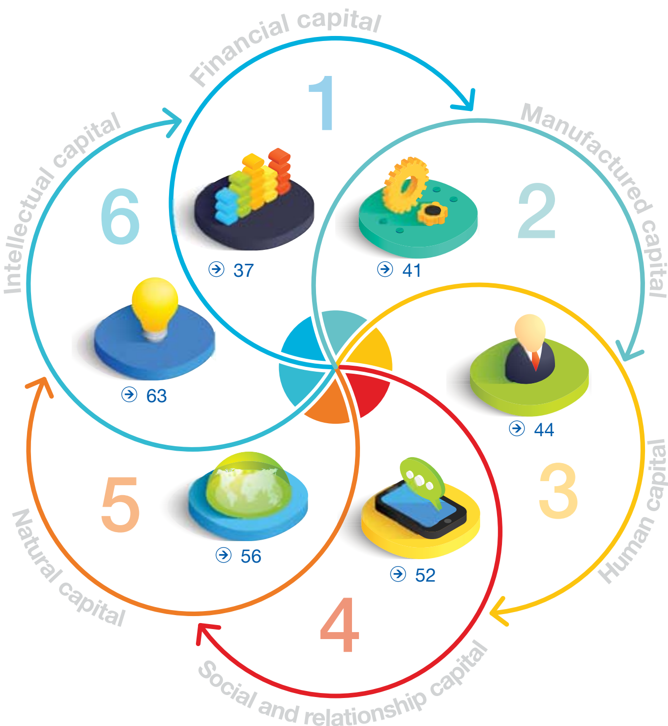
Navigation

The six capitals

All organisations depend on various forms of capital for their value creation and commercial viability. In the International Integrated Reporting <IR> framework, these capitals are defined as financial, manufactured, human, social and relationship, natural and intellectual capital.

The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation. For example, an organisation's financial capital is increased when it makes a profit, and the quality of its human capital is improved when employees become better trained.

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



This Integrated Annual Report is aligned with the requirements of the King Code of Governance Principles for SA (King III Code), the International Integrated Reporting Framework (<IR> Framework) the Global Reporting Initiative (GRI) Guidelines (G4) core application level and the Sustainability Data Transparency Index (SDTI) developed by the IRAS consultancy. More details regarding the report's basis of preparation and presentation are provided on page 92.

This report was approved by the Mustek Limited Board of directors (the Board) on 25 October 2016. The Board acknowledges its responsibility for ensuring the accuracy of this 2016 Integrated Annual Report. The Board has applied its collective expertise to this report and, in its opinion, this report addresses all material issues and presents an integrated and accurate view of Mustek's performance in the year under review.

Forward looking statements

Certain statements in this document are forward looking. These relate to, among other things, the plans, objectives, goals, strategies, future operations and performance of Mustek Limited, its subsidiaries (the company, or Group) and its investments. Words such as "anticipates", "estimates", "expects", "projects", "believes", "intends", "plans", "may", "will" and "should" and similar expressions are typically indicative of a forward looking statement. These statements are not guarantees of Mustek's future operating, financial or other results and involve certain risks, uncertainties and assumptions. Accordingly, actual results and outcomes may differ materially from those expressed or implied by such statements. Mustek makes no representations or warranty, express or implied, that the operating, financial or other results anticipated by such forward looking statements will be achieved and such forward looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Due to the point in time nature of this Integrated Annual Report, Mustek cannot undertake to continuously update the historical information or forward looking statements in this document.

This Integrated Annual Report builds on progress, insights and stakeholder feedback received during the year and provides a material review of the Group's financial and non-financial performance driving value creation for the period 1 July 2015 to 30 June 2016.

This Integrated Annual Report is our primary report to stakeholders and includes corporate governance and financial information.

Getting your Mustek report

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

Mustek Limited
322 15th Road
Randjespark
Midrand, 1685
South Africa

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

Feedback on report

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

Highlights for the year

Net cash generated from operations

R175.05 million

2015: R374.02 million

Revenue from continuing operations

↑ 4.8%

2016: R5.29 billion
2015: R5.04 billion

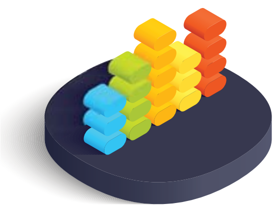
Net asset value per share

↑ 5.1%

2016: 1 008.08 cents
2015: 959.00 cents

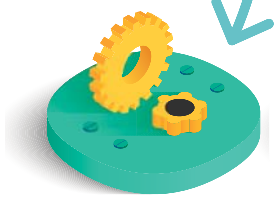
1 Financial capital

- **Net cash generated from operations** R175.05 million (2015: R374.02 million)
- **Revenue from continuing operations up 4.8%** R5.29 billion (2015: R5.04 billion)
- **Net asset value per share up 5.1%** 2016: 1 008.08 cents (2015: 959.00 cents)
- **Forex losses** of R11.8 million compared to R1.7 million in the comparative period
- Mustek acquired 5 623 471 ordinary shares in a **share repurchase programme**



2 Manufactured capital

- On 8 March 2016, the Group acquired a 25.1% stake in **Yangtze Optics Africa Holdings Proprietary Limited (YOA)**
- At 30 June, the Group's inventory amounted to R1.112 billion
- 67 743 units assembled (2015: 66 679)
- 4.424 million items sold (2015: 2.692 million)



3 Human capital

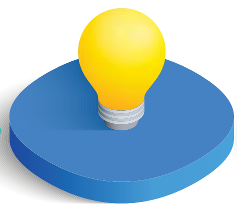
- R10.26 million spent on **staff development** in the Mustek Group
- 618 (Mustek only) South African direct employees (2015: 614)
- 100% of Mustek's workforce receives regular **performance and career development reviews**
- 100% of senior management is hired from the **local community**

4 Social and relationship capital

- Mustek retained its **level 2 B-BBEE** rating, using the ICT sector codes
- Mustek's effective **shareholding in Sizwe** has increased from 26% to 40%
- R2.05 million spent on CSI contributions

5 Natural capital

- Mustek successfully maintained its **ISO 14001** certification
- **Energy management system** (EnMS) implemented at Midrand facility
- **Energy consumption reduced** by 7% during the reporting period



6 Intellectual capital

- **Lenovo ThinkServer** Distributor of the Year Award
- Lenovo **Best Distributor** Revenue Growth in Southern Africa Award
- SanDisk Distributor of the Year Award
- **Toshiba** Distributor of the Year Award

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, human, social and relationship, natural and intellectual capital. These capitals underlie much of the disclosure in this Integrated Annual Report.

In the following sections we use the concept of the <IR> 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.

Corporate profile

Group profile

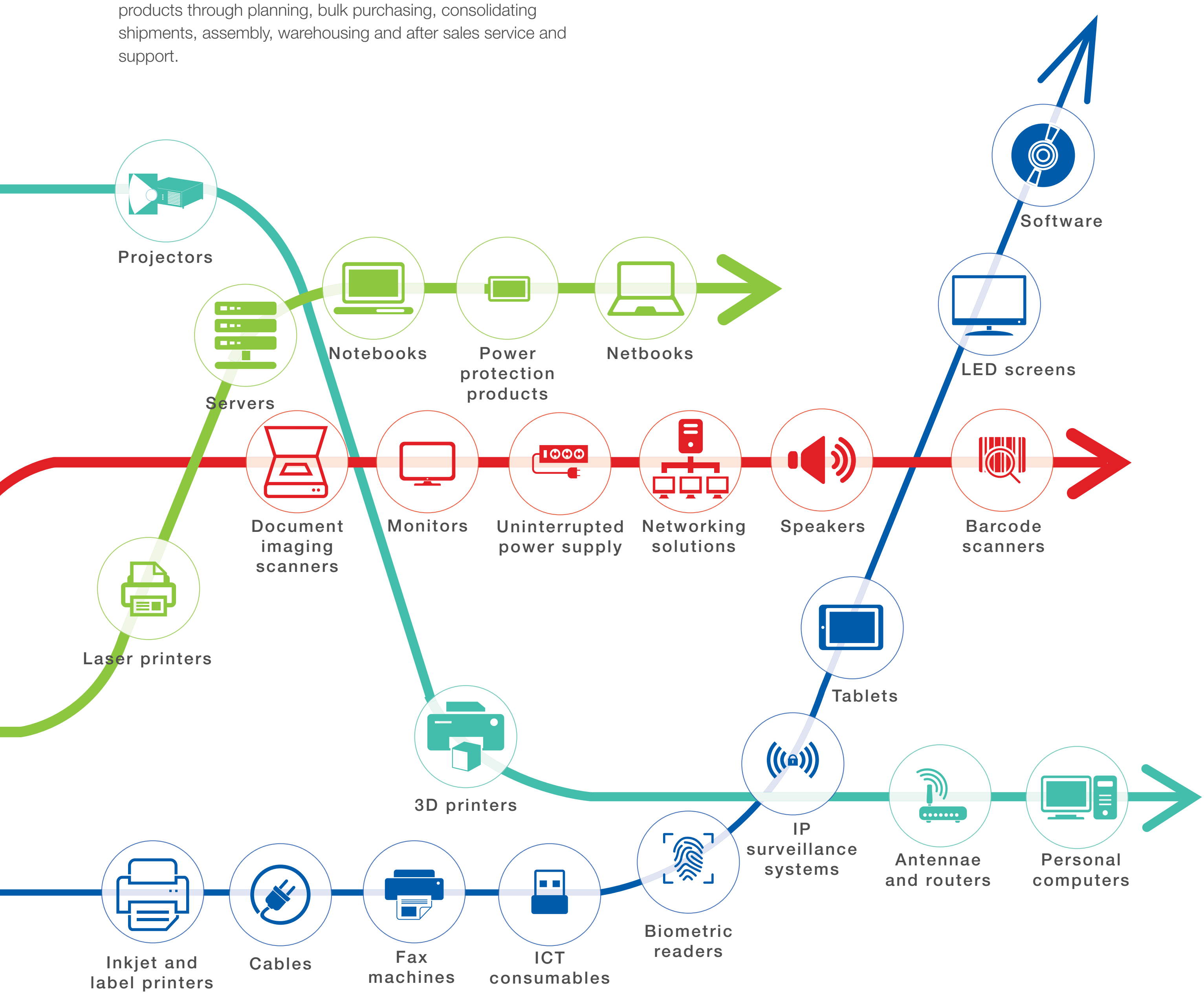
Founded in 1987 by its CEO, David Kan, the Mustek Limited Group was listed on the JSE Limited in 1997 and comprises the wholly owned operations of Mustek and Rectron, noteworthy shareholdings in complementary technology service providers Sizwe Africa IT Group and Khauleza IT Solutions, and a substantial shareholding in an optical fibre factory being constructed in KwaZulu-Natal.

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.



Strategy
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.

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 company 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 company.
- 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 of 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 on-board 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 company 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

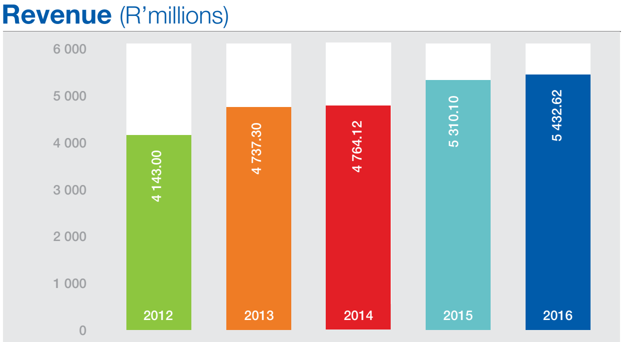
- Mustek believes in integrity, employment equity, care for the environment, respect and human dignity for all. We reward performance and share responsibility at all levels.

Six-year financial review

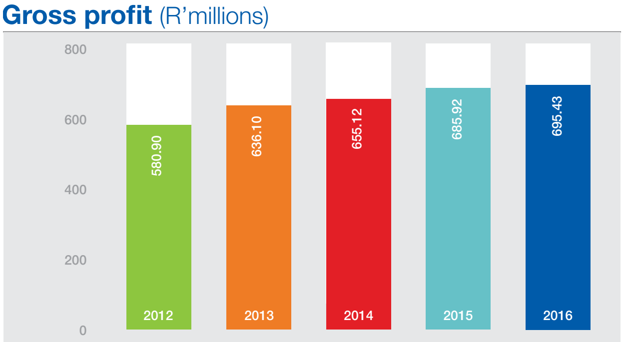
for the year ended 30 June 2016

	2016 R000	2015 R000	2014 R000	2013 R000	2012 R000	2011 R000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Revenue	**5 432 617**	5 310 102	4 764 123	4 737 304	4 143 022	3 506 373
Cost of sales	**(4 737 192)**	(4 624 183)	(4 109 007)	(4 101 167)	(3 562 106)	(2 990 485)
Gross profit	**695 425**	685 919	655 116	636 137	580 916	515 888
Distribution, administrative and other operating expenses	**(481 764)**	(430 273)	(453 398)	(469 754)	(417 777)	(337 084)
EBITDA	**213 661**	255 646	201 718	166 383	163 139	178 804
Headline profit	**77 396**	132 838	108 032	78 996	76 344	97 921
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
Assets	**3 085 558**	3 458 183	2 701 180	2 233 319	2 117 199	1 669 539
Property, plant and equipment	**152 458**	174 709	160 029	120 462	122 625	128 333
Intangible assets	**67 059**	62 843	60 032	57 489	60 240	67 813
Investments and loans	**152 657**	139 131	122 483	39 250	40 470	42 177
Deferred tax asset	**17 312**	29 593	29 164	17 487	15 666	23 925
Current assets	**2 696 072**	3 051 907	2 329 472	1 934 043	1 609 534	1 407 291
Assets classified as held-for-sale	**–**	–	–	64 588	268 664	–
Equity and liabilities	**3 085 558**	3 458 183	2 701 180	2 233 319	2 117 199	1 669 539
Equity attributable to equity holders of the parent	**987 918**	993 748	916 052	826 365	755 732	693 734
Minority interest	**(581)**	19 268	18 461	12 546	18 426	18 940
Long-term borrowings	**499**	23 127	34 788	6 837	4 712	86 598
Deferred tax liability	**4 504**	4 576	–	2 324	2 409	5 243
Non-current deferred income	**12 632**	15 627	14 725	16 650	–	–
Current liabilities	**2 080 586**	2 401 837	1 717 154	1 341 703	1 141 689	865 024
Liabilities directly associated with assets classified as held-for-sale	**–**	–	–	26 894	194 231	–

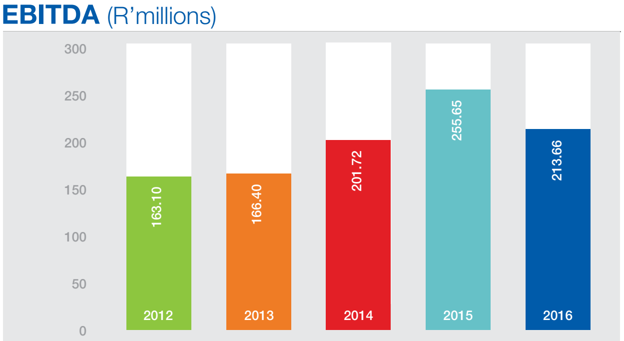
Revenue (R'millions)



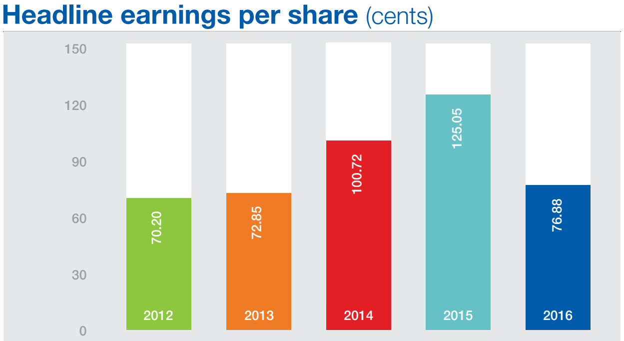
Gross profit (R'millions)



EBITDA (R'millions)



Headline earnings per share (cents)



	2016	2015	2014	2013	2012	2011
KEY BALANCE SHEET FIGURES						
Total assets (R000)	**3 085 558**	3 458 183	2 701 180	2 233 319	2 117 199	1 669 539
Ordinary shareholders' equity (R000)	**987 918**	993 748	916 052	826 365	755 732	693 734
Return on ordinary shareholders' equity (%)	**7.5**	13.9	12.3	10.8	11.1	14.4
Net asset value per share (cents)	**1 008**	959	859	762	697	633
MARKET INFORMATION AT 30 JUNE						
Ordinary shares in issue	**98 000 000**	103 623 471	106 682 760	108 433 165	108 469 165	109 547 165
Weighted average number of ordinary shares	**100 674 409**	106 228 765	107 255 590	108 436 464	108 831 677	109 547 165
Headline earnings per share (cents)	**76.9**	125.1	100.7	72.9	70.2	89.4
Market price per share (cents)						
– year-end	**530**	870	720	555	595	499
– highest	**945**	980	750	648	635	540
– lowest	**451**	670	450	539	450	325
Number of transactions	**5 607**	3 480	3 380	2 729	3 645	3 351
Number of shares traded	**32 317 053**	28 380 892	23 418 429	29 750 208	36 835 543	39 048 010
Value of shares traded (R)	**244 417 366**	231 259 869	138 378 220	173 588 071	204 105 119	163 229 612
Percentage of issued shares traded (%)	**32**	27	22	27	34	36
LIQUIDITY AND LEVERAGE						
Interest cover (times)	**2.3**	4.3	4.6	4.1	5.9	8.4
Net cash from (used in) operating activities (R000)	**13 233**	254 771	(225 798)	142 808	44 602	50 493
Current ratio (times)	**1.3**	1.3	1.4	1.4	1.4	1.6
PROFITABILITY						
Operating margin (%)	**3.9**	4.8	4.2	3.5	3.9	5.1
EMPLOYEES						
Number of employees	**993**	1 023	1 020	949	1 122	1 097

Glossary

EBITDA – earnings before interest, taxation, depreciation and amortisation

Return on ordinary shareholders' equity – net profit for the year as a percentage of average ordinary shareholders' equity (net assets)

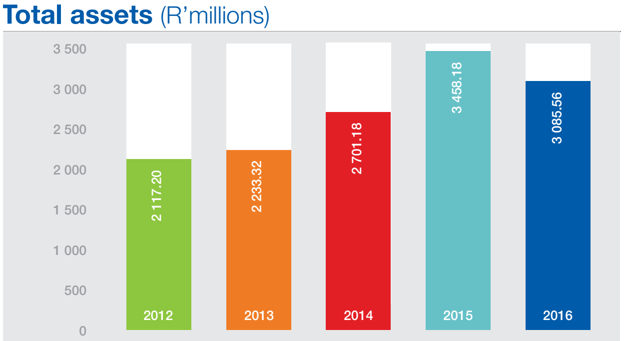
Net asset value (ordinary shareholders' equity) – total assets less total liabilities

Interest cover – EBITDA divided by net interest paid

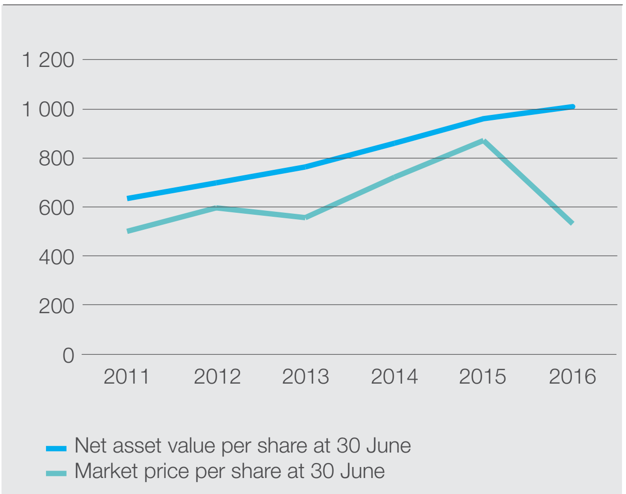
Current ratio – current assets divided by current liabilities

Operating margin – EBITDA as a percentage of revenue

Total assets (R'millions)



Share price vs NAV at 30 June (cents)



Our business model

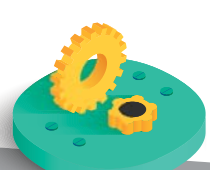
Mustek's business model is based on agile and flexible management with the in-depth industry knowledge to recognise ICT trends early and react quickly in response. This enables us to identify changing or new markets and to make timely acquisitions or enter strategic partnerships.

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's reach deeply into its 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 standards such as ISO 9001, ISO 14001 and ISO 20000, as well as the corporate reporting frameworks of King III, GRI, SDTI and <IR>.

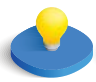


FINANCIAL

- Shareholder funds
- Banking funds
- Accounts funding

MANUFACTURED

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



INNOVATION
Product knowledge; 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

FINANCIAL

- Net cash generated from operations R175.05 million
- Profit for the year from continuing operations R84.76
- Revenue from continuing operations R5.29 billion
- Net asset value per share: 1 008.08 cents
- Headline earnings per ordinary share 76.88 cents
- Income tax expense from continuing operations R28.75 million
- Return on capital

MANUFACTURED

- Property, plant and equipment valued at R152.46 million
- On 24 April 2016, the Group acquired land in Bloemfontein which is being developed for a total consideration of R8.2 million
- Ability to customise products to meet customer demands
- 67 743 units assembled (2015: 66 679)
- 4.42 million items sold (2015: 2.69 million)
- Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa

FINANCIAL

- Mustek's working capital is adequate
- Assets exceed liabilities
- Focus on optimal working capital management
- Share buy back: Mustek acquired a further 5.62 million 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 R11.78 million compared to R1.68 million in the comparative period

MANUFACTURED

- Reduced inventory improves net profit margins. Inventories on hand at Mustek and Rectron reduced by R208.9 million

ICT MARKET ENVIRONMENT

INPUTS

HUMAN
- 618 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
- Stakeholder relationships with shareholders, employees, customers, resellers, suppliers, vendors and local communities, among others
- Mecer and multinational brands

NATURAL
- Power
- Land
- Raw materials processed into components

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

BUSINESS ACTIVITIES

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

OUTPUTS

HUMAN
- R5.91 million spent on staff development in the Mustek Group
- R4.35 million spent on staff development in the Rectron Group
- Employee turnover for Mustek for the current year amounted to 12.18%
- Return to work and retention rates after parental leave is 100%
- Mustek's absenteeism rate was recorded as 1.12%, and Rectron's as 1.69% for the 2016 year
- 100% of Mustek's workforce receives regular performance and career development reviews

SOCIAL AND RELATIONSHIP
- Mustek retained its level 2 B-BBEE rating, using the ICT sector codes
- R2.05 million spent on CSI activities
- Mustek won Lenovo and Sandisk "distributor of the year" awards
- Strong reseller base, which between Mustek and Rectron is more than 10 000 resellers
- Outstanding service delivery, underpinned by open channels of communication

NATURAL
- An energy management system (EMS) 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
- 79.7 tonnes of waste
- 3 241 GJ of energy consumed
- Replacement of ICT equipment with energy-efficient units, installing rooftop solar panels and LED lights

INTELLECTUAL
- 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's certifications:
- ISO 9001:2008 (Quality)
- ISO 14001:2004 (Environment)
- ISO 20000 (Service)
- Achieved ISO 20000 accreditation for IT service management at Gauteng Service Centre, among the first in South Africa

OUTCOMES

HUMAN
- 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

SOCIAL AND RELATIONSHIP
- 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

NATURAL
- 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

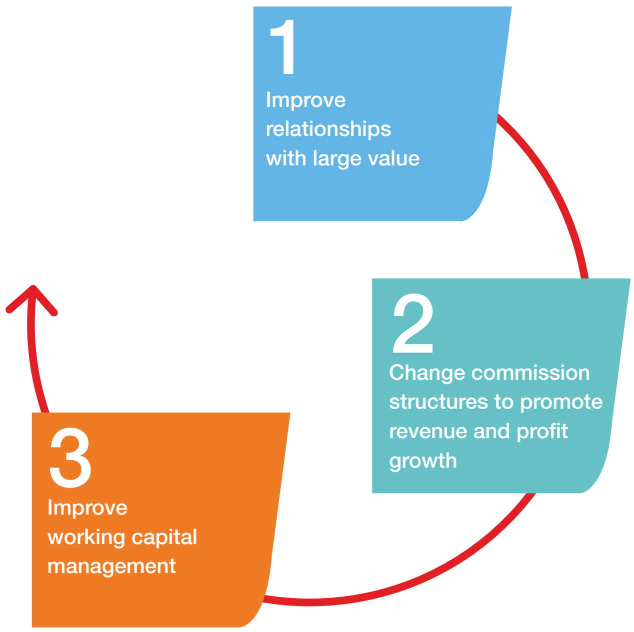
INTELLECTUAL
- Minimised obsolescence and waste
- Acceleration of new technologies
- Better responses to changing consumer needs
- Solutions for improving South Africa's ICT landscape

Strategic performance and goals

Mustek's strategic initiatives for the year under review as detailed in last year's Integrated Annual Report were:

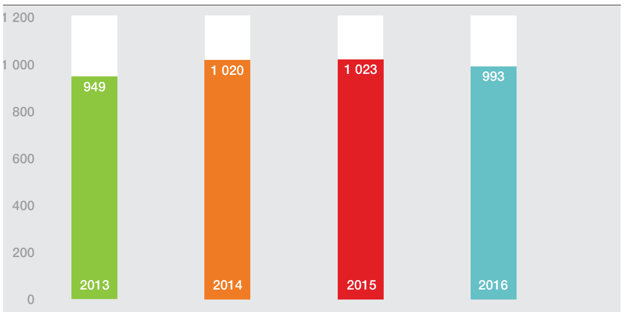
Strategic goal	Performance this year	Future initiatives
Grow the tablet business by offering a range of products to meet the needs of the aspirational, entry-level and mass markets	Added or updated entry-level products (in-house Mecer and RCT brands). Broadened the range of vendor branded tablets across the mass and aspirational markets	Completed
Continue to differentiate ourselves as a value added solutions provider, not merely a distributor. Acquire further product lines in emerging technologies	Established strategic partnerships and investigated room for additional distribution rights	Identify further partnerships in current and adjacent markets
Promote the Group's service capabilities as a standalone brand	Launched more aggressive marketing of service capabilities for most OEM hardware brands	Will continue this marketing plan
Focus on operational efficiencies and cost management	Distribution, administrative and other operating expenses increased by 4.8%	Continuing programme
Understand the customer of the future and position Mustek for an online, e-commerce market	Enhancing and testing of the e-commerce application	Launch and position online ordering system for our registered reseller market
Investigate opportunities in the distribution landscape	Made investment of 25.1% in Yangtze Optics Africa Holdings Proprietary Limited, a manufacturer and distributor of optical fibre cables	Continuing programme
Investigate opportunities in the service, support and solutions landscape	Increased our investment in Sizwe Africa IT Group Proprietary Limited to 40%	Continuing programme
Investigate positioning our service centres as public service offerings	Investigated the opportunity and decided not to implement	No future initiatives

Mustek's strategic initiatives for 2017 are:

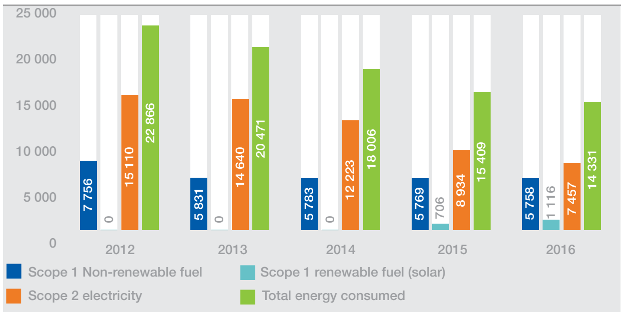


Key statistics

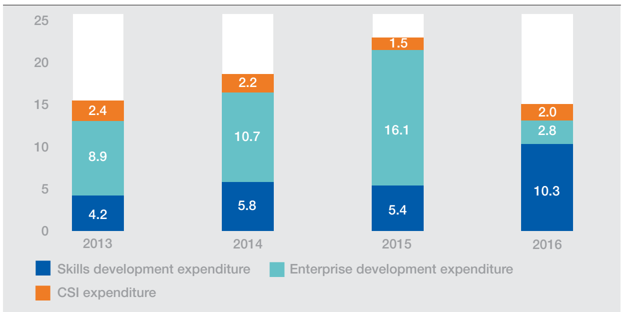
Employees at 30 June



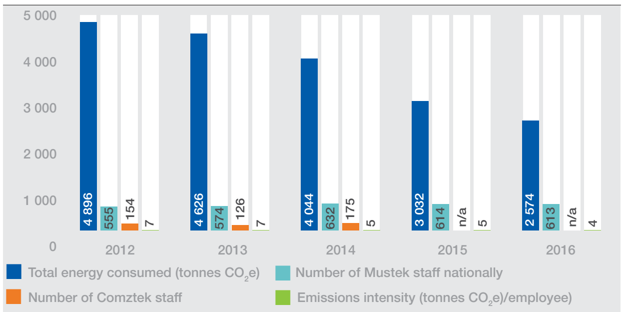
Mustek energy consumption (GJ)



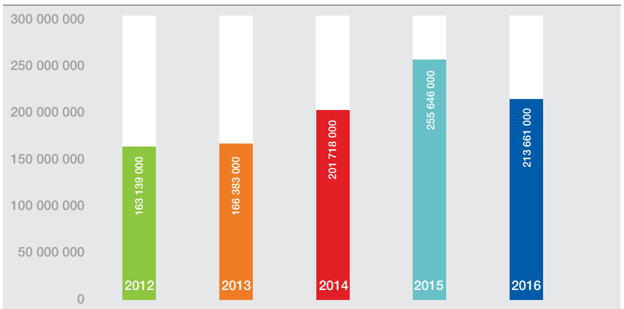
Group transformative expenditure (R million)



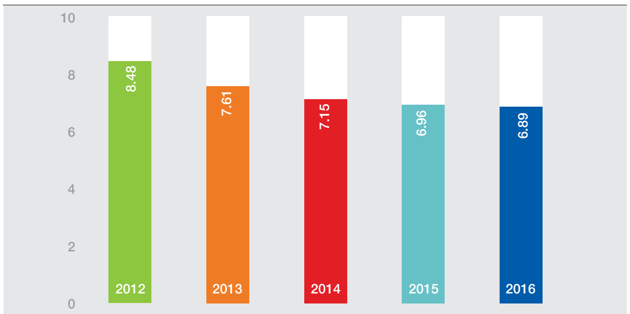
Greenhouse gas (GHG) emissions intensity



EBITDA



Simple price earnings ratio using HEPS

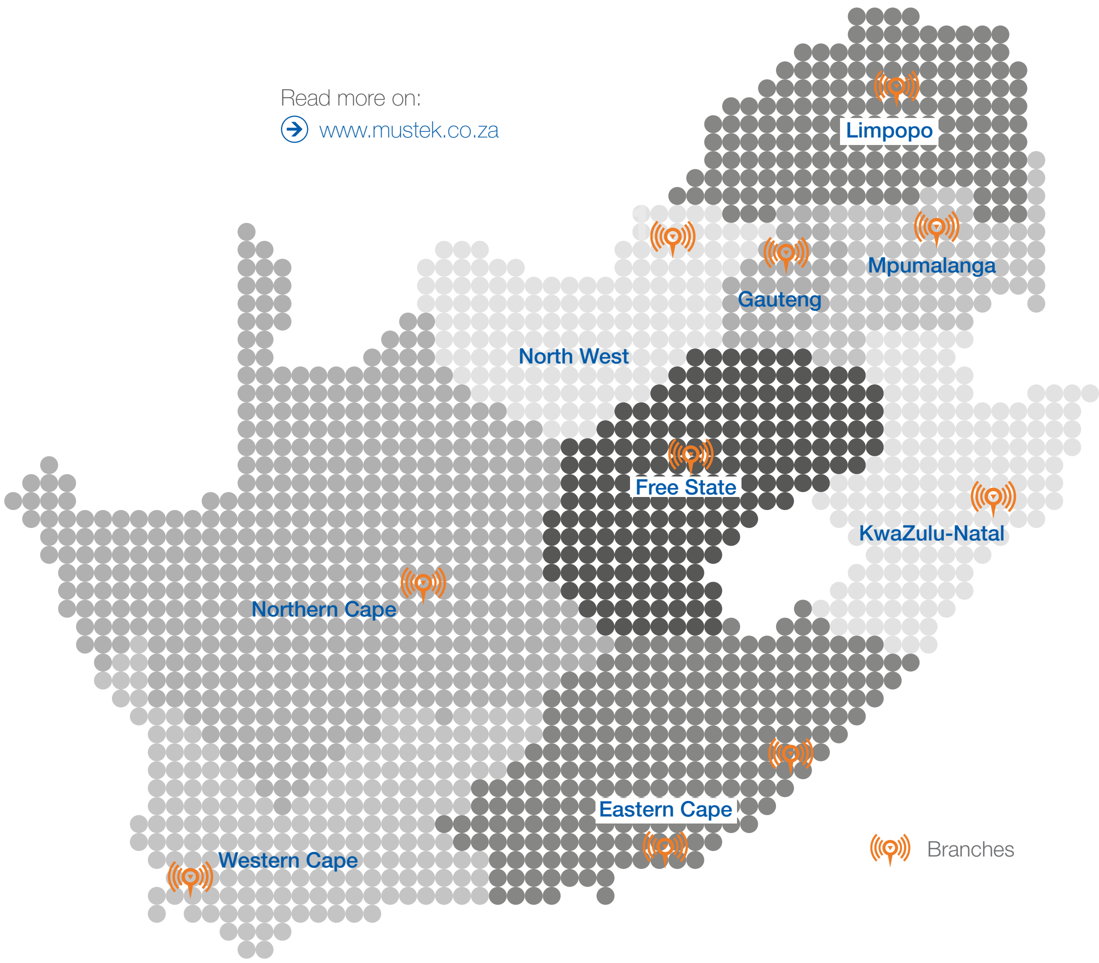


Mustek's core operations and geographical representation

Mustek

- **Subsidiaries**
  - Rectron 100% shareholding
- **Associates**
  - Sizwe Africa IT Group 40% shareholding
  - Khauleza IT Solutions 36% shareholding
  - Yangtze Optics Africa Cable (YOAC) 25.1% shareholding

Read more on:
www.mustek.co.za



The Mustek company was built upon 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 company'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 44 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 company and its stakeholders.

Mustek’s core operations and geographical representation (continued)

Rectron at a glance

rectron

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 channel

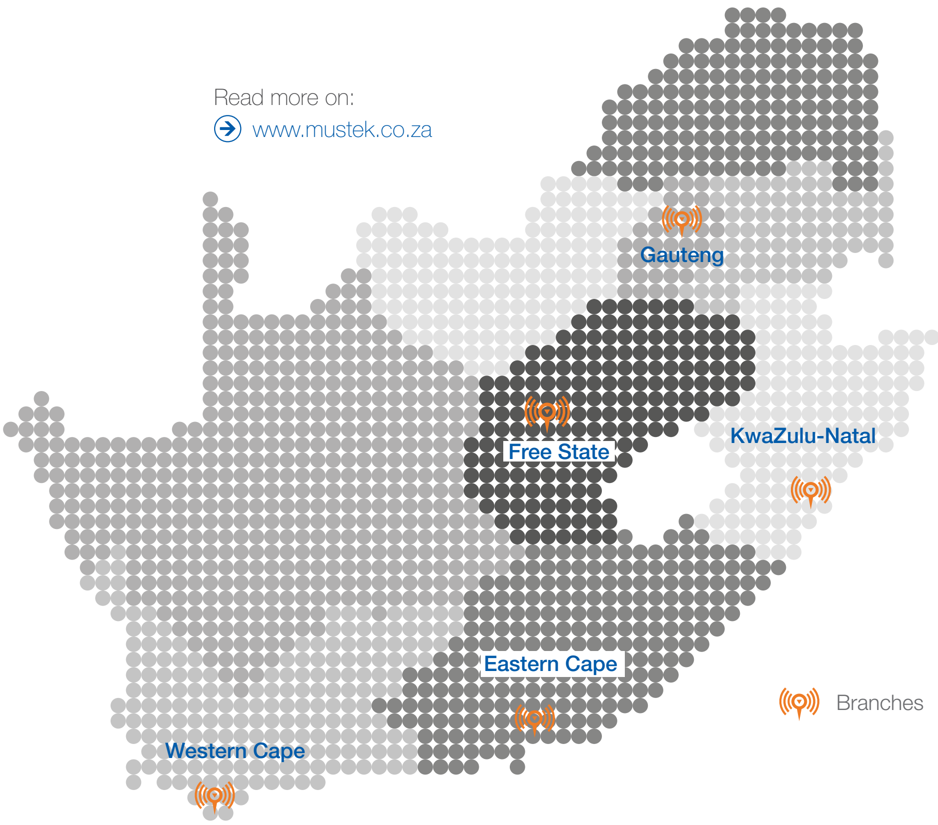
Focus
Developing a breadth of customers, with a particular emphasis on SMEs

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

Active resellers
2016: 3 729 (2015: 3 775) This is based on an average that transacts with Rectron on a monthly basis

Read more on:
www.mustek.co.za



Rectron portfolio of brands

AORUS	TomTom	HUAWEI	BenQ	Hisense	SONY	VIVOTEK
GIGABYTE	Transcend	Lenovo	Canon	intel	Targus	
MakerBot	acer	Microsoft	CHENBRO	PNY	Thecus	
RCT	D-Link	SAMSUNG	COOLER MASTER	poslab	TOSHIBA	
RICOH	EVERKI	ASUS	CORSAIR	SEAGATE	TYAN	

– exclusive products – shared products

Rectron's promise	Rectron's mission	Rectron's vision
Pursuing excellence	Rectron strives to be an innovative, customer needs-led organisation, delivering value to its stakeholders	Rectron aims to be the partner of choice by delivering innovative, end-to-end solutions that enable successful, profitable partnerships

About Rectron

Rectron was acquired in 2007 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".

