Mustek

LIMITED

INTEGRATED
ANNUAL
REPORT
2019

FEATURING

+ Mustek at a glance
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+ Leadership and governance
+ Annual financial statements

CREATING VALUE THROUGH OUR SIX CAPITALS

GAME ON!

ANTICIPATING AND PROVIDING FOR TRENDS THAT TECH-SAVVY CUSTOMERS WILL PURSUE

SHARING THE COLLECTIVE THINKING BEHIND OUR STRATEGY FOR CREATING LONG-TERM VALUE

www.mustek.co.za

MUSTEK LIMITED

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ABOUT THIS REPORT

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

This report presents the holistic performance of Mustek Limited (the Group or company) and its subsidiaries for the year ended 30 June 2019 and presents information on our performance, governance and prospects. Throughout the report we address the Group's challenges, our opportunities and the external factors that impact our operational performance and forward looking strategy.

Frameworks applied

This Integrated Annual Report has been prepared in accordance with the International Integrated Reporting Council's <IR> Framework, the Global Reporting Initiative's (GRI) G4 sustainability reporting guidelines and the Sustainability Data Transparency Index (SDTI). The Board of directors (the Board) and management have considered the fundamental concepts, guiding principles and content elements recommended in the framework and have endeavoured to apply these recommendations in the report. The Group's previous Integrated Annual Report (2018) included sustainable development disclosures which are comparable and consistent with specific indicator disclosures included here.

This report also accords with the parameters of the Companies Act, 71 of 2008, as amended, the JSE Listings Requirements and where possible, the recommendations of the King IV Report on Corporate Governance™* for South Africa 2016 (King IV). The Board and company secretary implemented the principles and relevant practices of the King IV Code during the course of the 2019 financial year. The Group's annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and in the manner required by the Companies Act of South Africa.

Purpose

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

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Getting your Mustek report
Download these in PDF format from **www.mustek.co.za**, or request your printed copies from:
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Tel: +27 (0) 11 237 1000 | Fax: +27 (0) 11 314 5039

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

Primary audience

In terms of the framework, integrated reports are prepared primarily for the providers of financial capital to help inform their decision-making regarding financial capital allocations. Matters not related to finance or governance also impact the ability of Mustek to create value over the short, medium and long term. These matters, be they social or environmental, are of interest to other stakeholders and are also addressed in this report.

Scope and boundaries

This 2019 Integrated Annual Report presents a holistic review of Mustek Limited, its subsidiaries and associates, financial and non-financial performance for its financial year 1 July 2018 to 30 June 2019. Details of investments in subsidiary and associate companies appear in notes 9 and 10 of the annual financial statements. The intention of this report is to provide information that will enable shareholders, potential investors and all stakeholders to make an accurate assessment of the value creation offered by Mustek.

Re-presentations and restatements or changes from the prior period

In the previous financial year, tax assets were included as part of trade and other receivables. During the current financial year, tax assets were reclassified and presented in a separate line item on the face of the statement of financial position, in line with guidance received from the JSE.

In the previous financial year, tax liabilities were included as part of trade and other payables. During the current financial year, tax liabilities were reclassified and presented in a separate line item on the face of the statement of financial position, in line with guidance received from the JSE.

The 2018 statements of cash flows were restated in order to correctly classify operating activities previously classified as financing activities.

	GROUP 2018			COMPANY 2018		
	As previously reported R000	Restated R000	Impact R000	As previously reported R000	Restated R000	Impact R000
Net cash from operating activities	138 571	149 281	(10 710)	126 444	136 676	(10 232)
Net cash used in financing activities	(28 559)	(39 269)	10 710	(26 770)	(37 002)	10 232
Net cash flow impact			–			–

Assurance

Mustek continues to develop and apply a combined assurance model, providing management and the Board with confidence regarding the information disclosed in this report. The Group's annual financial statements were independently audited by Deloitte & Touche. The Group's B-BBEE contributor levels were verified by EmpowerLogic Proprietary Limited.

Board responsibility statement

The executive directors and senior management have been instrumental in the preparation of this report. The Board has applied its mind accordingly and is of the opinion that this Integrated Annual Report addresses all material matters and offers a balanced view of the integrated performance of the organisation and its impacts. As such, the Board has fulfilled its responsibilities in terms of the recommendations of the King IV Report. This report was approved by the Mustek Limited Board of directors on 18 October 2019.

Forward looking statements

Many of the statements in this Integrated Annual Report constitute forward looking statements. These are not guaranteeing or predictions of future performance. As discussed in the report, Mustek faces risks and other factors outside its control. This may lead to outcomes unforeseen by the Group. These are not reflected in the report. Readers are warned not to place undue reliance on forward looking statements. Forward looking statements have not been reviewed nor reported on by the company's auditors.

CHAIRMAN'S LETTER

Macro-economic backdrop

South Africa's businesses and consumers saw new hope with President Cyril Ramaphosa's election to highest office, inducing an overall positive sentiment.

This optimism is, however, eclipsed by low economic growth, policy uncertainty, increasing unemployment figures and escalating fuel and utility costs. These factors heavily impacted consumers and businesses alike.

A considerable amount is riding on our new leadership turning the economy around relatively quickly – a major challenge for any government.

Looking globally, economies around the world are still bouncing back from the decade-long doldrums in the wake of the global economic crisis. Simultaneously, rising political tensions between the USA, China – and Russia to an extent – are becoming apparent in trade tariffs, or threats thereof, as world powers vie for position. Despite a potential "trade war" not necessarily affecting South Africa directly, all developing market currencies will feel the repercussions. Uncertainty around the US-China relationship may prove challenging for future legislation and policy.

Demand for fibre is anticipated to increase with incoming 5G networks, which have far more fibre cabling requirements than current networks.

With the world rapidly changing and new challenges brought to the surface regularly, Mustek is well positioned to weather the proverbial storm. We will partner with our customers, suppliers and associates to create an ecosystem that thrives on shared success, all the while pushing technology's limits and promoting social upliftment along the way.

Committed to operational compliance

Legal compliance shields us from the uncertainty of international politics. We conduct our business with integrity, observing international conventions and all laws and regulations applicable to our industry. With compliance top of mind, internal and ISO audits are conducted regularly, and reviewed and managed by the Board. As such, we are satisfied that Mustek meets all necessary legislative requirements.

The Group fully supports ethical and transparent practices. This is reinforced by our 24/7 whistleblower line open to all employees and interested parties.

Growing together with our stakeholders

We advocate sharing value with other ecosystem players and evolving together with the global information and communications technology (ICT) industry. Our key stakeholders include suppliers, customers, government, employees, investors and banks, to mention a few.

In establishing long-term partnerships characterised by mutual trust and support, we have collaborated extensively with suppliers worldwide to innovate, drive industry development and ensure business continuity. 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.

Relationship building is a cornerstone of the Mustek Group and, as such, we encourage a personal communication style throughout the organisation in an effort to build solid, lasting relationships with all stakeholders. Regular engagement takes place with key stakeholder groups in the form of social media communication, press releases and shareholder meetings, among others. Senior management makes a concerted effort to engage with employees quarterly. Customers receive daily communication and key shareholders are visited at their locations at least twice annually, with more informal visits and communication happening throughout the year.

Cultivating highly capable teams

Dedicated, outstanding employees underpin Mustek's performance and are the source of our Group's value creation. We fully respect our employees' interests and create fair opportunities to enable employees to grow together with our company. We also create an efficient, comfortable, and caring workplace, in which our employees can receive reasonable awards while living a balanced and rewarding life. Most Group employees belong to the Mustek Group Retirement Fund – a defined contribution fund.

Senior management continues its quarterly walk around Mustek's head office, where employees from every department are invited to share their concerns, suggestions and feedback. All reasonable issues raised, big or small, are given equal opportunity of being addressed to ensure our people remain motivated and productive in their work environments.

Promoting an equitable business environment

Mustek retains its level 1 B-BBEE rating, as awarded by an accredited agency using the amended ICT sector codes. The Board, guided by our Social and Ethics Committee, continues monitoring Mustek's management initiatives in employment equity, skills development and corporate social investment. The Group is committed to internal transformation and stakeholder empowerment, while ensuring that Mustek's unique advantages are not compromised in the highly competitive ICT market.

The environment and our communities

Along with increasingly stringent legislation, there exists a heightened social demand for sustainable development, transparency and accountability. In response, Mustek has made environmental performance a strategic imperative

and utilises the systematic approach of ISO 14001 and ISO 50001 to improve environmental management and energy usage. Environmental goals are integrated into routine operations, procedures and processes, as well as employee training.

In reducing our energy consumption and limiting our environmental footprint, several of our buildings are equipped with solar panels. In our newly built Cape Town office, solar panels and sustainable energy measures were installed throughout the building, along with a bigger focus on recycling and waste management.

We are committed to making a difference to the industry and local communities by helping improve infrastructure, speeding up industry development, creating more jobs and improving people's livelihood. The Group puts considerable effort into providing education opportunities, developing skilled ICT workforces and donating to worthy beneficiaries to develop and uplift our local communities.

Ethics, leadership and corporate governance

Good corporate governance is the key to sustainable development. Mustek has a strong Board, which places a large emphasis on preventing fraud and corruption, while striving to meet the requirements of King IV and all other applicable legislation. Our Board conducts regular reviews of Mustek's compliance and is satisfied that it is fully compliant. We are committed to remaining a responsible corporate citizen.

Members of the Board and executive management remained unchanged during the year under review, with no material issues raised.

Looking to the future

With over 30 years' experience to Mustek's name, we are well positioned to seize the tremendous opportunities presented by digitisation and artificial intelligence, allowing us to create greater value for our customers and society at large. Through our carefully selected and value-adding product and service offering, we are once again perfectly stationed to achieve profitable returns in the years ahead.

Despite South Africa's ICT industry remaining hindered through regulation and high barriers to entry, Mustek survives and thrives through calculated risk-taking and investments into products that are forecast to grow volumes significantly in the future, if not now. We continue to make these "near-sighted" investments for the "far-sighted" benefit of all stakeholders.

In appreciation

I would like to thank David Kan for his leadership and astute management of capital and costs, and for having a great rapport with his management teams and staff. His ability to always bring out the best in Mustek's people is noticed and appreciated.

To my fellow Board members, thank you for your enduring commitment to the Group. Your advice, guidance and support are invaluable.

Thank you to all our employees for your dedication and hard work. The Group would not be what it is today without you.

Of course, Mustek could not succeed without the support of all our other key stakeholders – shareholders, business partners, customers and suppliers – and for this we thank you. I look forward to seeing what greatness the year ahead has in store for us.

Rev Dr Vukile Mehana
Chairman

ABOUT MUSTEK

Group profile

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

From its solid foundation as the largest assembler/distributor of PCs and complementary ICT products in South Africa, Mustek has evolved into a seamless end-to-end provider of ICT solutions – from system design to supplying the hardware, implementing the solution and operating it if required. Headquartered in Midrand, South Africa, Mustek anticipates ICT trends and adds value to imported components and finished products through planning, bulk purchasing, consolidating shipments, assembly, warehousing and after sales service and support. The Group utilises a proven distributed sales network to distribute and maintain a wide range of ICT products across South Africa and several other African countries. These are procured through agreements with many of the world's leading brands and from Mustek's in-house Mecer brand. Mustek continues to differentiate itself as a value-added solutions provider in addition to distribution.

The Mustek principles

Our vision

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

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

Our core values

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

Knowledge and attitude

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

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

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

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

Flexibility

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

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

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

Efficiency

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

Responsibility and accountability

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

The Group's brand portfolio includes:

- Mecer
- acer
- ASUS
- BTECH
- mimio
- EVERKI
- HUAWEI
- Lenovo ThinkServer
- Bitdefender
- Mustek POS Solutions
- POSIFLEX
- MST Mustek Security Technologies
- NComputing
- SAMSUNG
- NEC
- XYZ Printing
- brother at your side
- APC by Schneider Electric
- asustor
- Acronis
- EPSON
- FUJITSU
- Lenovo
- Microsoft
- Mustek Energy
- PHILIPS
- netis
- NET Trace
- SanDisk a Western Digital brand
- TOSHIBA
- Apple Authorised Reseller
- Cooler Master
- EATON Powering Business Worldwide
- SIEMON
- WD Western Digital
- msi
- XPG Extreme Gaming Experience
- Hytera
- dynabook
- HSM

VALUE CREATION HIGHLIGHTS

Six capital highlights

Dividend per share

30 cents

Increase of 36.4%
(2018: 22 cents)

Financial capital 1

139.32 cents

- Headline earnings per share up 33.8% to 139.32 cents (2018: 104.15 cents)

1 494.21 cents

- Net asset value per share up 10.8% to 1 494.21 cents (2018: 1 348.54 cents)

30 cents

- Dividend per share up 36.4% to 30 cents (2018: 22 cents)

Manufactured capital 2

72 707 units

assembled (2018: 79 923)

5.53 million

items sold (2018: 6.84 million)

Human capital 3

100%

- The Mustek workforce received regular performance and career development reviews

100%

- Our senior management are all hired from the local community

Headline earnings per share

139.32 cents

Increase of 33.8%
(2018: 104.15 cents)

Net asset value per share

1 494 cents

Increase of 10.8%
(2018: 1 349 cents)

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

4 Social and relationship capital

R1.78 million

- In the year to date, R1.78 million was spent on CSI contributions
  2018: R1.6 million
- Mustek achieved a level 1 B-BBEE rating, using the amended ICT sector codes

5 Natural capital

ISO 14001

- Mustek successfully maintained its ISO 14001 certification

2%

- Energy consumption increased by 2% during the reporting period (2018: 1% reduction)

6 Intellectual capital

2019

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

David Kan
Chief executive officer

Q&A

Top of mind from our chief executive officer

The Mustek Group remains a proud market leader in South Africa's information and communications technology (ICT) sector, with three decades (and counting), worth of expertise and knowledge that underpin its strong brand portfolio. The Group comprises the Mustek and Rectron distribution divisions, alongside associated businesses and various subsidiaries.

CEO of Mustek, David Kan, discusses the Group's performance and strategy for the current and upcoming financial years.

Q

David, what is your high-level perspective of Mustek's performance in this financial year, including your top-of-mind highlights and challenges?

A

Given the challenging economic conditions, Mustek's performance for the 2019 financial year was satisfactory.

Group revenue increased by 3.1% to R5.85 billion (2018: R5.67 billion), mainly as a result of strong growth in new products and services added to the Group's portfolio over the last six years.

The gross profit percentage was stable at 14.0% (2018: 14.0%) as the Group continued to grow its market despite subdued spend from the government sector.

We received improved contributions from some of our associate companies, while others delivered stable results. The ZAR/USD exchange rate was extremely volatile during the year and the Group's hedging policy proved effective as forex losses were limited to R19.9 million (2018: R87.9 million).

Recent revelations on state-owned enterprises' debt, macro-economic environment disturbances and potential further downgrading of South Africa's financial ratings also proved challenging, as business confidence continues to wane.

Our revalued share appreciation rights required a share-based payment expense of R10.7 million (2018: R6.7 million income) to be included in distribution, administrative and other operating expenses, with these increasing by 6.1%. This increase was driven by the impairment of a debtor of R17.5 million after the High Court ruled that a guarantee issued by an insurance company was not enforceable.

Net finance charges increased from R76.6 million to R104.3 million predominantly as a result of the increase in inventory levels. Working capital management continues to be a driver of profitability and will continue receiving management's full attention.

Our noteworthy financial performance raised Group headline earnings per share by 33.8% to 139.32 cents (2018: 104.15 cents), with basic earnings per share 44.2% higher at 147.90 cents (2018: 102.58 cents).

We occupied our new Cape Town premises from January 2019, with the total cost of the development amounting to approximately R50 million.

Q

What is top of mind when considering the risks, challenges and opportunities Mustek faces in the forthcoming financial year?

A

Many of the current challenges are largely out of our control – specifically the uncertain macro-economic environment, potential rating downgrades, dismal growth forecasts and a particularly volatile ZAR/USD exchange rate.

The on-off trade war between the USA and Chinese governments may impact our operations, although we have not yet been impacted.

Microsoft's announcement of its ending of Windows 7 support should prompt government, public and private entities to upgrade to Windows 10.

Government efforts to control spending and root out corruption should benefit our industry and the economy as a whole.

Our newly established partnerships with Apple, Acronis, Asus South Africa Republic of Gamers (ROG) and Siemon are proving to be successful. We continue seeking this calibre of partnership for future value-adding collaborations.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

How did Mustek's strategy fare in the reporting period and has it changed for the coming year?

Q

While our growth and sustainability strategy remain largely unchanged from that of previous years, we will continue diversifying and building market reach by integrating new brands, products and services into the Mustek portfolio. Staying relevant and class leading is always a priority. We consistently sell off non-contributing assets to make way for new ventures and innovative ideas that will take us to the next level.

In terms of our key focus areas, we allocated additional resources into our education and training subsidiary, Mecer Inter-Ed, which is a broad-based training provider accredited with various SETAs and international certifications. Mecer Inter-Ed provides skills development training, learnerships and internships to the Mustek Group and the broader ITC industry.

A

How did Mustek and its divisions and subsidiaries perform this financial year?

Q

The Mustek division recorded a pleasing performance, with our Mecer brand being a consumer market top performer. We will continue driving Mecer's refreshed and growing appeal, particularly for its notebook range. Our renewable energy products such as inverters, solar panels and batteries were also top performers. The likelihood of continued loadshedding over the next few years is driving commercial and consumer demand.

Rectron, too, performed well, with increased gross profit margins, albeit against a flat turnover. The key here is a renewed focus on higher-margin products and services, along with increased sales growth.

Sizwe IT Group exceeded its budget, leading to a satisfactory performance.

Khauleza IT Solutions' performance was lower than last year due to increasing operating costs.

Disappointingly, MST had not performed as anticipated, but is well positioned for growth when its markets improve.

YOAC also underperformed, but looks set to become profitable in the year ahead. Global fibre supply has temporarily exceeded demand, but the forthcoming roll-out of 5G networks will likely restore YOAC's growth.

A

Did Mustek's share buyback programme progress this year?

Q

Our share buyback programme continued, with the company buying back 3 000 000 shares to enhance earnings and net asset value (NAV) per share for existing shareholders. We will continue notifying investors of Mustek share buybacks in accordance with JSE and applicable regulations.

A

Gazing into the virtual crystal ball, what are Mustek's key focus areas for 2020 and vision for the next three to five years?

Q

Our top-of-mind focus areas for us in the coming year are most definitely to reduce our working capital and improving capital management. Growing our educational footprint through Mecer Inter-Ed is a key priority for the next financial year.

Mustek's vision for the next three to five years is to maximise our infrastructure and opportunities as we enter a phase of consolidation. With our current operating environment being so unpredictable, we are capitalising on and managing those aspects of business within our control.

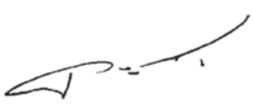
A

Are there any individuals or groups you would like to thank in this year's report?

Q

As yet another successful year in challenging times passes, we owe our deep gratitude to our people for their tireless enthusiasm, hard work and dedication in making this company great, our shareholders for entrusting us to grow their returns on investment year after year, our customers for their faith and support in the Mustek Group to deliver on our promises, and all our stakeholders for their continued promotion of and belief in the Group to be a valuable economic contributor. We look forward to what 2020 holds in store …

A



David Kan
Chief executive officer

OUR OPERATING CONTEXT

Macro-economic overview

The South African economy grew by 0.8% in 2018 after a technical recession in the first half of the year.

Moody's ratings agency attributes South Africa's "persistent economic weakness" to lacklustre domestic and private sector demand. It refers to lowered household spending and investment, and the detrimental impact of widespread power outages on the manufacturing and mining sectors.

Moody's predicts a gradual pickup in real gross domestic product (GDP) growth in 2019, projecting 1.0% growth for the SA economy in 2019 and 1.5% in 2020.

As for the global economic outlook, a recent escalation in US-China tensions has clouded growth projections. If these tensions drag on or escalate, they will leave a lasting impact on the global economy.

Conflict and potential conflict appear to be the order of the day, with tensions simmering between China and Taiwan, Japan and South Korea, as well as India and Pakistan.

Socio-political overview

The result of South Africa's national elections offered hope for renewed reforms in the country. With the ANC winning the election with a clear majority under the leadership of President Cyril Ramaphosa, there are opportunities of a renewed push for structural reforms aimed at igniting growth and reducing unemployment.

South Africa's socio-economic pressures are causing industrial action, community unrest and crime, which continue to impact businesses. Demands for employment, access to quality education, a decent wage, affordable services, reliable service delivery and, increasingly, access to land, demonstrates the need for local and national service providers to focus on enabling social change.

Against this backdrop, consumer spending is likely to remain constrained for now. South Africans spend a large portion of their incomes on essential items, and we believe this trend will grow over the medium term. However, spending on certain non-essential items, including technology, is expected to remain stable. IT spending in South Africa will increase by 3.9% from last year, according to research and advisory company Gartner.

IT sector overview

South Africa has one of the largest information and communications technology (ICT) markets in Africa by value. As an increasingly important contributor to South Africa's GDP, the country's ICT and electronics sector is both sophisticated and developing. It is seen as a regional hub and a supply base for neighbouring countries.

The South African government and the financial sector are the largest spenders on IT spending, with government behind an extensive skills development programme aimed at training one million young people in robotics, artificial intelligence, coding, cloud computing and networking by 2030.

Private consumption is rising, but the strong growth of smartphones is likely to offset PC and laptop usage.

Cloud computing is a new imperative in South Africa, with organisations now consuming significant amounts of cloud services, including software as a service, platform as a service and infrastructure as a service.

Technology trends 2019

New technologies are rapidly changing how we interact with the world. Leaps in computing capacity, data capture and connectivity are accelerating this change.

Internet of Things (IoT)

One of the biggest tech trends to emerge in recent years is the Internet of Things (IoT), which will connect all technological devices to the internet and each other in an intelligent digital mesh combining the physical and digital worlds. It is early days for IoT applications, but the onset of 5G networks will accelerate its adoption.

Machine learning

Another exciting emerging technology is machine learning, which is essentially a computer's ability to learn on its own by analysing data and tracking repeating patterns. For example, social media platforms use machine learning to track likes, shares and comments and exploit these patterns to prioritise relevant content for individual users.

OUR OPERATING CONTEXT CONTINUED

Artificial intelligence (AI)

AI is delivering machines with human attributes, such as speaking, reading, seeing and even recognising emotion. These machines are also able to learn from repeated interactions. Using algorithms that adapt to location, speech or user-history machines can perform tasks that are dangerous or tedious, more accurately or much faster than humans.

Virtual reality (VR)

Although VR has been around since the 1950s, until recently the technology was not able to deliver the fully immersive digital experience users have been craving. That is about to change with recent improvements to both hardware and programming. Beyond enhancing video games, VR is likely to affect almost every industry from retail to education.

Cognitive technology

Cognitive technology is a broad concept that incorporates machine learning and virtual reality. The cognitive technology umbrella includes functions such as natural language processing (NLP) and speech recognition. Combined, these different technologies can automate and optimise numerous tasks that were previously done by people, including certain aspects of accounting and analytics.

Although cognitive technologies have a broad range of applications, Deloitte predicts that the software sector will be the primary early adopter, with 95% of enterprise software companies projected to adopt these technologies by 2020.

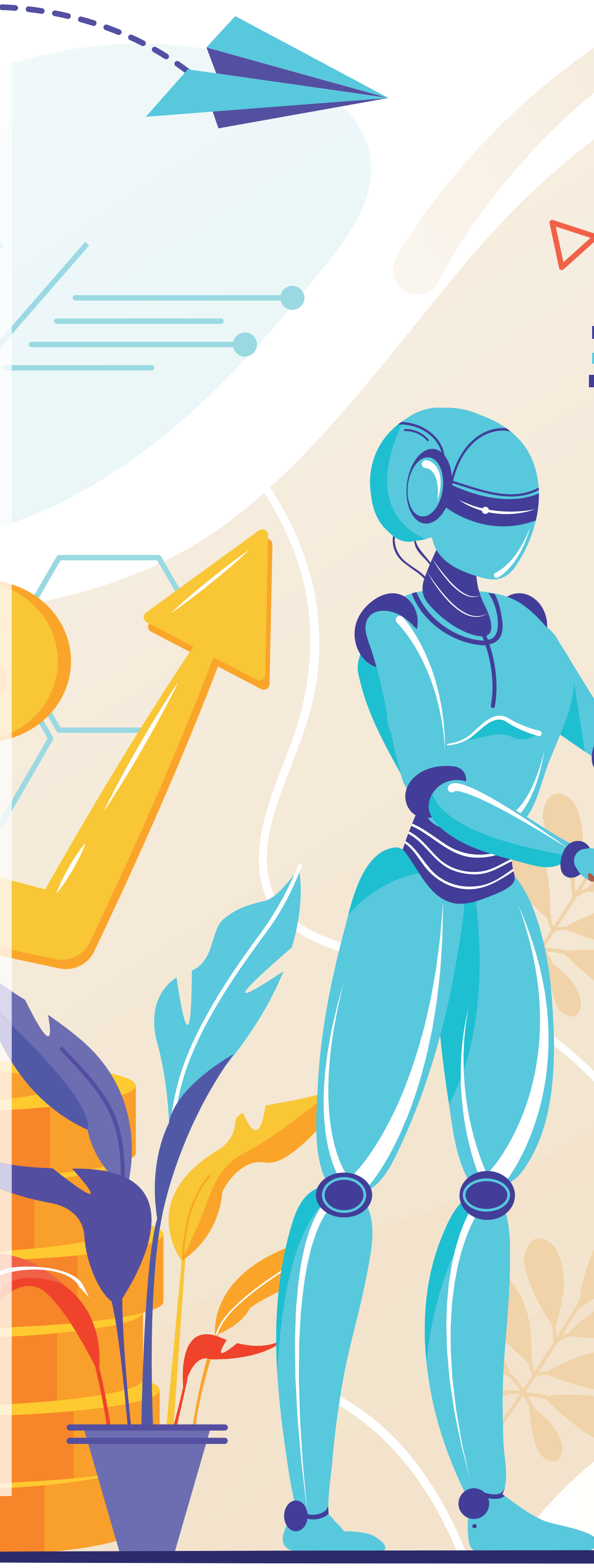
Touch commerce

Merging touchscreen technology with one-click shopping, touch commerce allows consumers to buy products easily from their phones. Touch commerce secures payments on any merchant's website or app without customers having to provide registration or log-in details.

According to Deloitte, touch commerce is one of the biggest trends in recent years, with purchases of this type expected to increase by 150% in 2019 alone. Retailers in almost every industry anticipate growing their sales through touch interfaces.

OUR BUSINESS MODEL

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



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

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

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

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

OUTPUTS
- Net cash used in operat
R16.29 million
- Profit for the year R106.54
- Revenue of R5.85 bill
- Net asset value per share: 1 49
- Headline earnings per ordina
139.32 cents
- Income tax expense R26.50

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

BUSINESS ACTIVITIES

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

OUTPUTS
- Mustek offers comprehensive, high-value solutions
- Partnerships with the best providers of forward-thinking technology solutions and services
- Improving operational efficiencies and cost management
- Risks identified and mitigated
- Mustek Gauteng's certifications:
  – ISO 9001:2015 (Quality)
  – ISO 14001:2015 (Environment)

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

Intellectual

INPUTS
- Power
- Waste management
- Legal compliance

BUSINESS ACTIVITIES

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

OUTPUTS
- An energy management system (EnMS) based on the ISO 50001 international standard has been implemented at the Midrand facility
- Mustek has successfully maintained its ISO 14001 certification since 2004 and has not been sanctioned or fined for non-compliance with environmental laws and regulations
- 161 tonnes of waste recycled
- Mustek consumed 13 956 GJ of energy
- Rectron consumed 5 560 GJ of energy
- Replacement of ICT equipment with energy-efficient units, installing rooftop solar panels and LED lights

OUTCOMES
- 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

OUTPUTS
- Mustek achieved a level 1
rating, using the ame
ICT sector codes
- R1.78 million spent on CSI
- Mustek won Huawei Distributor of
- Strong reseller base, which betwe
Rectron numbers more tha
resellers
- Outstanding service deli
underpinned by open ch
of communication

AGREEMENTS WITH VENDORS AND RESELLERS

DISTRIBUTION
- National network of branches/resellers
- Door-to-door delivery and logistics service

FINANCIAL CONTROLS
- Working capital
- Cash generation

GOVERNANCE
- Quality control

BUSINESS ACTIVITIES

INNOVATION

- Product knowledge and solutions expertise; ICT trends
- Anticipating, identifying, procuring and delivering the right products, at the right time and at the right price
- Designing and implementing solutions from software and hardware to meet specific needs

OUTCOMES

- Mustek's working capital is adequate
- Assets exceed liabilities
- Focus on optimal working capital management
- Share buyback: Mustek acquired a further 3 000 000 ordinary shares in the issued share capital, funded from available cash resources

INPUTS

- Shareholder funds
- Banking funds
- Accounts funding

Financial capital

Manufactured capital

Human capital

Social and relationship capital

ICT MARKET ENVIRONMENT

INPUTS

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

OUTPUTS

- Property, plant and equipment valued at R184.98 million
- Spent R12.39 million on completing the development of new offices in Cape Town
- Ability to customise products to meet customer demands
- 72 707 units assembled
- 5.53 million items sold
- Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa

OUTCOMES

- Higher inventory levels negatively impacted net finance charges that increased from R76.58 million to R104.25 million

BUSINESS ACTIVITIES

END CUSTOMER

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

INPUTS

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

OUTPUTS

- R13.74 million spent on staff development in Mustek company
- R6.07 million spent on staff development in the Rectron Group
- Employee turnover for Mustek for the current year amounted to 9.15%
- Return to work and retention rates after parental leave is 100%
- Mustek's absenteeism rate was recorded as 1.50%, and Rectron's as 1.46% for the 2019 year
- 100% of Mustek's workforce receives regular performance and career development reviews

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

OUTCOMES

- 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

INPUTS

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

OUTCOMES

- 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

BUSINESS ACTIVITIES

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

STRATEGIC OVERVIEW

Strategy

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

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

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

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

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

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

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

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

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

Strategic objectives for 2020:

- software portfolio enhancement
- grow our training and enterprise development centre
- dispose of "lazy" and non-core assets
- continue share buyback while earnings enhancing and trading at a discount to TNAV.