The company 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.

Philosophy

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

Technology

We will continue to source and supply the best quality products and services for our channel so that our customers can build sustainable businesses that will thrive well into the future.

Culture

We believe that our open and developmental approach to staff empowerment has played a pivotal role in developing the expert management team Rectron has today. We will continue building and strengthening current management and nurture those coming up through the levels.

Rectron's biggest asset is its passionate and loyal staff. We have developed a diverse and productive culture that celebrates and values accountability, respect, teamwork and trust. As testament to this, 34% 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.

What Rectron does

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

Rectron is rapidly expanding its business into new areas such as IoT, cloud services, enterprise solutions and licensing, while maintaining its position as the strongest component distributor in South Africa. Our key aim is to assist the channel to evolve to take advantage of this trend, offering innovative solutions and services.

Rectron's category offerings include software solutions, cloud solutions, data centre, surveillance, networking, components, mobility, print, peripherals and consumer electronics.

Rectron distributes some of the world's most renowned technology brands. Our end-to-end portfolio includes:

- scalable networking products
- mobility solutions
- 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 display.

Mustek's core operations and geographical representation (continued)

Rectron at a glance (continued)

Rectron's broad product offering sets it apart as a one-stop shop for retailers, resellers and SMEs.

New brands acquired for systems integrators and solutions resellers include Chenbro, Tyan, Thecus and Vivotek. In FY16, Canon appointed Rectron as the sole South African distributor of its office automation products in the channel.

Digital transformation is key at Rectron and much investment has been spent developing tools and processes to make it easier for our customers to do business with us. Our website has evolved into becoming a 24/7 business tool enabling customers to self-help and order online, allowing them to do business anywhere at any time and even incentivising them to do so.

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

Rectron offers a superior walk-in support service that is renowned for its accuracy and fast turnaround times, to the point where we save customers time and effort through a "while you wait" testing and exchange service. A dedicated "service store" carries stock of fast moving devices and components, 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, as well as BenQ monitors.

Performance

Financial performance in 2015/2016

Rectron's turnover and profit have increased steadily year-on-year since a management restructuring in 2011. Despite the challenges of Rand volatility, political instability and slowing economic growth, Rectron's growth trajectory continued unabated. All Rectron's financial indicators improved and its net profit breached the R50 million barrier, which again proves that Rectron is on the right transformational track for long-term sustainability.

FY16 branch growth

- Johannesburg 7.57%
- Cape Town 16.41%
- Durban 10.47%
- Bloemfontein 7.25%
- Port Elizabeth 27.35%

B-BBEE status and human capital development

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

Rectron is on a journey to complete digital transformation, which requires new skill sets. Rectron therefore introduced the competency-based and assessment recruitment solutions (CBARS) system, which was used to perform a skills audit of its employees against the competencies required for each role in the company. This audit has provided the basis for training interventions that will be mapped out in the 2016/17 financial year. Each Rectron staff member will receive personalised skills training to prepare them for Rectron's digital future.

Our employees have responded positively to the introduction of key performance indicators (KPIs) and performance appraisals as part of their individual career paths.

Rectron also invested back in South Africa, through the participation in learnership and internship programmes. Most notably, we partnered with Microsoft in its student to business internship programme, which aims to upskill young talent in the field of licensing and cloud solution sales. In FY16, we took on a total of seven interns at Rectron, and subsequently employed five of our interns on a full-time basis across the Mustek Group.

Seven

Distributor of the year AWARDS

Awards

Rectron is well recognised by both vendors and customers as being a distributor of choice.

Rectron was recently awarded the Middle East and Africa Distributor of the Year for Best SureStep at Distribution Execution at the Microsoft Worldwide Partner Conference (WPC) in 2016. We also won the Lenovo PCG Partner of the Year for FY15/16 and an award from D-Link for outstanding performance in 2015.

Rectron received numerous accolades from the widely distributed *Channelwise* magazine in its 2015 awards ceremony. These included awards for "best components distributor" and "best graphics card distributor".

Corporate social responsibility

Giving back to the community is fundamental to the Rectron philosophy. Our key strategy is to invest in education and as specialists in IT, we logically contribute hardware, peripherals and solutions towards organisations in need.

Our two largest contributions over the past year were in the form of desktops and notebooks donated to Change the World Trust and Readers Unite/StudieTrust.

At Change the World Trust, our donation enabled members of the community to receive basic PC training so as to improve their knowledge and eligibility for employment and our donation of notebooks towards Readers Unite allowed 10 students with bursaries to continue their studies.

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 due to the steady shift of consumers towards online shopping. Our specific focus on enterprise solutions and IoT is attracting larger value and system integration resellers into the Rectron stable.

Consumerisation, seamless integration and gadgets are robust growth areas. Our existing relationships with brands such as Lenovo, Acer and TomTom are growing in value as clients begin understanding and adopting these 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 and relevant products that could open up opportunities and niches and that will in turn, assist its customer base in growing and sustaining profitable business.

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

Mustek's core operations and geographical representation (continued)

Rectron at a glance (continued)

Rectron Executive Team

Spencer Chen
(Managing Director)

Martin Hoets
(Operations Director)

Gerhard Malan
(Financial Director)

Matthew Hall
(Product Director)

Elaine Wang
(Microsoft Lead)

Alan Michas
(IT Lead)

Customers

As this current financial year (2016/17) unfolds, we anticipate that our newly installed integrated customer relationship management (CRM) system will become operational to enable us to align more closely with our clients. CRM also gives us better visibility into our pipeline, which will aid us in better overall predictability for planning our business. As a part of our CRM deployment, we have also implemented whitespace functionality, which will help us to better cross market and cross sell within our existing reseller base. Additionally, investments in PowerBI, Microsoft's analytics tool, will give us greater insight into the trends taking place within our business.

People

Gartner has warned of a global IT talent crisis and shortage of skills. Rectron has prioritised updated training methods and new ways of approaching remuneration for success and retaining key people.

After five highly successful years leading Rectron through a restructuring and turnaround, Lindi Shortt has decided to move on to new challenges. Lindi will always be recognised as the MD who placed Rectron onto its path of fundamental transformation for ongoing growth.

As Rectron enters a new phase under the capable leadership of new MD, Spencer Chen, and an experienced leadership team, we are confident that Rectron is well set for the next chapter of record successes.

Rectron's FY17 priorities

Strategic direction

- Customer needs-led organisation
- Create value for stakeholders
- Innovation and digital transformation
- Beyond organic growth – mergers and acquisitions

Customer

- Growth in partner verticals
- Agility is the new competitive domain
- Transformation of business engagement model
- Customer experience always on
- Business efficiencies
- Unlocking the breadth and new age customer
- Direct sales engagement

Human capital

- Recruiting, retaining and growing talent
- Nurturing our culture
- Streamlined internal processes/procedures
- Focus on competencies based on identified skills audit gaps

Community

- Community CSR
- Renewable energy
- Recycling
- Solar power
- Responsible water consumption and sustainability

Sizwe at a glance

SIZWE IT GROUP

Major activities
Provision of comprehensive ICT service solutions

Markets served
Public and private sector clients

Core business value
Cost saving and user productivity

Focus
Integrated ICT solutions

Primary solutions
Managed services, unified network solutions, fibre and facilities management and systems integration

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

Who we are

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

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

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

Sizwe has achieved a level 2 B-BBEE rating and company management is totally committed to transformation as the route to innovation and diversity in sustaining its 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 supplier development programme, which capacitates and upskills existing and potential suppliers.

Suite of service offerings			
Managed services	**Unified network solutions**	**Fibre and facilities management**	**Systems integration**
Offerings	**Offerings**	**Offerings**	**Offerings**
National call centre Remote management Hosting Managed print services Desktop computing Mobile computing Enterprise computing Cloud and SAAS Software Security Rental solutions Automated workforce management	Data communication (routing/switching/ wireless) Collaboration (voice/ video) Physical security (access control/video surveillance) Communication security Inside plant copper cabling Inside plant optic fibre Data centre design and build	Backup and redundant power management (generation and UPS) Outside plant optic fibre Facility management Fire detection and suppression HVAC (heating, ventilation, air handling and cooling) Tower maintenance Civil infrastructures Mechanical services Diesel replenishment Data centre management Alternative energy	ICT consulting Business process Outsourcing Project/services-based Resourcing ICT advisory and innovation Systems audit and optimisation System orchestration System development

Mustek's core operations and geographical representation

Sizwe at a glance (continued)

The Sizwe approach

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

Our services are provided 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 companies to make costly acquisitions of systems and hardware. Outright purchases may require substantial capital outlay that could be recorded as non-changing assets, which 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 can be positioned as an operating expense that allows predicted operating payments. Our Sizwe Rental Solution takes the inherent costs and risks associated with ownership out of the equation. Traditional credit providers tend to focus on assessing and managing client credit risk, whereas the Sizwe Rental Solution is an authentic rental service that can manage your entire technology asset risk.

Three reasons for our success

A history of excellence

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

A countrywide reach

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

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

A partnership-driven approach

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

Sustainable community development

Corporate social investment (CSI) is woven into the very fabric of what Sizwe is, what we do and what we stand for as an organisation. Our initiatives are aligned with our longstanding commitment to touch communities in a relevant manner by responding to real social needs.

Education is a key focus area for Sizwe Africa IT Group and, as such, we continually pursue key strategic programmes that align with our vision of bridging the digital divide. Our holistic CSI approach seeks to touch on all aspects of education, ensuring that scholars are equipped with basic material and a relevant educational infrastructure. Sizwe currently supports three schools in the vicinity of our operations.

Walter Sisulu Primary School in Olievenhout, Gauteng

Sizwe IT Group donates state-of-the-art technology to bolster the teaching environment for educators and learners. These include:

- a computer lab, tablets and a tablet safe with charger
- wireless connectivity
- year-on-year support of the school's excellence awards.

Hercules Hoërskool in Pretoria West

- a computer lab
- school shoes for those learners being supported by the school.

Bloekombos Primary School in the Western Cape

- computer lab
- school shoes for those learners being assisted by the school.

School Shoes Drive

Sizwe donates hundreds of new school shoes to learners from previously disadvantaged schools. Our initial beneficiaries were from the Bana Ba Kgosi Home in Winterveld, Pretoria, and scholars from Bloekombos Primary School in Kraaifontein, Western Cape. Together with our subsidiaries, in 2015 we extended this programme to donate over 300 pairs of shoes to recipients across the country.

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

For the past six years we have supported the Western Cape SAPS 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 the young people of South Africa, Sizwe IT has partnered with Primestars Marketing and other major organisations to sponsor the

Step Up 2 A Start Up programme which aims to create a conducive environment for the young entrepreneurs to access relevant entrepreneurial skills, knowledge and values.

How does this work?
Participating high school learners view an educational movie specifically designed for the Step Up 2 A Start Up programme and shown by Ster-Kinekor. Sizwe IT features in the movie as an Internet of Things (IoT) adviser. After watching the educational movie, an entrepreneurs toolkit is distributed to learners and educators, detailing a step-by-step guide on how to get started as an entrepreneur.

Thereafter, learners are given the chance to showcase their business ideas at the Step Up 2 A Start Up National Youth Competition.

Winners of that competition are then sent to a Step Up 2 A Start Up Entrepreneurs Bootcamp, where they are further mentored on the ins and outs of entrepreneurship. Sizwe IT will later provide coaching on IoT.

Environmental
Sizwe IT Group is committed to reducing GHG emissions, reducing South Africa's load on the electricity grid and motivating demand for solar solutions. We are therefore introducing comprehensive solar solutions to our portfolio.

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

Certifications and awards

- ISO 9001
- ISO 14001
- OHSAS 18001
- ISO 27001:2013 – Stage 1 passed with no findings in September 2016. Stage 2 Audit in November 2016
- Cisco Gold Partner
- Cisco Internet of Things (IoT) Manufacturing
- HP Partner First Gold Partner
- Huawei Value Added Partner.

Smart living

Energy independence
at home

Smart solar solutions

for your home with
SIZWE IT GROUP

- Solar Panels
- Utility Service
- Meter
- Inverter
- Home Power/Appliances

Mustek's core operations and geographical representation (continued)

Khauleza at a glance

KHAULEZA IT SOLUTIONS

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, Kimberly, Nelspruit, Middelburg, Polokwane and Mafikeng

Khauleza is an ICT and related services provider that acts as a "one-stop" supplier for South African public and private sector clients. The company procures goods and services on behalf of its customers' relieving the burden of managing numerous individual vendors and specialist service providers.

Khauleza has developed a service provider aggregator (SPA) operating model that facilitates comprehensive delivery of all services required for any ICT function. The SPA model allows organisations to work with a single entity in terms of sales, contracts, administration and relationship interface.

To provide this range of high-level skill and service capability, Khauleza has established formal alliances with a number of specialist technology firms, leading vendors and SMMEs. Customer satisfaction is ensured as Khauleza verifies that our service providers are requisitely skilled and follow best business practices.

What Khauleza 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 that give Khauleza wide access to hardware, computing accessories and technical skills.

We ensure that all "partner service providers" (be they strategic partners, shareholders, consortium members, maintenance teams or specialists) are requisitely skilled, follow the required methodologies, and deliver 100% on the agreed solution.

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.

B-BBEE status and human development

Khauleza is level 1 B-BBEE certified with a black shareholding of 42.21%. The company has formal alliances with numerous SMMEs and welcomes proposals from any SMME that wishes to partner with us.

As Khauleza provides leading technology we prioritise maintaining the skills and certification of our technicians.

Products and services

- **Advisory and consulting services**
  Khauleza's Advisory and Consulting Services Unit
  - identifies IT gaps and helps establish priorities and outcomes
  - develops customised or innovative solutions
  - advises on options, risks, cost benefits, business process impacts and system priorities.

- **IT infrastructure solutions**
  Khauleza will assist or implement WAN and LAN design and deployment utilising leading network brands.

- **IT security services**
  Khauleza provides information security consulting and operations to protect information, safeguard personal data, and protect networks and machines from malicious attacks. Service compliance is monitored and reported on against globally recognised frameworks such as ITIL and ISO 27001/2.

- **Managed services**
  Khauleza is a managed services provider (MSP), deploying world leading technologies such as N-Able and Team Viewer to fully manage client environments. These services include automation procedures, managed anti-virus, patch management and backup management.

- **Printing solution**
  Full printing solutions, leasing and maintenance of small to medium printers

- **CCTV services**
  Khauleza offers digital recording technologies ranging from architectures that suit the application requirements of a range of cameras. The versatility and configurability of Khauleza's CCTV surveillance systems allows us to craft services ranging from a few cameras through to large campuses requiring thousands of cameras, or enterprises with multiple networked sites.

- **Data centre and server room solutions**
  Khauleza can provide services to or from data centres.

- **Telecommunications and cabling solutions**
  Deployment and ongoing maintenance of fibre rings and spurs is a specialty.

- **Hardware and software sales**
  Khauleza will procure goods and services on behalf of clients, to spare them having to contractually partner with numerous vendors and specialist service providers.

- **Enterprise architecture solutions**
  Enterprise architecture is multi-faceted and an extremely dynamic service. It couples business strategic direction to evolving ICT developments. Khauleza has the enterprise architecture expertise to align the business strategies of its clients with appropriate and/or incoming ICT.

- **Alternative energy**
  We provide UPS systems, batteries, battery chargers, generators and solar solutions for data centres, as well as on-site services and preventive maintenance.

- **Video conferencing**
  Khauleza designs, implements and maintains video conferencing solutions.

ISO 9001 certification

With the help of specialised consultants, Khauleza has invested heavily in educating our staff in implementing the ISO 9001 Quality Management Standard. Khauleza expects to be fully certified by 31 March 2017.

Mustek's core operations and geographical representation (continued)

Mustek Security Technologies at a glance

MUSTEK SECURITY TECHNOLOGIES

Major activities Security solutions	**Markets served** Widespread – wherever security systems are required in South Africa	**Focus** Turnkey security solutions that include needs analysis, systems design implementation and maintenance
Primary products Security hardware, software and solutions customised for client requirements	**Branches** 10	**Standards** ISO 14000; 9000; OHAS 18001 Compliance with all relevant legislation such as national key point regulations and the incoming POPI Act

What MST does

Effective security is about having a technology and software mix that fits the client's specific requirements. MST provides complete security solutions that relieve clients from having to assemble their security requirements from a variety of suppliers. Aimed mainly at the corporate sector, MST uses highest quality products grouped into best practice end-to-end solutions. Guarantees and repairs are serviced through Mustek's renowned service centre.

Products and services

Product	Services
- CCTV cameras - Speed domes - Access control systems - IP surveillance systems - DVR and NVR systems - Accessories - Video wall hardware - Facial recognition - Number plate recognition - High sensitivity cameras	- End-to-end security solutions - Systems and equipment component testing - CCTV laboratory programme - 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

Standards

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

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

MST is committed to providing and maintaining the highest level of health, safety and environment (HSE) protection standards, thereby preventing occupational accidents, injuries and unnecessary environmental damage. The HSE goals of all MST projects are:

- no time loss 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 conforming to acceptable and recognisable standards.

MST is ideally positioned in the security market to provide customers with high-quality security solutions that are compliant with all statutory requirements, while producing leading edge products that are unmatched in the South African security market. Our technology goes beyond surveillance video footage and can produce prosecutable evidence.

Advanced technology is the foundation of MST's value offering. The latest equipment, techniques and service are key to prevention and prosecution, thus MST continues to invest heavily in training, research and development.

Case study:

Mustek invests in Yangtze Optics Africa Cable (YOAC)

Mustek has partnered with China's Yangtze Optical Fibre and Cable Joint Stock Limited Company (YOFC) and its Hong Kong subsidiary to establish one of South Africa's largest optical fibre factories.

YOFC is the world's largest optical fibre manufacturer and is working to close the digital divide between emerging economies. YOFC and Mustek were motivated to establish the plant by the "Trans Africa Information Superhighway", a blueprint launched at the Forum on Africa-China Cooperation in South Africa last year. This project envisages laying about 150 000 km of optical fibre cable network, covering 82 African cities across 48 countries and connecting 1.1 billion Africans.

The fibre cable factory being constructed in KwaZulu-Natal is motivated by South Africa's exponential demand for broadband. Fibre cable is in high demand and significantly outstrips local availability.

YOFC China, YOFC Hong Kong and Mustek have established Yangtze Optics Africa Cable (YOAC) as a joint venture, with shareholdings of 51%, 23.9% and 25.1% respectively. As the largest fibre, cable and equipment manufacturer in the optical communications industry worldwide, YOFC offers a globally integrated supply line, while Mustek offers distribution and marketing in southern Africa. Once the factory is operational, other fibre-related products can be supplied to the South African market, such as hardware and equipment for FTTH installations. These synergies result in an end-to-end fibre solution for South Africa, and may provide further investment opportunities across Africa.

New generation optical fibre cable

15 000 m² manufacturing facility

Fully operational by **January 2017**

Approximately **150** new jobs and skills

Fibre optics for Africa

On 3 May 2016, Mustek and its global Chinese partner broke the ground for the fibre optics factory, to be situated in Dube TradePort's Special Economic Zone in KwaZulu-Natal. This 15 000 m² manufacturing facility is expected to be fully operational by January 2017.

The factory will manufacture a comprehensive range of new generation optical fibre cable products for South African fibre uptake and expanding markets across Africa, in line with the "Trans Africa Information Highway" blueprint.

We anticipate supplying national carriers as well as emerging solutions providers. YOAC will compete on delivery, quality, price and complementary solutions.

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

Expanding our manufacturing and intellectual capitals

The KwaZulu-Natal factory is expected to create approximately 150 new jobs and will enable skills development for employees. Talented and dedicated individuals will have opportunities to travel to China for deeper learning in optical fibre cable technology. YOAC has committed to a four-year skills development plan for employees.

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 its risk management process and shareholder feedback. The Board 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 effect change with regard to its impact on the topic. The materiality process involves getting the Board and executive management to workshop and prioritise identified issues. Ultimately the decision to report a topic as a material matter is based on the Board and management's view of the topic.

Mustek's most material matters

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 USD. 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 projected for 2016. Even if South Africa does escape a downgrade to junk status 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.

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 its 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. This strategy is paying off through accelerated revenue growth, with solutions contributing 40% of Mustek's total revenue during the financial year.

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 area of focus for management. 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 into 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 assembly line and offices in 2013, with Rectron following suit in 2015. During the current 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.

Chairman's address

In recent years, I have been involved with Mustek as Chairman of the Sizwe IT Group, in which Mustek has a significant shareholding. I was therefore delighted to be asked to become Mustek's incoming Chairman and appointed in February 2016. As Mustek continues evolving past traditional ICT, I look forward to contributing my transformational and organisational guidance to the mix that makes up a great and sustainable business.

Helicopter view of the year

In brief, Mustek navigated the twists and turns of an unpredictable year with exceptional skill. All but two of the Group's business units grew their revenues despite exchange rate volatility, hesitant consumer spending, political uncertainty and a stagnant economy.

These results again confirm that Mustek is led by knowledgeable management within the guidelines of a growth strategy that is well on the right track.

Macro-overview and Mustek's unfolding strategy

You are no doubt aware that South Africa and the world have entered an unusually turbulent era in economics, politics and social shifts. In South Africa, we tend to dwell on our own problems and uncertainties, yet a cursory look at other societies – developed and emerging – reveals that many are wrestling with their own thorny issues.

Nevertheless, our country faces real difficulties on all fronts. The economy has subsided to zero growth and the Rand is again one of the world's most volatile currencies. International investors are wary of entering South African markets, particularly as the country faces the high probability of a ratings downgrade. Local businesses are holding onto their cash reserves rather than investing in infrastructure and human capital.

At civil society level, unemployment remains chronically high, while many consumers are struggling with personal debt.

We at Mustek have no control over these factors, therefore there is little point in dwelling on them, except for the fact that we are well aware of these realities. Mustek will thrive or slip back based on the inherent strengths of our business model and its alignment with the southern African market. These are the aspects we can control and fine-tune for longer-term sustainability.

This financial year's results and Mustek's strategy for the next few years convince me that Mustek remains on the right track, despite the exceptionally tough economic and social waters we are heading into.

Relations with stakeholders

Mustek cannot chart an informed way forward into an uncertain future without evaluating the inputs offered by our various stakeholders, ranging from shareholders to employees, regulators and the resellers that link our services and products to consumers. In a fast changing world, Mustek will only remain profitable and sustainable by listening closely to all these voices.

Our reseller base is a key stakeholder group as their feedback is priceless for staying current with consumer trends and demands. We engage continually with resellers through customer surveys, roadshows, personal meetings and incentive schemes. Rectron's reseller reward scheme and new interactive website portal are excellent initiatives for strengthening working relationships.

Human capital

As Mustek's business model evolves to accommodate the growing solutions side of our operations, we had to restructure Mustek's internal organisation to fit the new business realities. A review of management roles and reporting lines flattened out the organisation for flexibility and heightened employee responsibility.

Mustek remains committed to developing all required skills and talent from within its existing employee base. The Group's total investment in the training and development of employees during the 2016 financial year amounted to R10.3 million (2015: R5.4 million).

During the review period, Rectron concluded a skills audit that identified skills gaps and aligned these with employee competencies. Targeted personal development plans and training interventions are being developed for the next financial year.

Transformation and BEE

Audits by an accredited verification agency resulted in Mustek and Rectron retaining their level 2 B-BBEE ratings.

Mustek remains firmly committed to furthering transformation and economic empowerment through employment equity, skills development and corporate social development. We have chartered a roadmap for transformation reaching objectives in a manner that cements the Group's long-term sustainability.

Environmental, social and governance aspects

Mustek endorses and complies with all material aspects of King III and is committed to transparent and integrated reporting. Mustek is enhancing its internal information gathering systems to provide the quality and type of information required for authentically Integrated Annual Reports in terms of JSE and international best practices.

In 2011, Mustek set a target of reducing energy consumption by 20%, which was reached through ongoing staff awareness programmes, installing rooftop solar panels and replacing lighting and ICT equipment with energy-efficient units. Our investment in energy efficiency is paying for itself and significantly reduces Mustek's electricity demand. Our success also demonstrates the viability of renewable energy for powering corporate infrastructure.

An energy management system (EnMS) based on the ISO 50001 international standard has been implemented at the Midrand facility to continually improve energy performance and management. 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.

Mustek has a consistent record in community support and corporate social investment (CSI). The Group focuses its CSI efforts on children's needs – in particular their education – but also supports charities, sporting events and community facilities. For more than a decade, we have conducted a comprehensive HIV/Aids strategy and programme that also provides antiretroviral drugs to HIV-positive staff.

"Mustek endorses and complies with all material aspects of King III and is committed to transparent and integrated reporting."

Appreciation

On 2 February 2016, I was appointed as non-executive Chairman, in place of Dr Len Konar who resigned with effect from 4 December 2015. Ms Lindani Dhlamini was also appointed as independent non-executive director on 4 December 2015 following the resignation of Ms Thembisa Dingaan, with effect from 13 October 2015. Dr Mdu Gama was nominated as the lead independent non-executive director.

On behalf of the Board, I thank Dr Len Konar and Ms Thembisa Dingaan for their contributions during their terms of service and wish them well for their future endeavours.

After five consistently successful years as MD of Rectron, Mrs Lindi Shortt resigned with effect from 31 August 2016 to pursue other interests. The Board congratulates Mrs Shortt on a task exceptionally well done and for creating a highly experienced management team that is now led by Mr Spencer Chen as MD. Mr Chen has also been appointed to Mustek's Social and Ethics Committee and IT Steering Committee with effect from 31 August 2016.

Board priorities in 2016/17

- Understand the customer of the future
- Position Mustek for on-line e-commerce market
- Investigate opportunities in distribution landscape
- Identify opportunities in service, support and solution landscape

As the incoming Chairman, though with some exposure to the Group's workings over the prior two years, I am delighted with the opportunity to contribute to Mustek in this capacity. I have approached this responsibility with relish, as I believe that Mustek has a major role to play in guiding and sustaining South Africa's growing engagement with its digital future.

Rev Dr Vukile Mehana
Chairman

Rev Dr Vukile Mehana
Chairman

Chief Executive Officer's review

Looking back in review of a difficult year for South African business, I am satisfied that Mustek was more than equal to its challenges. We grew revenue from continuing operations by 4.8% to R5.29 billion (2015: R5.04 billion) although volumes slipped back due to reduced government procurement. The Mustek and Rectron divisions worked hard to maintain our market share and gained in certain segments, while our associates increased their overall contribution to Mustek's overall results, with Sizwe Africa performing exceptionally well.

The gross profit percentage reduced slightly from 13.2% to 12.9%, due to realignments of the product mix, a drive to reduce inventories and inventory write-offs.

Our decision to introduce a more conservative forex hedging policy proved effective considering the sharp depreciation of the Rand from 30 June 2015 to 30 June 2016. Forex losses from continuing operations, which included the cost of forward points, was R11.8 million compared to R1.7 million in the comparative period.

Operational overview

Three years ago Mustek adopted the "six capitals" concept recommended by the International Integrated Reporting Council (IIRC) and has internalised it for our own strategising and reporting.

The concept of reporting in terms of "six capitals" recognises that how a company manages its inputs and outputs has a significantly broader impact on itself and broader society than the traditional explanation of financial results. Along with most other organisations, Mustek utilises natural, human, social, manufactured and intellectual resources that cannot yet be quantified on the balance sheet, but are as relevant to the wider community and Mustek itself as is the financial capital that flows through our bank accounts.

My report to you this year is therefore structured in line with integrated reporting's "six capitals". As certain of these six capitals fit more appropriately in the Chairman's report, he has commented on those.

Financial capital

Financial capital is the pool of funds that Mustek uses to provide its goods and services. Profitability and cash flow are the two most visible indicators of our financial performance.

Cash flow

The improvement in our working capital levels contributed to cash generated from operations of R175.0 million (2015: R374.0 million), which was a R593.7 million improvement on the R418.7 million used in operations as reported at 31 December 2015. At year-end, both inventories on hand and accounts receivable were at lower levels 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

During the financial year, Mustek bought back 5.6 million shares, as the buy back at current levels enhances both earnings per share (EPS) and net asset value (NAV) per share for existing shareholders. We will consider further buy backs while the share trades at a significant discount to NAV.

Intellectual capital

Mustek's intellectual capital is its accumulated knowledge, systems and organisational culture, including intellectual property, technologies, licences and protocols.

Mustek's shift away from being a distributor or "box dropper" of hardware continues to accelerate.

As the sales of traditional products such as desktops inevitably decline, I anticipate that the solutions side of the business will continue to grow.

We foresaw this eventuality 10 years ago and in 2008 commenced broadening Mustek's business model to include IT solutions that bundle various forms of IT hardware such as networking, servers, power supplies and accessories.

For years now, our earnings from the legendary Mecer brand that anchored Mustek's business for two decades have reduced as a percentage of the Group's combined revenue. Rectron, our wholly owned subsidiary, derives the bulk of its revenue from components, and an alternate set of IT brands aimed at a different consumer segment.

In essence, the Mustek business model and how we create value has changed fundamentally. All our business units and brands are now clustered around two operational pillars:

- Distribution – including OEM offerings such as Mecer and our licensed brands. This is Mustek's traditional business of acquiring or assembling products and selling these to the public sector and resellers, supported by our excellent guarantees and service departments.
- Solutions – networking, CCTV security and the interconnectivity of things. The technology that underpins the modern world is becoming less about IT hardware and more about how this hardware is combined with systems and processes to create solutions that fulfil specific needs of users. In recent years, Mustek has invested management capacity and capital into building up solutions that leverage its fast expanding range of hardware products.

Manufactured capital

Manufactured capital is made up primarily of our physical premises, equipment and infrastructure.

Apart from a major investment into an optical fibre factory which I discuss next in this report, there was little need for fresh capital investment into Mustek's built infrastructure and distribution fleet, apart from routine maintenance and replacements. In the previous five years, we had invested major funding into manufactured capital assets and improving energy efficiency at our larger premises.

Mustek did, however, continue investing in assets that will strategically broaden Mustek's product and solutions portfolio, such as the optical fibre plant I report on next.

"Reporting in 'six capitals' recognises that Mustek's inputs and outputs have a broader impact on itself and society than just the financial results."

New optical fibre factory in KwaZulu-Natal

At the forum on Africa-China Cooperation held in South Africa in December 2015, President Xi Jinping committed China's support for a "Trans Africa Information Superhighway" project launched at the forum, which includes 150 000 km of optical fibre cable to be laid over the next several years. The project intends linking 82 major African cities across 48 countries to connect 1.1 billion Africans to the internet.

Mustek has partnered with China's Yangtze Optical Fibre and Cable Joint Stock Limited Company (YOFC) to establish one of South Africa's largest optical fibre factories. YOFC is the world's biggest R&D, fibre, cable and equipment manufacturer of optical communications.

The two companies founded Yangtze Optics Africa Cable (YOAC) as a joint venture, with YOFC holding the 74.9% majority shareholdings and Mustek taking the remaining 25.1%. YOFC offers worldwide supply networks, which Mustek can support through its exceptional local ICT distribution channels.

In South Africa, demand for optical fibre cable already outstrips local supply and the partners can add value by offering products that are required by fibre installations.

Executive priorities in 2017

- Improve relationships with large value-added resellers
- Amend commission structures to promote revenue and profit growth
- Improve working capital management

Located at the Dube TradePort Special Economic Zone in KwaZulu-Natal, this 15 000 m² facility is scheduled to enter full production by January 2017.

Mustek's investment is the Rand equivalent of USD2 510 000, with 50% of this amount already invested and the remaining 50% to be invested in the 2017 financial year.

David Kan
Chief Executive Officer

Chief Executive Officer's review (continued)

Outputs from manufactured capital

The actual goods and services that Mustek provides are created or distributed through our manufactured capital assets. Hardware sales to retailers and resellers improved slightly in this financial year, but bulk sales to the public sector fell approximately 30% below budget due to government reducing or delaying its procurements of ICT hardware and support.

It has become apparent that corporates are extending the replacement cycle of their computing hardware from three years to five years, particularly as the recent iterations of the Windows operating system (from Windows 7 to 10) work smoothly on older hardware. As a result, our volume licensing of Windows 10 and Microsoft 365 is not generating the heightened sales of supporting hardware that we would have anticipated in the past, though we anticipate that revenue from this source will climb steadily in the years ahead.

Mustek is well aligned with the main cloud offerings and fast-growing network providers such as Huawei, therefore we expect to make up more in cloud solutions than what we may forfeit on hardware sales.

Additive manufacturing (3D printing) – early days but promising

Between Mustek and Rectron, the Group offers a selection of 3D printers ranging from high end (Makerbot) to entry level (XYZ). Although a highly promising market, sales remain a small percentage of our revenue.

I am encouraged that South Africa's Department of Science and Technology and the Council for Science and Industrial Research (CSIR) are actively developing an "additive manufacturing" (3D printing) roadmap to position the country as a leader in this new manufacturing sector, which could be a revelation in reinventing South Africa's manufacturing sector.

Social and relationship capital

This includes our relationships with shareholders, key stakeholders, suppliers and resellers. It is also about Mustek's reputation and the values associated with its brands.

A key part of Mustek's sustainable growth strategy is to continually seek out partnerships with brands that fit naturally with the range of solutions we offer. These need not be IT brands and include adjacent sectors such as gaming, security, connectivity and renewable energy.

SanDisk is one of the bigger brands brought into our stable this past year, while after year-end we signed a distribution partnership with Optoma, a renowned manufacturer of projection and audio products.

Our client base of over 10 000 resellers and prominent public or private sector organisations is fundamental to Mustek's ongoing viability. We take care to listen to their issues and provide consistently excellent service delivery.

Mustek's offerings fit naturally with education, which is the single most important factor for building winning nations. In this year, Mustek contributed over R2 million to funding education opportunities for previously disadvantaged individuals.

Natural capital

Natural capital is defined as "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".

Renewable energy

Although Mustek continues to reap considerable savings from the solar panels installed on the roofs of its facilities, its sales of solar equipment have flattened out since July 2015, largely due to Eskom managing to halt its loadshedding for now. Eskom appears to have resolved certain operational difficulties and brought new base power sources into the grid, though there is a view that the stabilised power supply has much to do with lower manufacturing and mining demand in a stagnant economy.

An economic upswing in the near future may test Eskom's reliability again, which could then re-energise interest in our solar offerings.

Waste and emissions

Mustek continues maintaining its ISO 14000 Standards and introduced an energy management system (EnMS) based on the ISO 50001 standard at its Midrand premises. Introducing this system enabled us to reduce our energy consumption by a further 7% over the significant reduction of recent years.

Divisional overview

Although Mustek's revenue from continuing operations increased by 4.8%, growth was impeded by a reduction in the spend from the government sector. The gross profit percentage from continuing operations reduced from 13.2% to 12.9% predominantly as a result of product mix, the drive to reduce inventory levels, an increase in inventory provisions and an increase in inventory written off.

Rectron performed on budget, despite being negatively impacted by the underperformance of its Australian subsidiary. Rectron Australia BV has now been disposed of and the Group will be focusing on further disposals of non-profitable and underperforming assets in order to increase profitability.

Both Mustek and Rectron were able to maintain if not gain market share, in a market showing signs of severe strain.

Sizwe IT Solutions delivered another year of substantial growth in profitability and Mustek increased its shareholding in the company from 26% to 40% on 29 June 2016. Khauleza delivered a satisfying performance and continues to grow into different market segments. The MST division is expected to continue growing from current levels. It has taken longer than initially anticipated to roll out contracts which MST won two years ago.

Dividend

The Board has declared a final dividend of 15 cents (2015: 35 cents) per ordinary share for the financial year ended 30 June 2016. Therefore, shareholders who are not dividend tax exempt will receive a net dividend of 12.75 cents per share.

Challenges, opportunities and strategy

Technology outlook

In earlier years I have tended to focus on traditional ICT products such as desktops, notebooks, tablets and smartphones when discussing ICT trends.

Now that Mustek has broadened its offering right across the ICT spectrum of solutions and products, it continues to broaden its range of business offerings in line with technological trends.

Human society is rapidly entering an increasingly immersive digital age driven by the rise of interconnectivity – between people, hardware, networks, the internet, "cloud" and technology platforms offered by global ICT dominators such as Google, Microsoft, Facebook, Apple and Amazon. Other products used for decades and even centuries, such as refrigerators, lighting, alarm systems and entertainment systems, are also being brought into these networks, which are controllable through generic smartphones and tablets.

Mustek is working to provide individualised processes and hardware components for every link in these networks of automated solutions. As the incoming "Internet of Things" connects every aspect of our outward lives for greater efficiency and comfort, Mustek will be there to provide the expertise, tailored solutions and necessary hardware.

Nevertheless, hardware remains a large slice of the Mustek offering, so I will commence this part of my report with the familiar desktop, notebook and tablet forecasts from previous years.

The desktop PC market has continued to subside, but appears to be settling to an equilibrium as most corporations and public sector organisations still prefer their employees to compute through desktops that are internally networked and controlled by their IT departments. At home, many households will retain at least one desktop PC for producing content more efficiently and comfortably than tablets or smartphones can yet offer.

Our Mecer assembly line for desktop PCs, as part of the broader portfolio of PC brands Mustek represents, is easily scalable according to the level of demand. We anticipate that desktop computers may well phase out over time and are well prepared to scale or reimagine that part of Mustek's operations in line with changing demand.

In recent years, the tablet format engaged public attention and took market share as an alternative to notebooks and desktops, but this segment is slipping back as consumers become aware that working productively on tablets is not yet that efficient. Another factor is that higher quality tablets are so robustly made that their users do not replace them as quickly as manufacturers would want.

Consumer demand for notebooks remained steady, with the two in one hybrids, which offer both notebook and tablet functionality, showing promising growth, albeit off a small base.

Mustek has not yet entered the smartphone market in any significant way, though we distribute Huawei and Acer smartphone models. Currently, South Africa's smartphone market remains dominated by the four major mobile network providers.

Chief Executive Officer's review (continued)

Looking into the near future, a few trends are clearly in sight.

Cloud computing and storage is being universally accepted by the corporate world due to its reliability, scalability, ease of use and cost efficiency. Mustek is well positioned to supply cloud solutions through our partnerships with world leaders in this space such as Microsoft and Huawei, among others. Mustek and Rectron sales teams are working together seamlessly to develop cloud-based solutions for clients.

As anticipated in our growth strategies of recent years, cloud and networking services are increasingly important drivers of Mustek's revenue.

Another field opening up is that of "wearable devices" such as smartwatches and fitness trackers. As powerful technologies shrink in size, wearable devices are being created for a widening range of roles in personal health, fitness, communication, gaming and education. From a virtually zero base just five years ago, an estimated 171 million wearable devices will be shipped in 2016.

Digital gaming has many millions of devoted followers around the world and the revenue it generates is driving hardware development in processing power, screen technology and input/output devices.

Even reality need not be as we once knew it. Recent technological advances have made "virtual reality" and "augmented reality" commercially viable for the man in the street. Simply by putting on a headset, virtual reality enables people to experience imaginary or simulated situations as if they are physically there. Augmented reality adds layers of information over objects in the real environment to inform the user in a manner that supports more interactive experiences.

Virtual and augmented reality devices are expected to become widespread within the next three years and the range of potential uses for these is staggering. Besides the obvious advantages for sport and entertainment, virtual and augmented reality can be used in education, healthcare and productivity scenarios of every kind.

Although in the early adopter stage, Mustek is well positioned to leverage its expertise in distribution and innovation to enter into the new reality markets that will inevitably emerge.

Mustek has always been an industry leader in developing e-learning solutions for public education and South Africa urgently needs to improve and establish consistency across all levels of public education. We see technology as the foremost enabler for this initiative and are encouraged by the amount of interest our portfolio of educational technologies is gaining from public sector authorities.

Outlook for 2016/17

Attempting to predict the future is at best a guessing game. Will the green shoots of the 3.3% GDP growth recorded for Q2 2016 blossom into a substantial economic recovery, or will South Africa be downgraded to junk status by the international rating agencies?

Will the agricultural drought ease and the rains pour down, or do we face another dry and bleak season in so many senses?

We have no control over the socio-economic environment, therefore the Board and management focus on those aspects we can control, which are the levers and drivers that make the Mustek business model work to sustainably create value for shareholders and stakeholders alike.

We will continue identifying and bringing appropriate products and capabilities into the ever-expanding Mustek portfolio. On the financial side, management focuses on protecting revenues and margins during this time of forex volatility, which is an ongoing challenge for any business involved in cross-border transactions.

Optimising the use of working capital remains a top priority.

Despite the constant challenges of managing a large and complex business in interesting times, the drive of technology is remorseless in reshaping how the world works and how our realities fit into it.

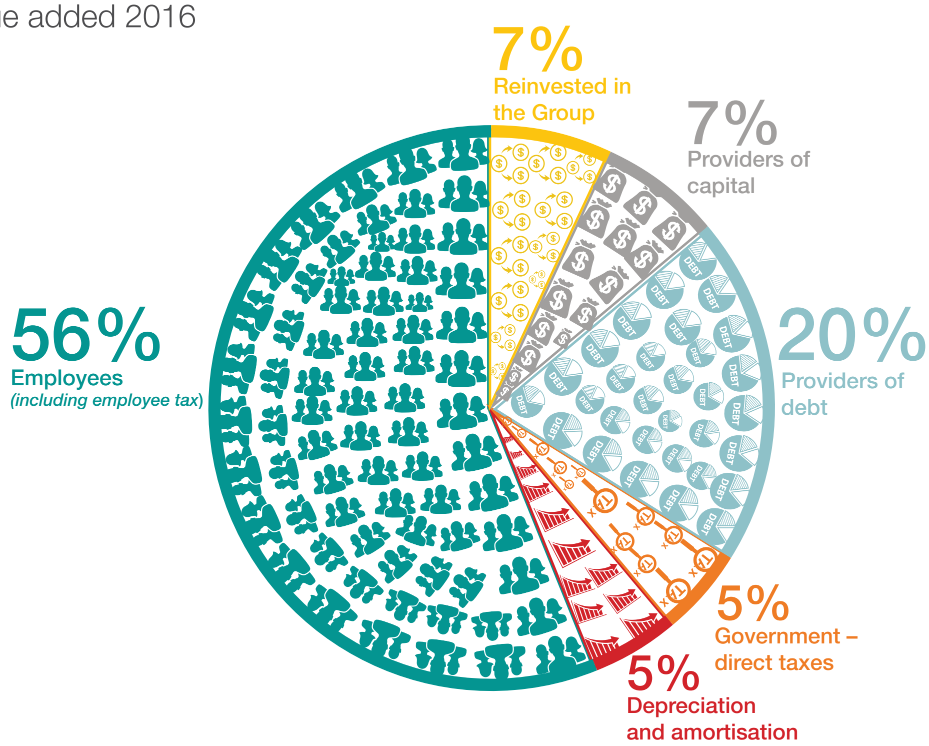
Mustek's business model is about understanding and staying abreast with technology, so that we can provide the solutions that enable organisations and individuals alike to utilise technology in their pursuit of fulfilment and wealth. That was Mustek's vision when we first started assembling and distributing our Mecer PCs back in the 1980s, and it has not changed since. Over the past 30 years we have just gotten so much more sophisticated about how to enable you to utilise technology to fit your needs.

David Kan
Chief Executive Officer

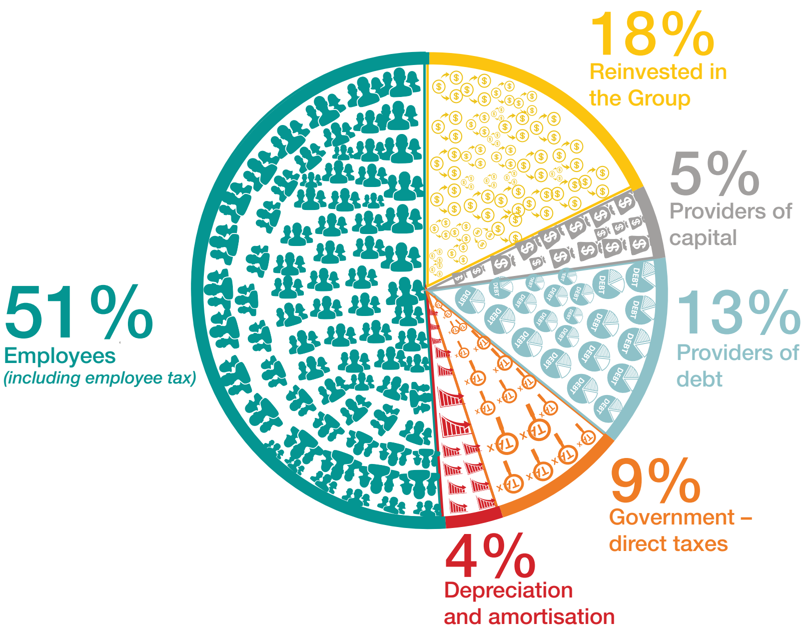
Sharing across society

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 2016



Value added 2015



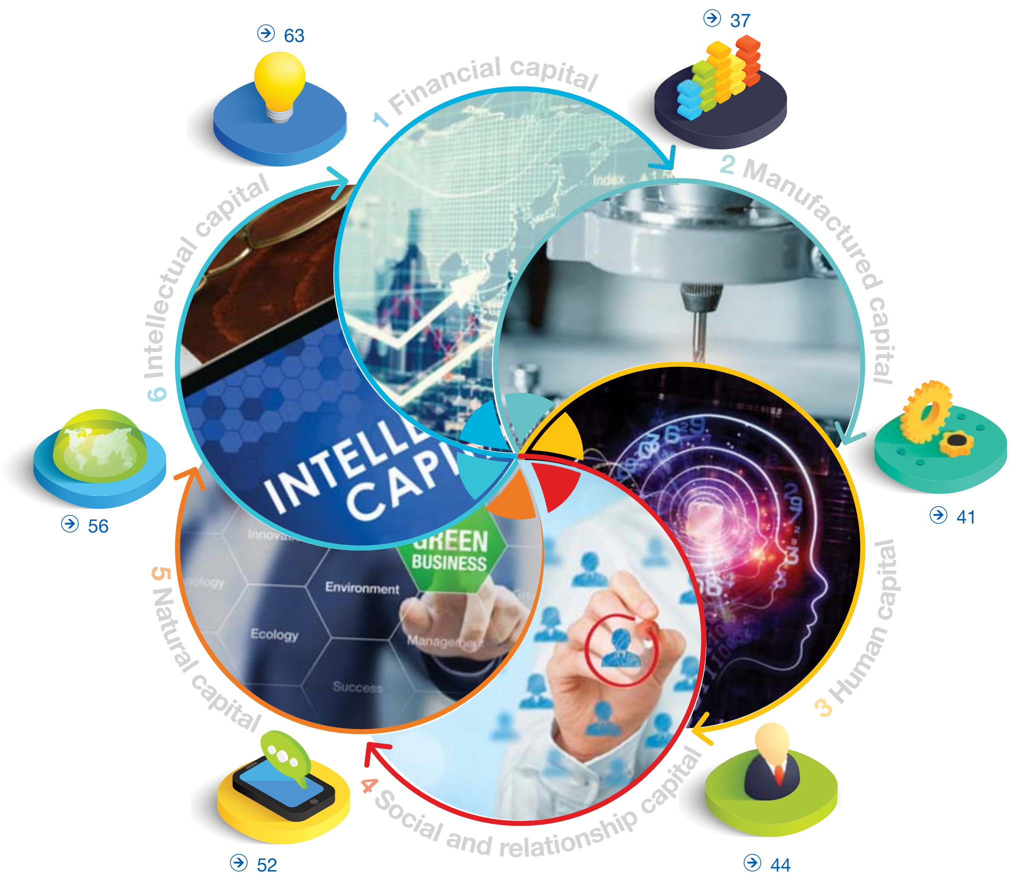
Our capitals

Our six 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 and relationship, and natural capital. These capitals underlie much of the disclosure in this Integrated Annual Report.

The International Integrated Reporting <IR> Framework does not require organisations to report on capitals that are not material to their operations, nor does it prescribe how these are to be reported. We consider the experience and talents of our management and staff under human capital and our relationships with customers and suppliers under social and relationship capital. As such we do not report on intellectual capital in this report.

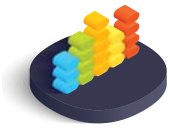
In the following sections we use the concept of the framework's capitals to anchor our disclosure and demonstrate the integration of strategy and sustainable development issues, how we manage each capital and its material aspects and how we have performed.



Generating funds

Allocating funds flowing from operations, equity, debt and investments.

Financial capital (continued)



Financial capital is the pool of funds that is:

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

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

Highlights

- **net asset value per share R10.08 (2015: R9.59)**
- **banking facilities R2 366.9 million, with 52.6% utilised at 30 June 2016 (2015: R2 009.5 million, 57.9% utilised at 30 June 2015)**
- **accounts payable funding R1 670.6 million (2015: R2 011.2 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 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 purchase 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 costlier, 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 guarantee 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 16 of the annual financial statements.

Performance

Profitability

- the Group's revenue from continuing operations increased by 4.8% to R5.29 billion (2015: R5.04 billion). The major reason for the slowdown in growth was the reduction in the spend from the government sector. 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 13.2% to 12.9% predominantly as a result of product mix, the drive to reduce inventory levels, an increase in inventory provisions and an increase in inventory written off. 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
- other income in the comparative period included an amount of R26.8 million that arose from certain disputes that were settled between Mustek and various parties
- the Group's more conservative forex hedging policy proved effective, considering the sharp depreciation of the Rand from 30 June 2015 to 30 June 2016. Forex losses from continuing operations, which includes the cost of forward points, was R11.8 million compared to R1.7 million in the comparative period
- distribution, administrative and other operating expenses from continuing operations were well controlled, increasing by 4.8%

Financial capital (continued)

- the Group has been negatively affected by an increase in net finance charges from continuing operations from R58.7 million to R90.7 million after average working capital levels were well above that of the previous financial year. Working capital levels have since normalised and for the year ended 30 June 2016, both inventory and accounts receivable are at lower levels when compared to the previous financial year
- 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 R14.3 million (2015: R9.6 million) was classified as finance costs, as opposed to forex losses
- the contribution from our associates increased mainly as a result of the earnings growth of Sizwe Africa IT Group Proprietary Limited
- discontinued operations (Rectron Australia BV) also negatively impacted earnings by R5.5 million
- as a result, Mustek's headline earnings per share is 38.5% lower at 76.88 cents (2015: 125.05 cents) and basic earnings per share is 40.7% lower at 74.13 cents (2015: 124.94 cents).

Return on equity

- 7.5% (2015: 13.9%).

Inventory

- Group inventory days: 88 days (2015: 89 days)
- at year-end R32.6 million (2015: R38.6 million) of inventory was carried below its cost at net realisable value. This represents 2.9% (2015: 3.4%) of the Group's total inventory
- current ratio 1.3 times (2015: 1.3 times).

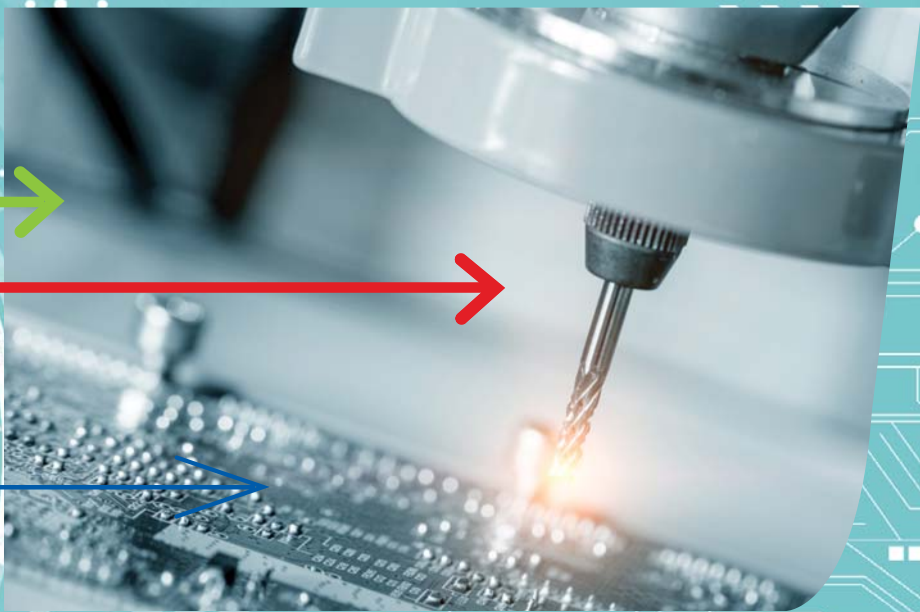
Group debtors days

- 74 days (2015: 86 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 migration of Rectron to the same IT platform was achieved in 2014. Opportunities to improve synergies between the two operations will receive considerable attention in the 2017 financial year.



Leveraging infrastructure

Optimising our facilities, infrastructure and vehicle fleets for lowered costs and environmental impacts.

Manufactured capital (continued)

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.

Mustek's manufactured capital comprises:

- assembled and purchased inventory
- owned/leased offices and branches
- achieved ISO 20 000 accreditation for IT service management at Gauteng service centre, among the first in South Africa
- 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 R1.112 billion (2015: R1.130 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 Mustek and 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 to ensure that it remained at the forefront of the industry. 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 and servicing of computer equipment and technological standards
- Mustek was accredited in 2013 for ISO 20 000 (Service Management System) in Gauteng
- 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

- 67 743 units assembled (2015: 66 679 units)
- 4.425 million items sold (2015: 2.692 million)
- average complaints 2016: 0.075% (2015: 0.052%)
- ISO 9001 certification verified by SABS
- inventory days 88 days (2015: 89 days).

2017 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 previous 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
- the multinational push of tablets will continue and Mustek is well positioned in this market. In particular, the dominance of Apple in the tablet market is ending as other multinational brands introduce Android and Windows operating software for tablets. This PC-plus market will be a key focus in the IT industry in the years ahead
- in addition to multinational ICT brands, the Group has looked to diversify 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.

Human capital

Strengthening skills

Motivating our people and giving them the skills and tools to do their jobs effectively.

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

- approximately 20% of our employees are members of trade unions, therefore none of the trade unions in our sector has reached the 30% hurdle membership percentage required to be formally recognised. As a consequence, no collective bargaining agreements are in place that are applicable to the Mustek or Rectron workforces.

Mustek's permanent workforce

Headcount

Site	June 2016 Number of employees	% breakdown
Mustek Gauteng	414	66.99
Mustek KwaZulu-Natal	52	8.41
Mustek Eastern Cape	32	5.18
Mustek Western Cape	75	12.14
Mustek Northern Cape	7	1.13
Mustek Free State	16	2.59
Mustek Limpopo	8	1.29
Mustek Mpumalanga	8	1.29
Mustek North West	6	0.97
Total	**618**	**100.00**

National staff

Race	Total	Race %	Female	Female %	Male	Male %
African	355	57.44	149	57.31	206	57.54
Coloured	81	13.11	37	14.23	44	12.29
Indian	53	8.58	15	5.77	38	10.61
Black	**489**	**79.13**	**201**	**77.31**	**288**	**80.45**
White	129	20.87	59	22.69	70	19.55
Total	**618**	**100.00**	**260**	**100.00**	**358**	**100.00**

Human capital (continued)

Eastern Cape

Race	Total	Race %	Female	Female %	Male	Male %
African	11	34.38	6	37.50	5	31.25
Coloured	14	43.75	7	43.75	7	43.75
Indian	0	–	0	–	0	–
Black	25	78.13	13	81.25	12	75.00
White	7	21.88	3	18.75	4	25.00
Total	32	100.00	16	100.00	16	100.00

Gauteng

Race	Total	Race %	Female	Female %	Male	Male %
African	275	55.98	108	63.53	167	68.44
Coloured	25	5.83	13	7.65	12	4.92
Indian	23	4.96	11	6.47	12	4.92
Black	323	66.77	132	77.65	191	78.28
White	91	33.23	38	22.35	53	21.72
Total	414	100.00	170	100.00	244	100.00

Western Cape

Race	Total	Race %	Female	Female %	Male	Male %
African	21	28.00	10	29.41	11	26.83
Coloured	34	45.33	12	35.29	22	53.66
Indian	1	1.33	0	–	1	2.44
Black	56	74.67	22	64.71	34	82.93
White	19	25.33	12	35.29	7	17.07
Total	75	100.00	34	100.00	41	100.00

KwaZulu-Natal

Race	Total	Race %	Female	Female %	Male	Male %
African	16	30.77	8	50.00	8	22.22
Coloured	2	3.85	1	6.25	1	2.78
Indian	28	53.85	3	18.75	25	69.44
Black	46	88.46	12	75.00	34	94.44
White	6	11.54	4	25.00	2	5.56
Total	52	100	16	100	36	100

Free State

Race	Total	Race %	Female	Female %	Male	Male %
African	9	56.25	5	62.50	4	50.00
Coloured	3	18.75	2	25.00	1	12.50
Indian	0	–	0	–	0	–
Black	12	75.00	7	87.50	5	62.50
White	4	25.00	1	12.50	3	37.50
Total	16	100.00	8	100.00	8	100.00

Northern Cape

Race	Total	Race %	Female	Female %	Male	Male %
African	4	57.14	3	60.00	1	50.00
Coloured	3	42.86	2	40.00	1	50.00
Indian	0	–	0	–	0	–
Black	7	100.00	5	100.00	2	100.00
White	0	–	0	–	0	–
Total	7	100.00	5	100.00	2	100.00

Mpumalanga

Race	Total	Race %	Female	Female %	Male	Male %
African	6	75.00	1	–	5	83.33
Coloured	0	–	0	–	0	–
Indian	0	–	0	–	0	–
Black	6	75.00	1	–	5	83.33
White	2	25.00	1	–	1	16.67
Total	8	100.00	2	–	6	100.00

Limpopo

Race	Total	Race %	Female	Female %	Male	Male %
African	8	100.00	5	100.00	3	100.00
Coloured	0	–	0	–	0	–
Indian	0	–	0	–	0	–
Black	8	100.00	5	100.00	3	100.00
White	0	–	0	–	0	–
Total	8	100.00	5	100.00	3	100.00

Human capital (continued)

North West

Race	Total	Race %	Female	Female %	Male	Male %
African	5	83.33	3	75.00	2	100.00
Coloured	0	–	0	–	0	–
Indian	1	16.67	1	25.00	0	–
Black	6	100.00	4	100.00	2	100.00
White	0	–	0	–	0	–
Total	6	100.00	4	100.00	2	100.00

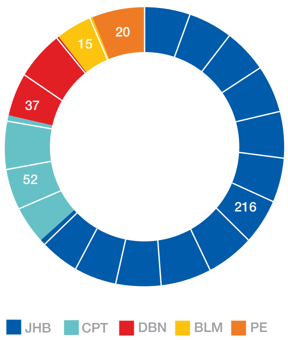
Rectron's permanent workforce

National staff

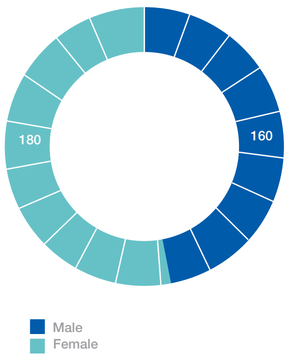
Race	Total	Race %	Female	Female %	Male	Male %
African	150	44.91	96	53.93	54	34.62
Coloured	36	10.78	13	7.30	23	14.74
Indian	43	12.87	22	12.36	21	13.46
Black	229	68.56	131	73.60	98	62.82
White	105	31.44	47	26.40	58	37.18
Grand total	334	100.00	178	100.00	156	100.00

Excludes six foreign nationals.

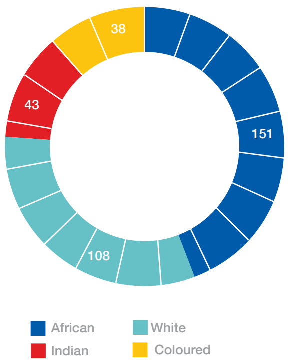
Staff count per region



Staff gender split



Demographic split



Rectron Johannesburg

Race	Total	Race %	Female	Female %	Male	Male %
African	119	56.40	78	65.00	41	45.05
Coloured	5	2.37	1	0.83	4	4.40
Indian	19	9.00	12	10.00	7	7.69
Black	143	67.77	91	75.83	52	57.14
White	68	32.23	29	24.17	39	42.86
Grand total	211	100.00	120	100.00	91	100.00

Excludes five foreign nationals.

Rectron Durban

Race	Total	Race %	Female	Female %	Male	Male %
African	13	35.14	9	45.00	4	23.53
Coloured	0	0.00	0	0.00	0	0.00
Indian	20	54.05	9	45.00	11	64.71
Black	33	89.19	18	90.00	15	88.24
White	4	10.81	2	10.00	2	11.76
Grand total	37	100.00	20	100.00	17	100.00

Rectron Cape Town

Race	Total	Race %	Female	Female %	Male	Male %
African	9	17.65	6	26.09	3	10.71
Coloured	24	47.06	9	39.13	15	53.57
Indian	4	7.84	1	4.35	3	10.71
Black	37	72.55	16	69.57	21	75.00
White	14	27.45	7	30.43	7	25.00
Grand total	51	100.00	23	100.00	28	100.00

Excludes one foreign national.

Rectron Port Elizabeth

Race	Total	Race %	Female	Female %	Male	Male %
African	6	30.00	2	22.22	4	36.36
Coloured	6	30.00	2	22.22	4	36.36
Indian	0	0.00	0	0.00	0	0.00
Black	12	60.00	4	44.44	8	72.73
White	8	40.00	5	55.56	3	27.27
Grand total	20	100.00	9	100.00	11	100.00

Rectron Bloemfontein

Race	Total	Race %	Female	Female %	Male	Male %
African	3	20.00	1	16.67	1	22.22
Coloured	1	6.67	1	16.67	0	0.00
Indian	0	0.00	0	0.00	0	0.00
Black	4	26.67	2	33.33	1	22.22
White	11	73.33	4	66.67	8	77.78
Grand total	15	100.00	6	100.00	9	100.00

Human capital (continued)

Mustek's human capital philosophy

- management maintains a transparent and accessible relationship with its employees, ensuring 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
- ongoing skills development and training are recognised as a business imperative and Mustek is committed to developing skills and talent from within the ranks of its employees – striving, at the same time, to develop the industry leaders of the future
- employee development is performed to align the Group with national directives, prioritising skills development for previously disadvantaged individuals (PDIs)
- management focuses on aligning the Group's staff complement with South Africa's economically active population (EAP), racial and cultural demographics
- temporary staff do not qualify for membership to the pension fund or any medical aid
- respect, dignity and fair treatment are core values and the Group has adopted a policy of zero tolerance for any form of discrimination or unfair treatment
- Mustek conforms to all applicable health and safety legislation.

Material matter – attract, develop and retain adequately skilled employees

Mustek competes in a high-tech industry in which the correct skills and experience are always in short supply. To create an environment that attracts new recruits and encourages retention of current employees' demands that we understand the needs of employees and respond accordingly. 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 this culture within the organisation, both Mustek and Rectron seek to promote or transfer people from within their joint workforce before advertising to the broader job market. Preference is given to individuals in the Group from previously disadvantaged backgrounds. In support of this policy, every employee receives quarterly performance reviews. Career development reviews are provided to all employees at least annually.

The Group strives to be a preferred employer for many of South Africa's talented ICT professionals and participates in the annual Deloitte "Best Company to Work For" survey in order to obtain independent feedback from its workforce.

The Group's workforce is varied and diverse and meeting the individual needs requires focused interventions and development. Adult Basic Education and Training (ABET) is provided to all employees who request it and who then continue their studies to obtain a school leaving certificate. Intervention at this early stage of education allows the Group to construct a career path from this foundation, adding value to all parties.

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.

The following skills management and lifelong learning programmes were offered during the reporting period:

- leadership development
- sales training
- adult-based education NQF 2 to NQF 5
- generic management.

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

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

Technical employees are encouraged to obtain certifications in their chosen field, ranging from Microsoft engineers, A+, Server+ and MCITP. Employees are chosen to partake in these training programmes, matching their skill set with their anticipated progression within 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.

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 who are 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.

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 in order 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.

A formal succession programme has been introduced, entailing the development of internal employees identified as having the potential to fill business leadership positions in the future. An assessment process maps the capabilities required for different management positions and matches them with the readiness of current or future managers to fill these positions.

Performance

- the Group's total investment in the training and development of employees during the 2016 financial year amounted to R10.26 million (2015: R5.36 million)
- 100% of senior management is hired from the local community
- employee turnover for Mustek for the current year amounted to 12.18%
- employee turnover for Rectron for the current year amounted to 11.93%
- return to work and retention rates after parental leave is 100%
- Mustek's absenteeism rate was recorded as 1.12%, and Rectron's as 1.69% for the 2016 year
- in total 33 injuries were recorded, of which 31 injuries were recorded by Mustek, and two injuries were recorded by Rectron during the year.
- during FY16 Mustek lost 1 780.50 productivity/working days due mainly to sick leave taken by staff nationally
- Mustek was involved in three CCMA cases during the year (2015: nine) and Rectron none
- 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.

Mustek's health and safety statistics

	Mustek	Rectron*	Group
Number of fatalities (ie injuries on duty leading to death – excluding the deaths of workers not occurring at work)	0	0	0
Number of first aid cases (FACs, ie injuries on duty leading to minor treatments, such as a plaster or a pain tablet)	17	16	33
Number of medical treatment cases (MTCs, ie injuries on duty leading to medical treatment, but no lost days)	12	0	12
Number of lost time injuries (LTIs, ie injuries on duty leading to at least one lost day)	4	2	6
Total number of recordable injuries, including MTCs, LTIs and fatalities – reported	33	18	51
Lost time injury frequency rate (LTIFR) (ie number of LTIs per 200 000 person hours worked) – calculated*	0.77	4.25	1.06
Total recordable injury frequency rate (TRIFR) – calculated	6.34	38.24	8.99

** Measured for two months only.*

Average hours of training 2016

	FY16
Junior management	
Male	**2 718.7**
Female	**2 065.25**
Middle management	
Male	**74**
Female	**64.9**
Semi-skilled	
Male	**50.45**
Female	**31.2**
Senior management	
Male	**0.5**
Female	**15.5**
Unskilled	
Male	**1**
Female	**11**
Top management	
Male	**1.45**
Female	**0**

Career development – our response

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

Rectron's human capital

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

Rectron's human capital highlights

- successfully introduced the competency-based and assessment recruitment solutions (CBARS) system
- concluded a skills audit identifying skills gaps aligned with competencies for all employees
- personal development plans and training interventions are being mapped for the next financial year
- the Microsoft VL Internship programme proved successful and of the six interns that Rectron registered, three were awarded permanent employment at Rectron, and one at Mustek
- 38 new employees recruited during FY16
- "Blow the Whistle Campaign" sessions were conducted to educate employees and provide further insight on the use of the tip-off line
- Rectron employees participated in the "Deloitte's Best Company to Work for" Survey in December.

Social and relationship capital

Enhancing relationships

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

Our stakeholders

The Group defines stakeholders as people, groups or organisations that have a direct interest in the Mustek Group in that they can affect, or be affected by, its operations, policies and procedures. Stakeholders are identified at both the operational level and by the various governance structures of the Group. Identified key stakeholders include:

- **the investor community – shareholders, prospective investors, asset managers, analysts and bankers**
- **employees**
- **business partners – customers and resellers**
- **suppliers and vendors**
- **civil society – local communities and the consumer**
- **regulatory agencies and government**
- **the media.**

Stakeholder engagement

Proactive and sincere stakeholder engagement is fundamental to the Group preserving and building on its social and relationship capital and moving it further along the road to achieving its goal of a profitable and sustainable business.

Stakeholder engagement is undertaken at all levels of the enterprise following the principles of inclusiveness, materiality and responsiveness. The Group's Financial Director, Neels Coetzee, is the Group's Stakeholder Relations Officer.

Stakeholder engagement is conducted in one of two ways: direct engagement involving verbal, direct written or visual communication with targeted stakeholder groupings; or indirect engagement represented by compliance with regulations and standards expected to deliver on stakeholder issues and concerns.

"Direct engagement" is the approach used for investors through regular presentations and road shows, including operational visits; communication through the Securities Exchange News Service; 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; and the provision of financial information demonstrating conformance with debt covenants.

Direct engagement with the employee stakeholder grouping is conducted through supervisory and disciplinary structures. The methods of communication involve scheduled meetings; briefings; emails and posters; standard policy and procedures documents; one-on-one supervision and instruction; and performance discussions.

A key stakeholder grouping is our reseller base, which between Mustek and Rectron numbers more than 10 000 resellers. Constant feedback from this group is invaluable for remaining abreast with consumer trends and demands. The Group remains constantly engaged with our resellers through customer surveys, roadshows, personal meetings and incentive schemes. Rectron's recently launched rewards scheme for its resellers has been well received.

Indirect engagement with a variety of stakeholders, in particular those in society and community groupings, is achieved through compliance with a range of 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

The Group continues to meaningfully extend its initiatives in employment equity, skills development and corporate social investment, with the budget more than doubling to approximately R10 million.

The Mustek division achieved level 2 B-BBEE contributor status in its most recent transformation audit. In a similar audit, Rectron raised its B-BBEE score to level 2 contributor status. However, the recent changes to the Codes of Good Practice and their integration into the

Social and relationship capital (continued)

ICT sector codes will have a significant impact on the Group's contributor status.

The Group has aligned its BEE strategy with the revised Codes of Good Practice until the revised ICT sector code is gazetted.

The Group submits annual employment equity and workplace skills plans and is fully compliant with the Employment Equity Act (Act 55 of 1998) and the Skills Development Act (Act 97 of 1998).

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

In its broadest sense, transformation is a central and strategic priority for the Group. Mustek and Rectron are committed to empowerment and transformation across all divisions and all levels. The skills development and training programmes continue to make good progress and achieve success; these will ensure continuity and high-quality future leaders and will greatly assist in meeting future skills requirements.

The Group has a formal corporate social investment (CSI) programme that focuses its efforts on improving the quality of, and access to, education for previously disadvantaged communities and handicapped individuals.

The Group's CSI spend of over R2 million qualifies it as a level 3 contributor towards national socio-economic development. Focused primarily on education, Mustek provided:

- resources and materials to previously disadvantaged schools and organisations for people with disabilities
- educational programmes
- grants for specific projects
- "pro bono" professional services and HR support.

The majority of the Group's procurement is represented by imports of goods and equipment not readily available in South Africa. In terms of the IT sector guidelines, these imports may be excluded from the Group's total measured procurement spend.

Mustek meets the definition of a level 1 B-BBEE contributor in terms of its preferential procurement. The aim is to secure full B-BBEE certificate compliance for all suppliers including EME, QSE, black-owned and black women-owned enterprises. For the past two years, the 70% target for preferential procurement with BEE compliant suppliers was reached. Approximately 47% of the total procurement spend is with local suppliers.

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

The Group procures significant quantities of inputs from internationally recognised manufacturers in the Far East. Following a variety of events over the recent past, the Group is aware of consumers' concerns regarding the working conditions that sometimes exist in some of these countries.

While the Group is focused on providing its customers with affordable quality products, it cannot ignore the possibility that certain of its inputs are produced under unsatisfactory employment conditions. In an effort to minimise this risk, the Group only procures from recognised vendors. When visiting vendors, Mustek personnel pay close attention to the conditions in which the workforce operates.

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. The Group ensures its employees are well equipped with the relevant business and interpersonal skills 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 the Group's suppliers.