Strategic performance and goals

Strategic goal	Software portfolio enhancement	Grow our newly established training and enterprise development centre	Disposal of "lazy" assets	Continue share buyback while earnings enhancing
Performance this year	Although not showing in revenue performance, a number of new products were added to the portfolio	• Achieved revenue of R7.2 million • Added additional resources that will strengthen offering and boost growth	• Disposed of vacant land in Midrand for a cash consideration of R17.5 million	Bought back 3.0 million shares at an average price of 708.91 cents per share
Future initiatives	Continuing programme	Continuing programme	Continuing programme specifically focusing on the property in Nairobi, Kenya	Continuing programme

OUR TOP RISKS AND OPPORTUNITIES

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

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

MATERIAL CONCERNS

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

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

Our stakeholder engagement activities are aimed at identifying and responding to all reasonable and legitimate expectations of shareholders, investors and stakeholders.

We report on financial, commercial and sustainable development issues that could impact our ability to create value now and in the future.

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

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

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

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

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

South Africa's economy and the Rand exchange rate

The ZAR/USD exchange rate is a defining factor in the information and communication technology (ICT) industry, as the bulk of ITC inventory is USD based. Mustek is exposed to events that occur in the markets from where it acquires products and to the South African and other markets to which it offers products and services. Exchange rate fluctuations affect prices, and the Rand's propensity for sharp movements against other major currencies is an ongoing challenge. Financial results will naturally be impacted.

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

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

Preserving key relationships

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

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

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

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

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

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

MATERIAL CONCERNS CONTINUED

Anticipate ICT trends internationally and locally

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

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

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

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

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

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

Profitability and cash flow

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

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

Attract, develop and retain adequately skilled employees

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

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

Transformation and maintaining our social licence to operate

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

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

Ethical behaviour and governance

Corporate failures, environmental and social challenges, as well as increasing white collar crimes, are motivating companies to embed strict corporate governance and ethics policies. Over the past three years, all the Group's governance structures and policies have been reviewed against best practice for ethics and whistle-blowing.

Energy consumption and GHG emissions

Mustek continually focuses on operational efficiencies and cost management. Becoming more energy efficient is a win-win situation, as it reduces environmental impacts while delivering measurable cost reductions. Mustek installed solar panels on the roofs of its Midrand and Cape Town premises, with Rectron following suit by installing solar panels on the roofs of its Midrand and Port Elizabeth premises. During 2016, Mustek implemented an energy management system (EnMS) to reduce energy consumption and costs further. Mustek has become an industry leader in mitigating environment impacts through solar power.

MUSTEK'S PERFORMANCE

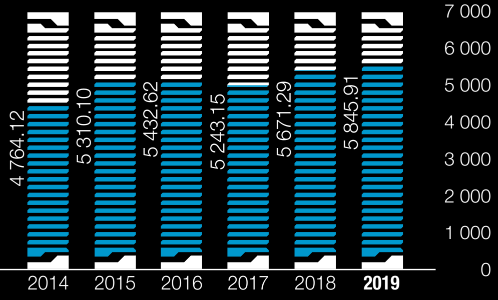
Six-year financial review

for the year ended 30 June 2019	2019 R000	2018 R000	2017 R000	2016 R000	2015 R000	2014 R000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Revenue	5 845 907	5 671 293	5 243 147	5 432 617	5 310 102	4 764 123
Cost of sales	(5 028 353)	(4 875 873)	(4 581 639)	(4 737 192)	(4 624 183)	(4 109 007)
Gross profit	817 554	795 420	661 508	695 425	685 919	655 116
Distribution, administrative and other operating expenses	(574 353)	(601 857)	(459 043)	(481 764)	(430 273)	(453 398)
EBITDA	243 201	193 563	202 465	213 661	255 646	201 718
Headline profit	98 530	81 033	73 950	77 396	132 838	108 032
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
Assets	3 097 323	2 930 447	2 980 199	3 085 558	3 458 183	2 701 180
Property, plant and equipment	184 981	170 478	156 237	152 458	174 709	160 029
Intangible assets	108 794	100 261	93 516	67 059	62 843	60 032
Investments and loans	183 776	177 256	180 926	152 657	139 131	122 483
Deferred tax asset	25 478	21 923	16 572	17 312	29 593	29 164
Current assets	2 594 294	2 451 109	2 532 948	2 696 072	3 051 907	2 329 472
Assets classified as held-for-sale	—	9 420	—	—	—	—
Equity and liabilities	3 097 323	2 930 447	2 980 199	3 085 558	3 458 183	2 701 180
Equity attributable to equity holders of the parent	1 045 944	984 436	970 333	987 918	993 748	916 052
Minority interest	7 448	8 879	8 128	(581)	19 268	18 461
Long-term borrowings	8 684	6 251	5 637	499	23 127	34 788
Deferred tax liability	8 103	8 898	10 617	4 504	4 576	—
Non-current deferred income	17 514	15 788	13 215	12 632	15 627	14 725
Current liabilities	2 009 630	1 906 195	1 972 269	2 080 586	2 401 837	1 717 154

Performance indicators over time

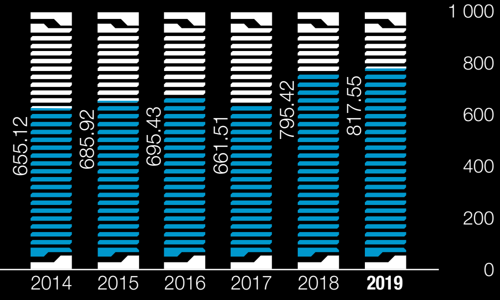
Revenue

(R million)



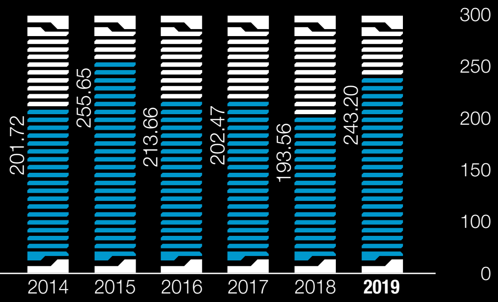
Gross profit

(R million)



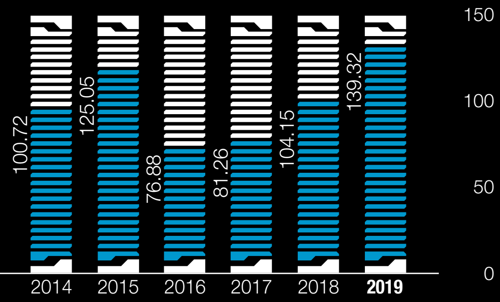
EBITDA

(R million)



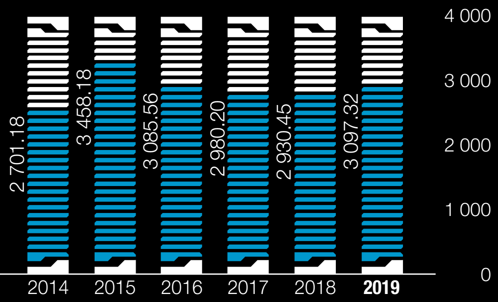
Headline earnings per share

(Cents)



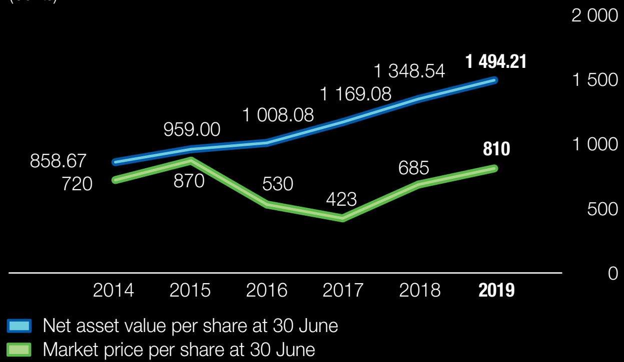
Total assets

(R million)



Share price versus NAV at 30 June

(Cents)



MUSTEK

Mustek Group structure

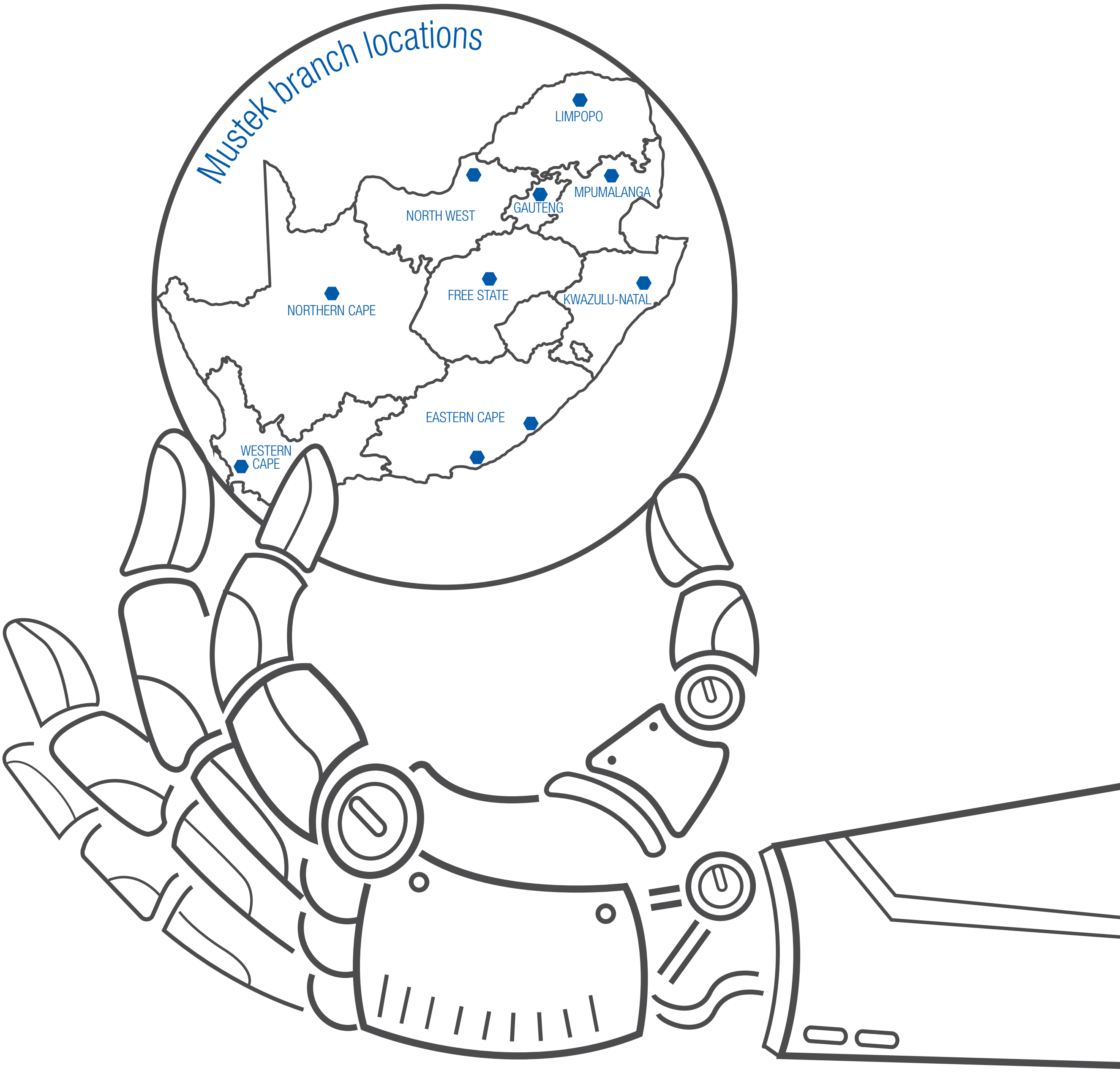
Mustek LIMITED

SUBSIDIARIES

- Mustek 100% shareholding
- Rectron 100% shareholding

ASSOCIATES

- Sizwe IT Group 40% shareholding
- Khauleza IT Solutions 36% shareholding
- Yangtze Optics Africa Holding (YOA) 25.1% shareholding



Mustek
LIMITED

Who we are

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

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

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

What Mustek does

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

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

The Mecer range

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

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

A portfolio of international brands

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

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

B-BBEE status and human development

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

Future prospects and forward planning

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

RECTRON

Rectron at a glance

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

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

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

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

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

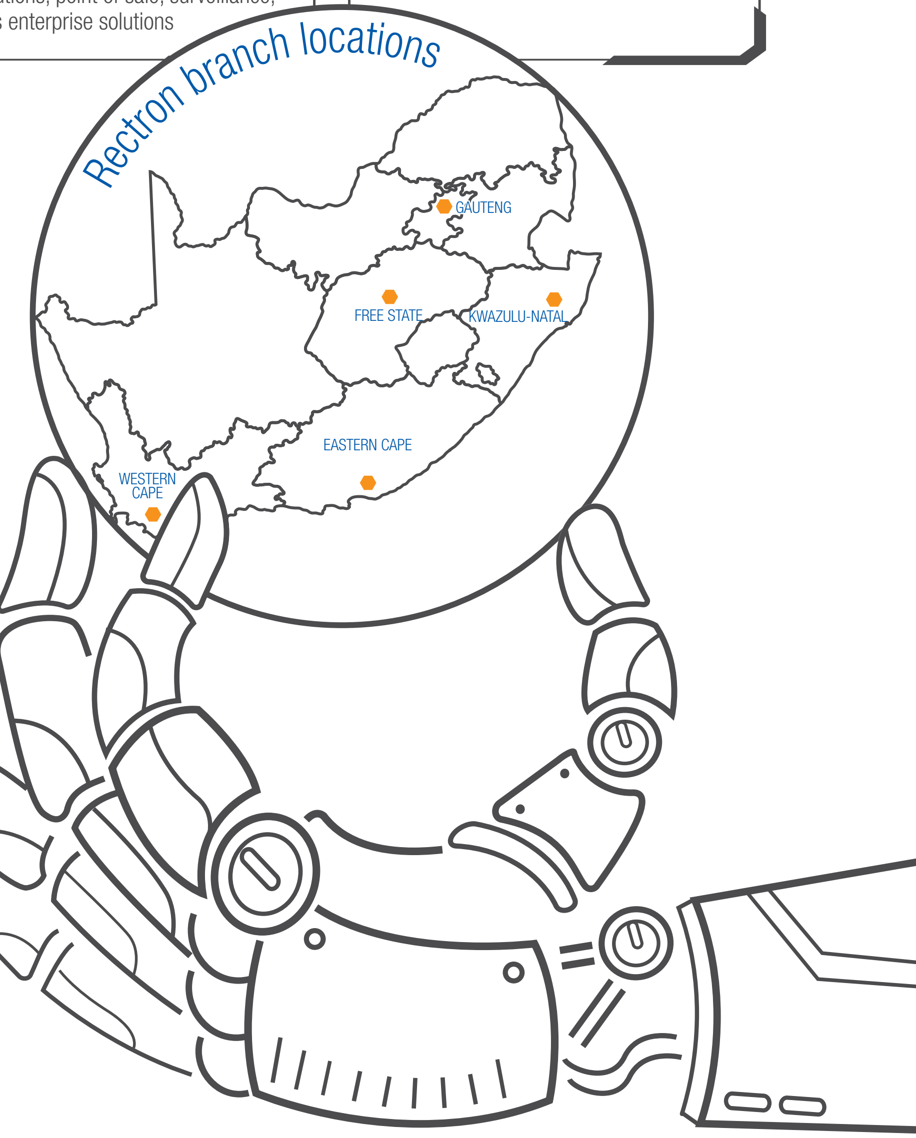
PRIMARY PRODUCTS
Components, mobile solutions, gaming products and components, software, printing solutions, consumer products, cloud solutions, point of sale, surveillance, as well as enterprise solutions

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

Rectron's portfolio of brands

End-to-end customer solutions

HUAWEI	ROLI	Acronis
Lenovo	VERTIV	EVERKI
Microsoft	[illegible]	D-Link
SAMSUNG	AIC	palladium
ASUS	AOC	acer
Hisense	cradlepoint	TYAN
Canon	ADVANTECH	VIVOTEK
CHENBRO	logitech	Transcend
COOLER MASTER	pqi	MicaSense
CORSAIR	Synology	SEAGATE
Bitdefender	ekwb	poslab
dji	ATEN	RCT
Norton	hp	LG
MAKEN	ZEBRA	PNY
VANTEC	Windows IoT	GIGABYTE
AORUS	Thecus	intel



Rectron — Pursuing Excellence

Who we are

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

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

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

As testament to this, 37% of our entire staff complement has been with the company for over 10 years.

Rectron sells indirectly through a large and varied customer base. We pride ourselves on being southern Africa's leading distributor to small and medium-enterprise resellers. Our strategy of digital transformation is driving our efforts to make doing business with Rectron transparent and easy.

Mission

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

Vision

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

Philosophy

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

Technology

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

Culture

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

Promise

Pursuing excellence

RECTRON CONTINUED

rectron
PURSUING EXCELLENCE

What Rectron does

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

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

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

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

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

In the 2019 financial year, we strengthened our offering through onboarding new brands such as:
IoT solutions: Cradlepoint
Consumer hardware: Roli modular music systems, Micasense
Consumer electronics: LG
Data centre solutions: Vertiv

During 2016, Rectron acquired a majority stake in Palladium, a proudly South African software vendor. Palladium has developed an accounting package for small to mid-sized businesses that is well suited to many of our customers and will generate additional revenue streams for Rectron.

During the course of the 2019 financial year, Rectron was awarded the recognition of PCG Commercial Champion of the Year by Lenovo, as well as the PCG Distributor of the Year by Lenovo.

Rectron's evolving business model

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

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

Our drive to assist our customers in developing and growing sustainable new business is supported by our appetite to source and supply new technology and services, particularly in the enterprise solutions space. This is supported by rigorous sales and technical training so that we can deliver the best possible service to our customers.

The introduction of our own local brand, RCT, offers reliable and robust hardware at affordable prices to the local market. Products in this portfolio include mobile solutions, peripherals, gaming PCs, power solutions, networking and cabinets, as well as RCT cloud solutions.

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

Rectron is authorised to repair Gigabyte, Acer and Asus notebooks, Hisense TVs and phones, RCT inverters and

UPS, Makerbot 3D printers, Poslab Point of Sale and Vivotek surveillance cameras.

Performance

Financial performance in 2019

Our investment into new product verticals and the enterprise development category, as well as our bedrock approach of being a customer needs-led organisation, allows us to efficiently adapt to industry needs and changes. Rectron's continued focus on extending customer breadth and leveraging the software and enterprise product pillars resulted in a year-on-year increase in revenues and 13.7% increase in gross margins.

B-BBEE status and human capital development

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

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

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

We pride ourselves on creating opportunities for youth in South Africa through learnership programmes. They are provided with the necessary skills to enable them to become proficient in a working environment.

Rectron funding from the Media, Information and Communication Technologies Sector Education and Training Authority (MICTE SETA) was approved for a contact centre learnership NQF level 4, and for the first time we enrolled seven unemployed learners through this 12-month programme during the 2019 financial year.

In this past financial year, Rectron sponsored a further 150 unemployed learners through various certified learnership programmes.

We also enrolled five employees internally in the Cape Town branch on an employed system support learnership.

The introduction of our empowerment programme for women called "Basadi" was met with very positive feedback and results. Basadi, Sepedi for "women", is a programme that aims to uplift the women of Rectron, with the understanding that more women in leadership and supervisory positions will lead to a positive change in the Rectron culture, and ultimately have real, tangible business impact. It was launched with the full support of the Rectron executive team. The programme includes quarterly meetings and round tables, training and skills development, joint customer events, getting involved in community-based initiatives and a communications portal, accessible to all staff.

Corporate social responsibility

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

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

New beneficiaries within the financial year included Skills Panda, an all-encompassing skills training company that embraces technology to unlock the true potential in the people they train and the corporate organisations they service.

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.

Our specific focus on enterprise solutions and IoT is attracting larger value and system integration resellers into the Rectron stable. During the 2019 financial year, we grew our enterprise solutions offering to account for over 20% of our overall business. Investments in new product lines will continue growing this offering.

BECOMING A CUSTOMER NEEDS-LED ORGANISATION

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

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

RECTRON CONTINUED

Rectron executive team

Spencer Chen
Managing director

Martin Roets
Operations director

Christiaan Engelbrecht CA(SA)
Financial director

Matthew Hall
Product director

Elaine Wang
Cloud and Software Solutions director

FY20 priorities

Financial capital

- 10% gross profit (GP) growth
- Working capital management
- Maximise return on equity
- Forex management
- Optimisation of operating expenses
- Retain level 2 BEE status

Go to market

- Grow RCT brand presence and product portfolio
- Re-platform RCT cloud offering
- Drive online sales through new dealer portal
- Business development in new verticals

Customer focus

- Continued focus on superior customer experience
- Customer needs drive decision-making
- Re-activate dormant reseller base
- Hunt net new reseller base

Human capital

- Drive a culture of "We Serve" in all departments
- Drive diversity through our "Basadi" empowerment programme for women
- Nurture talent at Rectron

SIZWE IT GROUP

SIZWE IT GROUP

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

MAJOR ACTIVITIES
Comprehensive ICT service solutions provider

MARKETS SERVED
Public and private sector clients

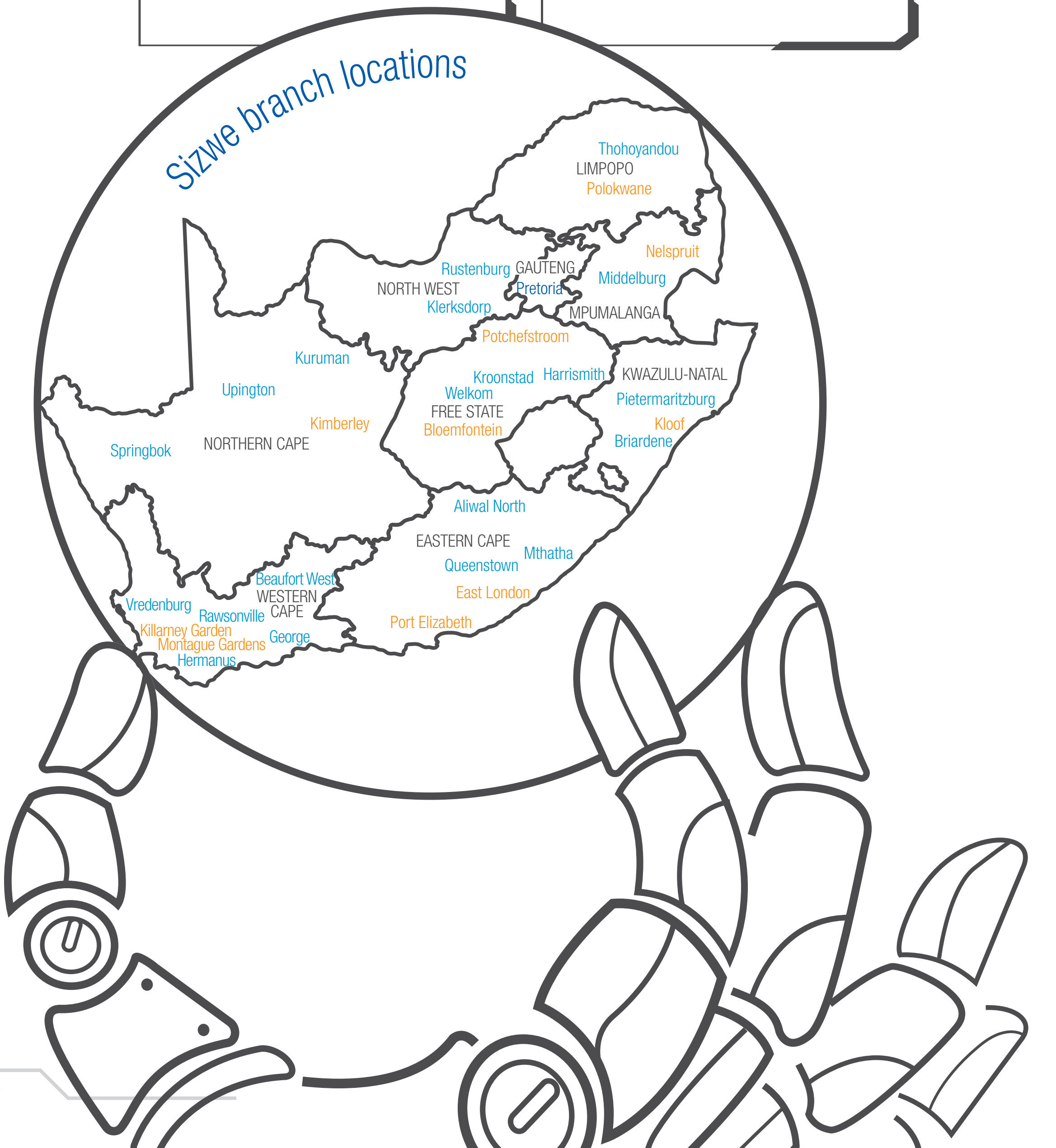
CORE BUSINESS VALUE
Cost saving and user productivity

FOCUS
Integrated ICT solutions

PRIMARY PRODUCTS
- Managed services
- Unified network solutions
- Fibre and facilities management

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

Technical point of presence
Office
Head office



SIZWE IT GROUP

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 our establishment in 1999 as Sizwe Business Networking, Sizwe has built an impressive track record based on our ability to offer complete peace of mind to our clients. We do so by providing the best solutions to the most demanding challenges and have demonstrated our technical knowledge and ability to deploy effective, resilient and reliable solutions.

Sizwe Africa IT Group is majority black-owned and a level 1 B-BBEE contributor.

Sizwe is committed to supporting transformation beyond the ICT Charter Code. Our view is that diversity fosters growth and will drive inclusive economic growth and sustainable employment, particularly for women, youth and entrepreneurs.

Sizwe continuously builds and strengthens partnerships with local small, medium and micro-enterprises (SMMEs) in our effort to contribute towards job creation.

Suite of offerings

MANAGED SERVICES

- 24/7 national call centre
- IT remote management
- End-user computing devices
- Managed print services
- Hosting
- Enterprise processing
- Security
- Server management
- Cloud and SAAS
- Automated workforce management
- Rental solutions
- Maintenance and support of servers and end-user devices

UNIFIED NETWORK SOLUTIONS

- Data communication
- Enterprise networking (routing/switching/wireless)
- Unified communications and collaboration (voice and video conferencing)
- Client contact centres
- Physical security (firewalls)
- Professional services (design, implementation, optimisation, maintenance, and support on UNS)
- IT management services (Project management)

FIBRE AND FACILITIES MANAGEMENT

- Fire detection and suppression
- Network cabling
- Tower maintenance
- Facility management
- LAN (copper) reticulation
- Repair/maintenance of generators
- HVAC (heating, ventilation, air handling, cooling)
- Civil infrastructure
- Backup and redundant power management (generators and UPS)
- Data centre design, implementation and maintenance
- Diesel replenishment
- Alternative energy
- Inside/outside plant optic fibre
- CCTVs
- Access control

SIZWE IT GROUP CONTINUED

The Sizwe approach

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

Our services are provided directly or as part of a managed services contract, supported by a 24/7/365 call centre. Sizwe's managed services are custom built for each client through a five-step process:

Financing

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

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

Three reasons for our success

A history of excellence

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

A countrywide reach

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

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

A partnership-driven approach

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

Socio-economic development

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

Focus areas

Education

Education is the primary focus area of our Sustainable Community Investment (SCI) strategy. We consider ICT a powerful enabler for social and economic inclusion and for tackling the many challenges facing our communities. Addressing them requires a holistic, long-term view and systemic approach founded upon insights, commitment, and partnerships.

Our education-related SCI initiatives include the provision of:

- connectivity in urban and rural schools
- ICT infrastructure and hardware in adopted schools
- support and training for educators in e-learning technology
- e-learning software for learners through our partners
- school shoe kits (a pair of new school shoes, a tin of shoe polish and a shoe brush).

Sizwe's SCI approach

Entrepreneurship

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

Through our partnership with People Upliftment Programme (POPUP), we aim to reduce unemployment and poverty and ultimately create resilient and self-sufficient communities. To raise digital literacy, we provide ICT specific and work-readiness programmes focused on skills development and entrepreneurship.

Environmental

Sizwe Africa IT Group is committed to reducing the current load on South Africa's grid and to drive the demand for alternative energy solutions. We deploy bespoke turnkey solar solutions for our clients.