The Group employs key account managers, who are charged with retaining the loyalty of its resellers and helping them conduct additional business. Fundamental to these relationships is the delivery of outstanding service, underpinned by open channels of communication.

Mustek's product portfolio is one of the broadest in the market incorporating client computing, networking, data centre computing, security, software, peripherals and numerous specialist market segments. While this makes Mustek one of the most desirable distributors with whom to do business, it places the Group under pressure to ensure its products are always available and of the highest standard.

The Group continually looks for ways to enhance its service offering to its resellers.

This includes:

- keeping abreast of global ICT trends and consistently delivering innovative and fairly priced products
- expanding the Group footprint throughout South Africa and ensuring Mustek and Rectron sales teams are readily available in all regions
- 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 through the research and development (R&D) team.

Customer care surveys

Our customers are surveyed monthly. The consolidated averages for the year revealed:

- 70% were unsatisfied
- 23% moderately satisfied
- 7% extremely satisfied.

Protection of customer 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 however, should a consumer require it, Mustek Service will do their best to assist. As part of our terms and conditions we do request that customers or consumers ensure that the data on the device is backed up.

Our customers register themselves with us through a website portal. We have a strict policy of protecting customer-related data.

Critical information such as passwords are not stored (only hashes are stored and matched). No credit card information is stored. All customer information is stored on a secure SQL server situated behind a firewall and requiring Microsoft Active Directory authentication for local network access. Databases are physically located within the Mustek head office in Midrand with physical access control. To date, there have not been any complaints regarding breaches of customer privacy or loss of customer data.

Rectron frequent buyer rewards

The Rectron Rewards incentive programme encourages resellers to earn points by selling the company's products. Qualifying items are allocated at a certain amount of points, which resellers can accumulate and redeem at any time from a list of prizes available on Rectron's website. These include products from Rectron's inventory as well as unrelated items such as tents and mountain bikes. The rewards incentive is viewed as a foundation for sustainable and permanent customer loyalty.

As positive changes in consumer behaviour became increasingly evident, vendors started utilising Rectron Rewards as a strategic marketing vehicle. Rectron's suppliers have enjoyed participating in the incentive as it is ideal for special promotions within brands.

Rectron Rewards has been upgraded into a digital transaction portal through which resellers can seamlessly order online, check stock availability and review their account balances. They can also engage online training on products they are interested in.

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

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.

FY15

- APC Schneider Electric – Mustek: Distributor of the Year 2015
- Huawei Enterprise – Mustek: Distributor of the Year 2015
- Huawei Enterprise – Siobhan Hanvey, Product Manager: Champion of the Year 2015
- NEC – Mustek: Best Smart Enterprise Solution Provider 2014/2015
- Toshiba – Mustek: Distributor of the Year FY15.

Natural capital

Environmental care

Minimising our impact to ensure long-term sustainability.

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
- packaging and waste management is where Mustek can best mitigate its impact on the natural environment.

Management approach

Despite the Group's relatively small impact on the natural environment, it is committed to mitigating its impacts in order to respond to the challenge of climate change while minimising its operating costs.

At Mustek, environmental programmes are managed in a comprehensive, systematic, planned and documented manner. Procedures and processes are integrated for the training of personnel and are monitored so that specialised environmental performance information can be reported on to internal and external stakeholders. Mustek (Rectron excluded) practises formal environmental management by maintaining certification to ISO 14001.

In general, the goals of environmental management are to increase compliance and reduce waste.

Mustek's impact on the environment due to its nature of business is waste in the form of packaging materials, electronic waste from redundant components and office waste such as paper. Mustek works with service providers who are ISO 14001 certified and who recycle Mustek's waste in a legally compliant manner.

A further focus of waste minimisation at the company is the reduction of carbon emissions by reducing electricity and fuel. 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. Further reductions in electricity are reported and the details of the EnMS implementation are detailed in the case study "Mustek's energy efficiency drive".

Rectron is learning from Mustek's environmental experience and is reporting on electricity usage, energy generated from its numerous PV plants and volumes of waste being recycled.

Mustek's precautionary approach

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

Identifying the environmental aspects and impacts or risks of Mustek's activities are the departure point for implementing and maintaining ISO 14001. Once these aspects are understood and rated, operational controls or targeted programmes are implemented and managed to reduce any 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
- all products include labelling that indicates:
  - model number
  - input rating
  - output rating (if relevant)
  - a recycling statement is included on all Mecer boxes
- there were no issues of non-compliance with regulations and voluntary codes concerning product and service information and labelling
- electronic waste is classified as hazardous in its waste form. It is thus collected and responsibly recycled, with 11.4 tonnes of e-waste recycled by Mustek and its bigger branches in this financial year
- Mustek's national vehicle fleet (68 vehicles at present) is being incrementally converted to diesel powered for fuel efficiency and about 32% of the current fleet is diesel. No new vehicles were purchased in this financial year
- Mustek has reduced its energy consumption by a further 7% due to the cost-saving initiatives introduced through the implementation of ISO 50001
- Rectron has recycled 16 tonnes of waste and generated 1 355 GJ of energy from their national photovoltaic (solar) plants.

Waste abatement and disposal

The management of waste is the Group's single largest environmental issue and one 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 this compliance and are ISO 14001 certified. Appropriate controls and procedures are in place to ensure the health and safety of employees.

Natural capital (continued)

Mustek undertakes internal legal audits to assure the compliance of the waste being disposed.

At Mustek's Gauteng site, a waste management company has an on-site 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. This past year Mustek's service provider was able to add wooden pallets, not available for reuse, to the recycling waste stream. Recycling this material reduces the amount of waste sent to landfill.

Waste also contributes to the Group's emissions, although it has a far more significant impact on landfill sites and wasted resources.

The amount of waste generated this year decreased overall compared to the previous period. However, the 116 tonnes of waste recycled at the Mustek Gauteng operation in this reporting period represents 66% of our total waste, thereby beating our 60% target.

An additional 12 tonnes of waste were recycled by the Eastern Cape, Western Cape and KwaZulu-Natal branches.

Rectron is also reporting on its waste recycling initiatives and recycled 16 tonnes of waste this year.

Material matter – energy consumption and GHG emissions

Reducing our electricity consumption from Eskom lowers costs and raises Mustek's profile as a leading provider of renewable energy technology by reducing GHG emissions.

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 will pay for themselves in a few years and will significantly reduce the Group's overall electricity footprint. These initiatives 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.

Mustek has implemented an energy management system compliant with ISO 50001 to further reduce fossil energy consumption.

As part of the process of continually improving, this past year the air-conditioning in Mustek Gauteng's South building was rerouted to optimise space conditioning and leaks in the air compressor systems were repaired to further reduce our total energy consumption.

Responding in whatever small way to the risk of climate change is everyone's responsibility towards future generations. The Group's efforts at reducing emissions are guided by its energy reduction targets.

The Group acknowledges that its supply chain is responsible for emissions and has, in previous periods, attempted to report Scope 3 emissions. Over the past two years, we have put considerable effort into understanding the sources of our Scope 3 emissions and estimating our impact. This exercise is frustrated by the unavailability of data from certain outsourced freight transport providers, therefore we are unable to include reliable Scope 3 figures in this report. Mustek will, however, continue identifying logistics efficiencies and reduce costs and emissions.

Emissions

Carbon emissions

Mustek	**Emission (tonnes CO_2e)**	2012	2013	2014	2015	**2016**
Scope 1	Stationary fuels	23	12	10	15	**9**
	Company-owned vehicles	529	404	403	398	**404**
	Other fugitive emissions (non-Kyoto gases)	20	22	123	63	**27**
	Total	573	437	536	476	**440**
Scope 2	Electricity	4 323	4 189	3 497	2 556*	**2 134**
	Total (Scope 1 and 2)	4 896	4 626	4 033	3 032	**2 574**

** The value for the Eastern Cape branch was underreported. It has been corrected in this report.*

Rectron	**Emission (tonnes CO_2e)**	**2016**
Scope 2	Electricity	**539**
	Total energy consumed	**539**

Greenhouse gas (GHG) emissions intensity

Mustek	Emission (tonnes CO_2e)	2012	2013	2014	2015	2016
	Total energy consumed	4 896	4 626	4 033	3 032	**2 574**
	Number of Mustek staff nationally	555	574	632	614	**613**
	Number of Comztek staff	154	126	175	n/a	**n/a**
		709	700	807	614	**613**
	Emissions intensity (tonnes CO_2e/employee)	7	7	5	5	**4**

Rectron	Emission (tonnes CO_2e)	2016
Scope 2	Electricity	**539**
	Total energy consumed	**539**
	Number of staff nationally	**335**
	Emissions intensity (tonnes CO_2e/employee)	**2**

Reduction of GHG emissions

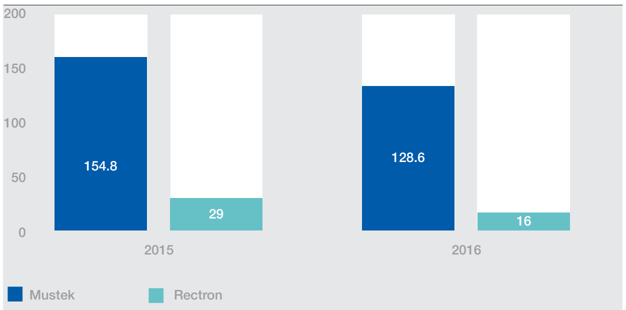
	Emission (tonnes CO_2e)	2012	2013	2014	2015	2016
	Total energy consumed	4 896	4 626	4 033	3 032	**2 574**
	Reduction of tonnes CO_2e	608	270	593	1 001	**458**

Waste

Recycled waste (tonnes)

	2015	2016
Mustek		
Recycled waste	154.8	**128.6**
Rectron		
Recycled waste	29	**16**

Waste recycled (tonnes)



Natural capital (continued)

Energy

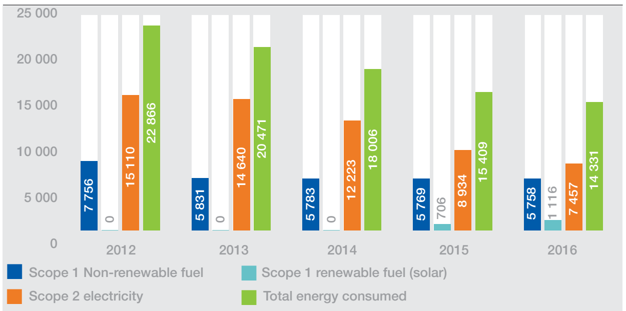
Energy consumption

Mustek	Energy (GJ)	2012	2013	2014	2015	2016
Scope 1	Stationary fuels	320	159	134	198	**125**
	Company-owned vehicles (P)	5 738	4 377	3 956	3 660	**3 321**
	Company-owned vehicles (D)	1 698	1 295	1 693	1 911	**2 312**
	Total	7 756	5 831	5 783	5 769	**5 758**
	Renewable fuel (solar)	–	–	–	706	**1 116**
		7 756	5 831	5 783	6 475	**6 874**
Scope 2	Electricity	15 110	14 640	12 223	8 934*	**7 457**
	Total energy consumed	22 866	20 471	18 006	15 409	**14 331**

** The value for the Eastern Cape branch was underreported in 2015. It has been corrected in this report.*

The significant drop in electricity from 2014 to 2015 was due to improvement in energy usage but also due to Comztek leaving the Mustek premises to move to its new premises.

Mustek energy consumption (GJ)



Rectron	Energy (GJ)	2015	2016
	Renewable fuel (solar)	–	**1 355**
			1 355
	Electricity	1 226	**1 886**
	Total energy consumed	1 226*	**3 241**

** This value is only for Rectron Midrand.*

Energy intensity

Mustek	Energy (GJ)	2012	2013	2014	2015	2016
	Total energy consumed	22 866	20 471	18 006	15 409	**14 331**
	Number of staff Mustek	555	574	632	614	**613**
	Number of staff Comztek	154	126	175	n/a	**n/a**
		709	700	807	614	**613**
	Energy intensity (GJ/number of staff)	32	29	22	25	**23**

Rectron	Energy (GJ)	2016
	Total energy consumed	**3 241**
	Number of staff	**335**
	Energy intensity (GJ/number of staff)	**10**

Reduction of energy consumption

Mustek	2012	2013	2014	2015	2016
Total energy consumed	22 866	20 471	18 006	15 409*	**14 331**
Energy saved year-on-year	(430)	2 395	2 465	2 597	**1 078**
% energy saved year-on-year	2	10	12	14	**7**

** Energy includes solar figure, not included in 2015 report.*

Case study:

Mustek's energy efficiency drive pays off

Energy costs are rising and are unlikely to drop in the near future. Mustek has thus leveraged new technologies and renewable energy sources as well as employed the methodologies of energy efficiency as an easy and cost-effective way to cut energy use.

A key Mustek priority is to focus on operational efficiencies and cost management. Becoming a more energy-efficient organisation is a win-win situation, as it reduces environmental impacts while delivering measurable cost reductions.

Improving the energy efficiency of Mustek's buildings spins off into higher property values and lower maintenance costs. These measures can also improve indoor air quality and help create a healthier work environment.

Mustek has leveraged **new technologies** and **renewable energy** sources

How we went about it

Mustek's previous ad hoc approach to reducing energy usage was recently superseded by the introduction of an energy management system (EnMS) implementation project at Mustek Gauteng's site.

Implementing Mustek's energy management system

Approach

The first step was to establish a broad-based energy team under the leadership of Mustek's facilities manager, with representatives from all departments.

As Mustek already has an ISO 9001 and the 14001 integrated business management system (BMS), we integrated the EnMS into the building management system (BMS) and added the EnMS tool and energy planning and management procedure. These are used to formalise energy reviews and management, including significant energy use (SEU) identification, driver and baseline development, energy performance indicators (EnPIs), opportunities and legal compliance.

Communicating the importance of energy performance

Energy awareness campaigns were initiated in conjunction with other safety and quality activities. Management and staff members were asked to suggest improvements. Their proactive responses ranged from installing plastic curtains at strategic points to limit the loss of conditioned air, to other measures such as sealing off unused air-conditioning ducting.

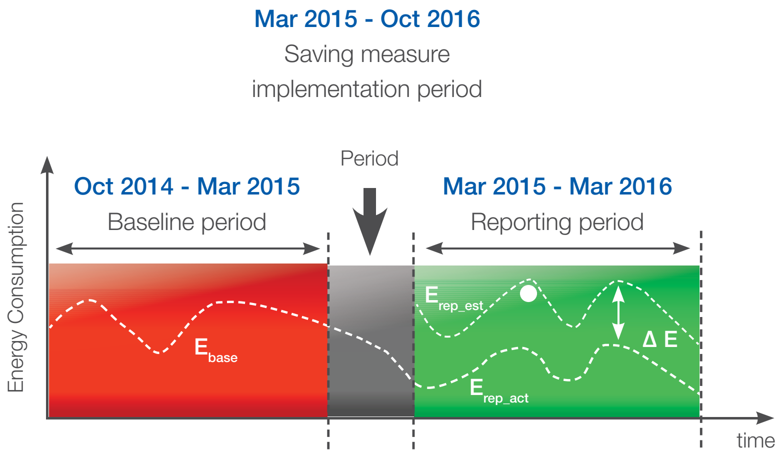
Integrated management system and certification approach

The integration of the EnMS was successfully included in the BMS internal audit in December 2015. Mustek's early decision to seek ISO 50001 certification was moderated to a commitment to conform with this international standard and to ensure inclusion of energy as one of the environmental aspects covered during the ISO 14001 certification activities.

Natural capital (continued)

Baseline establishment
Our biggest challenge was to establish a regression baseline that included variables such as production, ambient temperature and occupancy. Although a 2011 energy audit provided baseline regression date on occupancy and temperature, it could not be replicated with the current 2015 data. Ongoing improvements during that time had resulted in a changing energy consumption pattern. We therefore switched to an absolute consumption model with the intention to revisit the regression once operations stabilise. A further challenge was inconsistent electrical energy data from Mustek's various premises. For example, data from the photovoltaic (PV) solar installation was initially lacking. Electricity metering in South building excluded diesel generated kWh, whereas the North building metering did include this data.

Changing behaviour
Although sensitising people to energy efficiency remains a challenge, the overall consensus was that implementing the formal ISO 50001 approach was more successful than a delinked approach.



Source: Adapted from ISO 50006

What was the outcome?
To date, for the six-month period described in the diagram above, Mustek Gauteng has reduced electricity costs by 15%. The calculated returns on investment generated on all energy initiatives such as low-voltage lighting and optimised air-conditioning was supplied to management.

Future plans
Energy neutral production
Mustek is investigating the viability of marketing Mecer machines as "carbon neutral produced".

Benchmarking
Mustek plans to use SANS 204 for benchmarking energy per square metre, to compare its energy performance to others in similar sectors.

Knowledge-based intangibles

Leveraging experience, insight and technology to stay ahead of trends.

Intellectual capital (continued)

What it is

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.**

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.

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 nearly four decades 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'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.

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:
  - Lenovo ThinkServer – Mustek: Distributor of the Year 2015/2016
  - Lenovo – Mustek: Best Distributor Revenue Growth in Southern Africa 2015/2016
  - SanDisk – Mustek: Distributor 2016
  - Toshiba – Mustek: Distributor of the Year 2016
  - APC Schneider Electric – Mustek: Distributor of the Year 2015
  - Huawei Enterprise – Mustek: Distributor of the Year 2015
  - Huawei Enterprise – Siobhan Hanvey, Product Manager: Champion of the Year 2015
  - Toshiba – Mustek: Distributor of the Year 2015
- Mustek's certifications:
  - ISO 9001:2008 (quality)
  - ISO 14001:2004 (environment)
  - ISO 20000 (service)
  - achieved ISO 20000 accreditation for IT service management at Gauteng service centre, among the first in South Africa
- 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 and servicing of computer equipment and technological standards
- customer satisfaction surveys show 72.60% of our customers are extremely satisfied
- Rectron Microsoft awards:
  - Awarded South African Distributor of the Year for Office 365 for 2015
  - Achieved the highest reseller reach numbers in the Middle East and Africa region for Office 365 in 2015
  - Awarded South African Distributor of the Year for Best SureStep at Distribution Execution in 2016
- Rectron distributor awards
  - Channelwise best distributor for components 2015
  - Channelwise best distributor for graphics cards 2015
  - Lenovo PCG Business Partner FY15/FY16
  - Outstanding performance Dlink 2015
- Sizwe Africa IT Group announced it has achieved the Internet of Things (IoT) Connected Safety and Security Specialisation from Cisco.

King III principles

as at 30 June 2016

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 2016 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, thereby 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.

King III principles (continued)

as at 30 June 2016

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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 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	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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 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.
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.
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.

King III principles (continued)

as at 30 June 2016

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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 Chief Executive Office 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 was appointed as 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.
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 2016. The results were discussed as well as plans to address the identified improvement areas.

King III principles (continued)

as at 30 June 2016

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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.
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 2016 annual financial statements.
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 2015 and would again be tabled for shareholder approval at the AGM to be held during 2016.
Chapter 3	Principle 3.1	The Board has ensured that the company has an effective and independent audit committee.	Applied	AAA		The committee comprises three independent non-executive directors.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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 Ralph Patmore, 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 co-ordinated 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 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.

King III principles (continued)

as at 30 June 2016

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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 2016 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.

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.	Applied	AA		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.

King III principles (continued)

as at 30 June 2016

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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 2016 Integrated Annual Report.
Chapter 5	Principle 5.1	The Board is responsible for information technology (IT) governance.	Applied	AA		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. An IT Steering Committee assists the Audit and Risk Committee in this regard. A COBIT framework was implemented during the reporting period.
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	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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.
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.	Partially applied	BB		The company is in the process of further developing a compliance framework to assist in fulfilling its responsibility fully in this regard.

King III principles (continued)

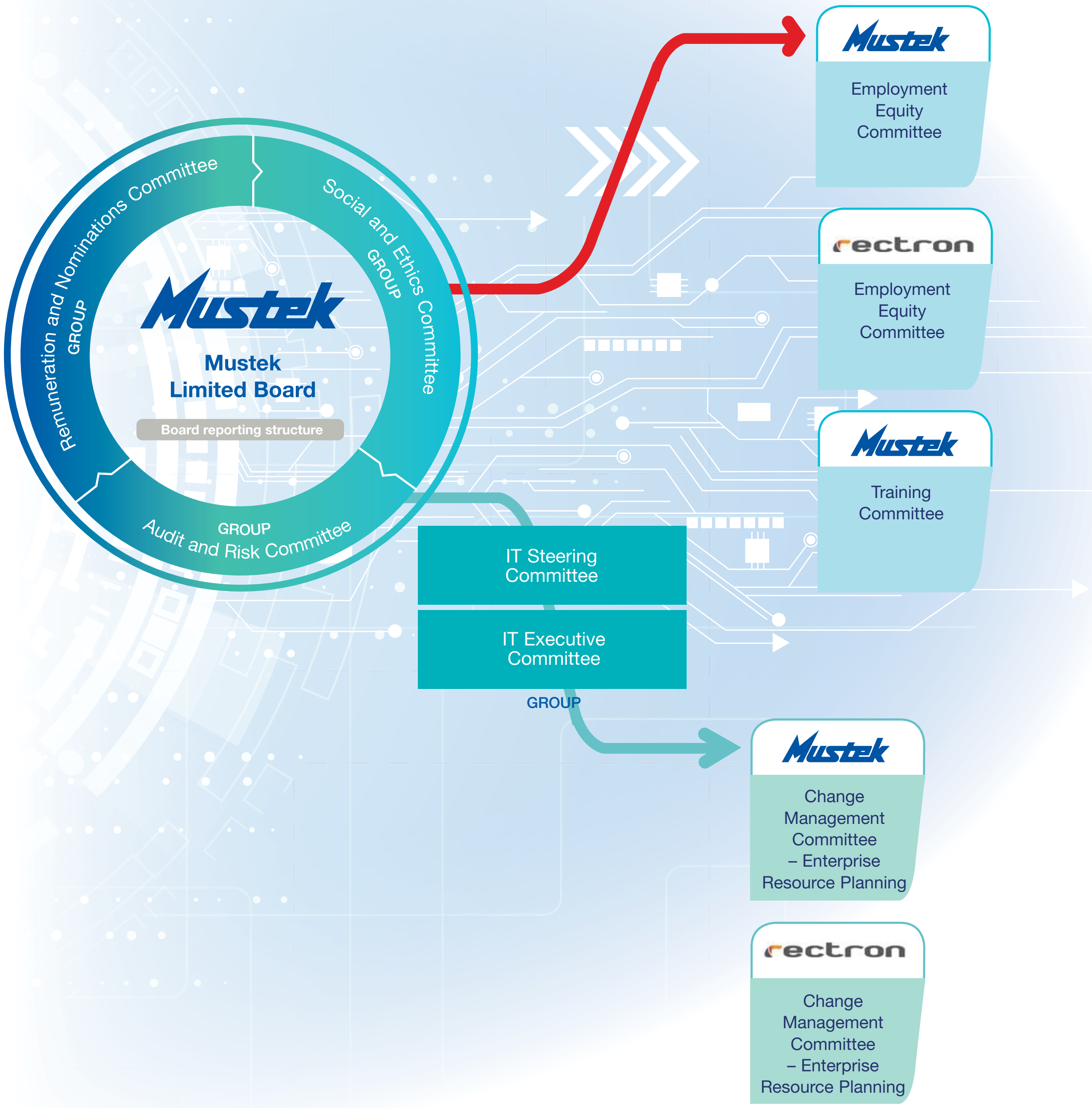
as at 30 June 2016

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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 8	Principle 8.2	The Board should delegate to management to proactively deal with stakeholder relationships.	Applied	AA		Refer to 8.1.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI score	Evidence	Explanation/ compensating practices
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
(Non-executive Board Chairman)
(63, black male)

Ralph Patmore
(Independent non-executive director)
(64, white male)

Mdu Gama
(Lead independent, non-executive director)
(47, black male)

Lindani Dhlamini
(Independent non-executive director)
(43, black female)

David Kan
(57, coloured male)

Hein Engelbrecht
(47, white male)

Neels Coetzee
(41, white male)

Committee members

Social and Ethics Committee

Mdu Gama
(Chairman)
(47, black male)

Hein Engelbrecht
(47, white male)

Spencer Chen
(40, coloured male)

IT Steering Committee

David Kan
(Chairman)
(57, coloured male)

Olga-Lee Levey
(Chief Information Officer)
(44, white female)

Dimitri Tserpes
(Chief Technical Officer)
(51, white male)

Spencer Chen
(Rectron Managing Director)
(40, coloured male)

Hein Engelbrecht
(Mustek Managing Director)
(47, white male)

Neels Coetzee
(Group Financial Director)
(41, white male)

Gerhard Malan
(Rectron Financial Director)
(34, white male)

Alan Michas
(Rectron Group IT Manager)
(64, white male)

Audit and Risk Committee

Standing invitees
CEO, MD, FD, internal auditor, external auditors and Company Secretary

Ralph Patmore
(Chairman)
(64, white male)

Lindani Dhlamini
(43, black female)

Mdu Gama
(47, black male)

Remuneration and Nominations Committee

Standing invitees
CEO, MD, FD, HR Manager and Company Secretary

Ralph Patmore
(Chairman)
(64, white male)

Mdu Gama
(47, black male)

Vukile Mehana
(63, black male)

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. 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 company has shown commitment to change where necessary during the last few years. 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 65 to 77 for an analysis of the application of the 75 Corporate Governance Principles as recommended in the King III report.

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 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 aspects 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. During the reporting period, Thembisa Dingaan and Len Konar resigned as independent non-executive directors effective 12 October 2015 and 4 December 2015 respectively. Lindani Dhlamini was appointed as independent non-executive director and member of the Audit and Risk Committee effective 4 December 2015. Vukile Mehana was appointed as non-executive Chairman of the Group on 1 February 2016. Mdu Gama was appointed as lead independent director on the same date.

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.

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 to ensure ongoing compliance with the requirements entailed in the Act and King III, as well as being fit-for-purpose.

In terms of the company's memorandum of incorporation, one-third of the directors retire at the annual general meeting. Mdu Gama will retire and, being eligible, offer himself 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 June 2016 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 was appointed as 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 39, holds a BLC, LLB and was appointed in 2012 as Mustek's Company Secretary. She has 16 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 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.

Corporate governance report (continued)

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 co-ordinate 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 2016, 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.

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:

Director	26 Aug 2015	13 Nov 2015	18 Feb 2016	18 April 2016 (special)	17 May 2016
Vukile Mehana (Chairman)	n/a	n/a	✓	✗	✓
Mdu Gama	✓	✓	✓	✓	✓
Ralph Patmore	✓	✓	✓	✓	✓
Lindani Dhlamini	n/a	n/a	✓	✓	✓
David Kan	✓	✓	✓	✓	✓
Hein Engelbrecht	✓	✓	✓	✓	✓
Neels Coetzee	✓	✓	✓	✓	✓
Len Konar	✓	✓	n/a	n/a	n/a
Thembisa Dingaan	✗	n/a	n/a	n/a	n/a

✓ *Attended*
✗ *Absent with apology*
n/a Not yet appointed or have resigned

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 Ralph Patmore (Chairman), Mdu Gama and Lindani Dhlamini. During the reporting period, Thembisa Dingaan resigned as member of the committee on 12 October 2015. Lindani Dhlamini was appointed as director and member of the committee on 4 December 2015. Lindani Dhlamini took over chairmanship of the committee on 30 August 2016 and Ralph Patmore will 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 101 and 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.

During the period under review, a roadmap was approved for the implementation of a governance framework for IT. 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.

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 Director and Financial Director attend by invitation. Len Konar resigned as director and member of the committee on 4 December 2015. Rev Dr Vukile Mehana was appointed as member of the committee and will preside as Chairman when the committee fulfils its oversight responsibilities on nomination matters and Board/director interactions.

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 87 to 89 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. Subsequent to the reporting period, Lindi Shortt resigned as Managing Director of Rectron and was replaced by Spencer Chen who also replaced her as a member of the committee. The Chief Executive Officer, Financial Director as well as senior members of management, 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 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 85 and 86 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 co-operation 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

Corporate governance report (continued)

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 upon 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 are 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 continues to grow and mature at Mustek and 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 the 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. This helps ensure a fair accurate representation and valuation of the company and its performance.

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. Len Konar resigned as a director and member of the committee effective 4 December 2015. It was decided not to fill the vacancy. Subsequent to year-end, Lindi Shortt resigned as a member of the committee and Spencer Chen was appointed as member, representing Rectron Proprietary Limited effective 25 August 2016.

The Financial Director, executive members 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.

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

Member	26 Aug 2015	13 Nov 2015	18 Feb 2016	17 May 2016
Mdu Gama (Chairman)	✓	✓	✓	✓
Hein Engelbrecht	✓	✓	✓	✓
Lindi Shortt	✓	✓	✓	✓
Len Konar	✓	✓	n/a	n/a

✓ Attended
n/a Has resigned or not yet appointed

This report, which describes how the committee has discharged its responsibilities in respect of the financial year ended 30 June 2016, will be presented to the shareholders at the annual general meeting to be held on 8 December 2016.

Performance for 2015/2016

During the year under review, the committee met on a quarterly basis. This report describes how the committee discharged its responsibilities in respect of the financial year ended 30 June 2016.

UN Global Compact Principles

In accordance with the Regulations to the Companies Act, the company'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 initially focusing on the following three principles: human rights, anti-corruption and the environment.

The respects in which the Group has espoused these principles and compiled therewith are reported on more fully elsewhere in this Integrated Annual Report.

The precautionary approach to environmental challenges required by principles 7 and 8 is dealt with under the environmental impact section of the Integrated Annual Report and our initiatives relative to the development and diffusion of environmentally friendly technologies are also reported in this Integrated Annual 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.

The company's Fraud Prevention Policy was approved, with 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, as well as to the development and advancement of local talent in the other countries in which the Group operates. The five-year employment equity plan has been submitted to the Department of Labour and the targets are in line with the current economically active population in South Africa.

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

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 and our corporate social investment 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, biodiversity, water, economic factors including outgrower development and agricultural productivity, 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
- increased focus on water usage by adapting a water footprint methodology
- a culture of continuous improvement, an initiative to be embedded across the Group.

Social and Ethics Committee report (continued)

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

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. Equal employment opportunities are offered to all employees without discrimination.

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.

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 2 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

31 August 2016

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. Len Konar resigned as Chairman of the Board and member of the committee on 4 December 2015. Vukile Mehana was appointed as a member of the committee on 23 June 2016.

The Chief Executive Officer, Financial Director, Managing Director 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 Chairman of the Board is not eligible for appointment as Chairman of the committee, but will preside as Chairman when the committee fulfils its oversight responsibilities on nomination matters and Board/director interactions.

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

Member	11 Aug 2015	23 Jun 2016
Ralph Patmore (Chairman)	✓	✓
Len Konar	✓	n/a
Mdu Gama	✓	✓
Vukile Mehana	n/a	✓

✓ *Attended*
n/a Has resigned or not yet appointed

This report, which describes how the committee has discharged its responsibilities in respect of the financial year ended 30 June 2016, will be presented to the shareholders at the annual general meeting to be held on 8 December 2016.

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 50th 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.

Remuneration and Nominations Committee report (continued)

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 2017, the weighting for short-term incentives would be as follows:
- 60% profit before tax
- 30% working capital management
- 10% discretionary, based on various defined components.

These components will be scored as follows:
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. The 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.

No short-term incentive will be paid by either Mustek, Rectron or Group if the return on equity achieved for the year ending 30 June 2017 is less than 15%.

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 are 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.

Employee participation
The Group will continue to have its operating decisions made at the appropriate levels of its diverse business. Participative management lies at the heart of this strategy, which relies on the building of employee partnerships at every level to foster mutual trust and to encourage people to always think about how they can do things better. The Group strives to liberate the initiative and energies of its people, because they are the ones who make the difference to the performance of the Group.

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

Executive directors
The current employment agreements of executive directors outline the components of their remuneration. At present, remuneration is divided into two components: a fixed component and a variable component comprising an annual performance bonus and long-term incentives in the form of the current Mustek Share Appreciation Rights Scheme, ensuring that a portion of their package is linked to the achievement of improved business performance.

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 on 1 July each year. The annual fees payable to non-executive directors for the period commencing on 1 July 2016 will be recommended to shareholders at the annual general meeting of members to be held on 8 December 2016. Please refer to page 182 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 the King Code. 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, 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

31 August 2016

Corporate governance report (continued)

A diverse and effective leadership team.

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

David Kan

Chief Executive Officer

David Kan, aged 57, 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) degree, with a major in mechanical engineering.

Hein Engelbrecht

Managing Director

Hein Engelbrecht, aged 47, holds a BCom (Hons) degree, 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 41, 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 63, 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 degree 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 D Phil from the University of Johannesburg.

Ralph Patmore

Independent non-executive director

Ralph Patmore, aged 64, was appointed to the Board on 16 October 2009. He holds a BCom degree 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

Independent non-executive director

Mdu Gama, aged 47, was appointed as a director of Mustek in 2002. He holds an MBA degree, a PhD (Finance) degree 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 43, 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.

Basis of preparation and presentation

This Integrated Annual Report builds on progress, insights and stakeholder feedback received during the year and seeks to provide a detailed overview of the Group's financial and non-financial performance and how it created value for the period 1 July 2015 to 30 June 2016. The company's previous Integrated Annual Report (2015) included sustainable development disclosures which are comparable and consistent with specific indicator disclosures included here.

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.

This report also accords with the parameters of the Companies Act, 71 of 2008 as amended, the JSE Listings Requirements and where possible, the recommendations of the King Report on Governance for South Africa 2009 (King III).

The Group's annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

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 on 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 2016 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 2015 to 30 June 2016. Details of investments in subsidiary and associate companies appear in notes 11 and 12 of the annual financial statements.

The report's commentary focuses on the significant activities and operations of the Group in South Africa, being the trading division of Mustek Limited (Mustek) and a subsidiary company, Rectron Holdings Limited.

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

The comparative figures for the Group have been re-presented due to the application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Assurance G4-33

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 company's annual financial statements were independently audited and assured 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 King III.

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 28 and 29, CEO's review pages 30 to 34
ORGANISATIONAL PROFILE	
G4-3	Outside front cover, corporate profile page 4
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 to 14
G4-7	Corporate profile page 4
G4-8	Mustek's core operations and geographical representation pages 12 to 24
G4-9	Our workforce pages 45 to 49
	Mustek's core operations and geographical representation page 12
	Six-year financial review page 6
	Manufactured capital pages 41 to 43
G4-10	Human capital pages 44 to 51
G4-11	Our workforce page 45
G4-12	Our supply chain pages 43
G4-13	CEO's review pages 30 to 34
G4-14	Mustek's precautionary approach page 57
G4-15	Welcome page 1
	Transformation and maintaining our social licence to operate page 27
	UN Global Compact Principles page 85
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES	
G4-17	Financials and notes pages 106 to 171
G4-18	Basis for preparation and presentation page 92
G4-19	Mustek's material matters page 26
G4-20	Mustek's material matters page 26
G4-21	Mustek's material matters page 26
G4-22	Restatements or changes from the prior period page 92
G4-23	Scope and boundaries page 92
STAKEHOLDER ENGAGEMENT	
G4-24	Our stakeholders pages 53 and 54
G4-25	Our stakeholders pages 53 and 54
G4-26	Stakeholder engagement pages 53
G4-27	Stakeholder issues pages 53
REPORT PROFILE	
G4-28	Welcome page 1
G4-29	Welcome page 1
G4-30	Welcome page 1
G4-31	Feedback on report page 1
G4-32	GRI content index page 93
G4-33	Assurance page 92
GOVERNANCE	
G4-34	Corporate governance report pages 78 to 92
ETHICS AND INTEGRITY	
G4-52	Remuneration philosophy page 87
G4-56	Ethical leadership and corporate citizenship page 80

SPECIFIC STANDARD DISCLOSURES

Disclosure: Section and page number	
ECONOMIC	
Material aspect: Economic performance	
G4-DMA	Financial capital pages 37 to 40
G4-EC1	Financial capital pages 37 to 40
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 54
G4-EC8	Material matter – maintaining key relationships (SMEs) page 54
Material aspect: Procurement practices	
G4-DMA	Material matter – transformation and maintaining our social licence to operate pages 53 and 54
G4-EC9	Material matter – transformation and maintaining our social licence to operate pages 53 and 54
ENVIRONMENTAL	
Material aspect: Materials	
G4-DMA	Natural capital pages 56 to 62
Material aspect: Energy	
G4-DMA	Material matter – energy consumption and GHG emissions page 58
G4-EN3	Mustek energy consumed (GJ) page 60
G4-EN5	Natural capital page 60
G4-EN6	Natural capital page 61
Material aspect: Emissions	
G4-DMA	Material matter – energy consumption and GHG emissions page 58
G4-EN15	Natural capital pages 58 and 59
G4-EN16	Natural capital pages 58 and 59
G4-EN17	Natural capital pages 58 and 59
G4-EN19	Natural capital pages 58 and 59
Material aspect: Effluents and waste	
G4-DMA	Material matter – waste – abatement and disposal pages 57 and 58
G4-EN23	Material matter – waste – abatement and disposal pages 57 and 58
G4-EN27	Mustek's precautionary approach page 57
G4-EN30	Environmental key performance GRI indicators page 57
Material aspect: Compliance	
G4-DMA	Our management approach page 57
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 57

GRI content index (continued)

SOCIAL

Disclosure: Section and page number	
Sub-category: Labour practices and decent work	
Material aspect: Employment	
G4-DMA	Mustek's human capital philosophy page 50
G4-LA1	Human capital performance page 51
G4-LA2	Mustek's human capital philosophy page 50
Material aspect: Labour/management relations	
G4-DMA	Mustek's human capital philosophy page 50
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 51
G4-LA5	100%
G4-LA6	Health and safety statistics page 56
Material aspect: Training and education	
G4-DMA	Material matter – attract, develop and retain adequately skilled employees page 50
G4-LA9	Average hours of training page 51
G4-LA10	Material matter – attract, develop and retain adequately skilled employees page 50
G4-LA11	Career development – our response page 51
G4-LA14	Our supply chain page 43
Material aspect: Diversity and equal opportunity	
G4-DMA	Mustek's human capital philosophy page 50
G4-LA12	Human capital pages 44 to 51, committee members page 79
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 50
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 58 to 61
Material aspect: Compliance	
G4-DMA	Material matter – transformation and maintaining our social licence to operate pages 52 to 55
G4-SO4	Performance page 51
G4-SO5	Performance page 51
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 57
G4-PR3	Environmental key performance GRI indicators page 57
G4-PR4	Environmental key performance GRI indicators page 57
G4-PR5	Customer care surveys page 55
G4-PR8	Protection of customer data page 55

Glossary

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.

Office 365 A group of Microsoft software plus services subscriptions that provide productivity software and related services to subscribers.

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.

Glossary of terms (continued)

Ratings downgrade A negative change in the rating of a security. This situation occurs when analysts feel that the future prospects for the security have weakened.

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.

Skills audit A process for measuring and recording the skills of an individual or group

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

ABET	Adult basic education and training
B-BBEE	Broad-based black economic empowerment
BEE	Black economic empowerment
BMS	Building management system
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
CSIR	Council for Science and Industrial Research
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
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
POS	Point of sale
PSIRA	The Private Security Industry Regulatory Authority
PV	Photovoltaic
QMS	Quality management system
R&D	Research and development
SAAS	Software as a service
SEU	Significant energy use
SHEQ	Safety, health, environmental and quality
SMB	Small and medium-sized business
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

Directors' responsibility for financial reporting

for the year ended 30 June 2016

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The consolidated and separate financial statements are based on appropriate accounting policies supported by reasonable and prudent judgements, with estimates that have been consistently applied and have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. The Group's independent external auditors, Deloitte & Touche, have audited the consolidated and separate financial statements and their unmodified report appears on page 100.

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 177 were approved by the Board of directors on 31 August 2016 and are signed on its behalf by:

Rev Dr VC Mehana
Chairman

DC Kan
Chief Executive Officer

31 August 2016

Certification by Company Secretary

for the year ended 30 June 2016

In terms of section 88(2)(e) of the Companies Act (Act 71 of 2008), as amended (the Act), I certify that for the year ended 30 June 2016, 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

31 August 2016

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

Independent auditors' report

for the year ended 30 June 2016

TO THE SHAREHOLDERS OF MUSTEK LIMITED

We have audited the consolidated and separate financial statements of Mustek Limited, set out on pages 106 to 177, which comprise the statements of financial position as at 30 June 2016, and the statements of comprehensive income, the statements of changes in equity, the cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory statements of information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated and separate financial statements presents fairly, in all material respects, the consolidated and separate financial position of Mustek Limited as at 30 June 2016, 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 and the requirements of the Companies Act of South Africa.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2016, we have read the directors' report, Audit and Risk Committee report and certification by Company Secretary report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the Independent Regulatory Board for Auditors (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 19 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per Martin Bierman
Partner

31 August 2016

The Audit and Risk Committee operates under a formal mandate that has been approved by the Board and has conducted its affairs in compliance and discharged its responsibilities as stipulated in the committee terms of reference. The Audit and Risk Committee terms of reference are available on request.

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 committee consists of three non-executive directors, all of whom are independent. The members of the committee are Ralph Patmore (Chairman), Mdu Gama and Lindani Dhlamini. Lindani Dhlamini was appointed as director and member of the committee on 4 December 2015, following the resignation of Tembisa Dingaan effective 12 October 2015. The committee's composition is in line with the requirements of the Companies Act, 2008, as amended (the Companies Act), having three independent non-executive directors. The Chief Executive Officer, Managing Director, Financial Director, the head of internal audit, other assurance providers and the external auditors attend all committee meetings.

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

Member	26 Aug 2015	13 Nov 2015	18 Feb 2016	17 May 2016
Ralph Patmore (Chairman)	✓	✓	✓	✓
Thembisa Dingaan	×	✓	n/a	n/a
Mdu Gama	✓	✓	✓	✓
Lindani Dhlamini	n/a	n/a	✓	✓

✓ *Attended.*
× *Apologies.*
n/a Has resigned or not yet appointed.

ROLES AND RESPONSIBILITIES

The committee's roles and responsibilities include its statutory duties as defined in the Companies Act and the responsibilities assigned to it by the Board. The committee reports to both the Board and shareholders.

EXTERNAL AUDITOR

During the year under review, the committee undertook the following activities:

- nominated Deloitte & Touche as the external auditor, with Mr Martin Bierman as the designated auditor to the shareholders for appointment as auditor for the financial year ended 30 June 2016 and ensured that the appointment complied with all legal and regulatory requirements for the appointment of an auditor
- confirmed that the auditor and the designated auditor are accredited by the JSE
- approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor
- reviewed the effectiveness of the audit and evaluated the effectiveness of the auditor
- obtained a statement from the auditor confirming that its independence was not impaired
- determined the nature and extent of all non-audit services provided by the external auditor and approved all non-audit services undertaken
- obtained assurances from the external auditor that adequate accounting records were being maintained
- confirmed that no reportable irregularities had been identified nor reported by the auditors under the Auditing Profession Act
- nominated the external auditor and the designated independent auditor for each of the subsidiary companies for the financial year ended 30 June 2016.

INTERNAL CONTROL AND INTERNAL AUDIT

During the year, the committee:

- reviewed and approved the annual internal audit plan and evaluated the independence, effectiveness and performance of the internal auditor
- considered the reports of the internal and external auditors of the Group's systems of internal control, including financial controls, business risk management and maintenance of effective internal control systems
- reviewed assurance that proper accounting records were maintained and that the systems safeguard the Group's assets against unauthorised use or disposal
- reviewed issues raised by internal audit and the adequacy of corrective action taken by management in response
- assessed the adequacy of the performance of the internal audit function and confirmed it satisfactory.

FINANCIAL STATEMENTS

During the year, the committee:

- confirmed, based on management's review, that the interim and annual financial statements were drawn up on the going-concern basis
- examined the published interim and annual financial statements and other financial information, prior to the Board's approval
- considered the accounting treatment of significant or unusual transactions and accounting judgements by management
- considered the appropriateness of accounting policies and any changes made
- reviewed the audit report on the annual financial statements
- reviewed the representation letter relating to the annual financial statements signed by management
- considered any weaknesses identified as well as any legal and tax matters that could materially affect the financial statements
- met separately with management, the external auditor and internal auditor
- concluded that the annual financial statements fairly present the financial position of the Group and company at the end of the financial year and the results of operations and cash flow for the financial year.

Audit and Risk Committee report (continued)

Having reviewed the audited annual financial statements of the Group, which are electronically available on the Group's website at www.mustek.com, particularly to ensure that disclosure was adequate and that fair presentation had been achieved, the committee has recommended the approval of the annual financial statements to the Board.

FINANCIAL DIRECTOR AND FINANCE FUNCTION

As required by the JSE Listings Requirements 3.84(h), the committee has:

- considered the experience and expertise of the Financial Director, Neels Coetzee, CA(SA), and concluded that these were satisfactory
- considered the expertise, resources and experience of the finance function and concluded that these were appropriate.

LEGAL, REGULATORY AND CORPORATE GOVERNANCE REQUIREMENTS

During the year under review, the committee:

- reviewed with management all legal matters that could have a material impact on the Group
- monitored complaints received via the Group's ethics line or otherwise
- considered reports provided by management, internal audit and the external auditor regarding compliance with legal and regulatory requirements
- will consider the JSE's letter dated 15 February 2016 in respect of the report on its proactive monitoring process at its next meeting due to be held on or about 15 November 2016.

RISK MANAGEMENT AND INFORMATION TECHNOLOGY

During the year under review, the committee:

- reviewed and approved the Group's risk management plan, defining Mustek's risk management methodology
- reviewed quarterly risk reports containing pertinent risks and opportunities aligned to the Group's vision and mission, emerging events and reportable incidents
- received the Group's policies on the risk assessment and risk management, including fraud risks and information technology and found them to be sound
- received a limited assurance report of management's assessment of the effectiveness of the Group's system of internal control over financial reporting from the external auditors, Deloitte & Touche.

SUSTAINABILITY

During the year under review, the committee:

- reviewed the sustainability report included in the Group's Integrated Annual Report and satisfied itself that it is consistent with the annual financial statements
- considered the desirability of obtaining external assurance regarding the sustainability review and recommended to the Board that it would serve no useful purpose at this time in view of the developing nature of the Group's sustainability information systems.

SELF-EVALUATION

The Company Secretary conducted a self-evaluation exercise 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.

SUBSEQUENT EVENTS

There have been no material changes in the affairs or financial position of the company and its subsidiaries since the end of the period under review.

ELECTION OF COMMITTEE AT ANNUAL GENERAL MEETING

Pursuant to the provisions of section 94(2) of the Companies Act, which requires 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 8 December 2016 that Lindani Dhlamini, Ralph Patmore and Mdu Gama be reappointed as members of the Audit and Risk Committee until the next annual general meeting in 2017.

RECOMMENDATION OF THE ANNUAL FINANCIAL STATEMENTS FOR APPROVAL BY THE BOARD

The annual financial statements were approved by the Board on 31 August 2016 and the committee recommended the Integrated Annual Report for approval by the Board.

Ralph Patmore
Audit and Risk Committee Chairman during reporting period

31 August 2016

Report of the directors

for the year ended 30 June 2016

INTRODUCTION

The directors have pleasure in presenting their report on the activities of the company and the Group for the year ended 30 June 2016.

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 R113.5 million (2015: R189.0 million).

SHARE CAPITAL

The authorised and issued share capital of the company is detailed in note 18 to the annual financial statements.

Mustek acquired 5 623 471 (2015: 4 999 289) ordinary shares of its issued share capital on the open market for a purchase consideration in aggregate of R42 822 936 (2015: R42 490 958) (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 12 December 2014 and 11 December 2015 and comprises 5.60% of the total issued ordinary shares of Mustek at the date of the 2015 AGM.

The general repurchase commenced on 4 September 2015 and continued on a day-to-day basis as market conditions allowed and in accordance with the JSE Limited (JSE) Listings Requirements until 7 June 2016. 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 920 cents and 560 cents per share respectively (average price of 762 cents per share) and all shares repurchased have been cancelled and delisted.

DIRECTORS

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

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

[1] *Independent.*

[2] *Audit and Risk Committee member.*

[3] *Remuneration and Nomination Committee member.*

[4] *Social and Ethics Committee member.*

[5] *These directors are retiring in terms of the company's memorandum of incorporation. In terms of the statutes of the company, VC Mehana, LL Dhlamini and ME Gama are available for re-election at the next AGM. Biographical details of all the directors are set out on pages 90 and 91.*

COMPANY SECRETARY

S van Schalkwyk

DIVIDENDS

A final dividend of 35 cents per ordinary share was declared on 25 September 2015 and paid on 5 October 2015. During the previous financial year, a final dividend of 28 cents per ordinary share was declared on 26 September 2014 and paid on 6 October 2014.

Report of the directors (continued)

for the year ended 30 June 2016

SHAREHOLDERS' SPREAD

2016

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

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**

2015

At 30 June 2015, 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	19 625 650	18.9
DK Trust	9 032 442	8.7
Old Mutual Albaraka Equity Fund	6 551 680	6.3
	35 209 772	33.9

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	816	71.6	1 038 693	1.0
5 001 – 10 000	97	8.5	770 903	0.8
10 001 – 50 000	110	9.6	2 589 070	2.5
50 001 – 100 000	34	3.0	2 617 600	2.5
100 001 – 1 000 000	58	5.1	19 187 534	18.5
Over 1 000 000	25	2.2	77 419 671	74.7
	1 140	100.0	103 623 471	100.0

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	4	0.3	4 798 349	4.6
Companies controlled by directors	1	0.1	2 460 083	2.4
Trusts with directors as trustees	1	0.1	9 032 442	8.7
Public shareholders	1 134	99.5	87 332 597	84.3
	1 140	100.0	103 623 471	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 notes 10, 11, 12 and 13 to the annual financial statements for more information. The following matters are highlighted with regards 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 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 24 April 2016, the Group acquired land in Bloemfontein which is being developed for a total amount of R8.2 million.

LOANS TO EXECUTIVE MANAGEMENT

During previous financial years, Mustek Limited shares were issued to members of the executive management of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the staff members in terms of the rules of the trust deed. The trust deed provides that the Board of directors determines the interest rate. Interest is currently charged at the South African repo rate plus 1% and the loans have no fixed repayment terms. As at year-end, the balance on these loans was R43.8 million (2015: R43.5 million). The directors are comfortable that these loans are not impaired as sufficient measures are being put 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 11 December 2015, 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 15 cents per ordinary share was declared as follows after the end of the financial year:

Last day of trade *cum* dividend	Tuesday, 27 September 2016
First day to trade *ex* dividend	Wednesday, 28 September 2016
Record date	Friday, 30 September 2016
Payment date	Monday, 3 October 2016

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 2016

	Notes	2016 R000	2015 R000 (Re-presented)
Continuing operations			
Revenue	2	**5 286 384**	5 042 119
Cost of sales		**(4 605 634)**	(4 376 692)
Gross profit		**680 750**	665 427
Other income		**3 465**	35 461
Foreign currency losses		**(11 784)**	(1 680)
Distribution, administrative and other operating expenses		**(483 603)**	(462 351)
Profit from operations	3	**188 828**	236 857
Investment revenues	4	**19 278**	17 319
Finance costs	5	**(109 950)**	(76 014)
Share of profit of associates	12	**15 352**	10 813
Profit before tax		**113 508**	188 975
Income tax expense	7	**(28 753)**	(50 155)
Profit for the year from continuing operations		**84 755**	138 820
Discontinued operations			
Loss for the year from discontinued operations	6	**(5 811)**	(4 713)
Profit for the year		**78 944**	134 107
Other comprehensive income			
Exchange differences on translation of foreign operations (not reclassified to profit and loss)		**4 262**	540
Other comprehensive income for the year, net of tax		**4 262**	540
Total comprehensive income for the year		**83 206**	134 647
Profit attributable to:			
Equity holders of the parent		**74 630**	132 720
Non-controlling interest		**4 314**	1 387
		78 944	134 107
Total comprehensive income attributable to:			
Equity holders of the parent		**78 590**	133 840
Non-controlling interest		**4 616**	807
		83 206	134 647
Earnings per share (cents)	8		
From continuing and discontinued operations			
Basic earnings per ordinary share		**74.13**	124.94
Diluted basic earnings per ordinary share		**74.13**	124.94
From continuing operations			
Basic earnings per ordinary share		**79.59**	127.49
Diluted basic earnings per ordinary share		**79.59**	127.49
From discontinued operations			
Basic loss per ordinary share		**(5.46)**	(2.55)
Diluted basic loss per ordinary share		**(5.46)**	(2.55)

Consolidated statement of financial position

as at 30 June 2016

	Notes	2016 R000	2015 R000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**152 458**	174 709
Intangible assets	10	**67 059**	62 843
Investments in associates	12	**84 848**	61 478
Other investments and loans	13	**67 809**	77 653
Deferred tax assets	14	**17 312**	29 593
		389 486	406 276
Current assets			
Inventories	15	**1 111 929**	1 129 663
Inventories in transit	15	**95 753**	206 035
Trade and other receivables	16	**1 074 823**	1 246 139
Foreign currency assets	21	**3 059**	8 179
Tax assets		**14 219**	2 059
Bank balances and cash	17	**383 613**	459 832
Short-term loans	31	**12 676**	—
		2 696 072	3 051 907
TOTAL ASSETS		**3 085 558**	3 458 183
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	18	**50 531**	93 354
Retained earnings		**927 669**	894 636
Non-distributable reserve		**809**	809
Foreign currency translation reserve		**8 909**	4 949
Equity attributable to equity holders of the parent		**987 918**	993 748
Non-controlling interest	33	**(581)**	19 268
Total equity		**987 337**	1 013 016
Non-current liabilities			
Long-term borrowings	19	**499**	23 127
Deferred tax liability	14	**4 504**	4 576
Deferred income	29	**12 632**	15 627
		17 635	43 330
Current liabilities			
Short-term borrowings	19	**555**	2 687
Trade and other payables	20	**1 670 595**	2 011 195
Foreign currency liabilities	21	**10 031**	1 373
Deferred income	29	**19 284**	22 238
Tax liabilities		**2 408**	2 595
Bank overdrafts	19	**377 713**	361 749
		2 080 586	2 401 837
Total liabilities		**2 098 221**	2 445 167
TOTAL EQUITY AND LIABILITIES		**3 085 558**	3 458 183

Consolidated statement of changes in equity

for the year ended 30 June 2016

	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 2014	119 627	791 787	809	3 829	916 052	18 461	934 513
Net profit for the year	—	132 720	—	—	132 720	1 387	134 107
Other comprehensive income	—	—	—	1 120	1 120	(580)	540
Dividends paid	—	(29 871)	—	—	(29 871)	—	(29 871)
Buy back of shares (refer note 18)	(42 491)	—	—	—	(42 491)	—	(42 491)
Shares issued (refer note 18)	16 218	—	—	—	16 218	—	16 218
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 18)	**(42 823)**	**—**	**—**	**—**	**(42 823)**	**—**	**(42 823)**
Acquisition of additional shareholding in a controlled entity (refer note 32)	**—**	**—**	**—**	**—**	**—**	**(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**

** 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.*

	2016 R000	2015 R000
Dividend per share (cents)		
Dividend per ordinary share — paid	**35.00**	28.00
Dividend per ordinary share — proposed	**15.00**	35.00

Consolidated statement of cash flows

for the year ended 30 June 2016

	Notes	2016 R000	2015 R000
OPERATING ACTIVITIES			
Cash receipts from customers		**5 563 726**	4 902 999
Cash paid to suppliers and employees		**(5 388 679)**	(4 528 976)
Net cash from operations	22	**175 047**	374 023
Investment revenues received	4	**19 281**	17 364
Finance costs paid	5	**(110 793)**	(77 416)
Dividends paid		**(35 605)**	(29 871)
Income taxes paid		**(34 697)**	(29 329)
Net cash from operating activities		**13 233**	254 771
INVESTING ACTIVITIES			
Additions to property, plant and equipment	9	**(24 858)**	(31 340)
Proceeds from sale of property, plant and equipment		**271**	600
Proceeds on disposal of subsidiary, net of cash disposed	31	**(1 263)**	924
Acquisition of subsidiaries, net of cash acquired	32	**(19 842)**	(6 759)
Increase in investments in and loans to associates	12	**(8 018)**	(10 151)
Decrease in investments and loans	13	**9 844**	—
Additions to intangible asset	10	**(13 083)**	—
Net cash used in investing activities		**(56 949)**	(46 726)
FINANCING ACTIVITIES			
Issue of ordinary shares	18	**—**	16 218
Buy back of ordinary shares	18	**(42 823)**	(42 491)
Increase (decrease) in long-term borrowings	19	**9 164**	(10 759)
(Decrease) increase in short-term borrowings	19	**(14 808)**	1 213
Increase in bank overdrafts	19	**15 964**	84 443
Net cash (used in) from financing activities		**(32 503)**	48 624
Net (decrease) increase in cash and cash equivalents		**(76 219)**	256 669
Cash and cash equivalents at the beginning of the year		**459 832**	203 163
Cash and cash equivalents at the end of the year	17	**383 613**	459 832

Company statement of comprehensive income

for the year ended 30 June 2016

	Notes	2016 R000	2015 R000
Revenue	2	**3 202 563**	3 199 596
Cost of sales		**(2 781 596)**	(2 753 399)
Gross profit		**420 967**	446 197
Other income		**3 314**	25 224
Foreign currency losses		**(21 664)**	1 344
Distribution, administrative and other operating expenses		**(305 094)**	(304 607)
Profit from operations	3	**97 523**	168 158
Investment revenues	4	**24 929**	65 686
Finance costs	5	**(66 066)**	(43 886)
Profit before tax		**56 386**	189 958
Income tax expense	7	**(13 100)**	(37 499)
Profit for the year		**43 286**	152 459
Other comprehensive income, net of tax		**—**	—
Total comprehensive income for the year		**43 286**	152 459

Company statement of financial position

as at 30 June 2016

	Notes	2016 R000	2015 R000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**36 771**	34 194
Intangible assets	10	**13 721**	11 848
Investments in subsidiaries	11	**290 315**	263 195
Investments in associates	12	**22 123**	14 105
Other investments and loans	13	**58 068**	67 912
Deferred tax asset	14	**9 707**	18 326
		430 705	409 580
Current assets			
Inventories	15	**703 740**	738 214
Inventories in transit	15	**51 080**	68 745
Trade and other receivables	16	**666 557**	788 037
Foreign currency assets	21	**1 922**	5 870
Tax asset		**13 832**	1 360
Bank balances and cash	17	**207 084**	328 006
		1 644 215	1 930 232
TOTAL ASSETS		**2 074 920**	2 339 812
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	18	**50 531**	93 354
Retained earnings		**605 967**	598 286
Total equity		**656 498**	691 640
Non-current liabilities			
Long-term borrowings	19	**1 076**	1 108
Deferred income	29	**12 632**	15 627
		13 708	16 735
Current liabilities			
Short-term borrowings	19	**152**	1 155
Trade and other payables	20	**922 590**	1 151 704
Foreign currency liabilities	21	**2 301**	126
Loans owing to subsidiaries	11	**107 275**	112 683
Deferred income	29	**15 680**	22 238
Bank overdrafts	19	**356 716**	343 531
		1 404 714	1 631 437
Total liabilities		**1 418 422**	1 648 172
TOTAL EQUITY AND LIABILITIES		**2 074 920**	2 339 812

Company statement of changes in equity

for the year ended 30 June 2016

	Ordinary stated capital R000	Retained earnings R000	Total R000
Balance at 30 June 2014	119 627	475 698	595 325
Net profit for the year	—	152 459	152 459
Other comprehensive income	—	—	—
Dividends paid	—	(29 871)	(29 871)
Buy back of shares (refer note 18)	(42 491)	—	(42 491)
Shares issued (refer note 18)	16 218	—	16 218
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 18)	**(42 823)**	**—**	**(42 823)**
Balance at 30 June 2016	**50 531**	**605 967**	**656 498**

Company statement of cash flows

for the year ended 30 June 2016

	Notes	2016 R000	2015 R000
OPERATING ACTIVITIES			
Cash receipts from customers		**3 324 043**	2 852 345
Cash paid to suppliers and employees		**(3 272 612)**	(2 624 535)
Net cash from operations	22	**51 431**	227 810
Interest received	4	**12 905**	8 118
Finance costs paid	5	**(66 066)**	(43 886)
Dividends received	4	**12 024**	57 568
Dividends paid		**(35 605)**	(29 871)
Income taxes paid		**(16 953)**	(19 713)
Net cash (used in) from operating activities		**(42 264)**	200 026
INVESTING ACTIVITIES			
Additions to property, plant and equipment	9	**(15 152)**	(16 979)
Proceeds from sale of property, plant and equipment			601
Acquisition of subsidiaries, net of cash acquired	11	**(10 163)**	–
Increase in loans to subsidiaries	11	**(11 751)**	(15 066)
(Increase) decrease in investments in and loans to associates	12	**(8 018)**	924
Additions to intangible asset	10	**(9 750)**	(9 181)
Decrease (increase) in investments and loans	13	**9 844**	(6 759)
Net cash used in investing activities		**(44 990)**	(46 460)
FINANCING ACTIVITIES			
Issue of ordinary shares	18	**–**	16 218
Buy back of ordinary shares	18	**(42 823)**	(42 491)
(Decrease) in long-term borrowings	19	**(3 027)**	(8 927)
(Decrease) increase in short-term borrowings	19	**(1 003)**	1 138
Increase in bank overdrafts	19	**13 185**	88 134
Net cash (used in) from financing activities		**(33 668)**	54 072
Net (decrease) increase in cash and cash equivalents		**(120 922)**	207 638
Cash and cash equivalents at the beginning of the year		**328 006**	120 368
Cash and cash equivalents at the end of the year	17	**207 084**	328 006

Accounting policies

for the year ended 30 June 2016

The consolidated and separate annual financial statements have been prepared in accordance with the framework concepts and measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa.

The consolidated and separate annual financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below, 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 2015.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

The following standards and interpretations were effective during the current financial year, but had no material impact on accounting policies, transactions, balances or disclosures:

IFRIC 21 Levies – Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. Applies to annual periods beginning on or after 17 June 2014.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting. Applicable to annual periods beginning on or after 1 January 2014.

IFRS 10 Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) – Applicable to annual periods beginning on or after 1 January 2014.

IFRS 12 Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) – Applicable to annual periods beginning on or after 1 January 2014.

IAS 27 Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) – Applicable to annual periods beginning on or after 1 January 2014.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) – Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. Applicable to annual periods beginning on or after 1 January 2014.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39). Amends – Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. Applicable to annual periods beginning on or after 1 January 2014.

IAS 19 Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) – Amends IAS 19 Employee Benefits to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. Applicable to annual periods beginning on or after 1 July 2014.

IFRS 2 Annual Improvements 2010 – 2012 Cycle – Amends the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. Applicable to annual periods beginning on or after 1 July 2014.

IFRS 3 Annual Improvements 2010 – 2012 Cycle – Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date. Applicable to annual periods beginning on or after 1 July 2014.

IFRS 8 Annual Improvements 2010 – 2012 Cycle – Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly. Applicable to annual periods beginning on or after 1 July 2014.

IFRS 13 Annual Improvements 2010 – 2012 Cycle – Clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only). Applicable to annual periods beginning on or after 1 July 2014.

IAS 16 Annual Improvements 2010 – 2012 Cycle – Clarifies that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount. Applicable to annual periods beginning on or after 1 July 2014.

IAS 38 Annual Improvements 2010 – 2012 Cycle – Clarifies that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount. Applicable to annual periods beginning on or after 1 July 2014.

IAS 24 Annual Improvements 2010 – 2012 Cycle – Clarifies how payments to entities providing management services are to be disclosed. Applicable to annual periods beginning on or after 1 July 2014.

IFRS 1 Annual Improvements 2011 – 2013 Cycle – Clarifies which versions of IFRS can be used on initial adoption (amends basis for conclusions only). Applicable to annual periods beginning on or after 1 July 2014.

IFRS 3 Annual Improvements 2011 – 2013 Cycle – Clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. Applicable to annual periods beginning on or after 1 July 2014.

IFRS 13 Annual Improvements 2011 – 2013 Cycle – Clarifies the scope of the portfolio exception in paragraph 52. Applicable to annual periods beginning on or after 1 July 2014.

IAS 40 Annual Improvements 2011 – 2013 Cycle – Clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. Applicable to annual periods beginning on or after 1 July 2014.

IFRIC 21 Levies – Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. Applies to annual periods beginning on or after 1 January 2014.

IFRS 10 Consolidated Financial Statements – Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC – 12 Consolidation – Special Purpose Entities. Applicable to annual reporting periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements – Replaces IAS 31 Interests in Joint Ventures. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Applicable to annual reporting periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities – Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. Applicable to annual reporting periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (2011) – Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements. Applicable to annual reporting periods beginning on or after 1 January 2013.

Accounting policies (continued)

for the year ended 30 June 2016

IAS 28 Investments in Associates and Joint Ventures (2011) – This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Applicable to annual reporting periods beginning on or after 1 January 2013.

IFRS 10 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Provides additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Applicable to annual periods beginning on or after 1 January 2013.

IFRS 11 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Provides additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Applicable to annual periods beginning on or after 1 January 2013.

IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Provides additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Applicable to annual periods beginning on or after 1 January 2013.

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

IFRS 9 Financial Instruments (2009) – Introduces new requirements for classifying and measuring financial assets. No effective date is stated.

IFRS 9 Financial Instruments (2010) – A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. No effective date is stated.

IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (2013) – A revised version of IFRS 9 which introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. No effective date is stated.

IFRS 9 Financial Instruments (2014) – A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. Effective for annual periods beginning on or after 1 January 2018.

IFRS 14 Regulatory Deferral Accounts – Permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for “regulatory deferral account balances” in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Applicable to an entity’s first annual IFRS financial statements for a period beginning on or after 1 January 2016.

IFRS 15 Revenue from Contracts with Customers – IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. Applicable to an entity’s first annual IFRS financial statements for a period beginning on or after 1 January 2018.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) – Applicable to annual periods beginning on or after 1 January 2016.

IAS 16 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) – Applicable to annual periods beginning on or after 1 January 2016.

IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) – Applicable to annual periods beginning on or after 1 January 2016.

IAS 16 Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) – Applicable to annual periods beginning on or after 1 January 2016.

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27) – Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements. Applicable to annual periods beginning on or after 1 January 2016.

IFRS 10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) – Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture. Applicable on a prospective basis to a sale or contribution of assets occurring in annual periods beginning on or after 1 January 2016.

IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) – Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture. Applicable on a prospective basis to a sale or contribution of assets occurring in annual periods beginning on or after 1 January 2016.

IFRS 5 Annual Improvements 2012 – 2014 Cycle – Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held-for-sale to held-for-distribution or vice versa and cases in which held-for-distribution accounting is discontinued. Applicable to annual periods beginning on or after 1 July 2016.

IFRS 7 Annual Improvements 2012 – 2014 Cycle – Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements. Applicable to annual periods beginning on or after 1 July 2016.

IAS 9 Annual Improvements 2012 – 2014 Cycle – Clarifies that the high-quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. Applicable to annual periods beginning on or after 1 July 2016.

IAS 34 Annual Improvements 2012 – 2014 Cycle – Clarifies the meaning of “elsewhere in the interim report” and require a cross-reference. Applicable to annual periods beginning on or after 1 July 2016.

IAS 1 Disclosure Initiative (Amendments to IAS 1) – Amends IAS 1 Presentation of Financial Statements to address perceived impediments to preparers exercising their judgement in presenting their financial reports. Applicable to annual periods beginning on or after 1 July 2016.

IFRS 10 Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) – Amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (2011) to address issues that have arisen in the context of applying the consolidation exception for investment entities. Applicable to annual periods beginning on or after 1 July 2016.

IFRS 12 Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) – Amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (2011) to address issues that have arisen in the context of applying the consolidation exception for investment entities. Applicable to annual periods beginning on or after 1 July 2016.

IAS 28 Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) – Amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (2011) to address issues that have arisen in the context of applying the consolidation exception for investment entities. Applicable to annual periods beginning on or after 1 July 2016.

The directors anticipate that all of the above standards will be adopted in the Group and company’s financial statements for the periods commencing after 1 July 2016 and that the adoption of those standards will have no material impact on the financial statements of the Group and company in the period of initial application.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the company and entities (including special purpose entities) controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling shareholder’s share of changes in equity since the date of the combination. Losses applicable

Accounting policies (continued)

for the year ended 30 June 2016

to the non-controlling shareholder in excess of the non-controlling shareholder's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling shareholder has a binding obligation and is able to make an additional investment to cover the losses.

BUSINESS COMBINATIONS

The acquisition of subsidiaries and businesses is accounted for using the acquisition method. The consideration of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 Non-Current Assets Held-for-Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

GOODWILL

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Gains on bargain purchases arising on acquisition are recognised directly as capital items in profit and loss.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates" above.

NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. These assets may be a component of an entity, a disposal group or an individual non-current asset. Upon initial classification as held-for-sale, non-current assets and disposal groups are recognised at the lower of their carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operation or a subsidiary acquired exclusively with a view to resell. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales-related taxes. Consolidated revenue excludes sales to Group companies.

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
- 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.

Revenue for services

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
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Deferred revenue represents amounts received for services not yet rendered.

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.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

FOREIGN CURRENCIES

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in currency units, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

Accounting policies (continued)

for the year ended 30 June 2016

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings
- exchange differences on transactions entered into in order to hedge certain foreign currency risks
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in currency units using exchange rates prevailing on the statement of financial position date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

RETIREMENT BENEFIT COSTS

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.

SHARE-BASED PAYMENTS

The Group issues equity-settled share options to certain employees. Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

Fair value is measured using a binomial tree that adheres to all the Black-Scholes option pricing principles. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

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.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income or equity, in which case the tax is also recognised directly to other comprehensive income or equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

PROPERTY, PLANT AND EQUIPMENT

All items of plant and equipment are stated at cost less accumulated depreciation, except for land, which is not depreciated.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at each year-end, with the effect of any changes in the estimates accounted for prospectively. Capitalised leasehold improvements are depreciated over the remaining term of the lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

INTANGIBLE ASSETS

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.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- the intention to complete the intangible asset and use or sell it
- the ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Accounting policies (continued)

for the year ended 30 June 2016

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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.

IMPAIRMENT OF INTANGIBLE AND TANGIBLE ASSETS, EXCLUDING GOODWILL

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

INVENTORIES

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.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent reporting dates, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

FINANCIAL ASSETS

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held-for-trading or it is designated as at FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held-for-trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 21.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

AFS financial assets

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 21. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Accounting policies (continued)

for the year ended 30 June 2016

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the statement of financial position date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could, based on the judgement of management, include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of approximately 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities

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.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held-for-trading or it is designated as at FVTPL.

A financial liability is classified as held-for-trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held-for-trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 21.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Accounting policies (continued)

for the year ended 30 June 2016

Interest rate swaps

The carrying amounts of interest rate swaps, which comprise net interest receivables and payables accrued, are included in trade receivables and trade payables respectively. Payments and receipts under interest rate swap contracts are recognised in the statement of comprehensive income on a basis consistent with corresponding fluctuations in the interest payments on floating rate financial liabilities.

Redeemable preference shares

Preference shares, which are redeemable on a specific date or at the option of the shareholder, are presented in long-term liabilities. The dividends received on preference shares are recognised as investment income. The dividends paid on preference shares are recognised as finance costs.

SEGMENTS

All segment revenue and expenses are directly attributable to the segments. Segment assets include all operating assets used by a segment and segment liabilities include all operating liabilities. These assets and liabilities are all directly attributable to the segments. Segment revenue, expenses and results include transfers between business segments (primary segments) and between geographical segments (secondary segments). Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. These transfers are eliminated on consolidation.

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.

- measurement of investment in associates (refer note 12).
- revenue recognition (refer notes 2 and 29).
- loans to executive management (refer note 13).
- recoverability of deferred tax assets (refer note 14).
- 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 note 9)
- impairment of goodwill (refer note 10)
- valuation of investments (refer notes 13 and 21)
- inventory provisions (refer note 15)
- recoverability of accounts receivable (refer note 16)
- fair value of derivatives and other financial instruments (refer note 21).

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 12 and 13 for more information about their activities.