Solar parking at Sizwe head office

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

New generation data centre installed

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

Certifications

- OHSAS 18001: 2007 – Occupational Health and Safety Management System (OHS)
- ISO 14001: 2015 – Environmental Management System (EMS)
- ISO/IEC 27001: 2013 – Information Security Management System (ISMS)
- ISO 9001: 2015 – Quality Management System (QMS)

Partner certifications

- Cisco Gold Partner
- HP Inc. Gold Partner
- Aruba Gold Partner
- Microsoft Gold and Silver Partner
- Huawei Silver Partner
- Hewlett Packard Enterprise Silver Partner

KHAULEZA IT SOLUTIONS

Khauleza IT at a glance

MAJOR ACTIVITIES
Provider of ICT products and services to national customers

MARKETS SERVED
Public and private sectors

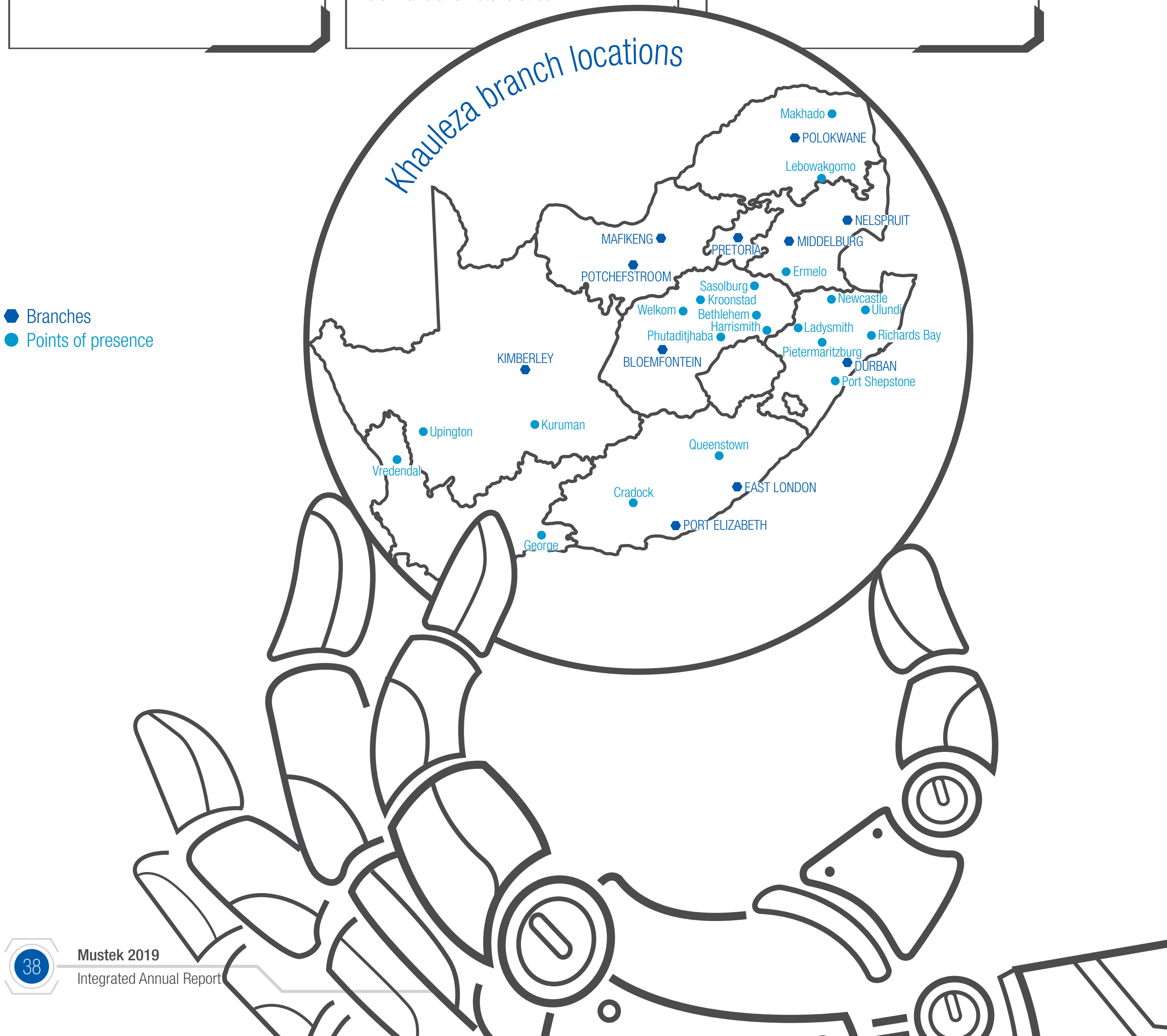
FOCUS
Providing ICT-related skills and services through a single interface

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

PRIMARY PRODUCTS
ICT services and alternative energy solutions

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

STANDARDS
ISO 9001:2015
ISO 27001:2013



KHAULEZA IT SOLUTIONS

Who we are

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

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

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

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

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

Social responsibility

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

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

132 employees

94 vehicles

9 logistics centres

1 repair centre

Multiple SMME partnerships

KHAULEZA IT SOLUTIONS CONTINUED

Services and products

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

ICT distributed services

HELPDESK
Managing, coordinating and resolving support requests using a mobile support application to enhance service-level agreement (SLA) efficiency

MAINTENANCE SERVICES
On-site or off-site remedial maintenance and support services for IT hardware are available through our national infrastructure and strategic partners

IN-HOUSE REPAIRS
Fully functional in-house repair workshop for all IT-related equipment

DEPLOYMENT SERVICES
Pre-staging, configuring, transporting and installing new systems and equipment

IMAC AND END-USER EQUIPMENT
Managing installations, moves, additions, changes or decommissions of our customers' equipment

PROCUREMENT
Procuring and delivering selected distributed computing equipment

SERVER SERVICES
Supplying, installing and maintaining leading-brand servers

INFRASTRUCTURE SERVICES
Supplying, installing and maintaining a range of network, IT hardware, security and alternative power products

CABLING SERVICES
Installing network cabling infrastructure for Molex, Krone and 3M

WAN AND LAN DESIGN
Analysing client requirements and designing network solutions based on Cisco, Huawei and HP equipment

PRINT MANAGEMENT SERVICES
Assessing and providing third-party print management solutions

Leadership team

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

Raymond Risk
Chief executive officer (CEO)

Siyabonga Maclean
Executive director: Strategy and finance

David Kan
Non-executive director

Extended services and products

RENEWABLE ENERGY SERVICES
Assessing and developing DC power solutions and executing preventative maintenance

ALTERNATIVE ENERGY, SOLAR POWER AND GRID-INTERACTIVE SERVICES
Installing and maintaining alternative energy solutions

ENERGY CONSULTING AND SITE ASSESSMENTS
Consulting service offered to clients aimed at assessing sites and advising on appropriate energy solutions thereof

MUSTEK SECURITY TECHNOLOGIES

What MST does

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

Mustek Security Technologies at a glance

Major activities

Security solutions

Markets served

National key points and corporate environments throughout South Africa

Focus

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

Primary products

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

Branches

10

Standards

ISO 14001, 9001, OHSAS 18001 (ISO 54001), PSIRA, National Key Points, Rotakin Compliance with all relevant legislation

Products and services

PRODUCTS

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

SERVICES

- End-to-end security solutions
- Systems and equipment component testing
- CCTV laboratory testing and Rotakin certification
- Project management in line with PMBok
- 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 (solar)
- Transmission systems (microwave, wireless mesh, etc.)
- Traditional electronic security systems, such as electrified fencing
- Advanced IT and security training
- Perimeter protection solutions
- Advanced occupational health and safety services.

Standards

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

- ISO 14001
- ISO 9001
- OHSAS 18001 (ISO 45001)
- Private Security Industry Regulatory Authority (PSIRA) Act
- PMBok Best Practices.

At the end of 2016, MST obtained its BS OHSAS 18001 certification, which recognises the provision of Occupational Health and Safety (OHS) throughout all MST-provided services. The OHSAS 18001 certification now forms part of the ISO certification process as per ISO 45001.

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

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

Future prospects and forward planning

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

MST is ideally positioned in the security market to provide customers with high-quality security solutions that are compliant with all statutory requirements. We offer leading-edge products that are unmatched in the South African security market, with technologies going beyond "every day" security systems.

Advanced technology is the foundation of MST's value offering and MST invests heavily in training, research and development.

YANGTZE OPTICS AFRICA CABLE (YOAC)

YOA CABLE
Yangtze Optics Africa Cable Proprietary Limited
长飞光纤非洲光缆有限公司

Yangtze Optics Africa Cable Proprietary Limited (YOAC) manufactures next-generation optical fibre cable products, addressing southern Africa's social development goals for sustainable broadband connectivity. Situated at the Dube TradePort in KwaZulu-Natal, YOAC comprises a USD10 million foreign direct investment from Yangtze Optical Fibre and Cable Joint Stock Company (YOFC) and Mustek Limited (Mustek).

As the largest global optical fibre and optical fibre cable manufacturer, YOFC offers a globally integrated supply line, while Mustek offers distribution and marketing in southern Africa. YOAC manufactures optical fibre cable specifically focused on FTTX deployment in South Africa, servicing a diverse range of customers from network owners, network system integrators and installers to the general distribution market.

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

YOAC at a glance

Major activities

Optical fibre cable manufacturer

Markets served

South African information and communications technology (ICT) and broadband market

Focus

New generation optical fibre cable for FTTX deployment

Primary products

Optical fibre and cable products

Branches

In KwaZulu-Natal

Standards

IEC-60793 and IEC-60974, ITU-T G651, G652, G655, G657, ISO 9001: 2015

YOA CABLE
Yangtze Optics Africa Cable Proprietary Limited
长飞光纤非洲光缆有限公司

What Yangtze Optics Africa Cable does

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

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

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

Performance

Market conditions in South Africa remained depressed with limited new infrastructure growth. YOAC implemented numerous cost-cutting initiatives, as well as a consolidation of employment functions, which resulted in savings in salaries.

YOAC also obtained a B-BBEE level 4 scorecard in 2018 and a B-BBEE level 2 scorecard in May 2019.

Local market conditions showed modest improvement from April 2019 and YOAC anticipates robust growth to June 2020 after securing two new long-term supply contracts with the largest cellular operator and the second largest fixed line operator in South Africa respectively.

Employment and skills development

YOAC employs 84 people from the surrounding communities of Inanda, KwaDabeka, KwaMashu, Phoenix, Ottawa and Waterloo. More than 31% of staff members across all disciplines are female. YOAC is committed to empowering women and people from previously disadvantaged backgrounds.

YOAC employees continue to benefit from the company's skills development and skills transfer programmes, with various international experts regularly visiting the YOAC plant and providing input.

Corporate social responsibility

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

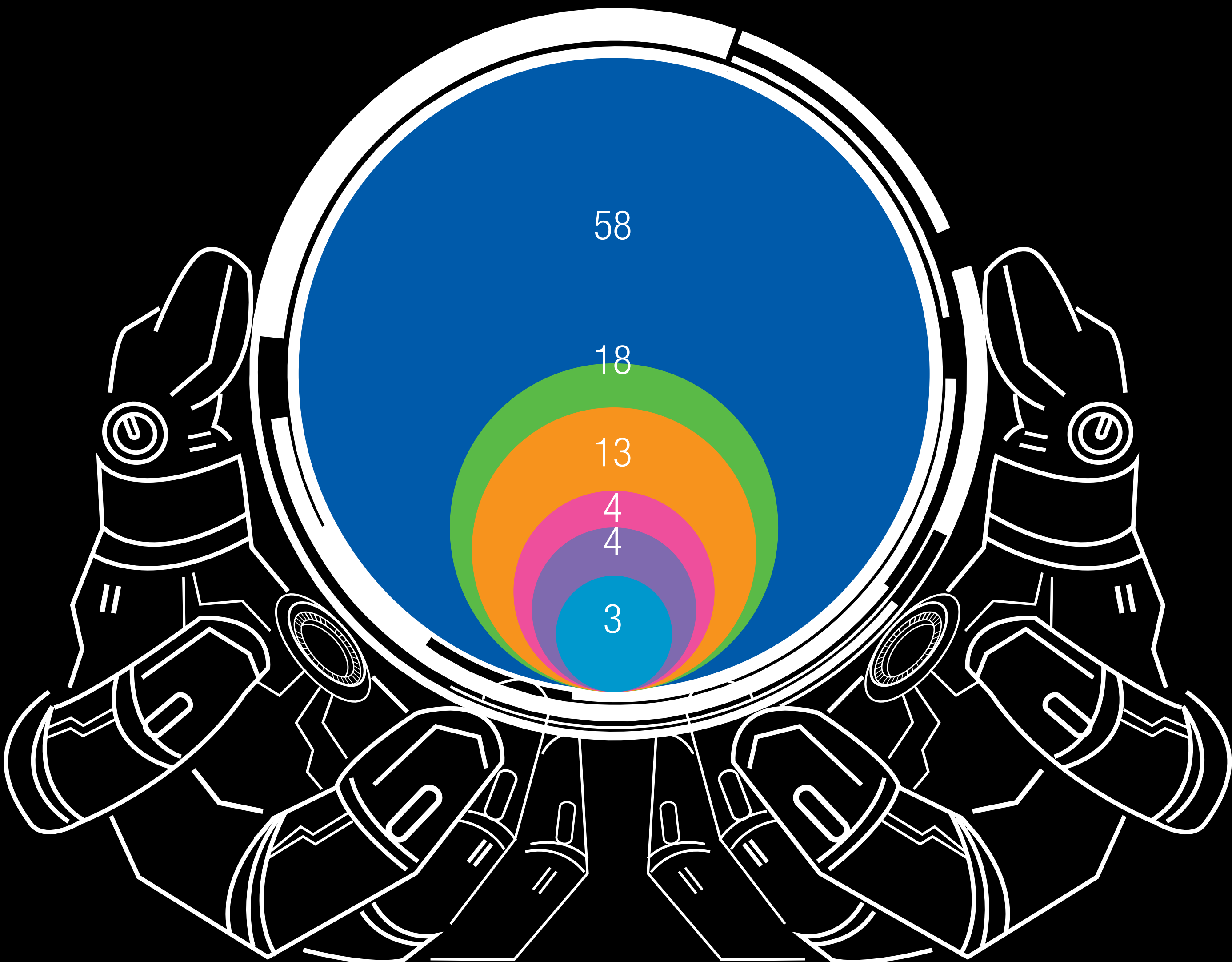
- YOAC sponsored back-to-school stationery for 26 children in January 2019
- YOAC handed over a new, modern computer lab to Mariannpark Primary School in July 2018 as part of the Mandela Day drive.

Future prospects and forward planning

YOAC is currently in the final stages of a technical and commercial evaluation with the largest privately owned network owner in South Africa. Securing supply will significantly increase YOAC's revenue and volume. Keeping with YOAC success in customer service and delivery, multiskilling of production operators remains high on the list of key drivers for YOAC success. Currently, a third of all YOAC operators are multiskilled, which enabled YOAC to increase its production capacity by 30% without expanding on its current workforce. YOAC aims to increase the number of multiskilled operators to 50% of its workforce by the end of 2019.

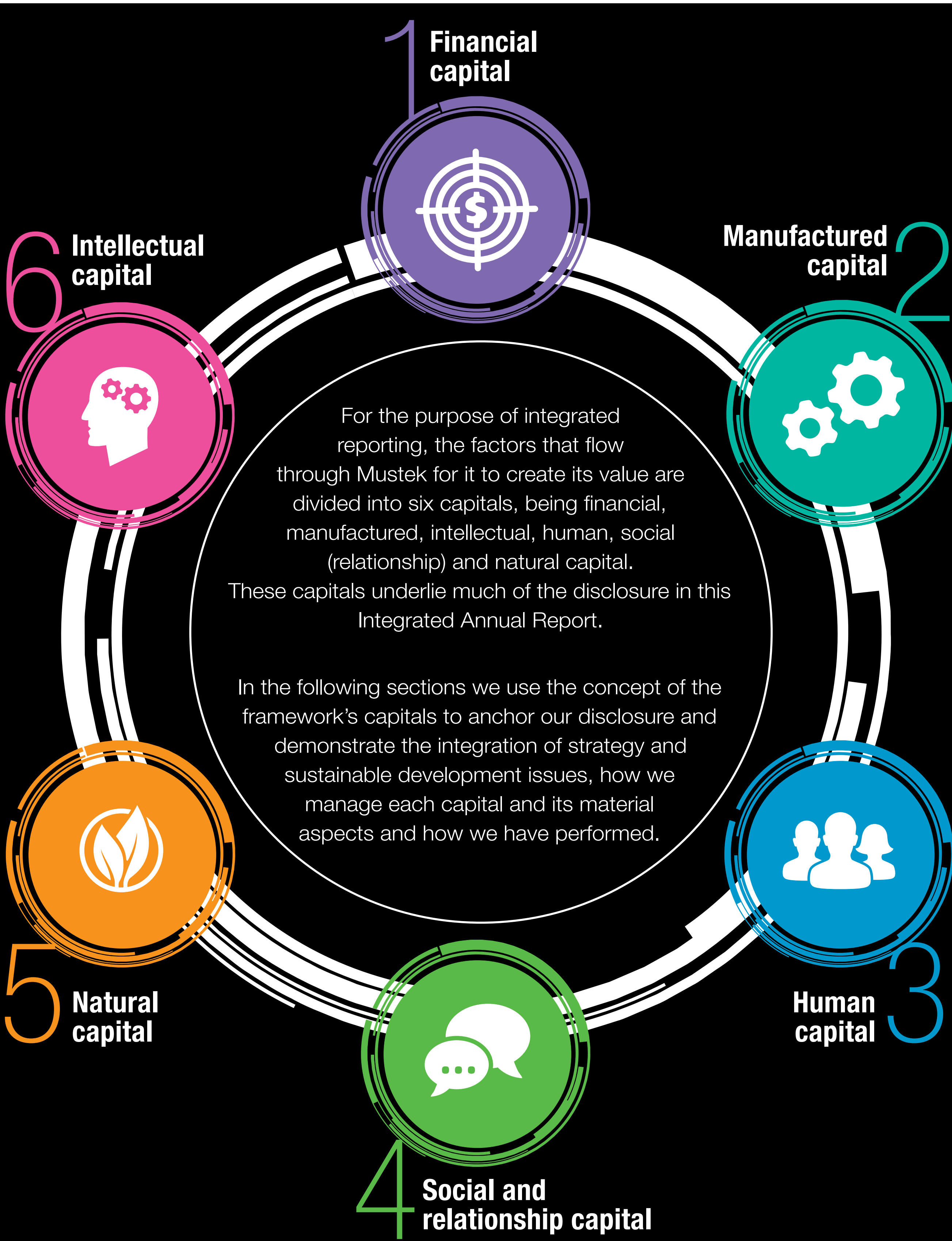
SUSTAINABLE VALUE CREATION

VALUE CREATED



2019		2018	
Employees (including employee tax)	58%	Employees (including employee tax)	60%
Providers of debt	18%	Providers of debt	16%
Reinvested in the Group	13%	Reinvested in the Group	12%
Government – direct taxes	4%	Government – direct taxes	4%
Depreciation and amortisation	4%	Depreciation and amortisation	6%
Providers of capital	3%	Providers of capital	2%

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 (relationship) and natural capital. These capitals underlie much of the disclosure in this Integrated Annual Report.

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

OUR SIX CAPITALS CONTINUED

1 Financial capital

Financial capital is the pool of funds that is:

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

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

HIGHLIGHTS

- Net asset value per share: R14.94 (2018: R13.49)
- Headline earnings per share: 139.32 cents (2018: 104.15 cents)
- Basic earnings per share: 147.90 cents (2018: 102.58 cents)
- Banking facilities: R2 307.2 million, with 58.1% utilised at 30 June 2019 (2018: R2 182.1 million, 52.4% utilised at 30 June 2018)

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 important and influential stakeholders.

How we manage and allocate it

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

Financial capital management includes:

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

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

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

Foreign exchange risk management

The bulk of Mustek's inventory is imported from other countries, with purchases predominantly in US 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 various ways.

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

Working capital management

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

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

OUR SIX CAPITALS CONTINUED

Financial capital continued

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

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

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

Performance

Profitability

- The Group's revenue increased by 3.1% to R5.85 billion (2018: R5.67 billion), mainly as a result of strong growth in new products and services added to the Group's portfolio over the last five years
- The gross profit percentage was stable at 14.0% (2018: 14.0%) as the Group continued to grow its market despite subdued spend from the government sector
- The ZAR/USD exchange rate was extremely volatile during the year and the Group's hedging policy proved effective as forex losses were limited to R19.9 million (2018: R87.9 million)
- Distribution, administrative and other operating expenses increased by 6.1%. This increase was driven by the impairment of a debtor of R17.5 million after the High Court ruled that a guarantee issued by an insurance company was not enforceable
- Net finance charges increased from R76.6 million to R104.3 million predominantly as a result of the increase in inventory levels. Working capital management continues to be a driver of profitability and will continue receiving management's full attention
- An improved performance from Sizwe Africa IT Group Proprietary Limited saw the contribution from associates increase
- In line with Mustek's policy to dispose of underperforming assets with low growth potential, vacant land in Midrand was disposed of for R17.5 million, realising an after tax, non-headline profit of R6.3 million. As a result, Mustek's headline earnings per share is 33.8% higher at 139.32 cents (2018: 104.15 cents) and basic earnings per share is 44.2% higher at 147.90 cents (2018: 102.58 cents).

Return on equity

- 10.3% (2018: 8.2%)

Inventory

- Group inventory days: 94 days (2018: 72 days)
- At year-end, R89.1 million (2018: R105.9 million) of inventory was carried below its cost at net realisable value. This represents 6.9% (2018: 11.0%) of the Group's total inventory
- Current ratio – 1.3 times (2018: 1.3 times)

Group debtors days

- 61 days (2018: 62 days)

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

Strategy and prospects

- The finance function will continue to focus on the matrix of products and vendors' contribution to both revenue and gross profit
- Supply chain management, especially foreign exchange exposure and the matching of working capital terms, will continue
- Opportunities for efficiencies and synergies within the Group to control cost increases will continue to be investigated
- The implementation of a new enterprise resource planning (ERP) system at both Mustek and Rectron will create opportunities to improve synergies between the two operations and will receive considerable attention in the 2020 financial year.

2 Manufactured capital

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

- buildings
- equipment
- infrastructure

OUR SIX CAPITALS CONTINUED

Manufactured capital continued

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

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

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

Assets and products

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

At 30 June, the Group's inventory amounted to R1.296 billion (2018: R965.971 million). Mustek's local stockholding policy is a competitive differentiator for ordering and delivering stock to customers and in processing warranties, returns and replacements of faulty technology. By maintaining healthy inventory levels at each regional head office, Mustek ensures that warranties, returns and replacements of faulty technology are dealt with quickly and efficiently.

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

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

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

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

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

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

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

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

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

Other aspects of the Group's asset management are:

- access control
- regular stock counts
- physical controls in terms of the Occupational Health and Safety Act, 1993 (OHS)
- adequate insurance of assets
- maintaining and reviewing a complaint register.

The Group's assembly and inventory performance:

- 72 707 units assembled (2018: 79 923 units)
- 5.5 million items sold (2018: 6.8 million)
- 125 complaints logged (2018: 88)
- ISO 9001 certification verified by BSI
- 94 inventory days (2018: 72 days).

Supply chain

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

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

The future

For 2020 and beyond, Mustek's management and personnel are committed to providing computer-related equipment and services of the highest quality.

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

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

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

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

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

OUR SIX CAPITALS CONTINUED

3 Human capital

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

- alignment with and support for Mustek's governance and ethics
- ability to understand and implement Mustek's strategy
- drive to improve processes, goods and services through leadership and collaboration

Our workforce

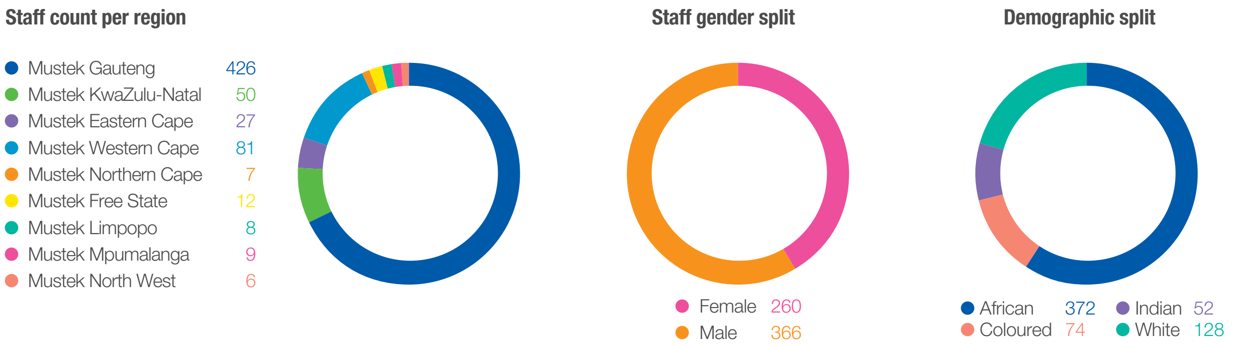
Mustek's permanent workforce

Headcount at 30 June 2019

	Number of employees	% breakdown
Mustek Gauteng	426	68.05
Mustek KwaZulu-Natal	50	7.99
Mustek Eastern Cape	27	4.30
Mustek Western Cape	81	12.94
Mustek Northern Cape	7	1.12
Mustek Free State	12	1.92
Mustek Limpopo	8	1.28
Mustek Mpumalanga	9	1.44
Mustek North West	6	0.96
Total	626	100.00

South African national employee diversity statistics

	Total	Race %	Female	Female %	Male	Male %
African	372	59.42	153	58.85	219	59.84
Coloured	74	11.82	32	12.31	42	11.48
Indian	52	8.31	11	4.23	41	11.20
Black sub-total	498	79.55	196	75.38	302	82.51
White	128	20.45	64	24.62	64	17.49
Total	626	100.00	260	100.00	366	100.00



Rectron's permanent workforce

National employee diversity statistics

	Total	Race %	Female	Female %	Male	Male %
African	180	53.89	108	62.79	72	44.44
Coloured	44	13.17	17	9.88	27	16.67
Indian	41	12.28	18	10.47	23	14.20
Black sub-total	265	79.34	143	83.14	122	75.31
White	69	20.66	29	16.86	40	24.69
Total	334	100.00	172	100.00	162	100.00

In total, 331 employees including five foreign nationals.

OUR SIX CAPITALS CONTINUED

Human capital continued

Mustek's human capital philosophy

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

Currently 28.30% (2018: 19.76%) of our employees are trade union members. None of the trade unions in our sector have reached the 30% hurdle membership percentage for formal recognition, therefore collective bargaining agreements are not presently applicable to the Mustek or Rectron workforces.

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

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

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

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

Career development – the Mustek way

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

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

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

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

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

Bursary options are also made available to employees wishing to better establish themselves within the business. Applications are considered on a case-by-case basis. Internships are accommodated within the Group in conjunction with Microsoft. This combination provides the individual with both formal training and job experience.

Life skills training and wellness

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

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

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

Antiretroviral drugs are provided to HIV positive staff as needed.

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

Health and safety

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

Minor first aid incidents are recorded and reported by our first aiders to the safety, health and environmental (SHE) officer. Moderate to serious injuries are reported to Mustek's payroll function and to the Commissioner for Workmen's Compensation, who has the authority to award workmen's compensation.

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

The Group's total investment in the training and development of employees during the 2019 financial year amounted to **R19.81 million** (2018: R15.51 million)

Rectron's training spend as at end June 2019 was **R6.07 million** (2018: R5.51 million)

Employee turnover for Mustek for the current year amounted to **9.15%** (2018: 11.4%)

Employee turnover for Rectron for the current year amounted to **13.64%** (2018: 12.00%)

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

Mustek's absenteeism rate was recorded as 1.5% (2018: 1.43%), and Rectron's as 1.46% (2018: 1.89%) for the 2019 year

The total number of recordable injuries reported, including medical treatment cases and lost time injuries was 16 injuries – Mustek 13 and Rectron three

During FY19 Mustek lost 2 353.5 productivity/working days due mainly to sick leave taken by staff nationally (2018: 2 145)

Mustek was involved in seven CCMA cases during the year (2018: three) and Rectron had one CCMA case (2018: one):

- no grievances about labour practices have been filed
- no incidents of discrimination or corrective actions taken

100% of national staff trained on anticorruption policies and procedures. No incidents of corruption

OUR SIX CAPITALS CONTINUED

Human capital continued

Performance

Mustek's health and safety statistics

Occupational injuries on duty are recorded as follows:

	Mustek			Rectron		
Health and safety indicator	2019	2018	2017	2019	2018	2017
First aid cases (FACs, ie injuries on duty leading to minor treatments, such as a plaster)	**19**	28	98	**72**	98	31
Medical treatment cases (MTCs, ie injuries on duty leading to medical treatment, but no lost days)	**3**	1	2	**0**	2	0
Lost time injuries (LTIs, ie injuries on duty leading to at least one lost day)	**10**	12	8	**3**	1	1
Lost time injury frequency rate (LTIFR, ie number of LTIs per 200 000 person hours worked)	**1.9**	2.4	1.7	**1.0**	0.4	0.3
Total number of recordable injuries, including MTCs and LTIs	**13**	13	10	**3**	3	1
Total recordable injury frequency rate (TRIFR)	**2.5**	2.6	2.1	**1.0**	1.0	0.3

Rectron's human capital

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

Rectron human capital vision

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

Talent development

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

Employee wellness

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

Diversity

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

Skills development

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

Rectron’s human capital highlights

We upskilled employees with relevant skills in each area of the business, in accordance with **each employee’s** personal development plan

Completion of the customer service, technical and system support learnership programme creating employment opportunities for learners

We continue to focus on the wellbeing of our employees through our wellness programme hosting various initiatives

We launched our Basadi Women Empowerment programme – upskilling and empowering future female leaders

Our diversity campaign continued to contribute towards a diverse harmonious workplace

We held celebrations for all employees country-wide celebrating their **10** and **20** years of service

OUR SIX CAPITALS CONTINUED

4 Social and relationship capital

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

Social and relationship capital includes:

- shared norms, and common values and behaviours
- key stakeholder relationships, based on interactions and trust developed over years
- intangibles associated with the brand and reputation that Mustek has developed
- our social licence to operate

Our key stakeholders include:

OUR SIX CAPITALS CONTINUED

Social and relationship capital continued

Stakeholder engagement

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

Stakeholder engagement is based on inclusiveness, materiality and responsiveness. Mustek's financial director, Neels Coetzee, is the Group's stakeholder relations officer. Stakeholder engagement is conducted in one of two ways:

- direct engagement through verbal, direct written or visual communication with stakeholder groupings
- indirect engagement in the form of compliance with regulations and standards.