2016	Mustek R000	Rectron R000	Group R000	Elimination 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 12)	—	—	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 (refer note 6)	—	(5 811)	—	—	(5 811)
Profit for the year	37 947	31 403	9 594	—	78 944

2015 (Re-presented)	Mustek R000	Rectron R000	Group R000	Elimination R000	Total R000
REVENUE					
External sales	3 191 582	1 850 537	—	—	5 042 119
Inter-segment sales	55 336	281 839	—	(337 175)	—
Total revenue from continuing operations	3 246 918	2 132 376	—	(337 175)	5 042 119
SEGMENT RESULTS					
EBITDA*	181 057	71 220	6 726	—	259 003
Depreciation and amortisation	(17 608)	(4 538)	—	—	(22 146)
Profit from operations	163 449	66 682	6 726	—	236 857
Investment revenues	9 102	8 629	6 160	(6 572)	17 319
Finance costs	(45 383)	(30 992)	(6 211)	6 572	(76 014)
Share of associates' net profit (refer note 12)	—	—	10 813	—	10 813
Profit before tax	127 168	44 319	17 488	—	188 975
Income tax expense	(33 895)	(12 652)	(3 608)	—	(50 155)
Profit for the year from continuing operations	93 273	31 667	13 880	—	138 820
Discontinued operations					
Loss for the year from discontinued operations (refer note 6)	—	(4 713)	—	—	(4 713)
Profit for the year	93 273	26 954	13 880	—	134 107

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

1. SEGMENTAL REPORTING (continued)

Business segments (continued)

2016	Mustek R000	Rectron R000	Group R000	Elimination 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

2015	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
OTHER INFORMATION					
Capital expenditure	35 278	6 214	—	—	41 492
ASSETS					
Segment assets	2 167 473	1 102 220	125 671	(718)	3 394 646
Investment in associates	—	—	61 478	—	61 478
Current tax assets	1 861	198	—	—	2 059
Consolidated total assets	2 169 334	1 102 418	187 149	(718)	3 458 183
LIABILITIES					
Segment liabilities	1 602 795	806 986	—	32 791	2 442 572
Current tax liabilities	486	2 109	—	—	2 595
Consolidated total liabilities	1 603 281	809 095	—	32 791	2 445 167
Number of employees at year-end	652	371	—	—	1 023

1. SEGMENTAL REPORTING (continued)

Geographical segments

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**

2015 (Re-presented)	Mecer East Africa R000	Mecer Technology R000	Rectron Australia R000	South Africa R000	Total R000
Revenue	49 481	138	268 696	5 259 770	5 578 085
(Loss) profit for the year	(928)	3 831	(4 000)	135 204	134 107
OTHER INFORMATION					
Capital expenditure	314	—	1 374	39 804	41 492
Segment assets	55 281	120 934	135 021	3 144 888	3 456 124
Current tax assets	500	1	198	1 360	2 059
Consolidated total assets	55 781	120 935	135 219	3 146 248	3 458 183

Refer to note 16 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 Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2016 R000	2015 R000 (Re-presented)	2016 R000	2015 R000 (Re-presented)	2016 R000	2015 R000	2016 R000	2015 R000
Sales of goods	**5 278 056**	5 029 049	**146 233**	267 983	**5 424 289**	5 297 032	**3 194 235**	3 186 704
Rendering of services	**8 328**	13 070	**—**	—	**8 328**	13 070	**8 328**	12 892
	5 286 384	5 042 119	**146 233**	267 983	**5 432 617**	5 310 102	**3 202 563**	3 199 596

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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

3. PROFIT FROM OPERATIONS

	GROUP Continuing operations		GROUP Discontinued operations		GROUP		COMPANY	
	2016 R000	2015 R000 (Re-presented)	2016 R000	2015 R000 (Re-presented)	2016 R000	2015 R000	2016 R000	2015 R000
Profit from operations has been arrived at after taking the following items into account:								
Auditor's remuneration:								
Audit fees	**4 436**	4 745	**329**	126	**4 765**	4 871	**2 910**	3 300
Fees for other services	**295**	238	**—**	—	**295**	238	**130**	62
Expenses	**—**	—	**—**	—	**—**	—	**—**	—
	4 731	4 983	**329**	126	**5 060**	5 109	**3 040**	3 362
Staff costs	**286 820**	267 918	**7 857**	15 704	**294 677**	283 622	**179 666**	192 347
Refer note 27 for details with regards to directors' emoluments.								
Depreciation of property plant and equipment:								
Land and buildings	**349**	20	**28**	—	**377**	20	**—**	—
Improvements to leased premises	**4 094**	1 966	**—**	—	**4 094**	1 966	**1 739**	2 212
Plant and machinery	**3 426**	2 925	**—**	—	**3 425**	2 925	**1 900**	1 400
Furniture fixtures and office equipment	**2 441**	2 894	**181**	—	**2 622**	2 894	**744**	694
Computer equipment	**8 738**	5 868	**—**	—	**8 738**	5 868	**7 161**	4 774
Motor vehicles	**1 072**	1 131	**5**	—	**1 077**	1 131	**951**	953
	20 120	14 804	**214**	—	**20 333**	14 804	**12 495**	10 033

3. PROFIT FROM OPERATIONS (continued)

	GROUP Continuing operations		GROUP Discontinued operations		GROUP		COMPANY	
	2016 R000	2015 R000 (Re-presented)	**2016 R000**	2015 R000 (Re-presented)	**2016 R000**	2015 R000	**2016 R000**	2015 R000
Amortisation of intangible assets	**8 698**	7 341	**11**	—	**8 709**	7 341	**7 877**	6 811
Net (loss) profit on disposal of property, plant and equipment:								
Plant and machinery	**(179)**	—	**—**	—	**(179)**	—	**—**	—
Furniture, fixtures and office equipment	**5**	(2)	**—**	—	**5**	(2)	**—**	—
Computer equipment	**(52)**	—	**—**	—	**(52)**	—	**—**	—
Computer software	**(44)**	—	**—**	—	**(44)**	—	**—**	—
Motor vehicles	**(80)**	48	**(18)**	—	**(98)**	48	**(80)**	48
	(350)	46	**(18)**	—	**(368)**	46	**(80)**	48
Operating lease expenses:								
Land and buildings	**26 465**	24 917	**—**	965	**26 465**	25 882	**24 453**	23 688
Furniture, fixtures, office and computer equipment	**—**	—	**—**	—	**—**	18	**—**	18
Motor vehicles	**1 831**	1 815	**—**	—	**1 831**	1 815	**—**	—
	28 296	26 732	**—**	965	**28 296**	27 715	**24 453**	23 706
Pension contributions (defined contribution plan)	**10 903**	10 014	**—**	1 042	**10 903**	11 056	**8 467**	7 797
Foreign exchange (losses) gains:								
Realised	**(30 614)**	3 388	**(503)**	1 164	**(31 117)**	4 552	**(46 009)**	1 482
Unrealised	**25 801**	(11 873)	**—**	(31)	**25 801**	(11 905)	**24 725**	(5 882)
	(4 813)	(8 485)	**(503)**	1 133	**(5 316)**	(7 353)	**(21 284)**	(4 400)
Fair value adjustments:								
Open foreign exchange contracts (losses) gains	**(6 971)**	6 806	**—**	—	**(6 971)**	6 806	**(380)**	5 744
	(6 971)	6 806	**—**	—	**(6 971)**	6 806	**(380)**	5 744

Other income

Included in other income in the prior year is a net amount of R26.8 million relating to certain disputes that were settled between Mustek and various other parties. The outstanding amount attracted interest at a rate of 9% per annum and was settled during the current financial year.

Stock loss

The prior year gross profit percentage was further impacted by 0.3% as a result of a robbery at Mustek during the previous financial year which resulted in a net loss of R14.0 million. Management has subsequently upgraded the security controls on the premises and has reviewed the insured amounts.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

4. INVESTMENT REVENUES

	GROUP Continuing operations		GROUP Discontinued operations		GROUP		COMPANY	
	2016 R000	2015 R000 (Re-presented)	2016 R000	2015 R000 (Re-presented)	2016 R000	2015 R000	2016 R000	2015 R000
Investment revenue on financial instruments not at fair value through profit or loss:								
Interest received on bank balances and cash	**19 278**	17 319	**3**	45	**19 281**	17 364	**8 708**	4 715
Interest received from subsidiaries and joint venture	**–**	–	**–**	–	**–**	–	**4 197**	3 403
Dividends from subsidiaries and joint venture	**–**	–	**–**	–	**–**	–	**12 024**	57 568
	19 278	17 319	**3**	45	**19 281**	17 364	**24 929**	65 686

5. FINANCE COSTS

	GROUP Continuing operations		GROUP Discontinued operations		GROUP		COMPANY	
	2016 R000	2015 R000 (Re-presented)	2016 R000	2015 R000 (Re-presented)	2016 R000	2015 R000	2016 R000	2015 R000
Finance costs on financial instruments not at fair value through profit or loss:								
Interest paid on bank overdrafts	**41 732**	32 474	**843**	1 403	**42 575**	33 877	**40 795**	31 895
Interest paid on loans	**901**	981	**–**	–	**901**	981	**–**	–
Interest paid on letters of credit and trade finance	**53 058**	32 806	**–**	–	**53 058**	32 806	**25 271**	11 991
Other interest paid	**2**	195	**–**	–	**2**	195	**–**	–
Interest on forward points	**14 257**	9 557	**–**	–	**14 257**	9 557	**–**	–
	109 950	76 013	**843**	1 403	**110 793**	77 416	**66 066**	43 886

6. ANALYSIS OF LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS

The Group has disposed of Rectron Australia BV with effect from 11 February 2016. Rectron Australia BV was a fully owned subsidiary of the Group at the effective date of the disposal. The losses of Rectron Australia BV were treated as a discontinued operation for the current financial year. The results of Rectron Australia BV for the current financial year were as follows:

	GROUP	
	2016 R000	2015 R000
Revenue	**146 233**	267 983
Cost of sales	**(131 558)**	(247 490)
Gross profit	**14 675**	20 493
Other income	**556**	2 365
Foreign currency (losses) gains	**(503)**	1 133
Distribution administrative and other operating expenses	**(18 937)**	(27 346)
Loss from operations	**(4 209)**	(3 355)
Investment revenues	**3**	45
Finance costs	**(843)**	(1 403)
Loss on disposal of discontinued operation (refer note 31)	**(2 278)**	–
Loss before tax	**(7 327)**	(4 713)
Income tax benefit	**1 516**	–
Loss for the year	**(5 811)**	(4 713)
Less: Loss attributable to outside shareholders	**316**	2 000
Group's share of loss for the year from discontinued operations	**(5 495)**	(2 713)

7. INCOME TAX EXPENSE

	GROUP Continuing operations 2016 R000	GROUP Continuing operations 2015 R000 (Re-presented)	GROUP Discontinued operations 2016 R000	GROUP Discontinued operations 2015 R000 (Re-presented)	GROUP 2016 R000	GROUP 2015 R000	COMPANY 2016 R000	COMPANY 2015 R000
South African normal tax	**(28 357)**	(50 061)	**—**	—	**(28 357)**	(50 061)	**(13 100)**	(37 499)
Foreign tax	**(335)**	(45)	**1 516**	—	**1 181**	(45)	**—**	—
Withholding tax	**(61)**	(49)	**—**	—	**(61)**	(49)	**—**	—
	(28 753)	(50 155)	**1 516**	—	**(27 237)**	(50 155)	**(13 100)**	(37 499)
Comprising:								
Normal current tax								
– Current year	**(21 778)**	(45 967)	**—**	—	**(21 778)**	(45 967)	**(4 249)**	(33 910)
– Prior year	**(511)**	(397)	**—**	—	**(511)**	(397)	**(232)**	(186)
Normal deferred tax								
– Current year	**(8 495)**	(4 067)	**—**	—	**(8 495)**	(4 067)	**(8 581)**	(3 432)
– Prior year	**2 092**	325	**1 516**	—	**3 608**	325	**(38)**	29
Withholding tax	**(61)**	(49)	**—**	—	**(61)**	(49)	**—**	—
Income tax expense for the year	**(28 753)**	(50 155)	**1 516**	—	**(27 237)**	(50 155)	**(13 100)**	(37 499)

Tax rate reconciliation

	GROUP 2016 R000	GROUP 2015 R000 (Re-presented)	COMPANY 2016 R000	COMPANY 2015 R000
Profit before tax from continued operations	**113 508**	188 975	**56 386**	189 958
South African statutory rate of tax	**28.0%**	28.0%	**28.0%**	28.0%
Dividends received	**0.0%**	0.0%	**(6.0%)**	(8.5%)
Dividends tax	**0.1%**	0.0%	**0.0%**	0.0%
Current tax prior year underprovision	**0.5%**	0.2%	**0.4%**	0.1%
Deferred tax prior year overprovision	**(1.8%)**	(0.2%)	**0.1%**	0.0%
Non-taxable profits	**0.7%**	0.1%	**0.7%**	0.1%
Disallowed expenses	**(2.2%)**	(1.6%)	**0.0%**	0.0%
Effective tax rate on continuing operations	**25.3%**	26.5%	**23.2%**	19.7%

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

8. EARNINGS PER SHARE

The calculation of the basic and headline earnings per share is based on the following data:

	GROUP 2016 R000	GROUP 2015 R000
From continuing and discontinued operations		
Basic earnings (profit for the year attributable to equity holders of the parent)	**74 630**	132 720
Group's share of after tax loss on disposal of property, plant and equipment	**488**	118
Group's share of loss from disposal of shares in subsidiary (refer note 6)	**2 278**	—
Headline earnings from continuing and discontinued operations	**77 396**	132 838
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**100 674**	106 229
Effect of dilutive potential ordinary shares – share options	**—**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**100 674**	106 229
From continuing operations		
Basic earnings (profit for the year attributable to equity holders of the parent)	**74 630**	132 720
Group's share of loss for the year from discontinued operations (refer note 6)	**5 495**	2 713
Basic earnings from continuing operations	**80 125**	135 433
Group's share of after tax loss on disposal of property, plant and equipment	**488**	118
Headline earnings from continuing operations	**80 613**	135 551

At year-end, no share options were outstanding (2015: no share options were outstanding). The weighted average market price for the current financial year was R7.56 per share (2015: R8.15 per share).

Earnings per share	Cents	Cents
From continuing and discontinued operations		
– Headline earnings per ordinary share	**76.88**	125.05
– Basic earnings per ordinary share	**74.13**	124.94
– Diluted headline earnings per ordinary share	**76.88**	125.05
– Diluted basic earnings per ordinary share	**74.13**	124.94
From continuing operations		
– Headline earnings per ordinary share	**80.07**	127.60
– Basic earnings per ordinary share	**79.59**	127.49
– Diluted headline earnings per ordinary share	**80.07**	127.60
– Diluted basic earnings per ordinary share	**79.59**	127.49
From discontinued operations		
– Headline loss per ordinary share	**(3.20)**	(2.55)
– Basic loss per ordinary share	**(5.46)**	(2.55)
– Diluted headline loss per ordinary share	**(3.20)**	(2.55)
– Diluted basic loss per ordinary share	**(5.46)**	(2.55)

9. PROPERTY, PLANT AND EQUIPMENT

	Opening balance R000	Disposal of subsidiary (refer note 31) 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 (refer note 31) 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

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	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**

	Opening balance R000	Additions R000	Disposals R000	Exchange differences R000	Closing balance R000
GROUP – 2015					
Cost					
Land and buildings	86 689	8 852	–	(1 321)	94 220
Improvements to leased premises	50 976	1 118	–	50	52 144
Plant and machinery	49 347	5 323	(31)	26	54 665
Furniture fixtures and office equipment	38 101	3 723	(329)	(280)	41 215
Computer equipment	34 663	10 142	(912)	45	43 938
Motor vehicles	14 013	2 182	(953)	(15)	15 227
	273 789	31 340	(2 225)	(1 495)	301 409

	Opening balance R000	Current year R000	Disposals R000	Exchange differences R000	Closing balance R000
Accumulated depreciation					
Land and buildings*	5 739	20	–	(44)	5 715
Improvements to leased premises	23 535	1 966	–	14	25 515
Plant and machinery	25 375	2 925	(31)	16	28 285
Furniture fixtures and office equipment	27 737	2 894	(327)	(198)	30 106
Computer equipment	26 499	5 868	(912)	35	31 490
Motor vehicles	4 875	1 131	(401)	(16)	5 589
	113 760	14 804	(1 671)	(193)	126 700

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
COMPANY – 2015				
Cost				
Land	784	—	—	784
Improvements to leased premises	15 333	668	—	16 001
Plant and machinery	15 531	4 677	—	20 208
Furniture fixtures and office equipment	12 626	963	—	13 589
Computer equipment	27 601	8 546	—	36 147
Motor vehicles	11 991	2 125	(889)	13 227
	83 866	16 979	(889)	99 956

	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Accumulated depreciation				
Improvements to leased premises	11 769	2 212	—	13 981
Plant and machinery	10 527	1 400	—	11 927
Furniture fixtures and office equipment	8 990	694	—	9 684
Computer equipment	21 208	4 774	—	25 982
Motor vehicles	3 571	953	(336)	4 188
	56 065	10 033	(336)	65 762

	GROUP		COMPANY	
	2016 R000	2015 R000	2016 R000	2015 R000
Net book value				
Land and buildings*	**68 511**	88 505	**784**	784
Improvements to leased premises	**23 075**	26 629	**700**	2 020
Plant and machinery	**24 677**	26 380	**8 240**	8 281
Furniture fixtures and office equipment	**8 778**	11 109	**3 463**	3 905
Computer equipment	**18 387**	12 448	**15 048**	10 165
Motor vehicles	**9 030**	9 638	**8 536**	9 039
	152 458	174 709	**36 771**	34 194

** Includes land and buildings with a book value of Rnil (2015: R25.3 million) encumbered as security for a liability of Rnil (2015: R23.1 million) (refer note 19).*

The following useful lives were applied in the current and previous financial year for the depreciation of property, plant and equipment as based on the judgement of management:

Buildings	20 years
Improvements to leased premises	over period of the initial lease
Plant and machinery	5 years
Furniture fixtures and office equipment	5 to 10 years
Computer equipment	3 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. The residual value of land and buildings normally exceeds the original costs. Land is not depreciated.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

10. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2016 R000	2015 R000	2016 R000	2015 R000
Goodwill				
Cost	**54 267**	54 267	**–**	–
At the beginning of the year	**54 267**	54 267	**–**	–
Accumulated impairments	**(6 249)**	(6 249)	**–**	–
At the beginning of the year	**(6 249)**	(6 249)	**–**	–
Carrying amount	**48 018**	48 018	**–**	–
Software*				
Cost	**92 188**	79 281	**65 898**	56 148
At the beginning of the year	**79 281**	69 127	**56 148**	46 967
Disposal of subsidiary (refer note 31)	**(272)**	–	**–**	–
Additions	**13 134**	10 151	**9 750**	9 181
Disposals	**(66)**	–	**–**	–
Exchange differences	**111**	3	**–**	–
Accumulated amortisation*	**(73 147)**	(64 456)	**(52 177)**	(44 300)
At the beginning of the year	**(64 456)**	(57 113)	**(44 300)**	(37 489)
Disposal of subsidiary (refer note 31)	**13**	–	**–**	–
Amortisation	**(8 709)**	(7 341)	**(7 877)**	(6 811)
Disposals	**15**	–	**–**	–
Exchange differences	**(10)**	(2)	**–**	–
Carrying amount	**19 041**	14 825	**13 721**	11 848
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	**67 059**	62 843	**13 721**	11 848

** 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.*

10. **INTANGIBLE ASSETS** (continued)

	Pre-tax discount rate %	Post-tax discount rate %	Forecast cash flows	GROUP 2016 R000	GROUP 2015 R000
The carrying amount of goodwill had been allocated as follows:					
Mustek – Free State division*	12.88	9	Budget year 1 and thereafter a growth rate of 5%	**3 205**	3 205
Brother Product Line	12.88	9	Budget year 1 and thereafter a growth rate of 5%	**16 069**	16 069
Mustek East Africa	8.30	6	Budget years 1 to 3 and thereafter a growth rate of 1%	**468**	468
Rectron	10.50	8	Budget years 1 to 3 and thereafter a growth rate of 1%	**27 276**	27 276
Mustek – Mustek Security Technologies division*	12.88	9	Budget year 1 and thereafter a growth rate of 5%	**1 000**	1 000
				48 018	48 018

** The Mustek Free State and Mustek Security Technologies divisions within Mustek are seen as separate cash-generating units. The goodwill allocated to these divisions relates to the goodwill recognised when the underlying businesses were acquired.*

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating units that are expected to benefit from that business combination. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash-generating units were determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding discount rates expected volume growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect management's assessment of the time value of money and their views on the risks specific to the cash-generating units. The growth rates are based on management experience and their expectations of industry and market share growth. Expectation of changes in gross margins and changes in indirect costs are based on past practices expectations of future changes in the market and a view on expected inflation rates.

The impairment models were prepared on the same basis as the comparative year. The forecast cash flow periods and other inputs are all consistent with those of the comparative year.

Sensitivity analysis

Management has adjusted the cash flows of each cash-generating unit for entity-specific risk factors to arrive at the future cash flows expected to be generated from the cash-generating unit. There is no indication based on a reasonable fluctuation in those risk factors that the goodwill of the cash-generating units is further impaired.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

11. INVESTMENTS IN SUBSIDIARIES

	COMPANY 2016 R000	COMPANY 2015 R000
Shares at cost	**304 698**	283 921
– opening balance	**283 921**	283 921
– additions	**20 777**	—
Impairment charges	**(119 022)**	(119 022)
Opening carrying value adjustments	**(119 022)**	(119 022)
Current year impairment of investments and loans	**—**	—
Loans owing by subsidiaries	**104 639**	98 296
Non-current investments in subsidiaries	**290 315**	263 195
Loans owing to subsidiaries	**(107 275)**	(112 683)
	183 040	150 512

	Ownership interest 2016 %	Ownership interest 2015 %	Shares at cost 2016 R000	Shares at cost 2015 R000	Loans to (from) 2016 R000	Loans to (from) 2015 R000	Net investment 2016 R000	Net investment 2015 R000
DIRECT								
Unlisted								
Ballena Trading 29 Proprietary Limited[9]	**51**	51	**5 272**	5 272	**—**	—	**—**	—
Brobusmac Investments Proprietary Limited[2, 4]	**100**	100	**1 575**	1 575	**(7 960)**	(7 960)	**(6 385)**	(6 385)
Brotek Proprietary Limited[2]	**100**	100	**71 468**	71 468	**(60 518)**	(65 838)	**10 950**	5 630
CIS Thuthukani Technology Proprietary Limited[2, 4]	**100**	100	**6 793**	6 793	**(10 212)**	(10 212)	**(3 419)**	(3 419)
Digital Surveillance Systems Proprietary Limited[4, 12]	**75**	75	**5 896**	5 896	**—**	—	**—**	—
Lithatek Investments Proprietary Limited[1, 2, 4]	**100**	100	**19 448**	19 448	**2 479**	2 479	**—**	—
Makeshift 1000 Proprietary Limited[1, 2, 3, 9]	**100**	100	**10 698**	10 698	**43 192**	43 192	**50**	50
Mecer Finance Proprietary Limited[4]	**100**	100	*****	*	**—**	—	**—**	—
Mecer Technology Limited[8, 22]	**100**	100	**6 629**	6 629	**—**	—	**6 629**	6 629
Mustek Capital Proprietary Limited[4, 13, 14]	**100**	100	**100**	100	**(10 520)**	(10 520)	**(10 420)**	(10 420)
Mustek Limited Company Limited[2, 8]	**100**	100	*****	*	**3 511**	3 511	**—**	—
Mandarin Trading House Proprietary Limited[2, 4]	**100**	100	*****	*	**—**	—	**—**	—
Mustek East Africa Limited[5, 17, 19]	**100**	100	**12 315**	12 315	**32 246**	26 362	**38 829**	32 945
Mecer Proprietary Limited[4]	**100**	100	*****	*	**—**	—	**—**	—
MFS Technologies Proprietary Limited[2, 4]	**100**	100	*****	*	**(1 271)**	(1 323)	**(1 271)**	(1 323)
Mustek Electronics (Cape Town) Proprietary Limited[2, 4]	**100**	100	**3 229**	3 229	**(3 216)**	(3 216)	**13**	13
Mustek Electronics (Durban) Proprietary Limited[2, 4]	**100**	100	**1 658**	1 658	**(1 433)**	(1 433)	**225**	225
Mustek Electronics (Port Elizabeth) Proprietary Limited[2, 4]	**100**	100	**327**	327	**(234)**	(270)	**93**	57
Mustek Investments Proprietary Limited[4]	**100**	100	*****	*	**—**	—	**—**	—
Mustek International Proprietary Limited[4]	**100**	100	*****	*	**—**	—	**—**	—

11. INVESTMENTS IN SUBSIDIARIES (continued)

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2016 %	2015 %	2016 R000	2015 R000	2016 R000	2015 R000	2016 R000	2015 R000
DIRECT (continued)								
Unlisted (continued)								
Mustek Management Proprietary Limited[4]	**100**	100	*****	*	**—**	—	**—**	—
Mustek Middle East FZCO[2, 15]	**100**	100	**1 392**	1 392	**1 118**	1 118	**—**	—
Mustek Lesotho Proprietary Limited[2, 18]	**99**	99	*****	*	**952**	952	**—**	—
Planet Internet Proprietary Limited [4]	**100**	100	*****	*	**—**	—	**—**	—
Quickstep 51 Proprietary Limited[4, 23]	**100**	100	*****	*	**—**	—	**—**	—
Quickstep 94 Proprietary Limited[1, 2, 9]	**100**	100	**2 581**	2 581	**18 693**	18 567	**1 892**	1 766
Quickstep 95 Proprietary Limited[4]	**100**	100	*****	*	**—**	—	**—**	—
Rectron Holdings Limited[7]	**100**	100	**115 973**	115 973	**—**	—	**115 973**	115 973
Tradeselect 38 Proprietary Limited[2, 4]	**100**	100	**3 400**	3 400	**(11 911)**	(11 911)	**(8 511)**	(8 511)
Zatophase Proprietary Limited[21]	**100**	65	**35 944**	15 167	**—**	—	**35 944**	15 167
INDIRECT								
Unlisted								
Datazone Limited[10, 16]	**100**	100	**—**	—	**—**	—	**—**	—
First Campus Proprietary Limited[4]	**100**	100	**—**	—	**—**	—	**—**	—
Formprops 110 Proprietary Limited[4]	**100**	100	**—**	—	**—**	—	**—**	—
Inter-Ed Proprietary Limited[1, 4]	**100**	100	**—**	—	**—**	—	**—**	—
Mecer Inter-Ed Proprietary Limited[7, 11]	**100**	100	**—**	—	**—**	—	**—**	—
PWS Investments Proprietary Limited[4]	**100**	100	**—**	—	**—**	—	**—**	—
Rectron Electronics Proprietary Limited[6]	**—**	50	**—**	—	**—**	—	**—**	—
Secure Electronic Commerce Proprietary Limited[4]	**100**	100	*****	*	**—**	—	**—**	—
Sheerprops 68 Proprietary Limited[4]	**100**	100	**—**	—	**—**	—	**—**	—
Soft 99 Proprietary Limited[7, 11, 20]	**68**	68	**—**	—	**2 448**	2 115	**2 448**	2 115
			304 698	283 921	**(2 636)**	(14 387)	**183 040**	150 512

The net investment is after impairment charges against the investments and loans of R119.0 million (2015: R119.0 million).

A Group company considers an entity to be controlled when the Group company controls the majority of voting rights by means of shareholding of 51% or more.

Mecer Inter-Ed supplies 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 receivables has been secured.

Refer to note 32 for further information with regards to the change in the Group's shareholding in a subsidiary.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

11. INVESTMENTS IN SUBSIDIARIES (continued)

[1] *These loans have been subordinated in favour of all other creditors of the subsidiary. The loans have been partially impaired.*

[2] *These loans are interest-free and have no fixed terms of repayment.*

[3] *The loan receivable by Makeshift 1000 Proprietary Limited from Preworx Proprietary Limited an associate of Makeshift 1000 Proprietary Limited was fully impaired in previous financial years. This impairment was based on the present value of the expected repayments on this loan.*

[4] *Dormant companies registered and incorporated in South Africa.*

[5] *Active trading company registered and incorporated in Kenya.*

[6] *This is an active trading company registered and incorporated in Australia. During the current financial year, the Group increased its shareholding in this company from 50% to 100% with effect from 30 September 2015 and disposed of its 100% shareholding with effect from 11 February 2016.*

[7] *Active trading company registered and incorporated in South Africa.*

[8] *Active company registered and incorporated in Taiwan.*

[9] *Non-trading investment company or property company registered and incorporated in South Africa.*

[10] *Non-trading investment company or property company registered and incorporated in the United States of America.*

[11] *Goodwill arising on acquisitions has been fully impaired at acquisition date.*

[12] *On 1 January 2009, Digital Surveillance Systems Proprietary Limited (DSS) sold its business and all its assets and liabilities to Mustek Limited and became dormant on that date. The purchase price of the assets and liabilities is dependent on the performance of the DSS product line until 31 December 2013. A loan has been recognised based on the estimated potential further consideration payable. The loan is regarded as a fair value through profit or loss financial instrument with any resultant gain or loss recognised in profit or loss. No fair value gain or loss was recognised during the current or previous financial years. With effect from 1 September 2010 Mustek Limited acquired an additional 25% shareholding in DSS at a purchase price of R1.9 million.*

[13] *On 1 June 2010, Mustek Limited acquired 100% of the issued share capital of Mustek Capital Proprietary Limited. The company was previously consolidated as a special purpose vehicle in order to obtain loans secured over trade receivables bought from Mustek Limited. The structure of the securitisation was subsequently changed and replaced with a long-term overdraft facility with Bank of China Limited repayable on 31 January 2014.*

[14] *This loan has been subordinated in favour of the Bank of China Limited.*

[15] *Company registered and incorporated in the United Arab Emirates. The company ceased trading during previous financial years and is in the process of realising assets and settling liabilities as at 30 June 2013. The full amount of the investment as well as the loan was impaired in previous financial years.*

[16] *Datazone Limited was liquidated on 31 December 2010 and declared a liquidation dividend of R16.4 million to its parent company Makeshift 1000 Proprietary Limited.*

[17] *The investment Mustek East Africa Limited was impaired by an amount of R5.7 million in previous financial years. The impairment represented the amount by which the net investment in the company exceeded its net asset value.*

[18] *Mustek Lesotho Proprietary Limited was incorporated with the main aim of providing on-site service to Standard Bank in Lesotho in terms of a service contract with Standard Bank. The entity has, however, been dormant since the beginning of the previous financial year.*

[19] *This loan bears interest at 2% per annum and is repayable on demand.*

[20] *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.*

[21] *Mustek Limited acquired a 65% share in Zatophase Proprietary Limited on 10 March 2014 and a further 35% on 28 June 2016.*

[22] *Mustek Limited acquired a 100% share in Mecer Technology Limited by means of investments of R5.5 million (USD0.5 million) and R1.1 million (USD0.1 million) on 28 January 2014 and 23 April 2014 respectively.*

[23] *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). Entity is currently dormant and in the process of deregistration.*

* *Original cost less than R500.*

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

	2016 R000	2015 R000
Net aggregate profits	**39 819**	38 081
Net aggregate losses	**(5 243)**	(5 518)

12. INVESTMENTS IN ASSOCIATES

	GROUP 2016 R000	GROUP 2015 R000	COMPANY 2016 R000	COMPANY 2015 R000
Shares at cost	**69 878**	51 969	**22 098**	4 189
– opening balance	**51 969**	51 969	**4 189**	4 189
– additions	**17 909**	—	**17 909**	—
Impairments	**(24 539)**	(24 539)	**(4 189)**	(4 189)
– opening balance	**(24 539)**	(24 539)	**(4 189)**	(4 189)
Share of post-acquisition gains	**35 295**	19 943	**—**	—
– opening balance	**19 943**	9 130	**—**	—
– current year share of post-acquisition gains	**15 352**	10 813	**—**	—
Loans owing by associates	**11 514**	21 405	**4 214**	14 105
Opening balance	**21 405**	22 329	**14 105**	15 029
(Decrease) increase in loans	**(9 891)**	(924)	**(9 891)**	(924)
Fair valuation adjustments to loans	**(7 300)**	(7 300)	**—**	—
Investments in associates	**84 848**	61 478	**22 123**	14 105

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

Group	Zaloserve Proprietary Limited 2016 R000	Zaloserve Proprietary Limited 2015 R000	Khauleza IT Solutions Proprietary Limited 2016 R000	Khauleza IT Solutions Proprietary Limited 2015 R000	Continuous Power Systems Proprietary Limited 2016 R000	Continuous Power Systems Proprietary Limited 2015 R000	Mustek Zimbabwe Private Limited 2016 R000	Mustek Zimbabwe Private Limited 2015 R000	Preworx Proprietary Limited 2016 R000	Preworx Proprietary Limited 2015 R000
Total assets	**384 454**	100 000	**68 497**	42 520	**16 521**	21 228	**8 355**	7 595	**963**	963
Total liabilities	**270 468**	77 002	**38 925**	19 887	**11 649**	14 816	**3 946**	3 479	**8 757**	8 757
Revenue	**905 301**	766 402	**272 357**	265 294	**36 237**	36 581	**24 857**	26 049	**—**	—
Profit before tax	**56 308**	35 297	**9 637**	5 065	**(1 540)**	(135)	**(711)**	(2 735)	**—**	—
Income tax expense	**(18 972)**	(9 883)	**(2 698)**	(1 418)	**431**	38	**183**	704	**—**	—
Net profit for the year	**33 613**	25 414	**6 939**	3 647	**(1 109)**	(97)	**(528)**	(2 031)	**—**	—

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

12. INVESTMENTS IN ASSOCIATES (continued)

Company	Khauleza IT Solutions Proprietary Limited 2016 R000	2015 R000	Continuous Power Systems Proprietary Limited 2016 R000	2015 R000	Mustek Zimbabwe Private Limited 2016 R000	2015 R000
Total assets	**68 497**	42 520	**16 521**	21 228	**8 355**	7 595
Total liabilities	**38 925**	19 887	**11 649**	14 816	**3 946**	3 479
Revenue	**272 357**	265 294	**36 237**	36 581	**24 857**	26 049
Profit before tax	**9 637**	5 065	**(1 540)**	(135)	**(711)**	(2 735)
Income tax expense	**(2 698)**	(1 418)	**431**	38	**183**	704
Net profit for the year	**6 939**	3 647	**(1 109)**	(97)	**(528)**	(2 031)

	Percentage holding 2016 R000	2015 R000	Cost 2016 R000	2015 R000	Loans to 2016 R000	2015 R000	Equity-accounted share of earnings 2016 R000	2015 R000	Net investment 2016 R000	2015 R000
COMPANY										
Unlisted										
Mustek Zimbabwe Private Limited[2]	**–**	–	**4 189**	4 189	**–**	–	**–**	–	**–**	–
Khauleza IT Solutions Proprietary Limited[1]	**36**	36	**–**	–	**–**	–	**–**	–	**–**	–
Continuous Power Systems Proprietary Limited[5]	**40**	40	**–**	–	**4 214**	6 595	**–**	–	**4 214**	6 595
Zaloserve Proprietary Limited[6]	**40**	40	**–**	–	**–**	7 510	**–**	–	**–**	7 510
Yangtze Optics Africa Holdings Proprietary Limited[7]	**25.1**	–	**17 909**	–	**–**	–	**–**	–	**17 909**	–
			22 098	4 189	**4 214**	14 105	**–**	–	**22 123**	14 105
GROUP										
Unlisted										
Mustek Zimbabwe Private Limited[2]	**–**	–	**–**	–	**–**	–	**508**	656	**508**	656
A Open Proprietary Limited[3]	**43**	43	**–**	–	**–**	–	**–**	–	**–**	–
Preworx Proprietary Limited[4]	**38**	38	**24 447**	24 447	**7 300**	7 300	**(4 097)**	(4 097)	**–**	–
Khauleza IT Solutions Proprietary Limited[1]	**36**	36	**–**	–	**–**	–	**10 366**	7 868	**10 366**	7 868
Continuous Power Systems Proprietary Limited[5]	**40**	40	**–**	–	**–**	–	**1 684**	2 128	**1 684**	2 128
Zaloserve Proprietary Limited[6]	**40**	40	**23 333**	23 333	**–**	–	**26 834**	13 388	**50 167**	36 721
			69 878	51 969	**11 514**	21 405	**35 295**	19 943	**84 848**	61 478

12. INVESTMENTS IN ASSOCIATES (continued)

The net investment is after impairment charges against and fair value adjustments of the investments and loans of R31.8 million (2015: R31.8 million) for the Group and R4.2 million (2015: 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 or a combination of the voting rights associated to the shareholding in the entity or through significant influence over executive decision-making by means of positions and relationships held.