Investors are directly engaged through regular presentations and roadshows. These include:

- operational visits
- communication through the Securities Exchange News Service (SENS)
- one-on-one communication with executive management and members of the Board
- the publication of interim and full-year financial results and an Integrated Annual Report
- the provision of financial information demonstrating conformance with debt covenants.

Direct engagement with our employee stakeholder grouping is conducted through supervisory and disciplinary structures. Means of communication include:

- scheduled meetings
- briefings
- emails and posters
- standard policy and procedures documents
- one-on-one supervision and instruction
- performance discussions.

A key stakeholder grouping is our reseller base, which between Mustek and Rectron numbers more than 10 000 resellers. Constant feedback from our resellers is invaluable for remaining abreast with consumer trends and demands. Mustek and Rectron remain constantly engaged with our resellers through:

- customer surveys
- roadshows
- personal meetings
- incentive schemes
- digital email service
- web-based reseller portal.

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

Stakeholder issues

Key stakeholder issues raised through our engagement processes include:

- profitability
- good governance
- job security
- product quality, availability and after sales support (lifecycle management)
- customer service
- remuneration
- financial stability
- compliance with legislation and regulations
- corporate citizenship – social investment and transformation
- environmental impacts and "green products".

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

Transformation and maintaining our social licence to operate

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

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

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

During the 2019 financial year, the Group spent R19.81 million on staff training and skills development (2018: R15.51 million).

Corporate social investment (CSI)

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

In this reporting period, the Group spent approximately R1.78 million on CSI initiatives (2018: R1.60 million). Our CSI programme is directed at enabling people to gain access to opportunities in the mainstream economy.

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

Procurement

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

Mustek meets the definition of a level 1 B-BBEE contributor in terms of its preferential procurement. We aim to secure full B-BBEE certificate compliance for all suppliers including EME, QSE, black-owned and black women-owned enterprises. For the past three years, we have reached the 80% target for preferential procurement with BEE compliant suppliers. 84.02% (2018: 89.5%) of the total procurement spend is with local suppliers.

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

Protection of customer data

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

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

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

Rectron frequent buyer rewards

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

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

Mustek's awards

2019

- **Huawei Enterprise – Mustek Distributor of the Year**
- **Epson – Mustek Distributor of the Year for Enterprise Printers and Enterprise Projectors**
- **Toshiba Storage – Distributor of the Year for Toshiba HDD**

2018

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

OUR SIX CAPITALS CONTINUED

5 Natural capital

- The world's stock of natural resources, renewable and non-renewable
- Resources that provide goods or services that support current and future prosperity of organisations

Relative environmental conditions that can affect an organisation's purpose include:

- climate
- air quality
- natural resource availability
- water quality
- biodiversity
- use of land
- existing contamination

What we use

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

Sustainability and the environment

To achieve true sustainability, we need to balance economic, social and environmental sustainability factors in equal harmony. Sustaining the environment means that we are living within the means of our natural resources, consuming our natural resources at a sustainable rate without reducing the environment's capacity to allow all people to live well, now and in the future. Environmental sustainability is the critical foundation on which social and economic life depends.

Management approach

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

Future challenges for environmental management included in the revised ISO 14001 standard are:

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

Mustek's environmental management goals are to:

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

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

Our primary environmental impact is waste in the form of packaging materials, electronic waste from redundant components and office waste, such as paper. Service providers, also certified to ISO 14001, recycle Mustek's waste in a legally compliant manner.

Our carbon emissions are reduced by using PV systems that generate clean energy in the form of solar power and by implementing strategies to reduce the consumption of electricity. The integration of an energy management system (EnMS), based on ISO 50001, into Mustek's existing environmental management system, has enabled a consistent approach to energy management and further reductions in energy consumption.

Mustek's precautionary approach

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

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

Environmental key performance GRI indicators

- No incidents of non-compliance were reported with regulations and voluntary codes concerning the health and safety impacts of products and services during their lifecycle
- All products include labelling that indicates:
  - model number
  - input rating
  - output rating (if relevant)
  - a recycling statement included on all Mecer computer boxes
- There were no issues of non-compliance with regulations and voluntary codes concerning product and service information and labelling
- Mustek registered with the Department of Environmental Affairs (DEA) as a "producer", as required by the Waste Act, 59 of 2008 and Government Notice 1353
- Biodiversity is not a key aspect of Mustek's environmental system, but due to the improvement of the outdoor display system and the need to remove palm trees blocking view of the display, Mustek replanted six mature palm trees rather than have them cut down
- Electronic waste is classified as hazardous in its waste form. It is thus collected and responsibly recycled, with 33 tonnes (2018: 39 tonnes) of e-waste recycled by Mustek and its bigger branches in this financial year

OUR SIX CAPITALS CONTINUED

Natural capital continued

- Mustek's objective is to reduce energy consumption; however, due to increased operations, tenant activity and the need to run a generator while completing the new Cape Town building, energy consumption increased by 2% this year. Mustek's carbon emissions did not increase owing to the installation of a PV system at our new Cape Town building
- Rectron again recycled 11 tonnes of waste
- Rectron reduced its energy consumption by 11% due to stricter operational controls and better accuracy in reporting of electricity consumption using self-metering.

Energy consumption and greenhouse gas (GHG) emissions

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

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

In 2013, Mustek invested R3.9 million on the installation of 924 solar PV panels on the roof of its Midrand head office and assembly line. The panels reduce the Midrand installation's electrical consumption and its peak demand by approximately 10%. 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. In 2018, Mustek added another PV system to its MST building and this year included a PV system in the building of its new Cape Town office.

To date, since 2011, Mustek has reduced its emissions by 49%. Rectron too, due to the installation of their PV systems and more accurate energy metering, has shown a reduction in emissions by as much as 23%.

Waste abatement and disposal

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

Electronic waste is considered hazardous in its waste form and requires recycling or disposing of in a legally compliant manner. Mustek, therefore, utilises service providers that can demonstrate compliance and are ISO 14001 certified. The lifecycle approach is addressed in the labelling of Mecer computer boxes informing customers of the need to suitably dispose of obsolete computer equipment to prevent land-filing of hazardous waste.

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

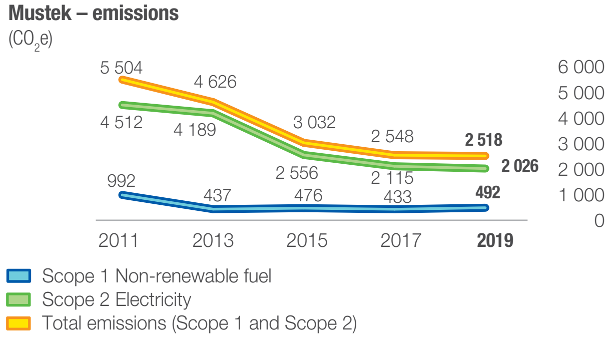
Waste also contributes to the Group's emissions, although it has a far more significant impact on landfill sites and wasted resources. The Scope 3 contribution of emissions from waste is, however, not included in the emissions values reported.

The amount of waste recycled by Mustek this year remained much the same as last year at 150 tonnes. Mustek Gauteng maintained recycling at 76% of total waste.

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

EMISSIONS

Mustek – emissions (CO_2e)	2011	2013	2015	2017	2019
Scope 1 Non-renewable fuel	992	437	476	433	**492**
Scope 2 Electricity	4 512	4 189	2 556	2 115	**2 026**
Total emissions (Scope 1 and Scope 2)	5 504	4 626	3 032	2 548	**2 518**



Mustek – emissions (tonnes CO_2e)		CO_2e 2015	CO_2e 2016	CO_2e 2017	CO_2e 2018	CO_2e 2019
Scope 1	Stationary fuels	15	9	8	10	**27#**
	Company-owned vehicles	398	404	372	366	**386**
	Other fugitive emissions (non-Kyoto gases)	63	27	53	31	**79**
	Total non-renewable fuel	**476**	**440**	**433**	**407**	**492**
Scope 2	Electricity	2 556	2 134	2 115	2 099	**2 026**
	Total emissions	**3 032**	**2 574**	**2 548**	**2 506**	**2 518**

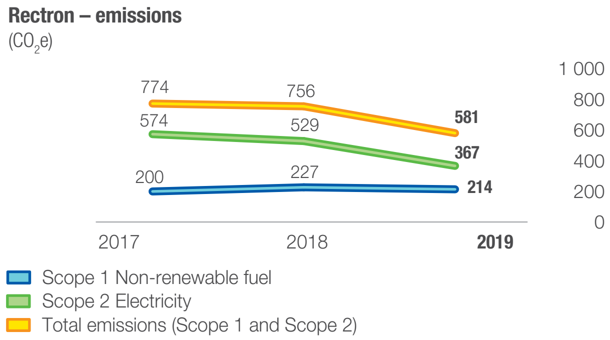
 # Use of diesel is higher this year due to the initial lack of Eskom power during completion of the new Mustek Cape Town building.

PERCENTAGE REDUCTION IN EMISSIONS

Mustek – emissions (tonnes CO_2e)	CO_2e 2015	CO_2e 2016	CO_2e 2017	CO_2e 2018	CO_2e 2019
Total emissions (tonnes CO_2e)	3 032	2 574	2 548	2 506	**2 518**
Reduction of tonnes CO_2e	1 001	458	26	42	**(12)**
	25%#	15%#	1%	2%	**0%**

 # Corrected values, percentages previously reported in error.

Rectron – emissions (CO_2e)	2017	2018	2019
Scope 1 Non-renewable fuel	200	227	**214**
Scope 2 Electricity	574	529	**367**
Total emissions (Scope 1 and Scope 2)	774	756	**581**



OUR SIX CAPITALS CONTINUED

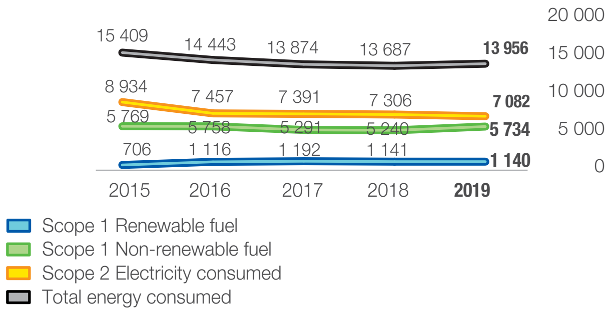
Natural capital continued

Rectron – emissions (tonnes CO_2e)	CO_2e 2016	CO_2e 2017	CO_2e 2018	CO_2e 2019
Scope 2 Company-owned vehicles and stationary fuel		200	227	**214**
Total non-renewable fuel		200	227	**214**
Scope 2 Electricity emissions (tonnes CO_2e)	539	574	529	**367**
Total emissions	**539**	**774**	**756**	**581**

ENERGY

Mustek – energy consumption (GJ)	2015	2016	2017	2018	2019
Scope 1 Renewable fuel	706	1 116	1 192	1 141	**1 140**
Scope 1 Non-renewable fuel	5 769	5 758	5 291	5 240	**5 734**
Scope 2 Electricity consumed	8 934	7 457	7 391	7 306	**7 082**
Total energy consumed	**15 409**	**14 443**	**13 874**	**13 687**	**13 956**

Mustek – energy consumption
(GJ)



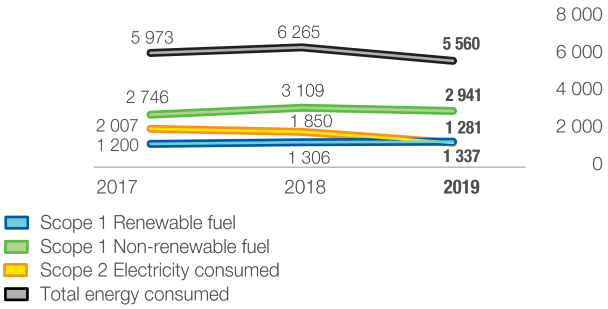
Mustek – energy consumption (GJ)	GJ 2015	GJ 2016	GJ 2017	GJ 2018	GJ 2019
Scope 1 Stationary fuels	198	125	113	137	**373#**
Company-owned vehicles (P)	3 660	3 321	2 734	2 744	**2 564**
Company-owned vehicles (D)	1 911	2 312	2 444	2 360	**2 797**
Total non-renewable fuel	**5 769**	**5 758**	**5 291**	**5 240**	**5 734**
Renewable fuel (solar)	706	1 116	1 192	1 141	**1 140**
Scope 2 Electricity (GJ)	8 934	7 457	7 391	7 306	**7 082**
Total energy consumed	**15 409**	**14 331**	**13 874**	**13 687**	**13 956**

Use of diesel is higher this year due to the initial lack of Eskom power during completion of the new Mustek Cape Town building.

Mustek – energy saved	2015	2016	2017	2018	2019
Energy saved from year to year	2 597	1 078	457	187	**(269)**
Energy saved on year (%)	14	7	3	1	**(2)**

Rectron – energy consumption (GJ)	2017	2018	2019
Scope 1 Renewable fuel	1 220	1 306	**1 337**
Scope 1 Non-renewable fuel	2 746	3 109	**2 941**
Scope 2 Electricity consumed	2 007	1 850	**1 281**
Total energy consumed	**5 973**	**6 265**	**5 560**

Rectron – energy consumption
(GJ)



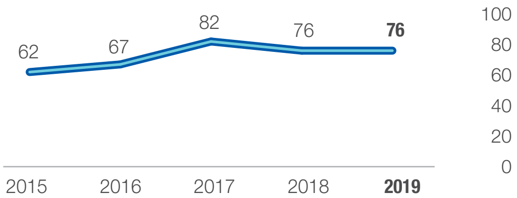
Rectron – energy (GJ)	GJ 2015	GJ 2016	GJ 2017	GJ 2018	GJ 2019
Scope 1 Company-owned vehicles (P)			257	316	**330**
Company-owned vehicles (D) and stationary fuel			2 489	2 793	**2 611**
Scope 1 **Non-renewable fuel**			**2 746**	**3 109**	**2 941**
Renewable fuel (solar)		1 355	1 220	1 306	**1 337**
Scope 2 Electricity (GJ)	1 226	1 886	2 007	1 850	**1 281**
Total energy consumed (GJ)	**1 226**	**3 241**	**5 973**	**6 265**	**5 560**

GROUP WASTE

Mustek and Rectron – waste (tonnes)	2015	2016	2017	2018	2019
Mustek recycled waste (including branches)	155	129	206	149	**150**
Rectron recycled waste (Gauteng only)	23	13	11	11	**11**

Mustek – Gauteng – recycled waste	2015	2016	2017	2018	2019
Recycled waste (%)	62	67	82	76	**76**

Mustek – Gauteng – recycled waste
(%)



OUR SIX CAPITALS CONTINUED

6 Intellectual capital

Mustek's knowledge-based intangibles include:

- intellectual property, such as patents, copyrights, software, rights and licences
- organisational capital, including tacit knowledge, systems, procedures and protocols

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

The cumulative value of the intellectual capital that Mustek has refined over 32 years informs and drives our evolving business strategy. Building onto the other five capitals, it enables Mustek to remain sustainable and ahead of our competitors.

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

Mustek's intellectual capital comprises:
- ICT industry insight
- competitive intelligence
- corporate culture
- understanding our customers and markets
- assembly lines and logistics management
- our human assets.

How we utilise it

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

The Group's intellectual capital is refined through a continual improvement process based on:
- responding to changing needs
- anticipating the needs of customers in the future
- offering comprehensive, high-value solutions
- partnering with the best providers of forward-thinking technology solutions and services
- acquiring product lines in emerging technologies
- continually assessing product and service gaps, as well as identifying adjacent opportunities
- improving operational efficiencies and cost management
- identifying and mitigating risks
- upskilling and motivating our workforce.

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

Moving beyond brands into solutions

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

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

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

Excellence through international standards and awards

Mustek's awards

2019
- Huawei Enterprise – Mustek Distributor of the Year
- Epson – Mustek Distributor of the Year for Enterprise Printers and Enterprise Projectors
- Toshiba Storage – Distributor of the Year for Toshiba HDD

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

Mustek's certifications

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

OUR TEAM LEADERSHIP

A diverse and effective leadership team

David Kan | 60 | Chief executive officer

Hein Engelbrecht | 50 | Managing director

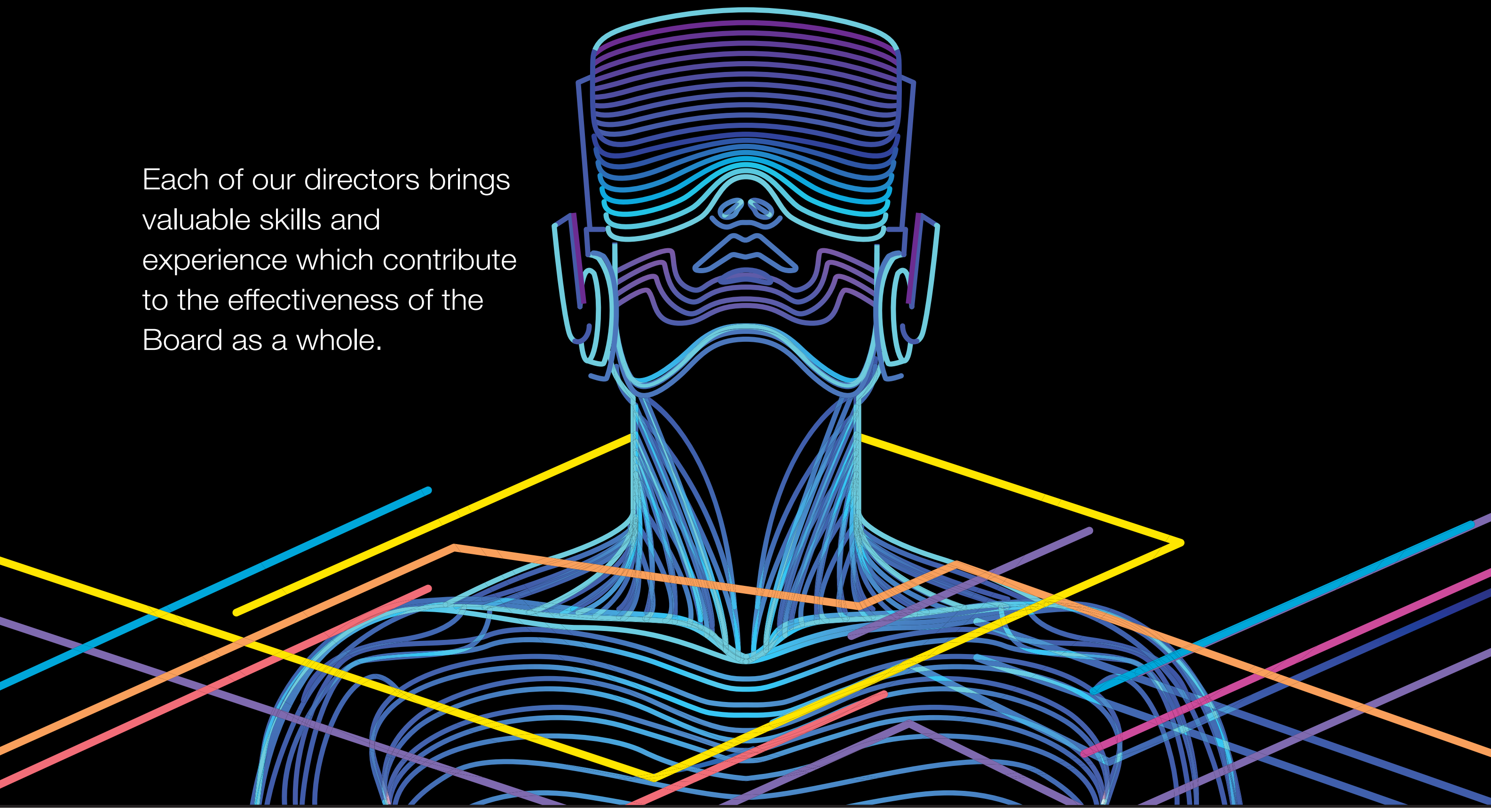
Neels Coetzee | 44 | Financial director

David Kan, aged 60, is the co-founder and a major shareholder of Mustek, and its CEO since the Group's inception in 1987. He holds a BSc (Eng), with a major in mechanical engineering.

Hein Engelbrecht, aged 50, holds a BCom (Hons), is a registered chartered accountant, and joined the Group in 1997 as Group financial manager. He completed his articles with Grant Thornton Kessel Feinstein and spent two-and-a-half years as financial manager of Office Directions Proprietary Limited. He was appointed to the Board on 1 September 2000.

Neels Coetzee, aged 44, is a registered chartered accountant and joined the Group in 2001 as Group financial manager after completing his articles with Deloitte in 2000. He was appointed to the Board as financial director on 29 August 2008.

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



Dr Mdu Gama

50

Lead independent non-executive director

Dr Mdu Gama, aged 50, was appointed as a director of Mustek in 2002. He holds an MBA, a PhD (Finance) and various management qualifications from SA, US and UK universities. He is currently the CEO of Resultant Finance Proprietary Limited and a trustee of the University of Johannesburg Trust Fund.

Ralph Patmore

67

Independent non-executive director

Ralph Patmore, aged 67, was appointed to the Board on 16 October 2009. He holds a BCom and an MBL from Unisa's School of Business Leadership. He was the CEO of Iliad Africa Limited since inception in 1998 to retirement in September 2008. He is also a non-executive director of Unicorn Capital Partners Limited, Calgro M3 Holdings Limited and ARB Holdings Limited.

Lindani Dhlamini

46

Independent non-executive director

Ms Lindani Dhlamini, aged 46, 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.

Rev Dr Vukile Mehana

66

Non-executive chairman

Rev Dr Mehana, aged 66, 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 CEO of the Sizwe Africa IT Group.

Rev Dr Mehana is also the Chaplain General of the African National Congress. He has recently been appointed as an adjunct professor by the University of Cape Town Graduate School of Business where he lectures on a part-time basis. Rev Dr Mehana holds a BTh from Rhodes University, AMP from INSEAD Business School (France), Top Management Programme Certificate on Public Enterprises from the National University of Singapore, MBA from De Montfort University (UK) and DPhil from the University of Johannesburg.

CORPORATE GOVERNANCE REPORT

Governance reporting structure

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

BOARD OF DIRECTORS

Vukile Mehana	Ralph Patmore	Mdu Gama	Neels Coetzee	Lindani Dhlamini	David Kan	Hein Engelbrecht
66 Black male *Non-executive board chairman*	67 White male *Independent non-executive director*	50 Black male *Lead independent, non-executive director*	44 White male *Financial director*	46 Black female *Independent non-executive director*	60 Coloured male *Chief executive officer*	50 White male *Managing director*

SOCIAL AND ETHICS COMMITTEE

Mdu Gama	Spencer Chen	Ralph Patmore	*Standing invitees*
50 Black male *Chairman*	43 Coloured male	67 White male	*CEO, Mustek MD, Mustek FD, HR executive, Rectron FD and company secretary*

IT STEERING COMMITTEE

David Kan	Olga-Lee Levey	Dimitri Tserpes	Hein Engelbrecht	Neels Coetzee
60 Coloured male *Chairman*	47 White female *Chief information officer*	54 White male *Chief technical officer*	50 White male *Mustek managing director*	44 White male *Group financial director*

AUDIT AND RISK COMMITTEE

Lindani Dhlamini	Ralph Patmore	Mdu Gama	*Standing invitees*
46 Black female *Chairman*	67 White male	50 Black male	*CEO, MD, FD, internal auditor, external auditors and company secretary*

REMUNERATION AND NOMINATIONS COMMITTEE

Ralph Patmore	Mdu Gama	Vukile Mehana	*Standing invitees*
67 White male *Chairman*	50 Black male	66 Black male	*CEO, MD, FD, HR manager and company secretary*

CORPORATE GOVERNANCE REPORT CONTINUED

Custodians of governance

The Board accepts its responsibility as the custodian of corporate governance within the Group and is therefore accountable to stakeholders for the provision of value-enabling governance. The Board is constituted in terms of the company's memorandum of incorporation and in line with King IV. The majority of the Board members are independent non-executive directors who bring diversity to Board deliberations and create value by constructively challenging management.

A clear division of responsibilities between the directors is maintained to ensure that no single director has unfettered decision-making powers. A Delegation of Authority Framework is in place and reviewed regularly to ensure the necessary authority to management to implement and execute the strategy. The Board is satisfied that the Delegation of Authority Framework contributes to role clarity and the effective exercise of authority and responsibilities.

The Board is the highest decision-making body in the Group. It approves the Group's strategy and ensures that it is aligned with the Group's values. The Board assumes collective responsibility for steering and monitoring strategy implementation and performance targets as well as any risks involved in the implementation of the strategy. It is collectively responsible for the Group's long-term success. The Board is accountable to shareholders and strives to balance the interests of the Group and those of its various stakeholders. All directors are continuously taking steps to ensure that they have sufficient working knowledge of the Group and industry within the triple context in which it operates. Directors are required to ensure continued development of their competencies to lead effectively and act with due care, skill and diligence and take reasonable diligent steps to become informed about matters for decision-making.

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

Board composition

During the reporting period, the Board composition remained the same as for the previous year.

The Board met four times during the 2019 financial year and the attendance is below:

	Name Qualification	Classification	Board attendance	Committee membership ARC	RNC	SEC	EE	SD	IT
Non-executive director	Vukile Mehana *BTh, AMP, Top Management Programme Certificate on Public Enterprise, MBA*	Non-executive Board chairman	4/4		✓				
Independent non-executive directors	Lindani Dhlamini *BSc, CA(SA)*	Independent non-executive director	3/4	✓*					
	Mdu Gama *BCom (Acc), MBA, PhD (Finance)*	Lead independent director	4/4	✓	✓	✓*	✓*	✓*	
	Ralph Patmore *BCom, MBL, Stanford Executive Programme*	Independent non-executive director	4/4	✓	✓*	✓			
Executive directors	David Kan *BSc (Eng)*	Chief executive officer	4/4						✓*
	Hein Engelbrecht *BCom (Hons), CA(SA)*	Managing director	4/4				✓	✓	✓
	Neels Coetzee *CA(SA)*	Financial director	4/4						✓

** Chairman*
ARC – Audit and Risk Committee
RNC – Remuneration and Nominations Committee
SEC – Social and Ethics Committee
EE – Employment Equity Committee
SD – Skills Development Committee
IT – IT Steering Committee

Appointment, rotation and re-election of directors

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

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

New appointees 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 set out in the Companies Act, 71 of 2008 as amended (the Companies Act) and King IV.

In accordance with the company's memorandum of incorporation, a director, having been appointed by the Board since the last annual general meeting of the company, is obliged to retire and being eligible, offers him/herself for election at the next annual general meeting. No new appointments were made during the reporting period.

In line with the memorandum of incorporation, one-third of the directors are required to retire, and if available and eligible, stand for re-election at the company's annual general meeting. Those directors who have been in office for the longest, as calculated from the last re-election or appointment date, are required to stand for re-election. At the annual general meeting in 2019, Hein Engelbrecht, Ralph Patmore and Lindani Dhlamini will retire and be eligible for re-election. The professional profiles of Hein Engelbrecht, Ralph Patmore and Lindani Dhlamini can be found on pages 70 and 71 respectively in the Integrated Annual Report.

Non-executive director tenure and succession

The management of the Board's succession process is crucial to its sustainability. The Remuneration and Nominations Committee ensures that, as directors retire, candidates with the necessary experience are identified to ensure that the Board's competence and balance is maintained and enhanced, taking into account the Group's current and future needs.

Leadership roles and functions

Non-executive directors

All members of the Board have a fiduciary responsibility to represent the best interest of the Group and all of its stakeholders. The Group's non-executive directors are individuals of a high calibre and credibility who make a significant contribution to the Board's deliberations and decisions. They have the necessary skills and experience to exercise judgement on areas such as strategy, performance, transformation, diversity and employment equity.

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, David Kan. Mdu Gama is the appointed lead independent director and provides support to the chairman.

Vukile Mehana provides overall leadership to the Board and the chief executive officer without limiting the principle of collective responsibility for Board decisions. Vukile Mehana is a member of the Remuneration and Nominations Committee.

Chief executive officer

The Board appoints the chief executive officer to lead and implement the execution of the approved strategy. David Kan serves as the link between management and the Board and is accountable to the Board. Quarterly progress reports are received from the chief executive officer on the progress made against the implementation of the strategy. The Remuneration and Nominations Committee evaluates the performance of the chief executive officer against approved targets on an annual basis.

Company secretary

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

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

CORPORATE GOVERNANCE REPORT CONTINUED

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

The company secretary's primary responsibilities are to:

- ensure that Board procedures are followed and reviewed regularly
- ensure 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 interest of the company
- keep abreast of, and inform, the Board of current and new developments regarding best practice corporate governance thinking and practice.