Additional information	Nature of business	Country of incorporation	Period equity accounted
Mustek Zimbabwe Private Limited	Assembly and distribution of computers and computer components	Zimbabwe	12 months (2015: 12 months)
Khauleza IT Solutions Proprietary Limited	Provider of IT support solutions	South Africa	12 months (2015: 12 months)
Continuous Power Systems Proprietary Limited	Provider of uninterrupted power supply solutions	South Africa	12 months (2015: 12 months)
Zaloserve Proprietary Limited	Group of IT support solutions provider companies	South Africa	12 months (2015: 12 months)
A Open Proprietary Limited	Dormant	South Africa	12 months (2015: 12 months)
Preworx Proprietary Limited	Remote access diagnostics technology	South Africa	12 months (2015: 12 months)
Yangtze Optics Africa Holdings Proprietary Limited	Fibre optics technology	South Africa	0 months (2015: 0 months)

[1] *During November 2009, Mustek Limited acquired a 26% share in this company at a nominal consideration and provided working capital to the amount of R2.2 million in the form of a shareholders' loan. During the previous financial year, an additional shareholding of 10% was acquired at a consideration of R10.00.*

[2] *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.*

[3] *Dormant company registered and incorporated in South Africa.*

[4] *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.*

[5] *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 has no fixed repayment terms.*

[6] *Mustek Limited acquired a 65% share in Zatophase Proprietary Limited on 13 March 2014 (refer note 11). Zatophase Proprietary Limited acquired a 40% share in Zaloserve Proprietary Limited on 13 March 2014. Furthermore, Mustek Limited advanced a loan of R6.7 million to Zaloserve Proprietary Limited on 13 March 2014. This loan bears interest at prime. Mustek Limited has subsequently acquired a further 35% share in Zatophase Proprietary Limited on 28 June 2016 and the aforementioned loan was settled as part of this transaction.*

[7] *Mustek Limited acquired a 25.1% share in Yangtze Optics Africa Holdings Proprietary Limited with effect from 8 March 2016. It is estimated that production by Yangtze Optics Africa Holdings Proprietary Limited will only start in January 2017 and therefore no results were equity accounted for the current financial year.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

13. OTHER INVESTMENTS AND LOANS

	GROUP 2016 R000	GROUP 2015 R000	COMPANY 2016 R000	COMPANY 2015 R000
Shares at cost	**24 506**	24 506	**9 251**	9 251
– opening balance	**24 506**	24 506	**9 251**	9 251
– disposals	**—**	—	**—**	—
Loans	**49 721**	59 565	**49 721**	59 565
Fair value adjustments	**(6 418)**	(6 418)	**(904)**	(904)
– opening balance	**(6 418)**	(6 418)	**(904)**	(904)
	67 809	77 653	**58 068**	67 912

	Ownership interest 2016 %	Ownership interest 2015 %	Shares at cost 2016 R000	Shares at cost 2015 R000	Loans to 2016 R000	Loans to 2015 R000	Net investment 2016 R000	Net investment 2015 R000
COMPANY								
Unlisted								
A Lai[2]	**—**	—	**—**	—	**1 000**	1 000	**1 000**	1 000
Columbus Technologies Proprietary Limited[1]	**—**	—	**—**	—	**1 089**	1 303	**1 089**	1 303
M Cameron[3]	**—**	—	**—**	—	**880**	818	**880**	818
Option – Mecer Capital Proprietary Limited[5]	**—**	—	**250**	250	**—**	—	**—**	—
Simple Process Engineering Solutions Proprietary Limited[6]	**—**	—	**—**	—	**654**	654	**—**	—
Zinox Technologies Limited[7]	**20**	20	**9 001**	9 001	**—**	—	**9 001**	9 001
Elimu Technologies Proprietary Limited[8]	**—**	—	**—**	—	**2 286**	3 079	**2 286**	3 079
Omni Capital Proprietary Limited[10]	**—**	—	**—**	—	**—**	9 206	**—**	9 206
Mustek Executive Share Trust[9, 11]	**—**	—	**—**	—	**43 812**	43 505	**43 812**	43 505
			9 251	9 251	**49 721**	59 565	**58 068**	67 912

13. OTHER INVESTMENTS AND LOANS (continued)

	Ownership interest 2016 %	Ownership interest 2015 %	Shares at cost 2016 R000	Shares at cost 2015 R000	Loans to 2016 R000	Loans to 2015 R000	Net investment 2016 R000	Net investment 2015 R000
GROUP								
Unlisted								
Casetek International Co Limited[4]	**8**	8	**5 514**	5 514	**–**	–	**–**	–
Zinox Technologies Limited[7]	**20**	20	**9 741**	9 741	**–**	–	**9 741**	9 741
DC Kan[9]	**–**	–	**–**	–	**24 211**	23 538	**24 211**	23 538
H Engelbrecht[9]	**–**	–	**–**	–	**13 272**	13 075	**13 272**	13 075
CJ Coetzee[9]	**–**	–	**–**	–	**3 115**	3 138	**3 115**	3 138
JW Viviers[12]	**–**	–	**–**	–	**587**	561	**587**	561
O Levey[12]	**–**	–	**–**	–	**884**	850	**884**	850
JL Chen[12]	**–**	–	**–**	–	**1 084**	1 043	**1 084**	1 043
VL Chunilal[12]	**–**	–	**–**	–	**208**	865	**208**	865
MR de Klerk[12]	**–**	–	**–**	–	**451**	435	**451**	435
Mustek Executive Share Trust[9 11]	**–**	–	**–**	–	**(43 812)**	(43 505)	**(43 812)**	(43 505)
			24 506	24 506	**49 721**	59 565	**67 809**	77 653

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 that 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 is 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 *The investment has been fully impaired in previous financial years.*
5 *This investment represents an amount paid in order to secure an option to purchase the share capital of Mustek Capital Proprietary Limited. On 1 June 2010, Mustek Limited exercised this option and acquired 100% of the issued share capital of Mustek Capital Proprietary Limited (refer note 11).*
6 *This loan is unsecured, bears interest at the South African prime bank overdraft rate and was payable on 1 December 2010. The full amount of the loan was, however, impaired during previous financial years.*
7 *On 13 March 2008, Zinox Technologies Limited issued additional shares as part of a merging transaction. The Group's investment diluted from 30% to 12% as a result of the transaction and the investment was reclassified from an associate to an available-for-sale investment. The equity-accounted profit share at date of dilution was R14.6 million and the loan was capitalised as cost of the investment. During the current 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.
8 *This loan is unsecured, bears interest at prime and has no fixed repayment terms.*
9 *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.*
10 *This was loan was granted on 13 March 2014 and bears interest at prime. The loan has subsequently been settled during the current financial year as part a transaction through which Mustek Limited increased its shareholding in Zatophase Proprietary Limited (refer notes 11 and 12).*
11 *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.*
12 *During the previous 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.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

14. 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% (2015: 28%) except if otherwise indicated:

	GROUP		COMPANY	
	2016 R000	2015 R000	2016 R000	2015 R000
Tax loss	**7 261**	9 504	**–**	–
Provision for doubtful debts	**2 134**	1 030	**2 325**	1 243
Amortisation of intangible assets	**15**	17	**15**	17
Salary-related provisions	**4 657**	8 592	**4 657**	8 592
Accelerated wear and tear for tax purposes	**(7 152)**	(6 686)	**(2 837)**	(2 219)
Prepayments	**(620)**	(904)	**(440)**	(436)
Minor assets	**11**	14	**10**	13
Operating lease liabilities	**420**	761	**344**	634
Provision for commission	**1 813**	2 197	**1 403**	2 013
Other provisions	**4 372**	5 792	**897**	861
Unrealised exchange gains and losses	**(6 051)**	(3 923)	**(4 594)**	(2 994)
Deferred revenue	**7 927**	10 602	**7 927**	10 602
Unrealised capital gains	**(2 120)**	(2 120)	**–**	–
Unrealised fair value capital gain on investment	**141**	141	**–**	–
	12 808	25 017	**9 707**	18 326
Deferred tax assets	**17 312**	29 593	**9 707**	18 326
Deferred tax liabilities	**(4 504)**	(4 576)	**–**	–
	12 808	25 017	**9 707**	18 326

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 years.

14. DEFERRED TAX ASSETS AND LIABILITIES (continued)

	GROUP 2016 R000	GROUP 2015 R000	COMPANY 2016 R000	COMPANY 2015 R000
Reconciliation between opening and closing balances:				
Deferred tax asset at the beginning of the year	**25 017**	29 164	**18 326**	21 729
Net movement in taxable loss	**(2 243)**	696	**—**	—
Differences on taxable loss	**7 193**	696	**—**	—
Disposal of subsidiary	**(9 436)**	—	**—**	—
Differences on provision for doubtful debts	**1 104**	3 546	**1 082**	3 568
Differences on amortisation of intangible assets	**(2)**	(2)	**(2)**	(2)
Differences on salary-related provisions	**(3 935)**	(2 620)	**(3 935)**	(2 620)
Differences on accelerated wear and tear	**(466)**	(2 023)	**(618)**	(738)
Differences on prepayments	**284**	(285)	**(4)**	(71)
Differences on minor assets	**(3)**	11	**(3)**	11
Differences on lease liability	**(341)**	79	**(290)**	82
Differences on provision for commission	**(384)**	911	**(610)**	759
Differences on other provisions	**(1 420)**	147	**36**	62
Differences on unrealised exchange gains and losses	**(2 128)**	(1 154)	**(1 600)**	(1 001)
Differences on deferred revenue	**(2 675)**	(3 453)	**(2 675)**	(3 453)
Differences on unrealised capital gains	**—**	—	**—**	—
Foreign currency translation reserve	**(2 114)**	405	**—**	—
	(14 323)	(3 742)	**(8 619)**	(3 403)
Deferred tax movement through the statement of comprehensive income – continuing operations	**(14 323)**	(3 742)	**(8 619)**	(3 403)
Deferred tax movement through the statement of financial position	**2 114**	(405)	**—**	—
Foreign currency translation reserve	**2 114**	(405)	**—**	—
	12 808	25 017	**9 707**	18 326

15. INVENTORIES

	GROUP 2016 R000	GROUP 2015 R000	COMPANY 2016 R000	COMPANY 2015 R000
Gross finished goods	**1 148 623**	1 165 372	**729 925**	762 341
Provision for obsolescence	**(36 694)**	(35 709)	**(26 185)**	(24 127)
Finished goods net of provision for obsolescence	**1 111 929**	1 129 663	**703 740**	738 214
Inventories in transit	**95 753**	206 035	**51 080**	68 745
Total inventories	**1 207 682**	1 335 698	**754 820**	806 959

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 R32.6 million (2015: R38.6 million) and R18.9 million (2015: R23.3 million) respectively.

The cost of inventories recognised as an expense during the year was R4 787.4 million (2015: R4 545.7 million) and R2 708.5 million (2015: R2 684.4 million) for the Group and company respectively.

The cost of inventories recognised includes R2.4 million (2015: R5.9 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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

16. TRADE AND OTHER RECEIVABLES

	GROUP 2016 R000	GROUP 2015 R000	COMPANY 2016 R000	COMPANY 2015 R000
Gross trade receivables	**933 043**	1 054 238	**541 594**	626 649
Doubtful debt allowance	**(15 607)**	(15 795)	**(12 403)**	(11 881)
Net trade receivables	**917 436**	1 038 443	**529 191**	614 768
Other receivables	**157 387**	207 696	**137 366**	173 269
Total current trade and other receivables	**1 074 823**	1 246 139	**666 557**	788 037

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 90% (2015: 85%) 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 19).

The average credit period on sale of goods and services is between 30 and 60 days (2015: 30 and 60 days) from date of invoice. Generally no interest is charged on trade receivables. Of the trade receivable balance at year-end R200.2 million (2015: R257.7 million) and R63.3 million (2015: R98.8 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 2016 R000	GROUP 2015 R000	COMPANY 2016 R000	COMPANY 2015 R000
Balance at the beginning of the year	**15 795**	14 740	**11 881**	11 543
Net amounts written off as uncollectable	**(7 846)**	(9 165)	**(7 317)**	(8 601)
Charged to profit and loss	**7 658**	10 220	**7 839**	8 939
Balance at the end of the year	**15 607**	15 795	**12 403**	11 881

	Total R000	Current R000	30 days R000	60 days R000	90 days R000	120 days R000	Older than 120 days R000
GROUP 2016	15 607	2	1	195	251	292	14 866
COMPANY 2016	12 403	2	1	6	205	273	11 916

Refer to note 21 for an analysis of the credit quality of trade receivables that are neither past due nor impaired, as well as an analysis of the age of financial assets that are past due but not impaired.

17. 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.

18. STATED CAPITAL AND SHARE PREMIUM

	GROUP AND COMPANY	
	2016 R000	2015 R000
Authorised share capital		
250 000 000 ordinary shares (2015: 250 000 000)		
Issued share capital/ordinary stated capital		
Opening balance: 103 623 471 ordinary shares (2015: 106 682 760 ordinary shares of R0.008 each)	**93 354**	119 627
Shares bought back: 5 623 471 ordinary shares (2015: 4 999 289 ordinary shares of R0.008 each)	**(42 823)**	(42 491)
Shares issued: Nil ordinary shares (2015: 1 940 000 ordinary shares)	**—**	16 218
Closing balance: 98 000 000 ordinary shares (2015: 103 623 471)	**50 531**	93 354

	Number of shares 000	Number of shares 000
Ordinary shares		
Balance at the beginning of the year	**103 623**	106 683
Shares bought back and cancelled	**(5 623)**	(5 000)
Shares issued	**–**	1 940
Balance at the end of the year	**98 000**	103 623

19. BORROWINGS

	GROUP		COMPANY	
	2016 R000	2015 R000	2016 R000	2015 R000
Interest-bearing				
Unsecured – at amortised cost				
Bank overdrafts	**377 713**	361 749	**356 716**	343 531
Secured – at amortised cost				
Mortgage and term loans	**—**	23 096	**—**	—
Total interest-bearing borrowings	**377 713**	384 845	**356 716**	343 531
Interest-free				
Unsecured – non-financial liabilities				
Operating lease liabilities	**1 054**	2 718	**1 228**	2 263
Total interest-free borrowings	**1 054**	2 718	**1 228**	2 263
Total borrowings	**378 767**	387 563	**357 944**	345 794
The borrowings are repayable as follows:				
On demand or within one year	**378 268**	362 966	**356 868**	344 686
In the second year	**119**	3 572	**119**	480
In the third to fifth years inclusive	**380**	21 025	**957**	628
Total borrowings	**378 767**	387 563	**357 944**	345 794
Bank overdrafts	**(377 713)**	(361 749)	**(356 716)**	(343 531)
Amounts due for settlement within 12 months	**(3 640)**	(16 481)	**(2 609)**	(14 949)
Long-term borrowings	**(2 586)**	9 333	**(1 381)**	(12 686)
Consisting of:				
Interest-bearing borrowings	**377 713**	384 845	**356 716**	343 531
Interest-free borrowings	**1 054**	2 718	**1 228**	2 263
	378 767	387 563	**357 944**	345 794

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

19. BORROWINGS (continued)

Additional information

Included in borrowings are the following:

Accounts receivable securitisation loans

Included in bank overdrafts is an amount of R357.2 million (2015: R315.4 million) which represents a general banking facility from the Bank of China Limited bearing interest at JIBAR plus 2% (2015: 2.2%) and is repayable by 11 November 2016 (2015: 11 October 2015). This loan is classified as held-to-maturity and carried at amortised cost. The facility is secured over accounts receivable in Mustek 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 (2015: R480 million) is limited to 90% of the trade receivables less than 90 days of age in Mustek Limited.

Mortgage and term loans

Included in mortgage and term loans is a loan of Rnil (2015: R23.1 million) denominated in Australian Dollar bearing interest at a fixed interest rate of 8.3% secured over land and buildings with a net book value of Rnil (2015: R25.3 million) and with interest and capital payments commencing 1 March 2006 and payable until 31 March 2026. This mortgage was disposed of as part of Rectron Australia BV during the current financial year (refer to note 31).

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.

All obligations are denominated in Rand except as noted above.

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 366.9 million (2015: R2 009.5 million):

	GROUP	
	2016 R000	2015 R000
General overdraft and similar facilities	**1 191 142**	975 935
Letters of credit facilities	**1 175 800**	1 033 518
Total facilities	**2 366 942**	2 009 453
Utilised facilities	**(1 244 132)**	(1 164 201)
Unutilised facilities	**1 122 810**	845 252

20. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2016 R000	2015 R000	2016 R000	2015 R000
Letters of credit and trade finance payables	**887 415**	797 449	**429 282**	403 078
Trade payables	**725 921**	1 149 467	**461 859**	713 842
Other payables	**34 021**	39 652	**17 273**	17 890
Accruals	**23 238**	24 627	**14 176**	16 894
Total trade and other payables	**1 670 595**	2 011 195	**922 590**	1 151 704

The Group obtained import letters of credit facilities to replace the trade finance facility of the previous financial years. The letters of credit supplies a 120-day trade payment term to the Group. The maximum facility available to the Group is R1 175.8 million (2015: R1 033.5) and interest is calculated at LIBOR plus 2.0% (2015: 2.2%). 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 131 days (2015: 156 days).

Trade and other payables are stated at amortised cost which normally approximates their fair value due to their short-term maturity.

20. TRADE AND OTHER PAYABLES (continued)

The following movements occurred in accruals:

	Leave pay accrual R000	Bonus accrual R000	Total R000
GROUP 2016			
Opening carrying amount	**10 457**	**14 170**	**24 627**
Additional accrual	**13 047**	**16 705**	**29 752**
Amounts used	**(12 842)**	**(17 415)**	**(30 257)**
Amounts unused reversed	**(884)**	**—**	**(884)**
Closing carrying amount	**9 778**	**13 460**	**23 238**
COMPANY 2016			
Opening carrying amount	**8 261**	**8 633**	**16 894**
Additional accrual	**11 990**	**7 521**	**19 511**
Amounts used	**(11 862)**	**(10 367)**	**(22 229)**
Closing carrying amount	**8 389**	**5 787**	**14 176**
GROUP 2015			
Opening carrying amount	9 329	31 175	40 504
Additional accrual	9 503	14 113	23 616
Amounts used	(8 375)	(31 118)	(39 493)
Closing carrying amount	10 457	14 170	24 627
COMPANY 2015			
Opening carrying amount	7 485	23 575	31 060
Additional accrual	8 432	7 108	15 540
Amounts used	(7 656)	(22 050)	(29 706)
Closing carrying amount	8 261	8 633	16 894

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 performance bonus targets achieved and the annual 13th cheque payable to employees of the Group and the company.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

21.1 Categories of financial investments

GROUP 2016	Notes	Total R000	Held-for-trading* R000	Loans and receivables R000	Available-for-sale R000	Financial liabilities at amortised cost R000	Finance lease receivables and payables R000	Equity and non-financial assets and liabilities R000
ASSETS								
Non-current assets								
Property, plant and equipment	9	152 458	–	–	–	–	–	152 458
Intangible assets	10	67 059	–	–	–	–	–	67 059
Investments in associates	12	84 848	–	4 214	80 634	–	–	–
Other investments and loans	13	67 809	–	49 067	18 742	–	–	–
Deferred tax asset	14	17 312	–	–	–	–	–	17 312
Current assets								
Inventories	15	1 207 682	–	–	–	–	–	1 207 682
Trade and other receivables	16	1 074 823	–	1 064 247	–	–	–	10 576
Foreign currency assets	21	3 059	3 059	–	–	–	–	–
Tax assets		14 219	–	–	–	–	–	14 219
Bank balances and cash	17	383 613	–	383 613	–	–	–	–
Short-term loans		12 676	–	12 676	–	–	–	–
TOTAL ASSETS		3 085 558	3 059	1 513 817	99 376	–	–	1 469 306
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	18	50 531	–	–	–	–	–	50 531
Retained earnings		927 669	–	–	–	–	–	927 669
Non-distributable reserve		809	–	–	–	–	–	809
Foreign currency translation reserve		8 909	–	–	–	–	–	8 909
Equity attributable to equity holders of the parent		987 918	–	–	–	–	–	987 918
Non-controlling interest		(581)	–	–	–	–	–	(581)
Total equity		987 337	–	–	–	–	–	987 337
Non-current liabilities								
Long-term borrowings	19	499	–	–	–	499	–	–
Deferred tax liability	14	4 504	–	–	–	–	–	4 504
Deferred income	29	12 632	–	–	–	–	–	12 632
Current liabilities								
Short-term borrowings	19	555	–	–	–	555	–	–
Trade and other payables	20	1 670 595	–	–	–	1 666 768	–	3 827
Foreign currency liabilities	21	10 031	10 031	–	–	–	–	–
Deferred income	21	19 284	–	–	–	–	–	19 284
Tax liabilities		2 408	–	–	–	–	–	2 408
Bank overdrafts	19	377 713	–	–	–	377 713	–	–
Total liabilities		2 098 221	10 031	–	–	2 045 535	–	42 655
TOTAL EQUITY AND LIABILITIES		3 085 558	10 031	–	–	2 045 535	–	1 029 992

** There are no financial instruments designated as fair value through profit and loss.*

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.1 Categories of financial investments (continued)

GROUP 2015	Notes	Total R000	Held-for-trading* R000	Loans and receivables R000	Available-for-sale R000	Financial liabilities at amortised cost R000	Finance lease receivables and payables R000	Equity and non-financial assets and liabilities R000
ASSETS								
Non-current assets								
Property, plant and equipment	9	174 709	—	—	—	—	—	174 709
Intangible assets	10	62 843	—	—	—	—	—	62 843
Investments in associates	12	61 478	—	61 478	—	—	—	—
Other investments and loans	13	77 653	—	58 911	18 742	—	—	—
Deferred tax asset	14	29 593	—	—	—	—	—	29 593
Current assets								
Inventories	15	1 335 698	—	—	—	—	—	1 335 698
Trade and other receivables	16	1 246 139	—	1 156 125	—	—	—	90 014
Foreign currency assets	21	8 179	8 179	—	—	—	—	—
Tax assets		2 059	—	—	—	—	—	2 059
Bank balances and cash	17	459 832	—	459 832	—	—	—	—
TOTAL ASSETS		3 458 183	8 179	1 736 346	18 742	—	—	1 694 916
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	18	93 354	—	—	—	—	—	93 354
Retained earnings		894 636	—	—	—	—	—	894 636
Non-distributable reserve		809	—	—	—	—	—	809
Foreign currency translation reserve		4 949	—	—	—	—	—	4 949
Equity attributable to equity holders of the parent		993 748	—	—	—	—	—	993 748
Non-controlling interest		19 268	—	—	—	—	—	19 268
Total equity		1 013 016	—	—	—	—	—	1 013 016
Non-current liabilities								
Long-term borrowings	19	23 127	—	—	—	23 127	—	—
Deferred tax liability	14	4 576	—	—	—	—	—	4 576
Deferred income	29	15 627	—	—	—	—	—	15 627
Current liabilities								
Short-term borrowings	19	2 687	—	—	—	2 687	—	—
Trade and other payables	20	2 011 195	—	—	—	2 004 309	—	6 886
Foreign currency liabilities	21	1 373	1 373	—	—	—	—	—
Deferred income	21	22 238	—	—	—	—	—	22 238
Tax liabilities		2 595	—	—	—	—	—	2 595
Bank overdrafts	19	361 749	—	—	—	361 749	—	—
Total liabilities		2 445 167	1 373	—	—	2 391 872	—	51 922
TOTAL EQUITY AND LIABILITIES		3 458 183	1 373	—	—	2 391 872	—	1 064 938

** There are no financial instruments designated as fair value through profit and loss.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.1 Categories of financial investments (continued)

COMPANY 2016	Notes	Total R000	Held-for-trading* R000	Loans and receivables R000	Available-for-sale R000	Financial liabilities at amortised cost R000	Finance lease receivables and payables R000	Equity and non-financial assets and liabilities R000
ASSETS								
Non-current assets								
Property, plant and equipment	9	**36 771**	–	–	–	–	–	36 771
Intangible assets	10	**13 721**	–	–	–	–	–	13 721
Investments in subsidiaries	11	**290 315**	–	–	–	–	–	290 315
Investments in associates	12	**22 123**	–	4 214	17 909	–	–	–
Other investments and loans	13	**58 068**	–	49 067	9 001	–	–	–
Deferred tax asset	14	**9 707**	–	–	–	–	–	9 707
Current assets								
Inventories	15	**754 820**	–	–	–	–	–	754 820
Trade and other receivables	16	**666 557**	–	662 343	–	–	–	4 214
Foreign currency assets	21	**1 922**	1 922	–	–	–	–	–
Tax assets		**13 832**	–	–	–	–	–	13 832
Bank balances and cash	17	**207 084**	–	207 084	–	–	–	–
TOTAL ASSETS		**2 074 920**	1 922	922 708	26 910	–	–	1 123 380
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	18	**50 531**	–	–	–	–	–	50 531
Retained earnings		**605 967**	–	–	–	–	–	605 967
Total equity		**656 498**	–	–	–	–	–	656 498
Non-current liabilities								
Long-term borrowings	19	**1 076**	–	–	–	1 076	–	–
Deferred income	29	**12 632**	–	–	–	–	–	12 632
Current liabilities								
Short-term borrowings	19	**152**	–	–	–	152	–	–
Trade and other payables	20	**922 590**	–	–	–	922 590	–	–
Foreign currency liabilities	21	**2 301**	2 301	–	–	–	–	–
Loans owing to subsidiaries	11	**107 275**	–	–	–	107 275	–	–
Deferred income	29	**15 680**	–	–	–	–	–	15 680
Bank overdrafts	19	**356 716**	–	–	–	356 716	–	–
Total liabilities		**1 418 422**	2 301	–	–	1 387 809	–	28 312
TOTAL EQUITY AND LIABILITIES		**2 074 920**	2 301	–	–	1 387 809	–	684 810

** There are no financial instruments designated as fair value through profit and loss.*

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.1 Categories of financial investments (continued)

COMPANY 2015	Notes	Total R000	Held-for-trading* R000	Loans and receivables R000	Available-for-sale R000	Financial liabilities at amortised cost R000	Finance lease receivables and payables R000	Equity and non-financial assets and liabilities R000
ASSETS								
Non-current assets								
Property, plant and equipment	9	34 194	—	—	—	—	—	34 194
Intangible assets	10	11 848	—	—	—	—	—	11 848
Investments in subsidiaries	11	263 195	—	—	—	—	—	263 195
Investments in associates	12	14 105	—	14 105	—	—	—	—
Other investments and loans	13	67 912	—	58 911	9 001	—	—	—
Deferred tax asset	14	18 326	—	—	—	—	—	18 326
Current assets								
Inventories	15	806 959	—	—	—	—	—	806 959
Trade and other receivables	16	788 037	—	747 994	—	—	—	40 043
Foreign currency assets	21	5 870	5 870	—	—	—	—	—
Tax assets		1 360	—	—	—	—	—	1 360
Bank balances and cash	17	328 006	—	328 006	—	—	—	—
TOTAL ASSETS		2 339 812	5 870	1 149 016	9 001	—	—	1 175 925
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	18	93 354	—	—	—	—	—	93 354
Retained earnings		598 286	—	—	—	—	—	598 286
Total equity		691 640	—	—	—	—	—	691 640
Non-current liabilities								
Long-term borrowings	19	1 108	—	—	—	1 108	—	—
Deferred income	29	15 627	—	—	—	—	—	15 627
Current liabilities								
Short-term borrowings	19	1 155	—	—	—	1 155	—	—
Trade and other payables	20	1 151 704	—	—	—	1 151 704	—	—
Foreign currency liabilities	21	126	126	—	—	—	—	—
Loans owing to subsidiaries	11	112 683	—	—	—	112 683	—	—
Deferred income	29	22 238	—	—	—	—	—	22 238
Bank overdrafts	19	343 531	—	—	—	343 531	—	—
Total liabilities		1 648 172	126	—	—	1 610 181	—	37 865
TOTAL EQUITY AND LIABILITIES		2 339 812	126	—	—	1 610 181	—	729 505

** There are no financial instruments designated as fair value through profit and loss.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.2 Risk management

The Group's Board of directors provides financial risk management services to the business, co-ordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's objectives, policies and processes for measuring and managing these risks are detailed below.

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.

21.2.1 Market risk

The Group's activities expose it primarily to the risks of fluctuations in foreign currency exchange rates, interest rates and equity price risks.

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk.

The Group enters into various derivative financial instruments to manage its exposure to foreign currency risk, including foreign exchange forward contracts and call and put options to manage the exchange rate risk arising on foreign denominated transactions.

Market risk exposures are measured using sensitivity analysis. A sensitivity analysis shows how profit before taxation and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

21.2.1.1 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/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.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.2 Risk management (continued)

21.2.1 Market risk (continued)

21.2.1.1 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)	
GROUP	**2016 R**	2015 R	**2016 R000**	2015 R000	**2016 R000**	2015 R000	**2016 R000**	2015 R000
BUY:								
US Dollar								
Less than three months	**15.06**	12.07	**32 367**	51 752	**487 566**	624 460	**(6 292)**	7 003
Three to six months	**15.57**	12.50	**1 416**	1 000	**22 051**	12 501	**(680)**	(188)
							(6 972)	6 815
Euro								
Less than three months	**–**	14.09	**–**	23	**–**	324	**–**	(9)
							–	(9)
Foreign currency assets							**3 059**	8 179
Foreign currency liabilities							**(10 031)**	(1 373)
							(6 972)	6 806
COMPANY								
BUY:								
US Dollar								
Less than three months	**14.80**	12.02	**16 522**	32 734	**244 560**	393 397	**(379)**	5 753
Three to six months	**–**	–	**–**	–	**–**	–	**–**	–
							(379)	5 753
Euro								
Less than three months	**–**	14.09	**–**	23	**–**	324	**–**	(9)
							–	(9)
Foreign currency assets							**1 922**	5 870
Foreign currency liabilities							**(2 301)**	(126)
							(379)	5 744

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

	Average spot rate		Closing spot rate	
	2016 R	2015 R	**2016 R**	2015 R
US Dollar	**14.50**	11.45	**14.72**	12.16
Euro	**16.11**	13.73	**16.49**	13.62

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.2 Risk management (continued)

21.2.1 Market risk (continued)

21.2.1.1 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.

	2016			2015		
Functional currency (liabilities) assets	**United States Dollar R000**	**Euro R000**	**Other* R000**	United States Dollar R000	Euro R000	Other* R000
GROUP						
South African Rand	**(623 914)**	**(1 778)**	**35 818**	(737 933)	(64 758)	33 514
Kenyan Shilling	**(20 563)**	**—**	**1 285**	(20 196)	—	8 977
	(644 477)	**(1 778)**	**37 103**	(758 129)	(64 758)	42 491
COMPANY						
South African Rand	**(364 839)**	**(2 123)**	**—**	(372 369)	(64 759)	—
	(364 839)	**(2 123)**	**—**	(372 369)	(64 759)	—

** 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.

	2016 R000	2015 R000
GROUP		
Profit before tax	**67 980**	73 586
COMPANY		
Profit before tax	**36 272**	30 761

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.2 Risk management (continued)

21.2.1 Market risk (continued)

21.2.1.2 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	
	2016 R000	2015 R000	2016 R000	2015 R000
Financial liabilities				
Loans received at fixed rates of interest	**–**	23 096	**–**	–
Loans received and bank borrowings linked to LIBOR	**908 413**	815 542	**429 283**	403 079
Loans received and bank borrowings linked to JIBAR	**356 716**	343 656	**356 716**	343 531
	1 265 129	1 182 294	**785 999**	746 610
Financial assets				
Loans granted at fixed rates of interest	**1 969**	2 122	**1 969**	2 122
Loans granted and bank deposits linked to South African prime rates	**148 685**	209 612	**39 122**	62 331
Bank deposits linked to LIBOR	**191 269**	290 056	**165 737**	261 812
Bank deposits linked to money market rates	**4 775**	14 202	**2 225**	3 863
Bank deposits linked to Australian prime rates	**–**	439	**–**	–
Bank deposits linked to Kenyan prime rates	**1 285**	898	**–**	–
Bank deposits linked to other foreign prime rates	**36 299**	935	**–**	–
	384 282	518 264	**209 053**	330 128

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the statement of financial position date. The analysis is prepared assuming the amount of the instrument outstanding at the statement of financial position date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel. If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group and company's profit before tax for the year ended 30 June 2016 would decrease/increase by R8.8 million (2015: R6.4 million) and R5.8 million (2015: R4.2 million) respectively.

The Group is exposed to equity price risk arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. If equity had been 5% higher/lower:

- profit before tax for the year ended 30 June 2016 and 30 June 2015 would have been unaffected as the equity investments are classified as available-for-sale with all fair value adjustments recognised directly in equity
- investment revaluation reserve for the year ended 30 June 2016 would decrease/increase by Rnil (2015: Rnil).

The Group's sensitivity to equity prices has not changed significantly from the prior year.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.2 Risk management (continued)

21.2.2 Credit risk

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.

Refer to notes 16 and 17 for additional information relating to credit risk.

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 R685.8 million (2015: R723.8 million) and R359.8 million (2015: R352.8 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.

The following represents information on the credit quality of trade receivables that are past due but not impaired:

	GROUP		COMPANY	
	2016 %	2015 %	**2016 %**	2015 %
High	**—**	—	**—**	—
Medium	**—**	—	**—**	—
Low	**100**	100	**100**	100
	100	100	**100**	100

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.

21. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued)

21.2 Risk management (continued)

21.2.2 Credit risk (continued)

The following represents an analysis of the age of financial assets that are past due but not impaired:

	Total R000	1 – 30 days past due R000	31 – 60 days past due R000	61 – 90 days past due R000	91 – 120 days past due R000
GROUP 2016					
Trade and other receivables – South Africa	**94 381**	**43 620**	**10 905**	**7 864**	**31 992**
Trade and other receivables – non-South African	**10 392**	**6 748**	**2 892**	**637**	**115**
	104 773	**50 368**	**13 797**	**8 501**	**32 107**
GROUP 2015					
Trade and other receivables – South Africa	86 456	44 692	11 724	7 433	22 607
Trade and other receivables – non-South African	15 908	3 856	251	577	11 224
	102 364	48 548	11 975	8 010	33 831
COMPANY 2016					
Trade and other receivables – South Africa	**89 432**	**38 671**	**10 905**	**7 864**	**31 992**
Trade and other receivables – non-South African	**10 392**	**6 748**	**2 892**	**637**	**115**
	99 824	**45 419**	**13 797**	**8 501**	**32 107**
COMPANY 2015					
Trade and other receivables – South Africa	81 508	39 744	11 724	7 433	22 607
Trade and other receivables – non-South African	15 908	3 856	251	577	11 224
	97 416	43 600	11 975	8 010	33 831

21.2.3 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 19 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 based on the earliest date on which the Group and company can be required to pay.

	Total R000	0 – 1 year R000	2 years R000	3 – 5 years R000	5 years + R000
GROUP 2016					
Non-interest-bearing	**783 180**	**783 180**	**–**	**–**	**–**
Variable interest rate instruments	**1 265 129**	**1 265 129**	**–**	**–**	**–**
Fixed interest rate instruments	**–**	**–**	**–**	**–**	**–**
	2 048 309	**2 048 309**	**–**	**–**	**–**
GROUP 2015					
Non-interest-bearing	1 213 746	1 213 746	–	–	–
Variable interest rate instruments	1 159 198	1 159 198	–	–	–
Fixed interest rate instruments	23 096	1 350	1 350	4 050	16 346
	2 396 040	2 374 294	1 350	4 050	16 346

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.2 Risk management (continued)

21.2.3 Liquidity risk management (continued)

	Total R000	0 – 1 year R000	2 years R000	3 – 5 years R000	5 years + R000
COMPANY 2016					
Non-interest-bearing	**493 308**	**493 308**	**–**	**–**	**–**
Variable interest rate instruments	**785 998**	**785 998**	**–**	**–**	**–**
	1 279 306	**1 279 306**	**–**	**–**	**–**
COMPANY 2015					
Non-interest-bearing	748 626	748 626	–	–	–
Variable interest rate instruments	746 610	746 610	–	–	–
	1 495 236	1 495 236	–	–	–

21.2.4 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 19 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.