Ethical and effective leadership

The Board is committed to achieving its goals with integrity, high ethical standards and in compliance with all applicable laws, while being a responsible corporate citizen. The Board has adopted a Code of Ethics and Business Conduct which is continuously reviewed and sets the tone for an ethical culture within the Group. The directors are fully committed to these principles, which ensures that the business is managed according to the highest ethical standards, even beyond mere legal compliance, within its operating environment, as well as social, political and physical environment within which the Group operates.

The Code of Ethics and Business Conduct is included as part of induction for new employees as well as other regular training programmes and is available on the company's website at **www.mustek.co.za**. Ethics are part of our recruitment process, evaluation of performance and rewards of employees as well as the sourcing of suppliers.

No material ethical leadership and corporate citizenship deficiencies were noted. The Board, through the Audit and Risk Committee as well as the Social and Ethics Committee, monitors compliance with Mustek's Code of Ethics and Business Conduct through various reporting channels including its internal audit department and the whistle-blower hotline. Quarterly feedback is given to the relevant committees and the Board while sanctions and remedies are in place when ethical standards are breached.

Mustek received no requests in terms of the Promotion of Access to Information Act, 2000 during the reporting period.

Independence and conflicts

During the year ended 30 June 2019, none of the directors had a significant interest in any contract or arrangement entered into by the company or its subsidiaries, other than as disclosed in note 21 to the annual financial statements.

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

When categorising the non-executive directors as independent, the interests, position, association or relationship is taken into consideration. Independent non-executive directors serving for longer than nine years are subjected to a rigorous review of their independence and performance by the Board. The Board makes full disclosure regarding individuals serving for more than nine years to enable shareholders to make their own assessment of directors.

This, together with the test of being judged from the perspective of a reasonable and informed third party and other indicators in a substance-over-form basis, Lindani Dhlamini, Ralph Patmore and Mdu Gama were found to be independent. The categorisation of directors can be found on page 70 of the Integrated Annual Report.

Insider trading

No employee of the Group may deal directly or indirectly in the company's shares based on unpublished price-sensitive information regarding business. No director or officer of the Group may disclose trade information regarding business. Directors or officers of the Group are precluded from trading in the shares of the Group during a closed period or prohibited period, as determined by the Board. Notification to this effect is communicated to the Group's employees. A price-sensitive information group policy is in place in line with the JSE Listings Requirements.

Any director wishing to trade in ordinary shares of the company, must obtain clearance from the chairman of the Board or, in his absence, the chief executive officer. The directors 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.

Assessment of the Board

The Board of directors analyses and evaluates its effectiveness in line with King IV.

The analysis and evaluation of the effectiveness of the Board of directors was conducted in the form of questionnaires that are based on the principles and practice recommendations contained in the King IV report. The questionnaire was completed by the directors and the results of the evaluation reported to the Board.

On the basis of results gains in the analysis and evaluation, the Board of directors concluded that the Board is appropriately and effectively fulfilling its role and responsibilities. Weak areas were highlighted and will be addressed during the current financial year.

Commitment to the governance principles set out in King IV

The Board remains committed to the principles of King IV and ensures that its recommendations are materially entrenched into the Board's internal controls, policies, terms of reference and overall procedures and processes. A King IV Application Register, setting out how the company has applied the principles of King IV, is available on our website, **www.mustek.co.za**.

Integrated effective control

As the custodian of governance, the Board is ultimately responsible for ensuring there is effective control within the business. The Board ensures effective control through a number of mechanisms, including:

Compliance with applicable laws, regulations and governance practices

The decisions and actions taken by the Board ensures that the company subscribes to full compliance with applicable laws, regulations and governance practices. This function is delegated to the Social and Ethics Committee with financial compliance overseen by the Audit and Risk Committee. During the financial year, the company was fully compliant with the requirements of the Companies Act and JSE Listings Requirements.

The Board Charter

The roles and responsibilities of the Board and individual directors are set out in the Board Charter which is aligned with the provisions of relevant statutory and regulatory requirements and is reviewed on an annual basis. The Charter regulates the parameters within which the Board operate and ensures the application of the principles of good governance in all its dealings.

Governance structures and delegation

The company's governance structure provides for delegation of authority, while enabling the Board to retain effective control. Such structures similarly support and enable the informed oversight exercised by the Board. The Board delegates authority to established Board committees, as well as the chief executive officer, with clearly defined mandates.

Board committees

The roles, responsibilities and composition of the Board committees are described below. The responsibilities delegated to these committees are formally documented in each committee's terms of reference, which are approved by the Board and reviewed on an annual basis. After each committee meeting, committee chairmen report back to the Board, which facilitates transparent communication between directors and ensures that all aspects of the Board's mandate are addressed.

The terms of reference are subject to change as and when required by the Board in order to accommodate the company's changing needs. Roles and associated responsibilities and the composition of membership across committees are considered holistically. All committees have a minimum of three members and, as a whole, have the necessary knowledge, skills, experience and capacity to execute their duties effectively. The chairman of each Board committee reports at each scheduled meeting of the Board, and minutes of Board committee meetings are provided to the Board.

Both the directors and the members of the Board committees are supplied with full and timely information that enables 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 annual general meetings to answer questions raised by shareholders.

CORPORATE GOVERNANCE REPORT CONTINUED

Audit and Risk Committee

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

The committee, appointed by the Board and approved by shareholders at the company's annual general meeting on 29 November 2018, comprised three independent non-executive directors, all of whom satisfied the requirements of section 94(4) of the Companies Act. As a collective and having regard to the size and circumstances of the Group, the committee was adequately skilled and all members possessed the appropriate financial and related qualification, skills, financial expertise and experience required to discharge their responsibilities.

It was recommended that the composition of the Audit and Risk Committee remain the same. The chief executive officer, managing director, financial director, external audit partner and the internal auditor attend meetings by invitation. The Board is satisfied that the independence, experience and qualifications of each member enable them to fulfil the committee's mandate. In addition to the quarterly meetings, the committee meets at least once a year with the company's internal and external auditors, without management being present.

Subsequent to year-end, the committee decided to outsource the internal audit function and appointed Phakisa Incorporated effective 4 July 2019. Phakisa will implement the internal audit plan for the current financial year.

Summarised roles and responsibilities

- Providing the Board with additional assurance regarding the efficiency and reliability of the financial information used by the directors to assist them in the discharge of their duties
- Reviewing interim and annual financial statements, the Integrated Annual Report and any other external reports issued by the organisation
- Overseeing the internal audit function
- Ensuring that significant business, financial and other risks have been identified and are being managed suitably
- Ensuring independence of external audit and overseeing the external audit process
- Ensuring good standards of governance, reporting and compliance are in operation
- Overseeing the Group's risk management profile.

During the 2019 financial year, the committee met on four occasions and meetings were scheduled in line with the Group's financial reporting cycle. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Refer to page 100 of the annual financial statements for the Audit and Risk Committee report.

Group IT Steering Committee

Within the Group, the Group IT Steering Committee is the committee responsible for the governance of technology and information and sets the direction for how technology should be approached and addressed. The strategic intent of Group IT is documented and communicated in the Group IT strategy and is aligned with the enterprise strategy.

The committee is chaired by the chief executive officer, with Dimitri Tserpes being the Mustek chief technical officer. Olga-Lee Levey is the Group chief information officer and other relevant senior staff are included in meetings. The Group IT Steering Committee meets formally at least four times a year 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.

Social and Ethics Committee

There were no changes made to the composition of the Social and Ethics Committee during the reporting period. The committee's role and responsibilities as well as its composition are set out below:

Summarised roles and responsibilities

- Planning, implementing and monitoring the Group's strategy for transformation
- Monitoring compliance with legislation
- Monitoring employment equity and fair labour practices
- Monitoring good corporate citizenship and the Group's contribution to the development of communities in which it operates
- Monitoring ethics and business conduct.

The Social and Ethics Committee met twice during the reporting period. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

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

Employment Equity Committee and Skills Development Committee

Both committees are chaired by Mdu Gama, an independent non-executive director. The Employment Equity Committee met four times during the reporting period, while the Skills Development Committee met twice. Both these committees give feedback to the Board via the Social and Ethics Committee.

Remuneration and Nominations Committee

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

Summarised roles and responsibilities

- Identifying and nominating new directors for approval by the Board
- Ensuring that appointments to the Board are formal and transparent
- Approving the classification of directors as independent
- Overseeing induction and training of directors and conducting annual performance reviews of the Board and Board committees
- Overseeing an appropriate separation between executive, non-executive and independent directors
- Ensuring proper and effective functioning of the Group's Board committees
- Reviewing the Board's structure, the size and composition of the various Board committees and making recommendations
- Oversees the remuneration philosophy and practices
- Oversees and monitors Mustek's share appreciation rights scheme.

The Remuneration and Nominations Committee met twice during the reporting period and the committee composition remained the same. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Refer to page 84 for the remuneration report by the Remuneration and Nominations Committee, including the remuneration policy.

Below is a summary of all the Board members' attendance at Board committee meetings:

Name Qualification	Classification	ARC	RNC	SEC	EE	SD	IT
Vukile Mehana *BTh, AMP, Top Management Programme Certificate on Public Enterprise, MBA*	Non-executive Board chairman		2/2				
Lindani Dhlamini *BSc, CA(SA)*	Non-executive director	3/4*					
Mdu Gama *BCom (Acc), MBA, PhD (Finance)*	Lead independent director	4/4	2/2	2/2*	4/4*	2/2*	
Ralph Patmore *BCom, MBL, Stanford Executive Programme*	Independent non-executive director	4/4	2/2*	2/2			
David Kan *BSC (Eng)*	Chief executive officer						4/4*
Hein Engelbrecht *BCom (Hons), CA(SA)*	Managing director				4/4	2/2	4/4
Neels Coetzee *CA(SA)*	Financial director						4/4

** Chairman*
ARC – Audit and Risk Committee
RNC – Remuneration and Nominations Committee
SEC – Social and Ethics Committee
EE – Employment Equity Committee
SD – Skills Development Committee
IT – IT Steering Committee

SOCIAL AND ETHICS COMMITTEE REPORT

Performance for 2019

This report is prepared in compliance with the requirements of the Companies Act, 2008 as amended (the Companies Act) and describes how the committee discharged its responsibilities in respect of the financial year ended 30 June 2019 and will be presented to the shareholders at the annual general meeting to be held on 19 November 2019.

Social and Ethics Committee members

The composition of the committee remained unchanged during the reporting period and was still in line with King IV principles, namely that the majority of members should be non-executive directors of the Board.

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

Name	Position	Qualification	Experience	Meetings attended
Mdu Gama	Independent member	BCom (Acc), MBA, PhD (Finance)	Over 20 years' experience in financial management	2/2
Ralph Patmore	Independent member	BCom, MBL, Stanford Executive Programme	Over 30 years' experience in management, strategy, mergers and acquisitions and accounting matters	2/2
Spencer Chen	Managing director: Rectron	Diploma	Over 20 years' experience in management, operations and procurement	1/2

Responsibilities of the committee

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

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

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

Ethics and business conduct

The Group's Code of Ethics and Business Conduct which embodies its guiding principles and values, was reviewed during the year, updated to include Mecer Inter-Ed Proprietary Limited employees and included into induction packs for new employees. This policy deals with, inter alia, no tolerance for discrimination in whatever form, human rights, health and safety and the implementation of the Group's ethical standards to stakeholders. The Code of Ethics and Business Conduct is available on the company's website **www.mustek.co.za**.

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

Labour

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

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

Refer to the sustainability report on the website for more information **www.mustek.co.za**.

Socio-economic development

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

Transformation

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

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

Scorecard element	BEE score	Planned future focus areas
Equity ownership	25.00	• We need 7.34% black shareholding to qualify as a BOE.
Management control (including employment equity)	13.38	• Ongoing compliance to EE will improve the score. Therefore, management should enforce compliance across the organisation, and encourage transformation in all departments. We will manage and monitor EE compliance per department/per region. • Proposal to have all deviations reviewed by GGRCE prior to final approval by S24.
Skills development (SD)	23.78	• 2.5% of budget is strictly for bursaries (internal and external) • Learnership programmes • Focus on leadership training and coaching • Budget has been done with applicable percentage allocations in accordance with new BEE amendment codes • We are targeting revenue driven training partnerships • More emphasis to be placed on training in rural areas, including PWDs • Complete current YES programme in January 2020.
Enterprise and supplier development: • Preferential procurement • Enterprise development • Supplier development	50.34	• Policy to be tabled in following EXCO meeting for approval • Monitor procurement against the policy across the regions • Implementation of procurement process against policy and sourcing • ED: Initiative with current qualifying dealership network • SD: Grant recoverable through training and transformation coaching, Mustek staff canteen overhead costs • Targets are in line with new BEE amendment codes.
Socio-economic development	12.00	• Strategic revenue-based interventions and partnerships.

SOCIAL AND ETHICS COMMITTEE REPORT CONTINUED

Stakeholder management

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

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

Stakeholder group	Key issues	Our response thereto
Shareholders and investor community	Business sustainability, share liquidity; debt-to-equity ratio; ROI.	Operate with the optimal capital structure; review of debt facility; investor presentations and roadshows, face-to-face meetings; strategy execution; risk management.
Customers	Legislative and regulatory landscape, Consumer Protection Act compliance.	Product and service innovation, services integration; customer service; employee benefits; labour law education, business consulting, training, risk management; compliance; delayed negative decision-making by clients; credit terms.
Employees	Working conditions; benefits, employee welfare; training; mentoring; succession planning; remuneration; reward and recognition; health and safety; water saving.	Ongoing legal and regulatory training for sales and operational staff; line of sight for promotions; improved remuneration; clear KPIs; added benefits; improvement in health and safety; improved efficiency; training; upskilling; staff retention; lower absenteeism; awareness and education on the subject of water saving; specifically in the Western Cape.
Local communities	Youth employment; training and skills development; mentoring; community leader engagement; labour desks, local recruitment, employee welfare, local vendors; CSI community support; local school support.	Focus on youth employment; recruitment drives to source staff from local communities; trust in recruitment process; utilisation of local service providers, effective reporting, brand support, community support through CSI initiatives.
Government and regulators	Compliance with industry regulation; skills development; B-BBEE; employment equity; JSE Listings Requirements.	Legislative and regulatory compliance; transformation and B-BBEE; risk management.
Suppliers	Preferential supplier listing; products and pricing, empowerment rating; enterprise development.	Underwriting tender process established; product availability; preferential supplier agreements; empowered supplier status; transformation strategy; enterprise development negotiations.
Media	Results announcements; media statements; editorials; advertisements; meetings.	Investor relations, public relations, communications and marketing strategy. Response to socio-economic issues.

Sustainability

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

Environment

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

Refer to the sustainability report on the website for more information **www.mustek.co.za**.

Health and safety

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

Evaluation of committee performance

The committee analyses and evaluates its effectiveness in line with King IV. The analysis and evaluation of the committee were conducted by way of questionnaire that is based in the principle and practice recommendations in King IV report. The questionnaires were completed by members and invitees and reported to the Board via the committee.

On the basis of the analysis, the committee concluded that the committee is appropriately and effectively fulfilling its roles and responsibilities. Weak areas were identified and will be addressed during the current financial year.

Mdu Gama
Social and Ethics Committee chairman

6 September 2019

REMUNERATION AND NOMINATIONS COMMITTEE REPORT

This report comprises three sections:
PART I: Matters considered by the Remuneration and Nomination Committee
PART II: Remuneration policies and principles for shareholders' vote at the annual general meeting
PART III: Implementation report of the remuneration policy.

PART I: REPORT FROM THE REMUNERATION AND NOMINATIONS COMMITTEE

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

Appointment of directors to the Board

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

Remuneration and Nominations Committee members

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

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

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

Role of the Remuneration and Nominations Committee

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

The committee:

- Assumes responsibility for the governance of remuneration by setting the direction for how remuneration should be approached and addressed on a company-wide basis
- Approves a remuneration policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration
- Ensures the remuneration policy and implementation report is put to a non-binding advisory vote at the annual general meeting of shareholders once every year
- Considers the results of the performance evaluation of the chief executive officer, managing director and financial director, both as directors and as executives, in determining remuneration
- Recommends to the Board the remuneration of non-executive directors for approval by shareholders
- Determines the policy and scope of pension arrangements, employment contracts, termination payments and compensation commitments and makes recommendations to the Board on these benefits for executive directors
- Reviews market trends and reputable survey results in determining such packages and arrangements
- Regularly reviews the incentive scheme to ensure continued contribution to shareholder value and that these are administered in terms of the rules
- Ensures compliance to all statutory and best practice requirements regarding labour and industrial relations management
- Assumes responsibility for its composition by setting the direction and approving the process for it to attain the appropriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities
- Regularly reviews the Board structure, size, composition and mix of skills and experience and makes recommendations to the Board with regards to any adjustments that are deemed necessary
- Set targets for race and gender representation in its membership for recommendation to the Board
- Establishes arrangements for periodic, staggered rotation of its members so as to invigorate its capabilities by introducing members with new expertise and perspectives while retaining valuable knowledge, skills and experience and maintaining continuity for recommendation to the Board
- Ensures succession plans for chief executive officer and senior management appointments are developed and implemented and confirmed by the Board.

Committee evaluation

The committee analyses and evaluates its effectiveness in line with King IV. The analysis and evaluation of the committee were conducted by way of questionnaire that is based on the principle and practice recommendations in King IV report. The questionnaires were completed by members and invitees and reported to the Board via the committee.

On the basis of the analysis, the committee concluded that it is appropriately and effectively fulfilling its roles and responsibilities. Weak areas were identified and will be addressed during the current financial year.

Ralph Patmore
Remuneration and Nominations Committee Chairman

6 September 2019

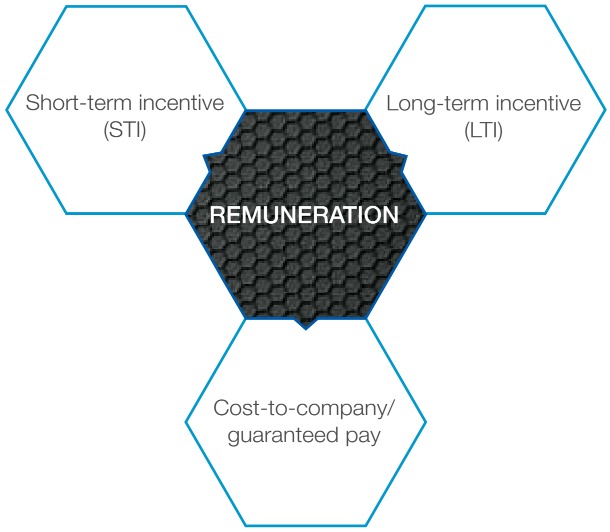
REMUNERATION AND NOMINATIONS COMMITTEE REPORT CONTINUED

PART II: REMUNERATION POLICY

Background statement

The Group's remuneration policy aims to attract, retain and motivate skilled and performing employees to execute the Group's strategy. The remuneration philosophy and framework is predominantly guided by the business strategy. During the reporting period, the remuneration policy and framework was enhanced in line with King IV in a conscious effort to give effect to the principles of fair, responsible and transparent remuneration. Where appropriate, information for employees below executive level are included.

The Group offers an integrated remuneration and reward model, which comprises of:



Remuneration structure

Element	Cost-to-company: Base pay	Cost-to-company: Benefits	Variable pay: STI	Variable pay: LTI
Mustek Group	• Monthly salary • Hourly wage	• Medical aid • Provident fund • Funeral benefit • Travel allowance	• Annual incentive • Bonus scheme	• Share appreciate rights • Performance shares
Objective	Retention and attraction	• Retention in terms of the comprehensiveness of benefits offered • Attraction to offer similar benefits to prospective employees	• Reward company and Group performance • Reward individual performance • Retention/attraction recognition	• Reward company and Group performance • Reward individual performance • Retention/attraction recognition • Recognition of Group's long-term success

Guaranteed packages

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

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

Employees' guaranteed remuneration is reviewed and after recommendation to the Board, implemented effective from July 2019.

Short-term incentive

The Board rewards management and salaried employees with an annual performance incentive based on certain criteria listed below. The actual value awarded is subject to the achievement of predetermined thresholds relating to the performance and position of the Group and individual performance during the reporting period.

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

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

All payments in terms of the quantitative portion of the short-term incentive scheme are based on audited year-end results. The bonus paid out therefore always relates to the results of the previous year.

For the year ending 30 June 2020 weighting for short-term incentives will be as follows:

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

These components would be scored as follows:

ROE

- < 10% = score of 0% and only the discretionary portion of the incentive will qualify
- 10% = score of 50%
- between 10% and 15% = score is calculated on a sliding scale ranging between 50% and 100%
- > 15% = score of 100%.

PBT

- IFRS 2 income and expenses would be excluded, since it is determined by share price movements
- < budget = score of 0%
- 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 a percentage of annualised revenue is 10% or more compared to the average for the previous four years, a score of 100% would be achieved for this component
- If the improvement in net working capital as a 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 a percentage of annualised revenue is between 0% and 5% compared to the average for the previous four years, a score of 50% would be achieved for this component
- If there is no improvement in net working capital as a percentage of annualised revenue compared to the average for the previous two years, no score would be achieved for this component.

Net working capital would be calculated by adding receivables and inventory and then dividing it by annualised revenue. The calculation would 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 executive directors and Mustek's Executive Committee members can earn up to 50% of their annual cost-to-company packages as bonuses.

REMUNERATION AND NOMINATIONS COMMITTEE REPORT CONTINUED

Mustek's Executive Committee members' bonuses would be calculated based on Mustek's performance whereas Rectron's executive directors' bonuses will be calculated based on Rectron's performance. The Mustek executive directors' bonus calculation would be based on the Group's performance.

Long-term incentive

The long-term incentive plan (LTIP) forms part of the variable compensation and is used to attract, retain and motivate employees who influence the long-term sustainability and strategic objectives of the Group. The purpose is to foster sustainable performance or value creation over the long term, which is aligned to the Group's strategy and which enhances stakeholder value. Its main characteristic is the promise to deliver value over a future vesting period, once performance criteria are met or exceeded.

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 share appreciation rights (SARs). The price at which SARs may be granted will be 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. All SARs granted will remain in force for a period of six months after vesting.

SARs 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.

The price at which SARs may be exercised will be 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. Upon the exercising of the SARs, the employee will be paid an amount determined as the difference between the exercise price and the grant price multiplied by the number of SARs, less any tax that may at that time be applicable to such a cash bonus.

Details of the benefits held by the executive directors under the existing long-term incentive schemes are detailed in note 21 of the annual financial statements.

Policy on directors' remuneration

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

Non-executive directors

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

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

The fees for non-executive directors is excluding value added tax (VAT) and is recommended by the committee and will be tabled for approval by the shareholders at the annual general meeting in November 2019.

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

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

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

The non-executive fees are benchmarked against the 12th fee survey for "small cap technology" issued by PricewaterhouseCoopers annually. The Group pays for all travel and accommodation expenses incurred by directors to attend Board and committee meetings.

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

Shareholders will be requested to approve the director fees as set out in the notice of annual general meeting on page 172 and below:

Category	Recommended remuneration 2020	Remuneration 2019
Chairman	R413 100 annual retainer	R376 700 annual retainer
Board member	R106 500 annual retainer R15 800 per meeting attended	R100 500 annual retainer R14 900 per meeting attended
Audit and Risk Committee		
Chairman	R85 150 annual retainer R19 950 per meeting attended	R80 350 annual retainer R18 800 per meeting attended
Member	R53 950 annual retainer R13 100 per meeting attended	R44 450 annual retainer R11 800 per meeting attended
Remuneration and Nominations Committee		
Chairman	R63 000 annual retainer R18 500 per meeting attended	R67 100 annual retainer R18 500 per meeting attended
Member	R46 650 annual retainer R12 400 per meeting attended	R51 400 annual retainer R14 575 per meeting attended
Employment Equity Committee		
Chairman	R31 300 annual retainer	R29 550 annual retainer
Member	R17 800 annual retainer	R16 800 annual retainer
Social and Ethics Committee		
Chairman	R27 300 annual retainer R10 150 per meeting attended	R25 750 annual retainer R9 550 per meeting attended
Member	R11 350 annual retainer R4 900 per meeting attended	R10 700 annual retainer R4 650 per meeting attended

Use of external remuneration advisers

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

Results of previous voting on the remuneration policy and voting procedures going forward

Mustek received an 81.43% non-binding advisory vote in favour of its remuneration policy at the annual general meeting held on 29 November 2018. The remuneration policy (as set out in part II) and our implementation report (as set out in part III) will again be put to shareholders as two separate non-binding advisory votes.

REMUNERATION AND NOMINATIONS COMMITTEE REPORT CONTINUED

PART III: REMUNERATION IMPLEMENTATION REPORT

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

Total directors' remuneration

The table below provides an overview of the total remuneration paid to executive and non-executive directors for the financial year ended 30 June 2019:

	2019 R000	2018 R000
Executive directors	21 707	13 694
Non-executive directors	1 565	1 503
Total	23 272	15 197

Executive directors' remuneration

Executive directors	Basic salary R000	Expense allowances R000	Pension contributions R000	Short-term incentive/ bonus R000	Long-term incentive R000	Fringe benefit on low interest rate loan R000	Total R000
2019							
David Kan	3 157	322	261	748	1 670	1 860	8 018
Hein Engelbrecht	3 074	270	265	722	3 507	1 020	8 858
Neels Coetzee	2 493	96	125	543	1 336	238	4 831
	8 724	688	651	2 013	6 513	3 118	21 707

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

Non-executive directors’ remuneration

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

In accordance with the Companies Act, 2008 as amended and the company’s memorandum of incorporation, non-executive directors’ fees are approved by the shareholders at the annual general meeting. The current fee levels are to be approved by shareholders at the annual general meeting to be held on 28 November 2019 and is stated on page 172 of the notice of annual general meeting included in this Integrated Annual Report.

The total amount spent on non-executive directors’ fees for 2019 and 2018 are as follows:

Non-executive director	2019 Non-executive directors’ fees R000	2018 Non-executive directors’ fees R000
Vukile Mehana	457	436
Lindani Dhlamini	298	289
Mdu Gama	426	412
Ralph Patmore	384	366
	1 565	1 503

Directors’ service contracts

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

GLOSSARY

Terms and abbreviations

Acquisition	The purchase of one corporation by another, through either the purchase of its shares, or the purchase of its assets.
Android	An open-source operating system used for smartphones and tablet computers.
Apple	An American multinational corporation that designs, develops, and sells consumer electronics, computer software, online services and personal computers.
Assurance	A statement or indication that inspires confidence; a guarantee or pledge.
Business model	A plan for the successful operation of a business, identifying sources of revenue, the intended customer base, products, and details of financing.
Cloud computing	The practice of using a network of remote servers hosted on the internet to store, manage, and process data, rather than a local server or a personal computer.
Compliance	The action or fact of complying with a wish or command.
Component	A part or element of a larger whole, especially a part of a machine.
Computing accessories	A peripheral device that connects to a computer system to add functionality. Examples are a mouse, keyboard, monitor, printer and scanner.
Current ratio	Current assets divided by current liabilities.
Desktop	A computer suitable for use at an ordinary desk.
E-commerce	Commercial transactions conducted electronically on the internet.
Employment equity	A policy or programme designed to reserve jobs for people formerly disadvantaged under apartheid.
End-user	The person who actually uses a particular product.
Fibre (optics)	Thin flexible fibres of glass or other transparent solids that transmit light signals.
Foreign exchange risk	A financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company.
Gross profit	A company's residual profit after selling a product or service and deducting the cost associated with its production and sale.
Hardware	The machines, wiring and other physical components of a computer or other electronic system.
Headline earnings	A measurement of a company's earnings based solely on operational and capital investment activities.
Hedging policy	A risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies or securities.
Incentive schemes	A programme implemented by an organisation deliberately intended to induce or encourage a specific action by using incentives.
Interest cover	EBITDA divided by net interest paid.
Internet of Things	A proposed development of the internet in which everyday objects have network connectivity, allowing them to send and receive data.
Institutional knowledge	A collective set of facts, concepts, experiences and know-how held by a group of people.
King IV	King Code of Governance Principles for South Africa.
Kyoto gases	The six greenhouse gases covered by the UNFCCC/Kyoto Protocol.
Managed services	The proactive management of an IT asset or object, by a third party on behalf of a customer.
Microsoft	An American multinational corporation that develops, manufactures, licences, supports and sells computer software, consumer electronics and personal computers and services.
Net asset value	Ordinary shareholders' equity – total assets less total liabilities.
Networking	Two or more electronic devices, connected to form a series of communication paths.
Notebook	A laptop computer, especially a small, slim one.
Obsolescence	The condition of no longer being used or useful.
Operating margin	A measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc.

Performance indicators	A set of quantifiable measures that a company uses to gauge or compare performance in terms of meeting strategic and operational goals.
Peripherals	Any auxiliary device, such as a computer mouse or keyboard, that connects to and works with the computer.
Private sector	The economy that is not state controlled and is run by individuals and companies for profit.
Product specifications	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.
Remunerations	The money paid for work or a service.
Renewable energy	Energy from a source that is not depleted when used, such as wind or solar power.
Reseller	A company or individual (merchant) that purchases goods or services with the intention of reselling them rather than consuming or using them.
Return on equity	The amount of net income returned as a percentage of shareholders' equity.
Revolving credit	Credit that is automatically renewed as debts are paid off.
Scope 3 emissions	Indirect GHG emissions from sources not owned or directly controlled by the entity but related to the entity's activities.
Shareholder	An owner of shares in a company.
Smartphone	A mobile phone that can perform many of the functions of a computer, typically having a relatively large screen and an operating system.
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 system capable of running general-purpose applications 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.
Transformation	The process of demographically aligned democratisation in South Africa.
Turnaround	The number of times the inventory must be replaced during a given period of time, typically a year.
Turnkey	The provision of a complete product or service that is ready for immediate use.
Upgrade	Raise to a higher standard, in particular improve (equipment or machinery) by adding or replacing components.
Value added	The addition of features to a basic line or model for which the buyer is prepared to pay extra.
Vendor	The party in the supply chain that makes goods and services available to companies or consumers.
Warranties	A written guarantee, issued to the purchaser of an article by its manufacturer, promising to repair or replace it if necessary within a specified period.
White collar crime	Financially motivated non-violent crime committed by business and government professionals.
Volume licensing	A service offered by Microsoft for organisations that require multiple licences, but not the software media, packaging and documentation supplied with the full packaged product.

ACRONYMS

B-BBEE	Broad-based black economic empowerment
BEE	Black economic empowerment
BOE	Black-owned company
CCMA	Commission for Conciliation, Mediation and Arbitration
CCTO	Controlled costs in technology ownership
CCTV	Closed circuit television
CMDB	Configuration management data base
CRM	Customer relationship management
CSI	Corporate social investment
CSP	Cloud service provider
CTC	Cost-to-company
DVR	Digital video recorder
EAP	Economically active population
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EE	Employment equity
EnMS	Energy management system
EnPIS	Energy performance indicators
ERP	Enterprise resource planning
FTTH	Fibre to the home
G4	Current iteration of Global Reporting Initiative Guidelines
GDP	Gross domestic product
GP	Gross profit
GHG	Greenhouse gas
GRI	Global Reporting Initiative
HO	Head office
HR	Human resources
HVAC	Heating, ventilation, air handling and cooling
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Committee
IP	Internet protocol
ISO	International Standards Organisation
<IR>	International Integrated Reporting Framework of the IIRC
IoT	Internet of Things
IT	Information technology
JSE	Johannesburg Stock Exchange
KPI	Key performance indicator
LED	Light emitting diode
LTI	Long-term incentive
LTIFR	Lost time injury frequency rate
MICT	Media, information and communications
SETA	Technologies Sector Education and Training Authority
MSP	Managed service provider
MST	Mustek security division
NVR	Network video recorder
OEM	Original equipment manufacturer
OHS	Occupational Health and Safety Act
OS	Operating system
PDIs	Previously disadvantaged individuals
PDMM	Plan, deploy, manage and maintain
PMBok	Project management body of knowledge
POPI	Protection of Personal Information
POS	Point of sale
PSIRA	The Private Security Industry Regulatory Authority
PV	Photovoltaic
QMS	Quality management system
R&D	Research and development
ROE	Return on equity
ROI	Return on investment
SAAS	Software as a service
SED	Socio-economic development
SHEQ	Safety, health, environmental and quality
SMB	Small and medium-sized business
SME	Small medium enterprise
SMME	Small, micro- and medium enterprises
SPA	Service provider aggregator (operating model)
STI	Short-term incentive
TRIFR	Total recordable injury frequency rate
UPS	Uninterrupted power supply
USD	United States Dollar
WAN	Wide area network
YOAC	Yangtze Optics Africa Cable
YOFC	Yangtze Optical Fibre and Cable Joint Stock Limited Company
ZAR	South African Rand

ANNUAL FINANCIAL STATEMENTS

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ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 30 June 2019

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

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

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

The annual financial statements set out on pages 108 to 168 were approved by the Board of directors on 6 September 2019 and are signed on its behalf by:

Rev Dr VC Mehana
Chairman

DC Kan
Chief executive officer

CERTIFICATION BY COMPANY SECRETARY

for the year ended 30 June 2019

In terms of section 88(2)(e) of the Companies Act of South Africa (Act 71 of 2008), as amended (the Act), I certify that for the year ended 30 June 2019, 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

6 September 2019

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

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2019

To the shareholders of Mustek Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Mustek Limited (the Group) set out on pages 108 to 168, which comprise the statements of financial position as at 30 June 2019, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 30 June 2019, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report. We are independent of the Group in accordance with sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (revised January 2018),* parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

for the year ended 30 June 2019

Key audit matter	How the matter was addressed in the audit
Valuation of inventory (consolidated and separate financial statements)	
As disclosed in note 12 of the consolidated and separate financial statements, the Group and company carries inventory of R1.39 billion (2018: R1.15 billion) and R935 million (2018: R747 million) respectively. The Group and company has provided R45 million (2018: R46.7 million) and R37 million (2018: R29 million) respectively for inventory obsolescence as per note 12 of the consolidated and separate financial statements. Inventory carried by the Group is made up of computers, computer components and peripherals and allied products, which is subject to technological obsolescence. The multiple product types have varying lifecycles and obsolescence rates. The estimation of the net realisable value and the valuation for inventory and determination of the inventory provision is subject to significant judgement, error and potential manipulation. Accordingly, the estimation of the net realisable value of inventory and the provision for inventory obsolescence is a significant judgement area and is therefore a key audit matter.	We obtained directors' calculation of the provision for obsolete inventory. We obtained an understanding of the logic applied by directors in determining the provision. To address the key audit matter we performed the following audit procedures: • We assessed the design and implementation of the control relating to the valuation of the provision for obsolete inventory. • The provision is primarily based on the ageing of the inventory items, therefore our IT (Information Technology) audit specialists tested the accuracy of the ageing of inventory on the inventory system. No findings were noted. • We identified aged inventory that has not been provided for and obtained explanations and supporting evidence for the decision not to provide. • We performed a retrospective analysis on the prior year provision against the current sales for the provided items. • We performed analytical procedures to assess the reasonability of the provision against aged inventory and the prior period inventory provisions. • We compared the current estimated selling price of inventory, obtained from sales made subsequent to year-end, to the cost of inventory at year-end as well as the directors' estimated net realisable values. We followed up on inventory items where the net realisable value was less than the weighted average cost. We concurred with the directors' estimate of the write down of inventory to net realisable value and provision for inventory obsolescence. The related disclosure was adequate in terms of the accounting standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Mustek Limited Annual Financial Statements for the year ended 30 June 2019" which includes the directors' report, the Audit Committee's report and the company secretary's certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

Auditor’s responsibilities for the audit of the consolidated and separate financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Mustek Limited for 23 years.

Deloitte & Touche

Deloitte & Touche
Registered auditor

Per: Carmeni Naidoo Bester
Partner

6 September 2019

AUDIT AND RISK COMMITTEE REPORT

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

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

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

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

Members of the Audit and Risk Committee and attendance at meetings

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

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

Name	Position	Qualification	Experience	Meetings attended
Lindani Dhlamini	Independent chairman	BSc, CA(SA)	Over 20 years' experience as a chartered accountant	3/4
Mdu Gama	Independent member	BCom (Acc), MBA, PhD (Finance)	Over 30 years' experience in financial management	4/4
Ralph Patmore	Independent member	BCom, MBL, Stanford Executive Programme	Over 30 years' experience in management, strategy, mergers and acquisitions and accounting matters	4/4

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

Role of the Audit and Risk Committee

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

The committee:
- fulfils the duties that are assigned to it by the Act and as governed by other legislative requirements;
- assists the Board in overseeing the quality and integrity of the Group's integrated reporting process, including the financial statements and sustainability reporting, and announcements in respect of the financial results;
- ensures that an effective control environment in the Group is maintained;
- provides the financial director, external auditors and the head of internal audit with unrestricted access to the committee and its chairman as is required in relation to any matter falling within the ambit of the committee;
- meets with the external auditors, senior managers and executive directors as the committee may elect;
- meets confidentially with the internal and external auditors without other executive Board members and the company's financial director being present;
- reviews and recommends to the Board the interim financial results and annual financial statements;
- oversees the activities of, and ensures coordination between, the activities of the internal and external auditors;
- fulfils the duties that are assigned to it by the Act and as governed by other legislative requirements, including the statutory audit committee functions required for subsidiary companies;
- receives and deals with any complaints concerning accounting practices, internal audit or the content and audit of its financial statements or related matters;
- conduct annual reviews of the Audit and Risk Committee's work plan and terms of reference;
- assesses the performance and effectiveness of the Audit and Risk Committee and its members on a regular basis; and
- reviewed the proactive monitoring process in terms of the letter from the JSE dated 20 February 2019.

Execution of functions during the year

The committee is satisfied that, for the 2019 financial year, it has performed all the functions required to be performed by an Audit and Risk Committee as set out in the Act and the committee's terms of reference.

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

External audit

The committee among other matters:
- nominated Deloitte and Carmeni Naidoo as the external auditor and designated auditor respectively to shareholders for appointment as auditor for the financial year ended 30 June 2019, and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor;
- nominated the external auditor and the independent auditor for each material subsidiary company for reappointment;
- requested from the audit firm, the formal letter of their latest inspection performed by IRBA on Deloitte and Carmeni Naidoo, including any findings, if applicable, to the firm and/or individual in line with section 22 of the JSE Listings Requirements;
- reviewed the audit effectiveness and evaluated the external auditor's internal quality control procedures;
- obtained an annual confirmation from the auditor that their independence was not impaired;
- maintained a policy setting out the categories of non-audit services that the external auditor may and may not provide, split between permitted, permissible and prohibited services;
- approved non-audit services with Deloitte in accordance with its policy;
- approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor;
- obtained assurances from the external auditor that adequate accounting records were being maintained by the company and its subsidiaries;
- considered whether any reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, No 26 of 2005; and
- considered any reported control weaknesses, management's response for their improvement and assessed their impact on the general control environment.

Deloitte have been the auditors of the Group for 23 years and the committee is satisfied that they are independent of the Group after taking the following factors into account:
- representations made by Deloitte to the committee;
- the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefit from the company;
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditor;
- the auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Internal audit

The committee:

- reviewed and approved the internal audit charter and risk-based annual audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter;
- the head of internal audit function is not a member of the Executive Committee, but attends meetings by invitation from time to time;
- considered the reports of the internal auditor on the Group's system of internal control including financial controls, business risk management and maintenance of effective internal control systems;
- received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof;
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to significant internal audit findings.

Subsequent to year-end, the committee decided to outsource the internal audit function and Phakisa Incorporated was appointed on 4 July 2019 to implement the approved internal audit plan.

Adequacy and functioning of the Group's internal controls

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

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

Financial reporting

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

The committee among other matters:

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

Significant areas of judgement

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

Valuation of inventory

Inventory carried by the Group is made up of computers, computer components and peripherals and allied products, which are susceptible to technological obsolescence. The estimation of the net realisable value of inventory and the provision for inventory obsolescence is thus a significant judgement area. The Audit and Risk Committee has satisfied itself that management has applied rigorous processes to assess and provide for inventory obsolescence. Refer to note 12.

Risk management and information technology (IT) governance

The committee:

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

The new enterprise resource planning (ERP) system will be implemented during the current financial year.

Legal and regulatory requirements

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

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

Expertise and experience of financial director and the financial function

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

Election of committee at the annual general meeting

Pursuant to the provisions of section 94(2) of the Companies Act, which required that a public company must elect an audit committee at each annual general meeting, it is proposed in the notice of annual general meeting to be held in November 2019 that Lindani Dhlamini, Mdu Gama and Ralph Patmore be reappointed as members of the Audit and Risk Committee until the next annual general meeting in 2020.

Assessment of the committee

The committee analyses and evaluates its effectiveness in line with King IV. The analysis and evaluation of the committee were conducted by way of a questionnaire that is based in the principle and practice recommendations in the King IV report. The questionnaires were completed by members and invitees and reported to the Board via the committee.

On the basis of the analysis, the committee concluded that the committee is appropriately and effectively fulfilling its roles and responsibilities. Weak areas were identified and will be addressed during the current financial year.

Integrated report

Following the review by the committee of the consolidated annual financial statements of Mustek Limited for the year ended 30 June 2019, the committee is of the view that in all material aspects they comply with the relevant provisions of the Act and International Financial Reporting Standards and fairly present the consolidated and separate financial positions at that date and the results of operations and cash flows for the year then ended. The committee has also satisfied itself of the integrity of the Integrated Annual Report and the sustainability information reported therein.

Recommendation of the Integrated Annual Report for approval by the Board

Having achieved its objectives, the committee has recommended the annual financial statements for the year ended 30 June 2019 for approval to the Board. The Board has subsequently approved the reports, which will be open for discussion at the forthcoming annual general meeting.

Lindani Dhlamini
Audit and Risk Committee chairman

6 September 2019

REPORT OF THE DIRECTORS

for the year ended 30 June 2019

Introduction

The directors have pleasure in presenting their report on the activities of the Group and company for the year ended 30 June 2019.

General review

Mustek Limited is a company incorporated in South Africa and listed on the JSE Limited and the Group's major activities comprise the procurement, assembly, distribution and servicing of computers, computer components and allied products. The Group's profit before taxation was R133.0 million (2018: R101 million).

Share capital

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

Mustek acquired 3 000 000 (2018: 10 000 000) ordinary shares of its issued share capital on the open market for a purchase consideration in aggregate of R21 267 415 (2018: R54 854 417) (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 29 November 2018 (2018: 2 November 2017). The share repurchase comprises 4.29% of the total issued ordinary shares of Mustek at the date of the 2018 AGM.

The general repurchase commenced on 30 August 2018 and continued on a day-to-day basis as market conditions allowed and in accordance with the JSE Limited (JSE) Listings Requirements until 18 October 2018. The 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 720 cents and 670 cents per share, respectively.

Directors

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

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

[1] *Independent.*
[2] *Audit and Risk Committee member.*
[3] *Remuneration and Nominations Committee member.*
[4] *Social and Ethics Committee member.*
[5] *These directors are retiring in terms of the company's memorandum of incorporation. In terms of the statutes of the company, LL Dhlamini, RB Patmore and H Engelbrecht are available for re-election at the next annual general meeting.*

Company secretary

S van Schalkwyk

Dividends

A final dividend of 22 cents per ordinary share was declared on 26 September 2018 and paid on 1 October 2018. During the previous financial year, a final dividend of 16 cents per ordinary share was declared on 27 September 2017 and paid on 2 October 2017.

Shareholders' spread

At 30 June 2019, 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	21.5
DK Trust	9 032 442	12.9
	24 065 613	34.4

2019

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 143	82.9	1 265 822	1.8
5 001 – 10 000	84	6.1	643 487	0.9
10 001 – 50 000	77	5.6	1 878 241	2.7
50 001 – 100 000	16	1.2	1 245 433	1.8
100 001 – 1 000 000	41	3.0	15 737 949	22.5
Over 1 000 000	17	1.2	49 229 068	70.3
	1 378	100.0	70 000 000	100.0

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	3	0.2	4 680 969	6.7
Companies controlled by directors	1	0.1	2 592 970	3.7
Trusts with directors as trustees	1	0.1	9 032 442	12.9
Public shareholders	1 373	99.6	53 693 619	76.7
	1 378	100.0	70 000 000	100.0

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

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

REPORT OF THE DIRECTORS CONTINUED

for the year ended 30 June 2019

2018

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

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

Goodwill, other intangible assets, investments in and loans to subsidiaries, associates and other investments

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

Yangtze Optics Africa Holdings Proprietary Limited

Yangtze Optics Africa Holdings Proprietary Limited (YOA) is located at the Dube Trade Port in Durban and Mustek is a 25.1% shareholder of YOA. The other shareholders are Yangtze Optical Fibre and Cable Joint Stock Limited Company and Yangtze Optical Fibre and Cable Company (Hong Kong) Limited, the world's largest manufacturers of optical fibre cables. YOA manufactured its first optical fibre cable during January 2017 and the Group's share of losses equity accounted in 2019 was R2.7 million (2018: R2.0 million). They continue to grow their revenue and management believes that the company will contribute profitably to the Group's bottom line during the 2020 financial year.

Loans to executive management

During previous financial years, Mustek Limited shares were issued to members of the executive management of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the staff members in terms of the rules of the trust deed. The trust deed provides that the Board of directors determine the interest rate. Until 31 August 2017, interest was charged at the South African repo rate plus one percent whereafter the loans became interest-free. As at year-end the balance on these loans was R46.8 million (2018: R48.1 million) and the loans have no fixed repayment terms. The balance on these loans is stated after impairment in terms of IFRS 9 Financial Instruments.

Legal dispute

One of Mustek's biggest debtors went into business rescue in the latter part of 2017 and an amount of R20 million was outstanding after receiving an insurance settlement from its credit insurer. The R20 million was secured with a guarantee that was disputed by the insurance company that issued the guarantee. On 29 July 2019, the High Court ruled in favour of the insurance company and the after tax amount of R12.6 million was fully written off in the 30 June 2019 financial statements.

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 29 November 2018, 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 30 cents per ordinary share was declared as follows after the end of the financial year:

Last day of trade *cum* dividend	Tuesday, 8 October 2019
First day to trade *ex* dividend	Wednesday, 9 October 2019
Record date	Friday, 11 October 2019
Payment date	Monday, 14 October 2019

Post-statement of financial position events

Other than the High Court ruling detailed above, 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 2019

	Notes	2019 R000	2018 R000
Revenue	2	5 845 907	5 671 293
Cost of sales		(5 028 353)	(4 875 873)
Gross profit		817 554	795 420
Foreign currency losses		(19 880)	(87 935)
Distribution, administrative and other operating expenses		(573 374)	(540 556)
Impairment losses on trade receivables		(6 771)	(3 849)
Profit from operations	3	217 529	163 080
Investment revenues	4	8 035	10 658
Finance costs	5	(112 289)	(87 255)
Other profits (losses)	10 and 11	70	(792)
Share of profit of associates	10	19 688	15 749
Profit before tax		133 033	101 440
Income tax expense	6	(26 498)	(20 183)
Profit for the year		106 535	81 257
Other comprehensive income			
Exchange differences on translation of foreign operations		(622)	2 110
Other comprehensive income for the year, net of tax		(622)	2 110
Total comprehensive income for the year		105 913	83 367
Profit attributable to:			
Equity holders of the parent		104 598	79 807
Non-controlling interest		1 937	1 450
		106 535	81 257
Total comprehensive income attributable to:			
Equity holders of the parent		103 976	81 917
Non-controlling interest		1 937	1 450
		105 913	83 367
Earnings per share (cents)	15		
Basic earnings per ordinary share		147.90	102.58
Diluted basic earnings per ordinary share		147.90	102.58

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

	Notes	2019 R000	Re-presented 2018 R000
ASSETS			
Non-current assets			
Property, plant and equipment	7	184 981	170 478
Goodwill	8	55 627	55 627
Intangible assets	8	53 167	44 634
Investments in associates	10	127 262	117 328
Other loans	11	56 514	59 928
Deferred tax assets	6	25 478	21 923
		503 029	469 918
Current assets			
Inventories	12	1 296 368	965 971
Inventories in transit	12	97 024	187 282
Trade and other receivables	13	969 146	967 188
Tax assets		6 055	4 215
Contract assets	2	3 685	–
Foreign currency assets	18	297	31 077
Bank balances and cash	14	221 719	295 376
		2 594 294	2 451 109
Non-current asset classified as held-for-sale	24	–	9 420
TOTAL ASSETS		3 097 323	2 930 447
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	15	–	–
Retained earnings		1 043 287	981 157
Foreign currency translation reserve		2 657	3 279
Equity attributable to equity holders of the parent		1 045 944	984 436
Non-controlling interest		7 448	8 879
Total equity		1 053 392	993 315
Non-current liabilities			
Long-term borrowings	16	8 684	6 251
Deferred tax liability	6	8 103	8 898
Contract liabilities	2	17 514	15 788
		34 301	30 937
Current liabilities			
Trade and other payables	17	1 583 866	1 624 019
Tax liabilities		1 004	1 035
Foreign currency liabilities	18	9 823	12 668
Contract liabilities	2	21 449	13 817
Bank overdrafts	16	393 488	254 656
		2 009 630	1 906 195
Total liabilities		2 043 931	1 937 132
TOTAL EQUITY AND LIABILITIES		3 097 323	2 930 447

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Ordinary stated capital R000	Retained earnings R000	Foreign currency translation reserve R000	Attributable to equity holders of the parent R000	Non-controlling interest R000	Total R000
Balance at 30 June 2017	–	969 164	1 169	970 333	8 128	978 461
Net profit for the year	–	79 807	–	79 807	1 450	81 257
Other comprehensive loss	–	–	2 110	2 110	–	2 110
Dividends paid	–	(12 960)	–	(12 960)	(699)	(13 659)
Buy back of shares (refer note 15)	–	(54 854)	–	(54 854)	–	(54 854)
Balance at 30 June 2018	–	981 157	3 279	984 436	8 879	993 315
Adjustment from adoption of IFRS 9 (net of taxation)	–	(5 287)	–	(5 287)	–	(5 287)
Balance at 1 July 2018 as restated	–	975 870	3 279	979 149	8 879	988 028
Net profit for the year	–	104 598	–	104 598	1 937	106 535
Other comprehensive loss	–	–	(622)	(622)	–	(622)
Dividends paid	–	(15 914)	–	(15 914)	(3 368)	(19 282)
Buy back of shares (refer note 15)	–	(21 267)	–	(21 267)	–	(21 267)
Balance at 30 June 2019	–	1 043 287	2 657	1 045 944	7 448	1 053 392

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	Notes	2019 R000	Restated 2018 R000
OPERATING ACTIVITIES			
Cash receipts from customers		5 838 314	5 778 409
Cash paid to suppliers and employees		(5 854 606)	(5 528 010)
Net cash (used in) from operations	14	(16 292)	250 399
Investment revenues received	4	8 035	10 658
Finance costs paid	5	(112 289)	(87 255)
Dividends paid		(19 282)	(13 659)
Income taxes paid		(31 524)	(10 862)
Net cash (used in) from operating activities		(171 352)	149 281
INVESTING ACTIVITIES			
Additions to property, plant and equipment	7	(32 998)	(44 052)
Proceeds from sale of property, plant and equipment		17 545	526
Decrease in investments in and loans to associates	10	9 741	1 427
Decrease in other investments		–	14 463
Increase in other loans	11	(1 386)	(1 885)
Decrease in other loans	11	3 750	1 135
Additions to intangible asset	8	(15 882)	(16 621)
Net cash used in investing activities		(19 230)	(45 007)
FINANCING ACTIVITIES			
Buy back of ordinary shares	15	(21 267)	(54 854)
Decrease in long-term borrowings	16	–	(2 250)
(Decrease) increase in short-term borrowings	16	(640)	2 457
Increase in bank overdrafts	16	138 832	15 378
Net cash from (used in) financing activities		116 925	(39 269)
Net (decrease) increase in cash and cash equivalents		(73 657)	65 005
Cash and cash equivalents at the beginning of the year		295 376	230 371
Cash and cash equivalents at the end of the year	14	221 719	295 376

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Notes	2019 R000	2018 R000
Revenue	2	3 822 445	3 786 619
Cost of sales		(3 284 840)	(3 245 573)
Gross profit		537 605	541 046
Other income		3 321	2 185
Foreign currency losses		(14 739)	(68 973)
Distribution, administrative and other operating expenses		(391 418)	(361 711)
Impairment losses on trade receivables	13	(7 867)	(2 692)
Profit from operations	3	126 902	109 855
Investment revenues	4	51 634	24 130
Finance costs	5	(77 237)	(59 966)
Other gains	10 and 11	45	5 462
Profit before tax		101 344	79 481
Income tax expense	6	(11 688)	(13 553)
Profit for the year		89 656	65 928
Other comprehensive income, net of tax		–	–
Total comprehensive income for the year		89 656	65 928

COMPANY STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

	Notes	2019 R000	Re-presented 2018 R000
ASSETS			
Non-current assets			
Property, plant and equipment	7	33 259	35 006
Intangible assets	8	29 646	19 937
Investments in subsidiaries	9	300 617	288 681
Investments in associates	10	37 344	41 298
Other loans	11	50 768	51 882
Deferred tax asset	6	17 555	14 518
		469 189	451 322
Current assets			
Inventories	12	883 380	624 480
Inventories in transit	12	51 673	123 459
Trade and other receivables	13	690 014	704 470
Tax assets		5 381	2 439
Contract assets	2	3 516	–
Foreign currency assets	18	–	27 010
Bank balances and cash	14	125 202	160 043
		1 759 166	1 641 901
TOTAL ASSETS		2 228 355	2 093 223
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	15	–	–
Retained earnings		672 802	624 005
Total equity		672 802	624 005
Non-current liabilities			
Long-term borrowings	16	10 620	6 122
Contract liabilities	2	17 514	15 788
		28 134	21 910
Current liabilities			
Trade and other payables	17	1 042 476	1 104 661
Foreign currency liabilities	18	7 958	12 668
Loans owing to subsidiaries	9	62 281	71 661
Contract liabilities	2	21 224	13 817
Bank overdrafts	16	393 480	244 501
		1 527 419	1 447 308
Total liabilities		1 555 553	1 469 218
TOTAL EQUITY AND LIABILITIES		2 228 355	2 093 223

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Ordinary stated capital R000	Retained earnings R000	Total R000
Balance at 30 June 2017	–	625 891	625 891
Net profit for the year	–	65 928	65 928
Dividends paid	–	(12 960)	(12 960)
Buy back of shares (refer note 15)	–	(54 854)	(54 854)
Balance at 30 June 2018	–	624 005	624 005
Adjustment from adoption of IFRS 9 (net of taxation)	–	(3 678)	(3 678)
Balance at 1 July 2018 as restated	–	620 327	620 327
Net profit for the year	–	89 656	89 656
Dividends paid	–	(15 914)	(15 914)
Buy back of shares (refer note 15)	–	(21 267)	(21 267)
Balance at 30 June 2019	–	672 802	672 802

COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	Notes	2019 R000	Restated 2018 R000
OPERATING ACTIVITIES			
Cash receipts from customers		3 832 586	3 793 333
Cash paid to suppliers and employees		(3 895 853)	(3 606 106)
Net cash (used in) from operations	14	(63 267)	187 227
Interest received	4	5 434	4 251
Finance costs paid	5	(77 237)	(59 966)
Dividends received	4	46 200	19 879
Dividends paid		(15 914)	(12 960)
Income taxes paid		(16 459)	(1 755)
Net cash (used in) from operating activities		(121 243)	136 676
INVESTING ACTIVITIES			
Additions to property, plant and equipment	7	(10 591)	(16 940)
Proceeds from sale of property, plant and equipment		45	285
Increase in loans to subsidiaries	9	(21 316)	(22 231)
Decrease (increase) in investments in and loans to associates	10	3 941	(2 973)
Additions to intangible assets	8	(13 990)	(13 564)
Decrease in other investments		–	14 463
Increase in other loans	11	(189)	(1 432)
Decrease in other loans	11	790	1 135
Net cash used in investing activities		(41 310)	(41 257)
FINANCING ACTIVITIES			
Buy back of ordinary shares	18	(21 267)	(54 854)
Increase in bank overdrafts	16	148 979	17 852
Net cash from (used in) financing activities		127 712	(37 002)
Net (decrease) increase in cash and cash equivalents		(34 841)	58 417
Cash and cash equivalents at the beginning of the year		160 043	101 626
Cash and cash equivalents at the end of the year	14	125 202	160 043

ACCOUNTING POLICIES

for the year ended 30 June 2019

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

The consolidated and company annual financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments (refer note 18). The principal accounting policies are set out in the related notes to the consolidated and company financial statements and are presented in South African Rand. These are consistent with the policies applied in the preparation of the annual financial statements for the financial year ended 30 June 2018, except for the adoption of new standards as noted below:

The following standards were adopted during the current financial year:

	Standard	Date issued by IASB	Effective for periods beginning on or after
IFRS 9	Financial Instruments	July 2014	1 January 2018
IFRS 15	Revenue from Contracts with Customers	May 2014	1 January 2018

IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and liabilities;
- Impairment of financial assets; and
- General hedge accounting (this does not impact the Group).

General impact on the implication of IFRS 9

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39 Financial Instruments: Recognition and Measurement incurred loss approach with a forward looking expected credit loss (ECL) approach. IFRS 9 requires the company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss. Under IFRS 9 credit losses are recognised earlier than under IAS 39.

The Group applied IFRS 9 on 1 July 2018, using the modified retrospective approach. The cumulative effect of adopting IFRS 9 was recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 with no restatement of comparative information.

The reclassification into the new measurement categories of IFRS 9 did not have a significant impact on the Group.

Details of these new requirements applicable to the Group as well as their impact on the company and Group's consolidated financial statements are described below:

Financial assets – Amortised cost

Loans

Classification

Loans to related companies (notes 9 and 10) and entities outside the Group (note 11) are classified as financial assets subsequently measured at amortised cost. They have been classified in this manner because the contractual terms of these loans give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

Thus, after initial recognition, financial assets are measured at amortised cost using the effective interest rate method, net of impairment losses.

Impairment
The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group distinguishes between the following categories:
- Financial assets that have not deteriorated significantly in credit quality since initial recognition or that have low risk (Stage 1);
- Financial assets that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2); and
- Financial assets where objective evidence of impairment exists at the reporting date (Stage 3).

For financial assets in Stage 1, 12-month expected credit losses would be recognised while for financial assets in Stage 2 and Stage 3, lifetime expected credit losses would be recognised.

Impairment losses are recognised through profit or loss.

Trade and other receivables

Classification
Trade and other receivables are classified as financial assets subsequently measured at amortised cost (note 13). They have been classified in this manner because their contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement
Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at the transaction price. They are subsequently measured at amortised cost, net of impairment losses.