The gearing ratio at year-end was:

	GROUP		COMPANY	
	2016 R000	2015 R000	2016 R000	2015 R000
Total interest-bearing debt	**1 265 129**	1 182 294	**785 999**	746 610
Bank balances and cash	**(383 613)**	(459 832)	**(207 084)**	(328 006)
Net interest-bearing debt	**881 516**	722 462	**578 915**	418 604
Equity	**987 918**	993 748	**656 498**	691 640
Net debt-to-equity ratio	**89.2%**	72.7%	**88.2%**	60.5%
Total debt-to-equity ratio	**128.1%**	119.0%	**119.7%**	107.9%

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.3 Net (losses) gains on financial instruments (continued)

Net gains (losses) on financial instruments analysed by category are:

	GROUP		COMPANY	
	2016 R000	2015 R000	**2016 R000**	2015 R000
Financial assets and financial liabilities at fair value through profit or loss, classified as held-for-trading	**(6 971)**	6 806	**(380)**	5 744
Loans and receivables (including bank and cash)	**19 278**	17 364	**12 905**	65 686
Financial liabilities held at amortised cost	**(115 266)**	(84 768)	**(87 350)**	(48 286)
Net (losses) gain attributable to financial instruments	**(102 959)**	(60 598)	**(74 825)**	23 144

21.4.1 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analyses using prices from observable current market transactions and dealer quotes for similar instruments
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

21.4.2 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.

Refer to note 21.2.1.1 for a foreign currency sensitivity analysis, which includes the potential profits or losses on open foreign currency contracts due to movements in exchange rates.

Level 3 financial assets consist of shares held in Zinox Technologies Limited (refer to note 13). 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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.3 Net (losses) gains on financial instruments (continued)

21.4.2 Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position (continued)

	Level 1 R000	Level 2 R000	Level 3 R000
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	–	–	18 742
Total – available-for-sale	–	–	18 742
Total financial assets and (liabilities) at fair value	–	(6 972)	18 742
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

21. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued)

21.3 Net (losses) gains on financial instruments (continued)

21.4.2 Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position (continued)

	Level 1 R000	Level 2 R000	Level 3 R000
GROUP 2015			
Held-for-trading			
Foreign currency assets	–	8 179	–
Foreign currency liabilities	–	(1 373)	–
Total – held-for-trading	–	6 806	–
Available-for-sale			
Other investments and loans	–	–	18 742
Total – available-for-sale	–	–	18 742
Total financial assets and (liabilities) at fair value	–	6 806	18 742
COMPANY 2015			
Held-for-trading			
Foreign currency assets	–	5 870	–
Foreign currency liabilities	–	(126)	–
Total – held-for-trading	–	5 744	–
Available-for-sale			
Other investments and loans	–	–	9 001
Total – available-for-sale	–	–	9 001
Total financial assets and (liabilities) at fair value	–	5 744	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 2015			
Opening balance	–	–	18 742
Closing balance	–	–	18 742
COMPANY 2015			
Opening balance	–	–	9 001
Closing balance	–	–	9 001

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

21.3 Net (losses) gains on financial instruments (continued)

21.4.2 Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position (continued)

The fair values of financial assets and financial liabilities are determined as follows:

Other investments and loans

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 value adjustments or impairments have been recognised for this investment (refer to note 13).

21.4.3 Fair value disclosure

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	2016		2015	
	Carrying amount R000	Fair value R000	Carrying amount R000	Fair value R000
GROUP				
Financial assets				
Loans and receivables:				
Non-current trade and other receivables	–	–	–	–
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	–	–	23 096	12 195
COMPANY				
Financial assets				
Loans and receivables:				
Non-current trade and other receivables	–	–	–	–
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	–	–	–	–

The financial liability not carried at fair value in the previous financial year, related to a mortgage loan on a property held in Rectron Australia BV. The fair value was calculated as the amortised cost of the liability, discounted at the applicable mortgage interest rate. This property and the mortgage over the property, was disposed of as part of the disposal of Rectron Australia BV, during the current financial year (refer to note 31).

21.4.4 Assumptions used in determining fair value of financial assets and liabilities

Non-current trade and other receivables

The interest rate used to discount the cash flows of the non-current trade and other receivables is the South African prime rate of 10.5% (2015: 9.25%) and holding the credit risk margin constant.

Borrowings

The fair value of the fixed rate loans is determined based on interest rates applicable on similar loans on 30 June 2016 and 30 June 2015 respectively. All other variables remained constant.

22. NET CASH FROM OPERATIONS

	GROUP		COMPANY	
	2016 R000	2015 R000	2016 R000	2015 R000
Profit for the year	**78 944**	134 107	**43 286**	152 459
Adjustments for:				
Income tax expense	**27 237**	50 155	**13 100**	37 499
Interest income	**(19 281)**	(17 364)	**(12 905)**	(8 118)
Finance costs	**110 793**	77 416	**66 066**	43 886
Dividend income	**—**	—	**(12 024)**	(57 568)
Depreciation of property, plant and equipment	**20 333**	14 804	**12 495**	10 033
Net loss (profit) on disposal of plant and equipment	**368**	(46)	**80**	(48)
Unrealised foreign exchange (profits) losses	**(25 801)**	11 905	**(24 725)**	5 882
Fair value adjustments of derivative instruments	**6 971**	(6 805)	**380**	(5 744)
Share-based payment	**(12 704)**	7 796	**(11 292)**	6 443
Amortisation of intangible assets	**8 709**	7 341	**7 877**	6 811
Loss on disposal of subsidiary	**2 278**	—	**—**	—
Share of profit of associates	**(15 352)**	(10 813)	**—**	—
Operating cash flows before movements in working capital	**182 495**	268 496	**82 338**	191 535
Working capital movements	**(7 448)**	105 527	**(30 907)**	36 275
Decrease (increase) in inventories	**62 243**	(65 819)	**52 139**	(19 842)
Decrease (increase) in trade and other receivables	**131 109**	(407 103)	**121 480**	(347 251)
Decrease in deferred income	**(2 954)**	(13 232)	**(6 558)**	(13 230)
(Decrease) increase in trade and other payables	**(197 846)**	591 681	**(197 968)**	416 598
Net cash from operations	**175 047**	374 023	**51 431**	227 810

23. OPERATING LEASE ARRANGEMENTS

The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	GROUP		COMPANY	
	2016 R000	2015 R000	2016 R000	2015 R000
Cash due:				
During the ensuing year	**13 492**	28 252	**11 867**	24 455
In the second year	**4 886**	12 786	**5 698**	9 561
In the third to fifth year inclusive	**6 457**	8 244	**9 732**	5 579
Thereafter	**—**	413	**—**	413
	24 835	49 695	**27 297**	40 008
Operating lease liability	**1 054**	2 718	**1 228**	2 263
To be expensed:				
During the ensuing year	**12 817**	26 916	**11 618**	23 302
In the second year	**4 767**	12 033	**5 579**	9 081
In the third to fifth year inclusive	**6 197**	7 697	**8 872**	5 031
Thereafter	**—**	331	**—**	331
	24 835	49 695	**27 297**	40 008

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 renewal or purchase options, nor is any of these leases subject to any restrictive terms.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

24. GUARANTEES AND CONTINGENT LIABILITIES

Limited guarantees

- Standby letter of credit for Intel International BV for USD0.5 million
- USD3.0 million guarantee of payment in favour of Bank of China Limited on behalf of Mustek East Africa Proprietary Limited
- USD1.0 million guarantee of payment in favour of HSBC Bank PLC on behalf of Mustek East Africa Proprietary Limited
- USD0.5 million guarantee of payment in favour of Lenovo PC HK Limited on behalf of Mustek East Africa Proprietary Limited
- R4.5 million guarantee of payment in favour of Department of Customs & Excise, South African Revenue Service.

Legal dispute

The Group has no significant legal matters pending.

25. RETIREMENT BENEFIT PLANS

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. Refer to note 3 for contributions to fund.

26. INTERESTS OF DIRECTORS IN CONTRACTS

Mustek Limited has entered into a lease agreement with Mustek Electronics Properties Proprietary Limited, with effect from 1 September 2011 and terminating on 31 August 2016. 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 R16.8 million (2015: R14.7 million) were paid with regards to the lease agreement (refer to note 27).

The aforementioned transaction was done at arm's length.

Apart from the aforementioned lease agreement, the directors have certified that they were not materially interested in any transaction of any significance with the company or any of its subsidiaries. Accordingly, a conflict of interest with regards to directors' interest in contracts does not exist.

27. RELATED-PARTY TRANSACTIONS

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	**Loan**	**—**	**(7 960)**
Mecer Technology Limited	**Management fees**	**(6 902)**	**—**
	Purchases	**(587)**	**—**
Makeshift 1000 Proprietary Limited[4]	**Loan**	**—**	**43 192**
Mustek Capital Proprietary Limited[1]	**Loan**	**—**	**(10 520)**
Mustek East Africa Limited[1]	**Sales**	**—**	**(913)**
	Loan	**(5 884)**	**32 246**
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**	**(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)**

Note: Refer to note 11 for a complete list of subsidiaries and further details about these entities.

[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] *R43.1 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.*

27. RELATED-PARTY TRANSACTIONS (continued)

Associates

	Type of transaction	Amount of transaction received R000	Amount receivable R000
Continuous Power Systems Proprietary Limited[1]	**Loan**	**2 390**	**4 214**

Note: Refer to note 12 for a complete list of associates.

[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.

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.

During the 2015 financial year, the company had the following related parties:

Subsidiaries

2015 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Brobusmac Investments Proprietary Limited	Loan	—	(7 960)
Mecer Technology Limited	Management fees	(5 477)	—
Makeshift 1000 Proprietary Limited[4]	Loan	—	43 192
Mustek Capital Proprietary Limited[1]	Loan	—	(10 520)
Mustek East Africa Limited[1]	Sales	2 287	—
	Loan	(3 987)	26 362
Mustek Lesotho Proprietary Limited[6]	Sales	—	—
	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	(867)	20 682
Rectron Holdings Limited[1]	Sales	55 336	718
	Purchases	(281 839)	(32 073)
Tradeselect 38 Proprietary Limited	Loan	—	(11 912)

Note: Refer to note 11 for a complete list of subsidiaries and further details about these entities.

[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] R43.1 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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

27. 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	1 576	6 604

Note: Refer to note 12 for a complete list of associates.

[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.*

Other related parties

2015 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	513	1 304
Mustek Electronics Properties Proprietary Limited[2]	Common directorship	Operating lease	(14 735)	–

[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.*

Key management personnel compensation

The remuneration of directors and other members of key management during the year was as follows:

	GROUP		COMPANY	
	2016 R000	2015 R000	**2016 R000**	2015 R000
Short-term benefits	**21 165**	18 098	**11 547**	9 340
Share-based payments	**(12 704)**	7 796	**(11 292)**	6 443
	8 461	25 894	**255**	15 783

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

2016	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	**–**	**7 467**	**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.*

27. RELATED-PARTY TRANSACTIONS (continued)

Other related parties (continued)

Key management personnel compensation (continued)

2015	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	—	6 344	831	489	1 676	—	9 340
DC Kan	—	2 223	465	202	632	—	3 522
H Engelbrecht	—	2 420	270	200	632	—	3 522
CJ Coetzee	—	1 701	96	87	412	—	2 296
Non-executive directors	1 174	—	—	—	—	—	1 174
ME Gama	251	—	—	—	—	—	251
RB Patmore	312	—	—	—	—	—	312
D Konar	410	—	—	—	—	—	410
T Dingaan	201	—	—	—	—	—	201
	1 174	6 344	831	489	1 676	—	10 514

Directors' shareholding

At 30 June 2016, the directors collectively held the following direct and indirect interests in shares in the company, which represents 16.6% (2015: 15.7%) of the issued share capital of the company. (No change occurred between 30 June 2016 and 30 August 2016):

	Beneficial			
	Direct		Indirect	
	2016	2015	2016	2015
DC Kan	**2 288 046**	2 288 046	**11 492 525**	11 492 525
H Engelbrecht	**1 750 000**	1 750 000	**—**	—
CJ Coetzee[1]	**735 000**	735 000	**—**	—
D Konar[2]	**—**	25 303	**—**	—
	4 773 046	4 798 349	**11 492 525**	11 492 525

[1] Includes 300 000 shares held through contracts for difference (2015: 300 000 shares held through contracts for difference).
[2] Resigned on 4 December 2015.

These shareholdings exclude options held. The remainder of the directors do not hold any shares.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

27. RELATED-PARTY TRANSACTIONS (continued)

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.

	Weighted average price (Rand)		Number of options	
	2016	2015	**2016**	2015
Phantom shares outstanding at the beginning of the year	**4.98**	4.71	**4 050 000**	3 300 000
Phantom shares granted during the year	**8.64**	6.16	**4 296 000**	750 000
Phantom shares exercised during the year	**4.71**	—	**(1 350 000)**	—
Phantom shares that lapsed during the year	**8.64**	—	**(185 000)**	—
Phantom shares outstanding at year-end	**7.24**	4.98	**6 811 000**	4 050 000

A total of 4 296 000 phantom shares were granted to a number of employees during the current financial year, of which 185 000 lapsed. A total of 1 350 000 phantom shares with a grant price of R4.71 were exercised during the year at an exercise price of R6.90. A total of 750 000 phantom shares were granted to an employee during the 2014 financial year. A total of 3 300 000 phantom shares were granted to employees in the 2012 financial year. The fair values were calculated using a trinomial tree that adheres to all the Black-Scholes option-pricing model principles. All these share options are cash settled. The inputs into the model were as follows:

	30 June 2016	30 June 2015
Share price	**R5.30**	R8.70
Grant price	**R4.71/R6.16/R8.64**	R4.71/R6.16
Expected volatility	**29.50%/34%/30.7%**	26%/30%
Expected life	**0 years/1 years/2 years**	0 years/2 years
Risk-free rate	**6.99%/7.60%/7.10%**	6.744%/6.728%
Expected dividend yield	**4%/4%/4%**	3.1%/3.1%

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 R12 703 904 and R11 292 425 respectively (2015: expense of R7 795 814 and R6 443 250 respectively) related to cash-settled share appreciation rights during the current year. A similar amount has been included as part of other payables.

27. RELATED-PARTY TRANSACTIONS (continued)

Share-based payments (continued)

Share appreciation rights scheme (continued)

Option price	2017	2018	2019	Number of undelivered phantom shares	Total Rand value
R4.71	1 950 000	—	—	1 950 000	9 184 500
R6.16	500 000	250 000	—	750 000	4 620 000
R8.64	1 370 333	1 370 333	1 370 334	4 111 000	35 519 040
	3 820 333	1 620 333	1 370 334	6 811 000	49 323 540

The directors have the following phantom share options outstanding:

Director	Grant price	Grant date	Undelivered phantom shares at 30 June 2016	Undelivered phantom shares at 30 June 2015
DC Kan	R4.71	1 July 2011	**500 000**	1 500 000
H Engelbrecht	R4.71	1 July 2011	**1 050 000**	1 050 000
CJ Coetzee	R4.71	1 July 2011	**400 000**	750 000
DC Kan	R8.64	13 November 2015	**740 000**	—
H Engelbrecht	R8.64	13 November 2015	**629 000**	—
CJ Coetzee	R8.64	13 November 2015	**518 000**	—
			3 837 000	3 300 000

Executive share trust

No new options have been granted under this scheme after 1 December 2006. The scheme consisted of both a share option scheme where options can be awarded by either the company or the trust and a share purchase scheme where shares are purchased through the trust. In terms of the option scheme, participants were granted options to acquire shares in the company. In terms of the share purchase scheme, shares were offered to employees for purchase.

Until 30 June 2003, the trust did not own any shares. On 1 July 2003, the trust was offered 2 895 358 options at R5.00 each to be delivered equally over a five-year period. The trust accepted and exercised the full option and was issued 2 316 286 shares until 30 June 2016 (2015: 2 316 286). In turn, the trust allocated the shares for transfer to participants at R5.00 each after obtaining the necessary permission from the JSE Issuer Regulations division.

	Weighted average price 2016	2015	Number of options 2016	2015
Options undelivered at the beginning of the year	**–**	R9.45	**–**	1 940 000
Options delivered during the year	**–**	R8.36	**–**	(1 940 000)
Options undelivered at year-end	**–**	—	**–**	—

No share options were granted to employees in the current financial year (2015: nil). The fair values were calculated using a binomial tree that adheres to all the Black-Scholes option pricing model principles. All these share options are equity-settled and therefore only valued upon granting.

The Group and company recognised total expenses of Rnil (2015: Rnil) related to equity-settled share options during the current and previous years respectively. All expenses relating to the outstanding share options have been expensed.

Notes to the annual financial statements (continued)

for the year ended 30 June 2016

28. CAPITAL EXPENDITURE

On 24 April 2016, the Group acquired land in Bloemfontein which is being developed for a total amount of R8.2 million.

Apart for the capital expenditure mentioned above, the Group and company do not have any significant planned capital expenditure in the near future.

29. DEFERRED INCOME

	GROUP		COMPANY	
	2016 R000	2015 R000	**2016 R000**	2015 R000
Deferred income realising in the next 12 months	**19 284**	22 238	**15 680**	22 238
Deferred income reclassified to long-term liabilities	**12 632**	15 627	**12 632**	15 627
Total deferred income	**31 916**	37 865	**28 312**	37 865

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.

30. 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.

31. PROCEEDS ON DISPOSAL OF SUBSIDIARY

On 11 February 2016, the Group disposed of Rectron Australia BV. The aggregate value of assets and liabilities were as follows:

	GROUP	
	2016 R000	2015 R000
Property, plant and equipment	**34 291**	–
Development costs	**259**	–
Inventories	**65 773**	–
Trade and other receivables	**52 146**	–
Bank balances and cash	**1 263**	–
Deferred tax asset	**9 436**	–
Trade and other payables	**(108 056)**	–
Long-term borrowings	**(40 895)**	–
Net asset value disposed	**14 217**	–
Loss on disposal	**(2 278)**	
Total consideration	**11 939**	–
Receivable at date if disposal	**(11 939)**	
Cash and cash equivalents disposed	**(1 263)**	–
Net cash outflow	**(1 263)**	–

At year-end, an amount of R12.7 million was receivable with regards to the disposal of Rectron Australia BV.

32. ACQUISITION OF INCREASED SHARE IN SUBSIDIARIES

On 30 September 2015, the Group increased its investment in Rectron Australia BV from 50% to 100% and on 29 June 2016, Mustek Limited increased its investment in Zatophase Proprietary Limited from 65% to 100%. The aggregate value of assets and liabilities were as follows:

	Total		Rectron Australia BV		Zatophase Proprietary Limited	
	2016 R000	2015 R000	2016 R000	2015 R000	2016 R000	2015 R000
Total consideration paid	**30 456**	—	**9 679**	—	**20 777**	—
Trade and other payables at year-end	**(10 614)**	—	**(10 614)**	—	**—**	—
Total consideration settled in cash	**19 842**	—	**(935)**	—	**20 777**	—
Non-controlling interest derecognised	**24 465**	—	**6 907**	—	**17 558**	—
Net difference debited to retained earnings	**5 992**	—	**2 772**	—	**3 220**	—

33. SUMMARISED FINANCIAL INFORMATION OF THE GROUP'S MATERIAL NON-CONTROLLING INTERESTS BEFORE INTERGROUP CONSOLIDATION ENTRIES

	Rectron Australia BV		Zatophase Proprietary Limited		Soft 99 Proprietary Limited	
	2016 R000	2015 R000	2016 R000	2015 R000	2016 R000	2015 R000
Non-current assets	**—**	35 008	**50 165**	36 719	**691**	599
Current assets	**—**	100 211	**—**	—	**1**	1
Non-current liabilities	**—**	(33 786)	**—**	—	**(3 730)**	(3 300)
Current liabilities	**—**	(87 591)	**—**	(369)	**(1 470)**	(1 470)
Revenue from continuing operations	**—**	—	**—**	—	**2**	2
Profit (loss) for the year from continuing operations	**—**	—	**13 445**	10 166	**(337)**	(533)
Loss for the year from discontinued operations	**(5 811)**	(4 713)	**—**		**—**	—
(Loss) profit for the year	**(5 811)**	(4 713)	**13 445**	10 166	**(337)**	(533)
(Loss) profit attributable to owners of the parent	**(5 495)**	(2 713)	**8 739**	6 608	**(261)**	(704)
(Loss) profit attributable to the non-controlling interests	**(316)**	(2 000)	**4 706**	3 558	**(76)**	(171)
(Loss) profit for the year	**(5 811)**	(4 713)	**13 445**	10 166	**(337)**	(875)
Total comprehensive (loss) income attributable to owners of the parent	**(5 495)**	(2 713)	**8 739**	6 608	**(261)**	(704)
Total comprehensive (loss) income attributable to the non-controlling interests	**(14)**	(2 000)	**4 706**	3 558	**(76)**	(171)
Total comprehensive (loss) income for the year	**(5 509)**	(4 713)	**13 445**	10 166	**(337)**	(875)
Dividends paid to non-controlling interests	**—**	—	**—**	—	**—**	—

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, 8 December 2016 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 2016; 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

AGM notice posted to shareholders	Tuesday, 8 November 2016
Last date to trade in order to be eligible to vote at the annual general meeting	Tuesday, 29 November 2016
Record date in order to be eligible to vote at the annual general meeting	Friday, 2 December 2016
Last day to lodge forms of proxy for the annual general meeting (by 10:00)	Wednesday, 7 December 2016
Annual general meeting (at 10:00)	Thursday, 8 December 2016
Results of the annual general meeting released on SENS	Thursday, 8 December 2016

1. Shareholders entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the company. A form of proxy, in which are set out the relevant instructions for its completion, is enclosed for the use of a certificated shareholder or own-name registered dematerialised shareholder who wishes to be represented at the annual general meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the annual general meeting.

2. The instrument appointing a proxy and the authority (if any) under which it is signed must reach the company's transfer secretaries at the address given below by not later than 10:00 on Wednesday, 7 December 2016.

3. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who wish to attend the annual general meeting in person will need to request their Central Securities Depository Participant (CSDP) or broker to provide them with the necessary letter of representation in terms of the custody agreement entered into between such shareholders and the CSDP or broker.

4. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who are unable to attend the annual general meeting and who wish to be represented thereat, must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between them and the CSDP or broker in the manner and time stipulated therein.

5. Shareholders present in person, by proxy or by authorised representative shall, on a show of hands, have one vote each and, on a poll, will have one vote in respect of each share held.

6. In terms of the Companies Act, any shareholder or proxy who intends to attend or participate at the annual general meeting must be able to present reasonably satisfactory identification at the meeting for such shareholder or proxy to attend and participate at the annual general meeting. A green bar-coded identification document issued by the South African Department of Home Affairs, a driver's licence or a valid passport will be accepted at the annual general meeting as sufficient identification.

AGENDA

1. Presentation and consideration of the annual financial statements of the Group, including the reports of the directors and the Audit and Risk Committee for the year ended 30 June 2016 as set out in the company's integrated annual report 2016 of which this AGM notice forms part of; and

2. To consider and, if deemed fit, approve, with or without modification, the following special and ordinary resolutions:

   Note:
   For any of the ordinary resolutions numbers 1 to 9 and 11 to be adopted, more than 50% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

   For any of the special resolutions numbers 1 to 3 to be adopted, more than 75% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

   For ordinary resolution number 10 to be adopted, more than 75% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

ORDINARY BUSINESS

1. Ordinary resolution number 1: Confirmation of the appointment of Lindani Dhlamini

To ratify the appointment of Lindani Dhlamini who was appointed as an independent non-executive director of the company with effect from 4 December 2015.

An abbreviated *curriculum vitae* in respect of Lindani Dhlamini may be viewed on page 91 of this annual integrated report.

2. Ordinary resolution number 2: Confirmation of the appointment of Vukile Mehana

To ratify the appointment of Vukile Mehana who was appointed as a non-executive director of the company with effect from 1 February 2016.

An abbreviated *curriculum vitae* in respect of Vukile Mehana may be viewed on page 91 of this annual integrated report.

Reason for ordinary resolution numbers 1 and 2

The reason for ordinary resolution numbers 1 and 2 is that article 5.1.2 of the memorandum of incorporation of the company and, to the extent applicable, the Companies Act, requires that director appointments must be approved by shareholders at the next AGM.

3. Ordinary resolution number 3: Re-election of Mdu Gama

"Resolved that Mdu Gama, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

An abbreviated *curriculum vitae* in respect of Mdu Gama may be viewed on page 91 of the integrated annual report of which this notice forms part.

The Remuneration and Nominations Committee has considered Mdu Gama's past performance and contribution to the company and in, accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that Mdu Gama is re-elected as a director of the company.

Reason for ordinary resolution number 3

The reason for ordinary resolution number 3 is that article 5.1.8 of the memorandum of incorporation of the company and, to the extent applicable, the Companies Act, requires that a component of the directors rotate at the annual general meeting and, being eligible may offer themselves for re-election as directors.

4. Ordinary resolution number 4: Confirmation of the re-appointment of the auditors

"Resolved that the re-appointment of Deloitte & Touche as independent auditors of the company for the ensuing year (the designated auditor being Martin Bierman) on the recommendation of the company's Audit and Risk Committee be hereby ratified."

Reason for ordinary resolution number 4

The reason for ordinary resolution number 4 is that the company, being a public-listed company, must have its financial results audited and such auditor must be appointed or re-appointed each year at the annual general meeting of the company as required by the Companies Act.

5. Ordinary resolution number 5: Appointment of Lindani Dhlamini as a member and Chairman to the Audit and Risk Committee

"Resolved that Lindani Dhlamini be elected a member and Chairman of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

An abbreviated *curriculum vitae* in respect of Lindani Dhlamini may be viewed on page 91 of the integrated annual report of which this notice forms part.

Notice of annual general meeting (continued)

6. Ordinary resolution number 6: Appointment of Ralph Patmore as a member to the Audit and Risk Committee

"Resolved that Ralph Patmore be elected a member of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

An abbreviated *curriculum vitae* in respect of Ralph Patmore may be viewed on page 91 of the integrated annual report of which this notice forms part.

7. Ordinary resolution number 7: Appointment of Mdu Gama as a member to the Audit and Risk Committee

"Resolved that Mdu Gama be elected a member of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

An abbreviated *curriculum vitae* in respect of Mdu Gama may be viewed on page 91 of the integrated annual report of which this notice forms part.

Reason for ordinary resolutions numbers 5 to 7

The reason for ordinary resolution numbers 5 to 7 (inclusive) is that the company, being a public-listed company, must appoint an audit committee as prescribed by sections 66(2) and 94(2) of the Companies Act, which also requires that the members of such audit committee be appointed, or re-appointed, as the case may be, at each annual general meeting of a company.

8. Ordinary resolution number 8: Endorsement of remuneration philosophy

To endorse the company's remuneration philosophy, as set out in the remuneration report on pages 87 to 89 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 annual general meeting 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 8 December 2016, be and are hereby placed under the control of the directors until the next annual general meeting and that they be and are hereby authorised to issue any such shares as they may deem fit, subject to the Companies Act, the memorandum of incorporation of the company, and the provisions of the Listings Requirements of the JSE Limited (JSE), save that the aforementioned 5% limitation shall not apply to any shares issued in terms of a rights offer."

Reason for ordinary resolution number 9

The reason for ordinary resolution number 9 is that the Board requires authority from shareholders in terms of article 3 of its memorandum of incorporation to issue shares in the company. This general authority, once granted, allows the Board from time to time, when it is appropriate to do so, to issue ordinary shares as may be required *inter alia* in terms of capital raising exercises, and to maintain a healthy capital adequacy ratio that may be required from time to time. This general authority is subject to the restriction that it is limited to 5% of the number of shares in issue at 8 December 2016 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% of the issued share capital at 25 October 2016, provided that:

– the approval shall be valid until the date of the next annual general meeting of the company, provided it shall not extend beyond 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 (4 650 000) 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 volume weighted average traded price of such shares, as determined over the 30 trading days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE should be consulted for a ruling if the securities have not traded in such 30 business day period;
- any such issue will only be made to public shareholders as defined in paragraphs 4.25 to 4.27 of the Listings Requirements of the JSE and not to related parties; and
- any such issue will only be securities of a class already in issue or, if this is not the case, will be limited to such securities or rights that are convertible into a class already in issue."

The reason for ordinary resolution number 10

For listed entities wishing to issue shares, it is necessary for the Board not only to obtain the prior authority of the shareholders as may be required in terms of their memorandum of incorporation contemplated in ordinary resolution number 11 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 11 must accordingly be read together with authority granted in terms of ordinary resolution number 8 above and any exercise thereof will be subject to the conditions contained in ordinary resolution number 11.

Note: This resolution requires the approval of not less than 75% of the votes cast by shareholders present or represented by proxy and entitled to vote at this annual general meeting.

11. Ordinary resolution number 11: Authority to action

"Resolved that any one director of the company and /or the Company Secretary is hereby authorised to do all such things and sign all such documents as deemed necessary to implement the ordinary and special resolutions as set out in this notice convening the annual general meeting at which these resolutions will be considered."

The reason for ordinary resolution number 11

The reason for ordinary resolution number 11 is to ensure that the resolutions voted favourably upon is duly implemented through the delegation of powers provided for in terms of clause 5.3 of the company's memorandum of incorporation.

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 annual general meeting until the next annual general meeting held in 2017:

CATEGORY	RECOMMENDED REMUNERATION
Chairman	R335 300 annual retainer
Board member	R89 500 annual retainer R13 250 per meeting attended
Audit and Risk Committee	
Chairman	R71 500 annual retainer R16 750 per meeting attended
Member	R39 600 annual retainer R10 500 per meeting attended
Remuneration and Nominations Committee	
Chairman	R63 300 annual retainer R17 500 per meeting attended
Member	R48 500 annual retainer R13 750 per meeting attended
Employment Equity Committee	
Chairman	R27 900 annual retainer
Member	R16 800 annual retainer
Social and Ethics Committee	
Chairman	R24 300 annual retainer R9 000 per meeting attended
Member	R10 100 annual retainer R4 400 per meeting attended

Reasons for and effect of special resolution number 1
The reason for the proposed special resolution, is to comply with section 66(9) of the Companies Act, which requires the approval of directors fees prior to the payment of such fees.

The effect of special resolution number 1 is that the company will be able to pay its non-executive directors for the services they render to the company as directors without requiring further shareholder approval until the next annual general meeting.

2.2 Special resolution number 2: Financial assistance to related and inter-related companies

"Resolved that the Board of directors of the Group be and is hereby authorised in terms of section 45(3)(a)(ii) of the Companies Act, as a general approval (which approval will be in place for a period of two years from the date of adoption of this special resolution number 4), to authorise the Group to provide any direct or indirect financial assistance (financial assistance) will herein have the meaning attributed to such term in section 45(1) of the Companies Act) that the Board may deem fit to any related or inter-related Company of the Group (related and inter-related) will herein have the meanings attributed to those terms in section 2 of the Companies Act), on the terms and conditions and for the amounts that the Board of directors may determine."

Reason for and effect of special resolution number 2
The reason for and the effect of special resolution number 2 is to provide a general authority to the Board of directors of the Group for the Group to grant direct or indirect financial assistance to any company forming part of the Group, including in the form of loans or the guaranteeing of their debts.

2.3 Special resolution number 3: Authority to repurchase shares by the company

"Resolved that as a special resolution that the company and its subsidiaries be and is hereby authorised, as a general approval, to repurchase any of the shares issued by the Company, upon such terms and conditions and in such amounts as the directors may from time to time determine, but subject to the provisions of sections 46 and 48 of the Companies Act, the memorandum of incorporation of the company, the Listings Requirements of the JSE and the requirements of any other stock exchange on which the shares of the company may be quoted or listed, namely that:

- the general repurchase of the shares may only be implemented on the open market of the JSE and done without any prior understanding or arrangement between the company and the counterparty;
- this general authority shall only be valid until the next annual general meeting of the company, provided that it shall not extend beyond 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 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 annual general meeting or raised by shareholders with or without advance notice to the company.

Notice of annual general meeting (continued)

INFORMATION RELATING TO THE SPECIAL RESOLUTIONS

1. The directors of the company or its subsidiaries will only utilise the general authority to purchase shares of the company and/or the subsidiary as set out in special resolution number 3 to the extent that the directors, after considering the maximum shares to be purchased, are of the opinion that the Group position would not be compromised as to the following:
   - the Group's ability in the ordinary course of business to pay its debts for a period of 12 months after the date of this annual general meeting and for a period of 12 months after the purchase;
   - the consolidated assets of the Group will at the time of the annual general meeting and at the time of making such determination be in excess of the consolidated liabilities of the Group. The assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements of the Group;
   - the ordinary capital and reserves of the Group after the purchase will remain adequate for the purpose of the business of the Group for a period of 12 months after the annual general meeting and after the date of the share purchase; and
   - the working capital available to the Group after the purchase will be sufficient for the Group's requirements for a period of 12 months after the date of the share repurchases;

   and the directors have passed a resolution authorising the repurchase, resolving that the company has satisfied the solvency and liquidity test as defined in the Companies Act and resolving that since the solvency and liquidity test had been applied, there have been no material changes to the financial position of the Group.

2. For the purposes of considering special resolution number 3, and in compliance with paragraph 11.26 of the Listings Requirements, the information listed below has been included in the integrated annual report, in which this notice of annual general meeting is included, at the places indicated:
   - Directors and management (pages 90 and 91);
   - Major shareholders (page 104);
   - Directors' interests in securities (page 173);
   - Share capital of the company (page 151);
   - Contingent liabilities (page 170);
   - Responsibility statement (page 184); and
   - Material changes (page 184).

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 have passed a resolution authorising the grant of the said financial assistance (the Board resolution) under their general authority so granted, the company which will then provide written notice of the Board resolution to all shareholders:
     - within 10 days after adoption of the Board resolution, if the total value of all loans, debts, obligations or assistance contemplated in that resolution, together with any previous such resolution(s) during the financial year, exceeds one-tenth of 1% of the company's net worth at the time of the Board resolution; or
     - within 30 business days after the end of the financial year, in any other case.

4. The company is not involved in any legal or arbitration proceedings, nor are any proceedings pending or threatened of which the company is aware that may have or have had in the previous 12 months, a material effect on the company's financial position.

5. The directors, whose names are reflected in this integrated annual report of which this notice forms part, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts that have been made and that the notice contains all information required by law and the Listings Requirements of the JSE.

6. Other than the facts and developments reported on in the integrated annual report, there have been no material changes in the financial or trading position of the company and its subsidiaries since the date of signature of the audit report up to the date of this AGM notice.

By order of the Board

S van Schalkwyk
Company Secretary

25 October 2016

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, 8 December 2016 at 10:00 (the annual general meeting).

I/We (please print name in full)

of (address)

being a shareholder/s of Mustek Limited, holding shares in the company hereby appoint:

1. or, failing him/her,

2. or, failing him/her,

3. or failing him/her,

4. the Chairman of the annual general meeting,
as my proxy to vote for me/us and on my/our behalf at the annual general meeting and at any adjournment thereof and to speak and act for me/us and, on a poll, vote on my/our behalf.

My/our proxy shall vote as follows:

	Number of shares		
	In favour of	**Against**	**Abstain**
To consider the presentation of the annual financial statements for the year ended 30 June 2016			
Ordinary resolution number 1: Confirm appointment of Lindani Dhlamini			
Ordinary resolution number 2: Confirm appointment of Vukile Mehana			
Ordinary resolution number 3: To re-elect Mdu Gama as director			
Ordinary resolution number 4: Confirmation of auditor's re-appointment			
Ordinary resolution number 5: Appointment of Lindani Dhlamini to Audit and Risk Committee			
Ordinary resolution number 6: Appointment of Ralph Patmore to Audit and Risk Committee			
Ordinary resolution number 7: Appointment of Mdu Gama to Audit and Risk Committee			
Ordinary resolution number 8: 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 2016

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, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) so as to be received by not later than 10:00 on Wednesday, 7 December 2016.

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

Company Secretary

Sirkien van Schalkwyk
1 Carlsberg
430 Nieuwenhuyzen Street
Erasmuskloof Extension 2, 0181
PO Box 4896
Rietvalleirand, 0174
Telephone: +27 (0) 12 751 6000

Transfer secretaries

Computershare Investor Services Proprietary Limited
70 Marshall Street
Johannesburg, 2001
PO Box 61051
Marshalltown, 2107
South Africa
Telephone: +27 (0) 11 370 5000

Registered office

322 15th Road
Randjespark
Midrand, 1685

Postal address

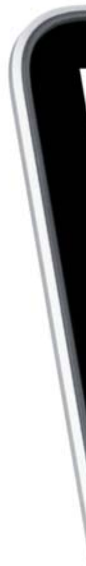
PO Box 1638
Parklands, 2121

Contact numbers

Telephone: +27 (0) 11 237 1000
Facsimile: +27 (0) 11 314 5039
Email: ltd@mustek.co.za

Sponsor

Deloitte & Touche Sponsor Services Proprietary Limited



Mustek
LIMITED