Impairment
The Group recognises a loss allowance for expected credit losses on trade and other receivables. The amount of expected credit losses is updated at each reporting date. The Group measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL) based on the simplified approach, which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

Measurement and recognition of expected credit losses
The impairment provision for doubtful debts was based on a combination of specifically identified doubtful debtors (individually assessed) and by applying a provision matrix (collectively assessed) in accordance with the Group's policy.

Refer to note 13 for further disclosure.

Financial assets – Fair value through profit and loss

In accordance with IFRS 9, when a financial asset cannot be classified as measured at amortised cost, a debt instrument measured at fair value through other comprehensive income or an equity instrument measured at fair value through other comprehensive income, it is measured at fair value through profit or loss.

With the exception of foreign exchange contracts, the Group does not have financial assets which are measured at fair value through profit or loss.

Financial liabilities – Amortised cost

After initial recognition, financial liabilities that are not measured at fair value through profit or loss are measured at amortised cost using the effective interest rate method. Trade and other payables and bank overdrafts are measured at amortised cost.

Financial liabilities – Fair value through profit or loss

With the exception of foreign exchange forward contracts, the Group does not have financial liabilities which are measured at fair value through profit or loss in accordance with IFRS 9.

ACCOUNTING POLICIES CONTINUED

for the year ended 30 June 2019

The adoption of IFRS 9 has resulted in the following changes for the Group:

	IFRS 9 classification	IAS 39 classification	Balance as at 30 June 2019 R000	Balance as at 30 June 2018 R000
Financial assets				
Trade and other receivables	Amortised cost	Loans and receivables	816 068	848 501
Cash and cash equivalents	Amortised cost	Amortised cost	221 719	295 376
Other loans	Amortised cost	Loans and receivables	122 878	107 867
Foreign exchange contract assets	Fair value through profit and loss	Held for trading	–	18 409
Financial liabilities				
Trade and other payables	Amortised cost	Amortised cost	(575 318)	(663 692)
Bank overdrafts	Amortised cost	Amortised cost	(393 488)	(254 656)
Foreign exchange contract liabilities	Fair value through profit and loss	Held for trading	(9 526)	–

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers is effective for an annual period that begins on or after 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations.

The modified retrospective approach was used in the adoption of the standard. There was, however, no material impact on the opening retained earnings.

The impact of IFRS 15 has resulted in contract assets and liabilities for refund obligations and expected discounts.

The Group's revenue is derived from contracts with customers and can be classified into the following categories:

Sales of goods (revenue earned at a point in time)
- Hardware sales
- Software sales

Rendering of services (revenue earned over time)

Refer note 2 for further revenue disclosure.

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

	Standard	Date issued by IASB	Effective for periods beginning on or after
IFRS 16	Leases	January 2016	1 January 2019
IFRS 3	Business Combinations	October 2018	1 January 2020
IAS 12	Income Taxes		1 January 2019

The directors intend to adopt this standard during the first financial year in which the standard becomes effective.

The directors are of the opinion that the impact of the implementation of the updates to IFRS 3 and IAS 12 is unlikely to have a material impact. The impact of the implementation of IFRS 16 will be as follows:

IFRS 16 Leases

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

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

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

The Group plans to apply IFRS 16 on 1 July 2019, using the modified retrospective approach. The cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of R55.4 million (refer note 16). IAS 17 does not require the recognition of any right of use or liability for future payments for these leases. Instead, certain information is disclosed as operating lease commitments in note16. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated and separate financial statements. The directors have assessed the potential impact of the implementation of IFRS 16 and the net present value is estimated at R49.7 million and R86.3 million for the Group and company respectively.

The cost of debt after tax rate of 7.38% was used to discount the cash flows.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting estimates and judgements

The following are the critical judgements and estimates 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:

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are listed below and described in more detail in each of the corresponding notes:

- Allowance for slow moving, damaged and obsolete inventory (refer note 12)
- Impairment provision for trade receivables (refer note 13)
- Goodwill impairment assessment (refer note 8)
- Investment in associates impairment assessment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. SEGMENTAL REPORTING

Business segments

The Group determines operating segments based on the manner in which information is provided internally to the key decision-makers, being executive management and the Board of directors.

For management purposes, the Group is currently organised into the following segments and these segments are the basis on which the Group reports its primary segment information:

Mustek Assembly and distribution of computer products and peripherals, including Mecer-branded products and related services. This includes all other operations not disclosed as separate segments.

Rectron Distribution of computer components and peripherals.

Group Includes investments in associates and other investments and loans. Refer to notes 10 and 11 for more information about their activities.

2019	Mustek R000	Rectron R000	Group R000	Elimination R000	Total R000
REVENUE					
External sales	3 793 275	2 052 632	–	–	5 845 907
Inter-segment sales**	69 765	226 344	–	(296 109)	–
Total revenue from continuing operations	3 863 040	2 278 976	–	(296 109)	5 845 907
SEGMENT RESULTS					
EBITDA*	185 184	83 824	(25 807)	–	243 201
Depreciation and amortisation	(17 979)	(7 693)	–	–	(25 672)
Profit from operations	167 205	76 131	(25 807)	–	217 529
Investment revenues	8 946	3 160	733	(4 804)	8 035
Finance costs	(77 368)	(34 921)	(4 804)	4 804	(112 289)
Other profits	–	–	70	–	70
Share of associates' net profit (refer note 10)	–	–	19 688	–	19 688
Profit (loss) before tax	98 783	44 370	(10 120)	–	133 033
Income tax expense	(22 147)	(11 372)	7 021	–	(26 498)
Profit (loss) for the year	76 636	32 998	(3 099)	–	106 535
Attributable to:					
Owners of the parent	76 636	31 061	(3 099)	–	104 598
Non-controlling interest	–	1 937	–	–	1 937
	76 636	32 998	(3 099)	–	106 535

2018	Mustek R000	Rectron R000	Group R000	Elimination R000	Total R000
REVENUE					
External sales	3 756 053	1 915 240	–	–	5 671 293
Inter-segment sales	70 701	249 091	–	(319 792)	–
Total revenue from continuing operations	3 826 754	2 164 331	–	(319 792)	5 671 293
SEGMENT RESULTS					
EBITDA*	166 882	50 417	(23 736)	–	193 563
Depreciation and amortisation	(20 055)	(10 428)	–	–	(30 483)
Profit from operations	146 827	39 989	(23 736)	–	163 080
Investment revenues	5 378	7 107	2 173	(4 000)	10 658
Finance costs	(60 523)	(26 673)	(4 059)	4 000	(87 255)
Other losses	–	–	(792)	–	(792)
Share of associates' net profit (refer note 10)	–	–	15 749	–	15 749
Profit (loss) before tax	91 682	20 423	(10 665)	–	101 440
Income tax expense	(22 174)	(4 047)	6 038	–	(20 183)
Profit (loss) for the year	69 508	16 376	(4 627)	–	81 257
Attributable to:					
Owners of the parent	69 508	14 874	(4 575)	–	79 807
Non-controlling interest	–	1 502	(52)	–	1 450
	69 508	16 376	(4 627)	–	81 257

* *Earnings before interest, tax, depreciation and amortisation.*
** *Inter-segment sales are charged at cost plus a mark up.*

1. SEGMENTAL REPORTING (continued)

Business segments (continued)

2019	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
OTHER INFORMATION					
Capital expenditure	43 808	5 173	–	–	48 981
ASSETS					
Segment assets	1 969 291	905 237	112 141	(22 663)	2 964 006
Investment in associates	–	–	127 262	–	127 262
Current tax assets	5 577	478	–	–	6 055
Consolidated total assets	1 974 868	905 715	239 403	(22 663)	3 097 323
LIABILITIES					
Segment liabilities	1 455 241	565 023	–	22 663	2 042 927
Current tax liabilities	1 004	–	–	–	1 004
Consolidated total liabilities	1 456 245	565 023	–	22 663	2 043 931
Number of employees at year-end	663	335	–	–	998

2018	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
OTHER INFORMATION					
Capital expenditure	55 709	4 964	–	–	60 673
ASSETS					
Segment assets	1 827 644	865 905	115 554	(199)	2 808 904
Investment in associates	–	–	117 328	–	117 328
Current tax assets	2 479	1 736	–	–	4 215
Consolidated total assets	1 830 123	867 641	232 882	(199)	2 930 447
LIABILITIES					
Segment liabilities	1 394 161	525 062	–	16 874	1 936 097
Current tax liabilities	1 035	–	–	–	1 035
Consolidated total liabilities	1 395 196	525 062	–	16 874	1 937 132
Number of employees at year-end	626	331	–	–	957

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

1. SEGMENTAL REPORTING (continued)

Geographical segments

2019	East Africa R000	Taiwan R000	South Africa R000	Total R000
Revenue	40 623	249	5 805 035	5 845 907
Profit before tax	1 280	3 700	128 053	133 033
Income tax expense	(744)	(864)	(24 890)	(26 498)
Profit for the year	536	2 836	103 163	106 535
Attributable to:				
Owners of the parent	536	2 836	101 226	104 598
Non-controlling interest	–	–	1 937	1 937
	536	2 836	103 163	106 535
OTHER INFORMATION				
Capital expenditure	81	–	48 900	48 981
Segment assets	51 707	12 024	3 027 537	3 091 268
Current tax assets	–	196	5 859	6 055
Consolidated total assets	51 707	12 220	3 033 396	3 097 323

2018	East Africa R000	Taiwan R000	South Africa R000	Total R000
Revenue	38 301	1 187	5 631 805	5 671 293
Profit before tax	2 171	1 255	98 015	101 440
Income tax benefit (expense)	(301)	(329)	(19 553)	(20 183)
Profit for the year	1 870	926	78 462	81 257
Attributable to:				
Owners of the parent	1 870	926	77 012	79 807
Non-controlling interest	–	–	1 450	1 450
	1 870	926	78 462	81 257
OTHER INFORMATION				
Capital expenditure	398	–	60 275	60 673
Segment assets	49 618	16 622	2 859 992	2 926 232
Current tax assets	–	–	4 215	4 215
Consolidated total assets	49 618	16 622	2 864 207	2 930 447

Refer note 13 for a quantification of the Group and company's reliance on its largest customers.

2. REVENUE

Disaggregation of revenue

The Group has assessed that the disaggregation of revenue by operating segments is appropriate in meeting this disclosure requirement as this is the information regularly reviewed by the chief operating decision-maker (CODM) in order to evaluate the financial performance of the entity.

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Sales of goods (revenue earned at a point in time)	5 816 051	5 640 444	3 795 288	3 758 843
Hardware sales	5 553 675	5 336 281	3 702 045	3 612 312
Dealers	3 256 841	3 111 212	2 116 650	2 088 036
Retailers	992 797	975 456	334 498	315 528
Public sector supplies	1 112 899	1 052 460	1 112 899	1 052 460
Export	191 138	197 153	137 998	156 288
Software sales	262 376	304 163	93 243	146 531
Dealers	201 359	214 652	64 836	85 706
Retailers	35 069	33 916	6 581	6 683
Public sector supplies	20 638	51 641	20 638	51 641
Export	5 310	3 954	1 188	2 501
Rendering of services (revenue earned over time)	29 856	30 849	27 157	27 775
Repair services	9 455	9 256	9 456	9 256
Deferred revenue	(3 556)	(3 728)	(3 556)	(3 728)
Maintenance and support contracts	23 198	24 557	21 257	22 247
Training courses	759	764	–	–
Total revenue	5 845 907	5 671 293	3 822 445	3 786 618

The Group has applied IFRS 15 which results in a single comprehensive model of accounting for revenue arising from contracts.

Revenue is recognised using a five-step model as follows:

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

The contract price is split between goods and services using the movement through the deferred income account and the actual service contract revenue and service specific invoices (out of warranty services).

Sales of goods

Revenue is recognised when control of the products has transferred, being when the products are delivered to the customer. In most instances, the criteria for recognition of revenue are met when a proof of delivery document is signed. The receivable is recognised upon delivery or collection of goods.

The following applies to the sales of goods:

1. Revenue is based on the price specified on the contract which can either be a quote or invoice.
2. Discounts or rebates are in most instances applied upfront at the time of contract and the price discounted accordingly, except for certain customers where the discount is applied at the time of payment. Customers have longstanding discount and rebate arrangements and revenue is recognised net of these discounts and rebates.
3. Credit terms are maximum 60 days from statement backed by an insurance element.
4. Our returns policy states seven days from date of purchase but CPA dictates maximum of 30 days if all return criteria are met. A refund liability and corresponding adjustment to revenue is recognised for expected return.
5. Warranties are included with the sale of all our goods. The warranty period will vary, dependent on the product sold.
6. Variable consideration is determined upfront (refer note 2 above.)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

2. REVENUE (continued)

Revenue from services

Revenue for services consists of revenue for the repair of equipment where no supplier warranty exists for the product, as well as service contracts sold alongside equipment as well as technical installation services on full solution type sales.

Revenue from a contract to provide services is recognised over time, by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- maintenance and support services are recognised over the period of the contract; and
- servicing fees included in the price of the products sold are recognised by reference to the proportion of the total cost of providing the service for the product, taking into account historical trends in the number of services actually provided on past goods sold. These services represent maintenance contracts for equipment sold.

Mecer Inter-Ed provides training solutions in the form of vendor authorised ICT training courses as well as learnerships and skills programmes as accredited training provider for various SETAs. Revenue is recognised over the period over which the relevant training course/programme is delivered.

Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Contract assets				
Opening balance	–	–	–	–
Revenue contracts from hardware sales	3 685	–	3 516	–
Closing balance	3 685	–	3 516	–
Contract liabilities: current				
Opening balance	13 817	13 233	13 817	12 662
Deferred revenue – maintenance contracts	1 831	584	1 831	1 155
Expected discounts and rebates	890	–	890	–
Expected refunds to customers	4 911	–	4 686	–
Closing balance	21 449	13 817	21 224	13 817
Contract liabilities: non-current				
Opening balance	15 788	13 215	15 788	13 215
Deferred revenue – maintenance contracts	1 726	2 573	1 726	2 573
Closing balance	17 514	15 788	17 514	15 788

Contract assets

This is an estimation of the inventory value for expected returns on hardware sales from customers within the return policy period. This estimation was based on historical trends.

Contract liabilities

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 one and five years depending on the option the customer selected or the terms of the packages sold. Income is deferred according to the contract purchased.

The income is deferred and recognised as revenue on a straight-line basis over the duration of the underlying service or maintenance contract. The performance obligation is met proportionately after every month that passes.

R13.8 million of revenue included in the prior year balance of contract liabilities, has been recognised in the current year.

The deferred income balance was previously recognised and disclosed as “deferred income” on the face of the statement of financial position. In the current financial year, this balance has been aggregated into the contract liability line item on the statement of financial position in accordance with the terminology used in IFRS 15 Revenue from Contracts with Customers.

Discounts and rebates – this relates to the estimated discounts and rebates that the Group expects to grant to customers on sales made in the current financial year. This estimation was based on historical trends.

Refunds – this relates to the estimated refunds that the Group expects to credit customers on goods returned within the return policy period. This estimation was based on historical trends.

3. PROFIT FROM OPERATIONS

	GROUP		COMPANY	
	2019 R000	2018 R000	**2019 R000**	2018 R000
Profit from operations has been arrived at after taking the following items into account:				
Auditor's remuneration:				
Audit fees	**6 414**	5 627	**4 217**	3 784
Fees for other services	**306**	380	**80**	176
	6 720	6 007	**4 297**	3 960
Depreciation of property, plant and equipment (refer note 7)	**18 316**	20 586	**12 261**	12 556
Net profit (loss) on disposal of property, plant and equipment	**7 798**	(223)	**(32)**	(194)
Amortisation of intangible assets (refer note 8)	**7 356**	9 897	**4 281**	6 642
Foreign exchange (losses) gains:				
Realised	**(26 732)**	(45 280)	**(21 439)**	(35 966)
Unrealised	**16 378**	(61 064)	**14 658**	(47 349)
	(10 354)	(106 344)	**(6 781)**	(83 315)
Fair value adjustments:				
Open foreign exchange contracts (losses) gains	**(9 526)**	18 409	**(7 958)**	14 342
	(9 526)	18 409	**(7 958)**	14 342
Net foreign currency losses	**(19 880)**	(87 935)	**(14 739)**	(68 973)
Bad debts written off	**27 488**	8 908	**25 974**	6 318

4. INVESTMENT REVENUES

Interest received on bank balances and cash	**8 035**	10 658	**4 715**	2 924
Interest received from subsidiaries	**–**	–	**719**	1 327
Dividends from subsidiaries and associates	**–**	–	**46 200**	19 879
	8 035	10 658	**51 634**	24 130

Dividend and interest revenue

Dividend revenue from investments is recognised when:

- the entity's right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the entity; and
- the amount of the dividend can be measured reliably.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

5. FINANCE COSTS

	GROUP 2019 R000	GROUP 2018 R000	COMPANY 2019 R000	COMPANY 2018 R000
Interest paid on bank overdrafts	35 420	32 522	41 715	32 300
Interest paid on loans	–	675	–	59
Interest paid on letters of credit and trade finance	70 051	47 901	35 522	27 607
Interest on forward points	6 818	6 157	–	–
	112 289	87 255	77 237	59 966

6. TAXATION

Income tax expense

	GROUP 2019 R000	GROUP 2018 R000	COMPANY 2019 R000	COMPANY 2018 R000
South African normal tax	(25 285)	(19 427)	(12 134)	(13 553)
Foreign tax	(1 162)	(719)	446	–
Withholding tax	(51)	(37)	–	–
	(26 498)	(20 183)	(11 688)	(13 553)
Comprising:				
Normal current tax				
– Current year	(30 141)	(26 854)	(14 168)	(19 690)
– Prior year	539	(20)	651	66
Normal deferred tax				
– Current year	3 801	6 111	2 549	6 063
– Prior year	(646)	617	(720)	8
Withholding tax	(51)	(37)	–	–
Income tax expense for the year	(26 498)	(20 183)	(11 688)	(13 553)
The Group's tax expense relate to the following tax jurisdictions:				
South African Revenue Service	(24 891)	(19 553)	(11 688)	(13 553)
Kenya Revenue Authority	(744)	(301)	–	–
Revenue Service Office, New Taipei City Government	(864)	(329)	–	–
	(26 499)	(20 183)	(11 688)	(13 553)

6. TAXATION (continued)

Tax rate reconciliation

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Profit before tax	**133 033**	101 440	**101 344**	79 481
South African statutory rate of tax	**28.0%**	28.0%	**28.0%**	28.0%
Dividends received	**0.0%**	0.0%	**(12.8%)**	(7.0%)
Dividends tax	**0.0%**	0.0%	**0.0%**	0.0%
Current tax prior year underprovision	**(0.4%)**	0.0%	**(0.6%)**	(0.1%)
Deferred tax prior year overprovision	**0.5%**	(0.6%)	**0.7%**	0.0%
Foreign tax paid	**(0.4%)**	0.0%	**(0.4%)**	0.0%
Profits from associates already taxed	**(4.1%)**	(4.3%)	**0.0%**	0.0%
Income from learnership agreements exempt	**(4.1%)**	(3.5%)	**(3.8%)**	(1.8%)
Non-taxable income	**0.4%**	0.3%	**0.0%**	0.0%
Disallowed expenses	**0.0%**	0.0%	**0.4%**	(2.0%)
Effective tax rate	**19.9%**	19.9%	**11.5%**	17.1%

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

Deferred tax assets and liabilities

The tax effects of temporary differences of the company and subsidiary companies resulted in deferred tax assets and liabilities. The directors have assessed, based on budgeted expectation for future profits, that it is reasonable to assume that future taxable income will be sufficient to allow the tax benefits to be realised. The following are the major deferred tax liabilities and assets recognised at 28% (2018: 28%) except if otherwise indicated:

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Tax loss	**8 098**	7 512	**–**	–
Provision for doubtful debts	**6 067**	1 442	**3 909**	1 653
Amortisation of intangible assets	**(4 310)**	(5 058)	**7**	10
Salary-related accruals	**11 069**	8 349	**8 113**	6 825
Accelerated wear and tear for tax purposes	**(7 818)**	(6 793)	**(2 714)**	(2 661)
Prepayments	**(712)**	(614)	**(368)**	(399)
Minor assets	**8**	11	**8**	11
Operating lease liabilities	**1 084**	975	**1 261**	1 089
Accrual for commission	**1 468**	2 635	**1 010**	1 358
Other accruals	**(485)**	2 713	**880**	2 302
Unrealised exchange gains and losses	**(5 017)**	(4 458)	**(4 414)**	(3 960)
Deferred revenue	**9 286**	8 290	**9 286**	8 290
Unrealised capital gains	**(2 081)**	(2 120)	**–**	–
Unrealised fair value capital gain on investment	**141**	141	**–**	–
Contract assets and liabilities	**577**	–	**577**	–
	17 375	13 025	**17 555**	14 518
Deferred tax assets	**25 478**	21 923	**17 555**	14 518
Deferred tax liabilities	**(8 103)**	(8 898)	**–**	–
	17 375	13 025	**17 555**	14 518
The Group's deferred tax assets relate to the following geographical locations:				
South Africa	**20 860**	17 089	**17 555**	14 518
East Africa	**4 618**	4 830	**–**	–
Taiwan	**–**	4	**–**	–
	25 478	21 923	**17 555**	14 518

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

6. TAXATION (continued)

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Reconciliation between opening and closing balances:				
Deferred tax asset at the beginning of the year	13 025	5 955	14 518	8 447
Differences on taxable loss	586	(485)	–	–
Differences on provision for doubtful debts	2 998	458	1 048	565
Differences on amortisation of intangible assets	(748)	(374)	(3)	(2)
Differences on salary-related provisions	2 720	4 184	1 288	2 660
Differences on accelerated wear and tear	(1 025)	69	(53)	(63)
Differences on prepayments	(98)	94	31	31
Differences on minor assets	(3)	3	(3)	4
Differences on lease liability	109	200	172	333
Differences on provision for commission	(1167)	1 010	(348)	279
Differences on other provisions	(3 775)	278	(1 422)	1 651
Differences on unrealised exchange gains and losses	(559)	(159)	(454)	(431)
Differences on deferred revenue	996	1 044	996	1 044
Differences on unrealised capital gains	39	–	–	–
Differences on foreign currency translation reserve	2 505	406	–	–
Differences on contract assets and liabilities	577	–	577	–
	3 155	6 728	1 829	6 071
Deferred tax movement through the statement of comprehensive income	3 155	6 728	1 829	6 071
Deferred tax movement through the statement of financial position	1 195	342	1 208	–
Foreign currency translation reserve	(286)	342	–	–
Prior year adjustment	(146)	–	–	–
IFRS 9 impairment (adjustment to retained earnings)	1 627	–	1 208	–
	17 375	13 025	17 555	14 518

The Group or company recognises deferred tax assets only when the future recovery of that asset is assessed to be highly likely. The deferred tax assets have been recognised based on the fact that the future five-year forecasts of the underlying entities indicate that there will be sufficient future taxable profits.

No unrecognised deductible temporary differences, unused tax losses or unused tax credits existed in the Mustek Group in the current or prior financial year.

7. PROPERTY, PLANT AND EQUIPMENT

	Opening balance R000	Additions R000	Disposals R000	Exchange differences R000	Closing balance R000
GROUP – 2019					
Cost					
Land and buildings	101 379	11 963	–	141	113 483
Improvements to leased premises	54 201	934	–	3	55 138
Plant and machinery	60 922	2 074	–	8	63 004
Furniture, fixtures and office equipment	41 785	5 960	(5 232)	10	42 523
Computer equipment	75 081	11 240	(28 415)	18	57 924
Motor vehicles	15 569	827	(154)	4	16 246
	348 937	32 998	(33 801)	184	348 318

	Opening balance R000	Current year R000	Disposals R000	Exchange differences R000	Closing balance R000
Accumulated depreciation					
Land and buildings	4 208	448	–	2	4 658
Improvements to leased premises	34 762	1 611	–	3	36 376
Plant and machinery	39 140	3 408	–	6	42 554
Furniture, fixtures and office equipment	33 133	2 594	(5 142)	8	30 593
Computer equipment	60 550	9 607	(28 255)	14	41 916
Motor vehicles	6 666	648	(77)	3	7 240
	178 459	18 316	(33 474)	36	163 337

	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
COMPANY – 2019				
Cost				
Land	784	–	–	784
Improvements to leased premises	17 947	484	–	18 431
Plant and machinery	26 653	503	–	27 156
Furniture, fixtures and office equipment	15 637	2 728	–	18 365
Computer equipment	62 402	6 049	(25 323)	43 128
Motor vehicles	14 421	827	(154)	15 094
	137 844	10 591	(25 477)	122 958

	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
Accumulated depreciation				
Improvements to leased premises	16 428	573	–	17 001
Plant and machinery	18 271	2 573	–	20 844
Furniture, fixtures and office equipment	11 888	911	–	12 799
Computer equipment	50 481	7 582	(25 323)	32 740
Motor vehicles	5 770	622	(77)	6 315
	102 838	12 261	(25 400)	89 699

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7. PROPERTY, PLANT AND EQUIPMENT (continued)

	Opening balance R000	Additions R000	Disposals R000	Reclassified to non-current assets held for sale R000	Exchange differences R000	Closing balance R000
GROUP – 2018						
Cost						
Land and buildings	85 100	24 748	–	(9 420)	951	101 379
Improvements to leased premises	53 157	1 037	–	–	7	54 201
Plant and machinery	56 384	4 481	–	–	57	60 922
Furniture, fixtures and office equipment	39 774	2 085	(142)	–	68	41 785
Computer equipment	64 753	10 302	(91)	–	117	75 081
Motor vehicles	15 753	1 399	(1 637)	–	54	15 569
	314 921	44 052	(1 870)	(9 420)	1 254	348 937

	Opening balance R000	Current year R000	Disposals R000	Reclassified to non-current assets held for sale R000	Exchange differences R000	Closing balance R000
Accumulated depreciation						
Land and buildings	3 613	537	–	–	58	4 208
Improvements to leased premises	32 241	2 514	–	–	7	34 762
Plant and machinery	35 229	3 868	–	–	43	39 140
Furniture, fixtures and office equipment	30 589	2 492	(5)	–	57	33 133
Computer equipment	50 022	10 488	(63)	–	103	60 550
Motor vehicles	6 990	687	(1 053)	–	42	6 666
	158 684	20 586	(1 121)	–	310	178 459

	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
COMPANY – 2018				
Cost				
Land	784	–	–	784
Improvements to leased premises	16 911	1 036	–	17 947
Plant and machinery	22 170	4 483	–	26 653
Furniture, fixtures and office equipment	14 236	1 401	–	15 637
Computer equipment	53 781	8 621	–	62 402
Motor vehicles	14 162	1 399	(1 140)	14 421
	122 044	16 940	(1 140)	137 844

	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Accumulated depreciation				
Improvements to leased premises	16 116	312	–	16 428
Plant and machinery	15 906	2 365	–	18 271
Furniture, fixtures and office equipment	11 134	754	–	11 888
Computer equipment	42 012	8 469	–	50 481
Motor vehicles	5 775	656	(661)	5 770
	90 943	12 556	(661)	102 838

7. PROPERTY, PLANT AND EQUIPMENT (continued)

	GROUP		COMPANY	
	2019 R000	2018 R000	**2019 R000**	2018 R000
Net book value				
Land and buildings	**108 825**	97 171	**784**	784
Improvements to leased premises	**18 762**	19 439	**1 430**	1 519
Plant and machinery	**20 450**	21 782	**6 312**	8 382
Furniture, fixtures and office equipment	**11 930**	8 652	**5 566**	3 749
Computer equipment	**16 008**	14 531	**10 388**	11 921
Motor vehicles	**9 006**	8 903	**8 779**	8 651
	184 981	170 478	**33 259**	35 006

Property, plant and equipment are carried on the cost model in accordance with IAS 16.

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

Buildings	20 to 25 years
Improvements to leased premises	over period of the initial lease
Plant and machinery	5 to 25 years
Furniture, fixtures and office equipment	5 to 12 years
Computer equipment:	
– Desktops	5 years
– Laptops/notebooks	3 to 5 years
– Printers/scanners	5 to 6 years
– Displays (large and small)	3 to 7 years
– Network equipment (routers and switches)	5 years
– UPS	5 to 11 years
– CCTV cameras	2 to 6 years
Motor vehicles	5 years

The directors reviewed at year-end the residual values, useful lives and carrying amount of property, plant and equipment to determine the appropriate level of depreciation and whether there is any indication that those assets have suffered an impairment loss. The directors judged a residual value of zero as a result of the fact that plant and equipment are not held for trading and are normally scrapped, apart from motor vehicles for which a residual value of 50% of cost was determined. The residual value of land and buildings normally exceeds the original costs. Land is not depreciated.

The Group and company do not have any significant planned capital expenditure in the near future.

There are no restrictions over the title to any of the property, plant and equipment. No property, plant and equipment has been pledged as security for any liabilities.

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for the year ended 30 June 2019

8. INTANGIBLE ASSETS

	GROUP 2019 R000	GROUP 2018 R000	COMPANY 2019 R000	COMPANY 2018 R000
Goodwill				
Cost	62 344	62 344	–	–
At the beginning and end of the year	62 344	62 344	–	–
Accumulated impairments	(6 717)	(6 717)	–	–
At the beginning and end of the year	(6 717)	(6 717)	–	–
Carrying amount	55 627	55 627	–	–
Software*				
Cost	153 554	137 663	101 081	87 091
At the beginning of the year	137 663	120 999	87 091	73 527
Additions	15 983	16 621	13 990	13 564
Disposals	(101)	–	–	–
Exchange differences	9	43	–	–
Accumulated amortisation*	(100 387)	(93 029)	(71 435)	(67 154)
At the beginning of the year	(93 029)	(83 110)	(67 154)	(60 512)
Amortisation	(7 356)	(9 897)	(4 281)	(6 642)
Disposals	–	–	–	–
Exchange differences	(2)	(22)	–	–
Carrying amount	53 167	44 634	29 646	19 937
Total intangible assets	108 794	100 261	29 646	19 937

** Software is written off on a straight-line basis over three years.*

8. INTANGIBLE ASSETS (continued)

Intangible assets are carried on the cost model in accordance with IAS 38.

There are no restrictions over the title to any of the intangible assets and no intangible assets have been placed as security for any liabilities.

The Group is in the process of implementing a new ERP system. Costs incurred in developing the software have not been amortised in accordance with IAS 38 Intangible Assets.

				GROUP	
	Pre-tax discount rate %	Post-tax discount rate %	Forecast cash flows	2019 R000	2018 R000
The carrying amount of goodwill had been allocated as follows:					
Mustek Limited	14.22	10.24	Five-year cash forecast, based on current year profits after tax, with perpetual cash forecast thereafter.	20 274	20 274
Palladium Business Solutions	21.83	15.72	Five-year cash forecast, with discounted cash flows calculated as a percentage of profit before tax.	8 077	8 077
Rectron	14.22	10.24	Five-year cash forecast, based on current year profits after tax, with perpetual cash forecast thereafter.	27 276	27 276
				55 627	55 627

Cash-generating units (CGUs) have been reassessed in the current financial year. Allocations between CGUs remained unchanged from the previous financial year.

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for the year ended 30 June 2019

8. INTANGIBLE ASSETS (continued)

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units that are expected to benefit from that business combination. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash-generating units were determined using a discounted cash flow model. A value in use was used as the recoverable amount. The key assumptions for the discounted cash flow model, are those regarding discount rates, expected volume growth rates, and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect management's assessment of the time value of money and their views on the risks specific to the cash-generating units. Discount rates used are based on a weighted average cost of capital of similar businesses in the same sector and of similar size, adjusted for the risk profile of the business. The growth rates are based on management experience and their expectations of industry and market share growth. Expectation of changes in gross margins and changes in indirect costs are based on past practices, expectations of future changes in the market and a view on expected inflation rates.

The discount rate is calculated by using a risk-free rate and adjusted for risk factors are as follows:

	Mustek Limited and Rectron	Palladium
Risk-free rate	8.90%	8.97%
Beta	1	1.1
Equity risk premium	6.00%	5.00%
Business risk	2.00%	1.50%

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

Sensitivity analysis

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

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

9. INVESTMENTS IN SUBSIDIARIES

	COMPANY 2019 R000	2018 R000
Shares at cost	304 698	304 698
– opening balance	304 698	304 698
– additions	–	–
Impairment charges	(122 422)	(122 422)
Opening carrying value adjustments	(122 422)	(122 422)
Current year impairment of investments and loans	–	–
Loans owing by subsidiaries	118 341	106 405
Non-current investments in subsidiaries	300 617	288 681
Loans owing to subsidiaries	(62 281)	(71 661)
	238 336	217 020

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9. INVESTMENTS IN SUBSIDIARIES (continued)

	Ownership interest		Shares at cost			
	2019 %	2018 %	2019 R000	Additions (disposals) R000	Opening impairment R000	Additional impairment R000
DIRECT						
Unlisted						
Ballena Trading 29 Proprietary Limited	51	51	5 272	–	(5 272)	–
Brobusmac Investments Proprietary Limited[2 and 3]	100	100	1 575	–	–	–
Brotek Proprietary Limited[2 and 5]	100	100	71 468	–	–	–
CIS Thuthukani Technology Proprietary Limited[2 and 3]	100	100	6 793	–	–	–
Digital Surveillance Systems Proprietary Limited	75	75	5 896	–	(5 896)	–
Lithatek Investments Proprietary Limited	100	100	19 448	–	(19 448)	–
Makeshift 1000 Proprietary Limited	100	100	10 698	–	(10 698)	–
Mecer Technology Limited[6]	100	100	6 629	–	–	–
Mustek Capital Proprietary Limited[3]	100	100	100	–	–	–
Mustek Limited Company Limited	100	100	*	–	–	–
Mustek East Africa Limited[4, 8, 9 and 12]	100	100	12 315	–	(5 732)	–
MFS Technologies Proprietary Limited[2 and 3]	100	100	*	–	–	–
Mustek Electronics (Cape Town) Proprietary Limited	100	100	3 229	–	–	–
Mustek Electronics (Durban) Proprietary Limited	100	100	1 658	–	–	–
Mustek Electronics (Port Elizabeth) Proprietary Limited	100	100	327	–	–	–
Mustek Middle East FZCO	100	100	1 392	–	(1 392)	–
Mustek Lesotho Proprietary Limited	99	99	*	–	–	–
Quickstep 94 Proprietary Limited[1, 2 and 7]	100	100	2 581	–	(2 581)	–
Rectron Holdings Limited[7]	100	100	115 973	–	–	–
Tradeselect 38 Proprietary Limited[3]	100	100	3 400	–	(3 400)	–
Zatophase Proprietary Limited	100	100	35 944	–	–	–
INDIRECT						
Unlisted						
Mecer Inter-Ed Proprietary Limited[5 and 12]	100	100	–	–	–	–
Palladium Business Solutions Proprietary Limited[11]	50,1	50,1	–	–	–	–
Soft 99 Proprietary Limited[7, 10 and 12]	68	68	–	–	–	–
TOTAL DIRECT AND INDIRECT		–	304 698	–	(54 419)	–

[1] *These loans have been subordinated in favour of all other creditors of the subsidiary. The loans have been partially or fully impaired.*
[2] *These loans are interest-free and have no fixed terms of repayment (management has no expectation to demand settlement of these loans within the next 12 months).*
[3] *Dormant companies registered and incorporated in South Africa.*
[4] *Active trading company registered and incorporated in Kenya.*
[5] *Active trading company registered and incorporated in South Africa.*
[6] *Active company registered and incorporated in Taiwan.*
[7] *Non-trading investment company or property company registered and incorporated in South Africa.*
[8] *The investment Mustek East Africa Limited was impaired by an amount of R5.7 million in previous financial years. The impairment represented the amount by which the net investment in the company exceeded its net asset value.*

	Loans to (from)						Net investment	
2018 R000	2019 R000	Additions (disposals) R000	Opening impairment R000	Additional impairment R000	Forex movements R000	2018 R000	2019 R000	2018 R000
5 272	–	–	–	–	–	–	–	–
1 575	(7 960)	–	–	–	–	(7 960)	(6 385)	(6 385)
71 468	(27 435)	(1 020)	–	–	–	(26 415)	44 033	45 053
6 793	(10 212)	–	–	–	–	(10 212)	(3 419)	(3 419)
5 896	–	–	–	–	–	–	–	–
19 448	2 479	–	(2 479)	–	–	2 479	–	–
10 698	43 192	–	(43 142)	–	–	43 192	50	50
6 629	–	–	–	–	–	–	6 629	6 629
100	(10 520)	–	–	–	–	(10 520)	(10 420)	(10 420)
*	3 511	–	(3 511)	–	–	3 511	–	–
12 315	43 064	10 461	–	–	1 620	30 983	49 647	37 566
*	(1 271)	–	–	–	–	(1 271)	(1 271)	(1 271)
3 229	(3 216)	–	–	–	–	(3 216)	13	13
1 658	(1 433)	–	–	–	–	(1 433)	225	225
327	(234)	–	–	–	–	(234)	93	93
1 392	1 118	–	(1 118)	–	–	1 118	–	–
*	952	–	(952)	–	–	952	–	–
2 581	18 422	–	(16 801)	–	–	18 422	1 621	1 621
115 973	–	–	–	–	–	–	115 973	115 973
3 400	–	–	–	–	–	–	–	–
35 944	–	10 400	–	–	–	(10 400)	35 944	25 544
–	2 721	(145)	–	–	–	2 866	2 721	2 866
–	–	–	–	–	–	–	–	–
–	2 882	–	–	–	–	2 882	2 882	2 882
304 698	56 060	19 696	(68 003)	–	1 620	34 744	238 336	217 020

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

[10] *The first R0.5 million of this loan is interest-free and the remaining portion bears interest at prime. The loan has no fixed repayment terms.*

[11] *Rectron Holdings Limited acquired a 50.1% stake in Palladium Business Solutions Proprietary Limited, an independent software vendor, with effect from 1 March 2017 for a total consideration of R16.2 million. R7.9 million of the total consideration was conditional upon the achievement of profit guarantees over the 2018 and 2019 financial year. R5.5 million was achieved during the previous financial year and R1.7 million was achieved in the current financial year.*

[12] *Management has performed an assessment of the recoverability of the loans extended to subsidiaries at reporting date and has determined that the credit risk on these financial assets is immaterial. As such, the Group has not raised a loss allowance against these loans, but will continue to monitor the credit risk associated with the asset and take action to impair if appropriate.*

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9. INVESTMENTS IN SUBSIDIARIES (continued)

In the separate financial statements of Mustek Limited, investments in subsidiaries are carried at cost in accordance with IAS 27.

The net investment is after impairment charges against the investments and loans of R122.4 million (2018: R122.4 million). The carrying amount of investments approximates the fair value.

A Group company considers an entity to be controlled, when the Group company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Mecer Inter-Ed provides training solutions in the form of vendor authorised ICT training courses as well as learnerships and skills programmes as accredited training provider for various SETAs. 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.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Proportionate ownership interests and voting rights held by NCI	Profit allocated to non-controlling interests 2019 R000	Profit allocated to non-controlling interests 2018 R000	Accumulated non-controlling interests 2019 R000	Accumulated non-controlling interests 2018 R000
Palladium Business Solutions Proprietary Limited Place of business: South Africa	49.9%	2 670	1 532	4 201	1 532
		2 670	1 532	4 201	1 532

The summarised financial information below represents amounts before intergroup eliminations.

	2019 R000	2018 R000
Current assets	7 973	10 463
Non-current assets	202	140
Current liabilities	2 575	2 916
Non-current liabilities	(136)	(530)
Equity attributable to owners of the company	(7 157)	(4 099)
Non-controlling interests	–	–
Revenue	32 567	26 588
Expenses	27 238	23 531
Profit for the year	5 329	3 057
Profit attributable to owners of the company	2 659	1 525
Profit attributable to the non-controlling interests	2 670	1 532
Profit for the year	5 329	3 057
Other comprehensive attributable to owners of the company	–	–
Other comprehensive attributable to the non-controlling interests	–	–
Other comprehensive for the year	–	–
Total attributable to owners of the company	2 659	1 525
Total comprehensive attributable to the non-controlling interests	2 670	1 532
Total comprehensive for the year	5 329	3 057
Dividends paid to non-controlling interests	3 382	1 400
Net cash (outflow) inflow from operating activities	(3 635)	1 511
Net cash (outflow) from investing activities	(63)	(60)
Net cash inflow from financing activities	1 007	–
Net cash (outflow) inflow	(2 691)	1 451

9. INVESTMENTS IN SUBSIDIARIES (continued)

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

	2019 R000	2018 R000
Net aggregate profits	63 471	38 954
Net aggregate losses	(22 387)	(25 859)

10. INVESTMENTS IN ASSOCIATES

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Shares at cost	88 026	88 026	40 246	40 246
– opening balance	88 026	88 026	40 246	40 246
– acquisitions	–	–	–	–
Impairments	(24 539)	(24 539)	(4 189)	(4 189)
– opening balance	(24 539)	(24 539)	(4 189)	(4 189)
Share of undistributed post-acquisition gains	62 488	48 600	–	–
– opening balance	48 600	37 251	–	–
– current year share of post-acquisition gains	19 688	15 749	–	–
– current year dividends received from associates	(5 800)	(4 400)	–	–
Loans owing by associates	8 600	12 541	1 300	5 241
Opening balance	12 541	9 568	5 241	2 268
(Decrease) increase in loans	(3 941)	2 973	(3 941)	2 973
Impairment adjustments	(7 313)	(7 300)	(13)	–
Investments in associates	127 262	117 328	37 344	41 298

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10. INVESTMENTS IN ASSOCIATES (continued)

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

	Yangtze Optics Africa Holdings Proprietary Limited[1]		Zaloserve Proprietary Limited[2]	
	2019 R000	2018 R000	2019 R000	2018 R000
Current assets	82 383	81 389	362 581	264 740
Non-current assets	79 522	83 266	102 199	122 838
Total assets	161 905	164 655	464 780	387 578
Current liabilities	49 545	41 367	257 940	195 272
Non-current liabilities	–	–	16 638	42 627
Total liabilities	49 545	41 367	274 578	237 899
Revenue	123 513	110 329	1 446 133	1 044 309
(Loss) profit before tax	(13 112)	(9 937)	65 697	44 394
Income tax benefit (expense)	2 115	2 098	(16 502)	(9 770)
Net (loss) profit for the year	(10 997)	(7 839)	49 195	34 624

[1] *Group and company.*
[2] *Group.*

	Percentage holding		Cost			
	2019 %	2018 %	2019 R000	Additions (disposals) R000	Opening impairment R000	Additional impairment R000
COMPANY						
Unlisted						
Mustek Zimbabwe Private Limited[1]	–	–	4 189	–	(4 189)	–
Khauleza IT Solutions Proprietary Limited	36	36	–	–	–	–
Continuous Power Systems Proprietary Limited[3]	40	40	–	–	–	–
Yangtze Optics Africa Holdings Proprietary Limited[4]	25.1	25.1	36 057	–	–	–
			40 246	–	(4 189)	–
GROUP						
Unlisted						
Mustek Zimbabwe Private Limited[1]	–	–	–	–	–	–
Preworx Proprietary Limited[2]	38	38	24 447	–	(20 350)	–
Khauleza IT Solutions Proprietary Limited	36	36	–	–	–	–
Continuous Power Systems Proprietary Limited[3]	40	40	–	–	–	–
Zaloserve Proprietary Limited[5]	40	40	23 333	–	–	–
Yangtze Optics Africa Holdings Proprietary Limited[4]	25.1	25.1	–	–	–	–
TOTAL COMPANY AND GROUP			88 026	–	(24 539)	–

[1] *On 1 July 2002 Mustek disposed of Mustek Zimbabwe. The purchaser irrevocably granted Mustek an option to purchase, at any time, 40% of the entire issued share capital of Mustek Zimbabwe for a nominal value and, as a result, the option investment is treated as an equity investment in an associate company.*

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

[3] *With effect from 1 January 2011, Mustek Limited acquired a 40% share in Continuous Power Systems Proprietary Limited. A series of loans were extended from Mustek Limited to Continuous Power Systems Proprietary Limited. These loans bear interest at prime plus 1% and has no fixed repayment terms. The Group has impaired intergroup loans in accordance with IFRS 9. This loan is low credit risk as the borrower has capacity to meet its obligations in the near term. Twelve-month expected credit losses have therefore been provided for at 1%.*

	Khauleza IT Solutions Proprietary Limited[1]		Continuous Power Systems Proprietary Limited[1]		Mustek Zimbabwe Private Limited[1]		Preworx Proprietary Limited[2]	
	2019 R000	2018 R000	**2019 R000**	2018 R000	**2019 R000**	2018 R000	**2019 R000**	2018 R000
	41 105	39 898	**10 965**	13 746	**14 736**	9 591	**–**	–
	3 425	5 184	**21 086**	23 652	**189**	285	**963**	963
	44 530	45 082	**32 051**	37 398	**14 925**	9 876	**963**	963
	5 871	4 585	**4 027**	8 352	**3 831**	3 946	**–**	–
	–	–	**18 589**	21 676	**76**	81	**8 757**	8 757
	5 871	4 585	**22 616**	30 028	**3 907**	4 027	**8 757**	8 757
	99 251	87 505	**32 817**	28 030	**58 512**	25 969	**–**	–
	4 393	10 375	**2 065**	3 083	**5 005**	1 394	**–**	–
	(1 230)	(2 905)	**(578)**	(863)	**(1 289)**	(359)	**–**	–
	3 163	7 470	**1 487**	2 220	**3 716**	1 035	**–**	–

		Loans to					Equity accounted share of earnings		Net investment	
	2018 R000	**2019 R000**	Advanced (repaid) R000	Opening impairment R000	Additional impairment R000	2018 R000	**2019 R000**	2018 R000	**2019 R000**	2018 R000
	4 189	**–**	–	–	–	–	**–**	–	**–**	–
	–	**–**	–	–	–	–	**–**	–	**–**	–
	–	**1 300**	(3 941)	–	(13)	5 241	**–**	–	**1 287**	5 241
	36 057	**–**	–	–	–	–	**–**	–	**36 057**	36 057
	40 246	**1 300**	(3 941)	–	(13)	5 241	**–**	–	**37 344**	41 298
	–	**–**	–	–	–	–	**1 881**	844	**1 881**	844
	24 447	**7 300**	–	(7 300)	–	7 300	**(4 097)**	(4 097)	**–**	–
	–	**–**	–	–	–	–	**13 638**	14 299	**13 638**	14 299
	–	**–**	–	–	–	–	**2 997**	2 403	**2 997**	2 403
	23 333	**–**	–	–	–	–	**57 451**	41 773	**80 784**	65 106
	–	**–**	–	–	–	–	**(9 382)**	(6 622)	**(9 382)**	(6 622)
	88 026	**8 600**	(3 941)	(7 300)	(13)	12 541	**62 488**	48 600	**127 262**	117 328

[4] *Mustek Limited acquired a 25.1% share in Yangtze Optics Africa Holdings Proprietary Limited with effect from 8 March 2016. Production by Yangtze Optics Africa Holdings Proprietary Limited started during the previous financial year.*

[5] *Mustek Limited acquired a 65% share in Zatophase Proprietary Limited with effect from 13 March 2014. Zatophase Proprietary Limited acquired a 40% share in Zaloserve Proprietary Limited on 13 March 2014. Furthermore, Zaloserve Proprietary Limited owns 100% in Opiwise Proprietary Limited, and Opiwise Proprietary Limited in turn owns 100% of Sizwe IT Group. The 40% investment in Zaloserve Proprietary Limited is equity accounted for in the Mustek Group.*

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10. INVESTMENTS IN ASSOCIATES (continued)

In the separate financial statements of Mustek Limited, investments in associates are carried at cost in accordance with IAS 28. For Group purposes, the investments in associates have been equity accounted in accordance with IAS 28.

The net investment is after impairment charges of R31.8 million (2018: R31.8 million) for the Group and R4.2 million (2018: R4.1 million) for the company. The carrying amounts of the investments approximate the fair values.

The loans are measured, at initial recognition, at fair value plus transaction costs, if any. After initial recognition, these loans are measured at amortised cost using the effective interest rate method, net of impairment losses.

The Group or company considers significant influence over an entity to be present, when the Group or company can exert significant influence over the executive decision-making within the entity. This may be achieved by either a combination of the voting rights associated to the shareholding in the entity, or through significant influence over executive decision-making by means of positions – and relationships held.

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 (2018: 12 months)
Khauleza IT Solutions Proprietary Limited	Provider of IT support solutions	South Africa	12 months (2018: 12 months)
Continuous Power Systems Proprietary Limited	Provider of uninterrupted power supply solutions	South Africa	12 months (2018: 12 months)
Zaloserve Proprietary Limited	Group of IT support solutions provider companies	South Africa	12 months (2018: 12 months)
A Open Proprietary Limited	Dormant	South Africa	12 months (2018: 12 months)
Preworx Proprietary Limited	Remote access diagnostics technology	South Africa	12 months (2018: 12 months)
Yangtze Optics Africa Holdings Proprietary Limited	Fibre optics technology	South Africa	12 months (2018: 12 months)

11. OTHER LOANS

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Loans	58 218	60 582	51 935	52 536
Impairment	(1 704)	(654)	(1 167)	(654)
– opening balance	(654)	(654)	(654)	(654)
– current year impairment	(1 050)	–	(513)	–
	56 514	59 928	50 768	51 882

11. OTHER LOANS (continued)

		Loans to						Net loan after impairment	
		2019 R000	Advances/ (repayments) R000	Group eliminations R000	Opening impairment R000	Additional impairment R000	2018 R000	2019 R000	2018 R000
COMPANY									
Unlisted									
A Lai	1 and 9	1 000	–	–	–	(10)	1 000	990	1 000
M Cameron	2 and 9	975	(13)	–	–	(10)	988	965	988
Simple Process Engineering Solutions Proprietary Limited		654	–	–	(654)	–	654	–	–
Elimu Technologies Proprietary Limited	3 and 9	1 960	189	–	–	(20)	1 771	1 940	1 771
Mustek Executive Share Trust	4, 5, 7 and 9	47 346	(777)	–	–	(473)	48 123	46 873	48 123
		51 935	(601)	–	(654)	(513)	52 536	50 768	51 882
GROUP									
Unlisted									
DC Kan	4, 7 and 9	26 900	236	–	–	(269)	26 664	26 631	26 664
H Engelbrecht	4, 7 and 9	14 758	146	–	–	(148)	14 612	14 610	14 612
CJ Coetzee	4, 7 and 9	3 445	15	–	–	(34)	3 430	3 411	3 430
JW Viviers	4, 7 and 9	470	(159)	–	–	(5)	629	465	629
O Levey	4, 7 and 9	83	(885)	–	–	(1)	968	82	968
JL Chen	4, 7 and 9	1 216	24	–	–	(12)	1 192	1 204	1 192
VL Chunilal	4 and 7	–	(145)	–	–	–	145	–	145
MR de Klerk	4, 7 and 9	474	(8)	–	–	(5)	482	469	482
Mustek Executive Share Trust	4, 5 and 7	(47 346)	776	(47 346)	–	–	(48 122)	(47 346)	(48 122)
IG3 Education Limited	8 and 9	6 283	(1 763)	–	–	(63)	8 046	6 220	8 046
TOTAL COMPANY AND GROUP		58 218	(2 364)	(47 346)	(654)	(1 050)	60 582	56 514	59 928

1 This loan is secured, interest-free and has no fixed terms of repayment (management has no expectation to demand settlement of these loans within the next 12 months).

2 This loan is unsecured, bears interest at 10% per annum and is repayable on demand (management has no expectation to demand settlement of these loans within the next 12 months).

3 This loan is unsecured, bears interest at prime and has no fixed repayment terms (management has no expectation to demand settlement of these loans within the next 12 months).

4 3.8 million Mustek Limited shares were issued to directors of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the directors in terms of the rules of the trust. The loan from the Share Trust was in turn funded by a loan from Mustek Limited to the Share Trust. Up to 31 August 2017, these loans bore interest at the South African repo rate plus 1%. From 1 September 2017, the loans are interest-free. Tax on fringe benefits was charged to the loan accounts on a monthly basis. These loans have no fixed repayment terms. Refer note 9 below for details on impairment and note 21 for related-party disclosure.

5 In accordance with IFRS 10, Mustek has control over Mustek Executive Share Trust, as it is exposed and has rights to variable returns from its involvement with the trust and has the ability to affect those returns through its power. Therefore consolidated into the Group. 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.

7 During the 2015 financial year, 1.9 million Mustek Limited shares were issued to members of the executive management of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the staff members in terms of the rules of the trust deed. The trust deed provides that the Board of directors determine the interest rate. Interest was charged at the South African repo rate plus 1%. From 1 September 2017, these loans were interest-free and deemed fringe benefits. The loans have no fixed repayment terms. Refer note 9 below for details on impairment and note 21 for related-party disclosure.

8 This loan bears interest at 4.17% per annum and is repayable in four equal payments over the next four years.

9 During the current financial year, the Group adopted IFRS 9 Financial Instruments which resulted in a change in the impairment model from an "incurred loss" model to an "expected loss" model. These loans are stated after the expected 12-month credit loss. A rate of 1% was used for the expected credit loss. These loans are considered low credit risk as the borrowers have capacity to meet their obligations and sufficient measures are put in place to ensure recoverability of these loans.

All companies, trusts and individuals are registered or resident in South Africa.

All these loans are carried at amortised cost. The fair values of these loans approximate the carrying amounts thereof.

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for the year ended 30 June 2019

12. INVENTORIES

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Trading inventory	1 341 365	1 012 677	920 409	653 739
Provision for obsolescence	(44 997)	(46 706)	(37 029)	(29 259)
Trading inventory, net of provision for obsolescence	1 296 368	965 971	883 380	624 480
Inventories in transit	97 024	187 282	51 673	123 459
Total inventories	1 393 392	1 153 253	935 053	747 939
Provision for obsolescence				
Opening balance	(46 706)	(42 981)	(29 259)	(26 448)
Current year provision	1 364	(11 929)	(10 488)	(8 889)
Amount written off	345	8 204	2 718	6 078
Closing balance	(44 997)	(46 706)	(37 029)	(29 259)

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.

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 and trading stock is impaired depending on its age. Trading stock older than 150 days is considered aged stock. The net realisable value of inventory represents the estimated selling price less all estimated costs to completion and costs to be incurred 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 R89.1 million (2018: R105.9 million) and R28.6 million (2018: R44.0 million) respectively.

The cost of inventories recognised as an expense during the year was R4 930.4 million (2018: R4 862.8 million) and R3 244.3 million (2018: R3 188.9 million) for the Group and company respectively.

The cost of inventories recognised includes R13.4 million (2018: R13.2 million) in respect of write-downs to net realisable value.

Sales between Group entities were made at an average mark-up of 2.5%.

No inventories that were not provided for, are expected to be recovered in 12 months or longer after the end of the current financial year.

13. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2019 R000	Re-presented 2018 R000	2019 R000	Re-presented 2018 R000
Financial instruments				
Gross trade receivables	839 175	859 013	575 387	613 692
Doubtful debt allowance	(23 107)	(10 512)	(20 054)	(7 872)
Net trade receivables at amortised cost	816 068	848 501	555 333	605 820
Other receivables	24 589	20 577	24 589	20 577
Non-financial instruments				
Other receivables	94 270	48 979	79 850	36 432
VAT receivable	34 219	49 131	30 242	41 641
Total current trade and other receivables	969 146	967 188	690 014	704 470
Categorisation of trade and other receivables in accordance with IFRS 9 Financial Instruments:				
Financial instruments held at amortised cost				
Trade receivables	816 068	848 501	555 333	605 820
Other receivables	24 589	20 577	24 589	20 577
Non-financial instruments				
Other receivables	94 270	48 979	79 850	36 432
VAT receivable	34 219	49 131	30 242	41 641
	969 146	967 188	690 014	704 470

Re-presentation: Reclassification adjustment

In the previous financial year, tax assets were disclosed in note 13 Trade and other receivables. During the current financial year, tax assets were reclassified and disclosed separately on the face of the balance sheet for enhanced reporting in accordance with IAS 1.

Other information

The directors consider that the carrying amount of trade and other receivables approximates their fair value, due to their short-term nature.

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 expected credit losses in terms of IFRS 9 by applying a provision matrix in accordance with the Group's policy. The Group measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL) based on the simplified approach, which represents the expected credit losses that will result from all possible default events over the expected life of the receivable. The ECL is updated at each reporting date. The directors believe that the provision appears to be appropriate and not excessive. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group performs ongoing credit valuations of the financial condition of customers, and where appropriate, credit guarantee insurance is purchased for between 85% and 90% (2018: 85% and 90%) of the value of individual trade receivables subject to an insurance deductible. Note that the majority of trade receivables are encumbered (see above and note 17).

The other classes within trade and other receivables do not contain impaired assets.

The average credit period on sale of goods and services is between 30 and 60 days (2018: 30 and 60 days) from date of invoice. Generally, no interest is charged on trade receivables. Of the trade receivable balance at year-end, R47.8 million (2018: R59.4 million) and R29.8 million (2018: R44.8 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 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.

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13. TRADE AND OTHER RECEIVABLES (continued)

Write off policy

Trade receivables that are not covered by our credit insurance are written off when a debt becomes irrecoverable. This is based on factors such as lack of securities, status of surety holder or when it is uneconomical to pursue collection costs.

Expected credit losses

The Group has adopted IFRS 9 Financial Instruments during the current financial year which resulted in a change in the impairment model for trade receivables from an "incurred loss" model to an "expected loss" model. The Group and company's trade receivables are stated after allowances for doubtful debts. The following table shows the movement in lifetime ECL that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9:

	Collectively assessed	Individually assessed	Total	
	2019 R000	2019 R000	2019 R000	2018 R000
GROUP				
Balance at the beginning of the year	71	10 441	10 512	6 663
Amount adjusted directly to retained earnings	5 824	–	5 824	–
Adjusted opening balance on initial application of IFRS 9 on 1 July 2018	5 895	10 441	16 336	6 663
Net amounts written off as uncollectable	–	–	–	–
Charged to profit and loss	56	6 715	6 771	3 849
Balance at the end of the year	5 951	17 156	23 107	10 512
COMPANY				
Balance at the beginning of the year	–	7 872	7 872	5 180
Amount adjusted directly to retained earnings	4 315	–	4 315	–
Adjusted opening balance on initial application of IFRS 9 on 1 July 2018	4 315	7 872	12 187	5 180
Net amounts written off as uncollectable	–	–	–	–
Charged to profit and loss	(370)	8 237	7 867	2 692
Balance at the end of the year	3 945	16 109	20 054	7 872

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group limits its counterparty exposure arising from money market and derivative instruments by only dealing with well-established financial institutions of high credit standing. The Group's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of cash and cash equivalents, foreign exchange forward contracts, loans and receivables, investments and trade and other receivables. Financial guarantees granted also subject the Group to credit risk.

With respect to the foreign exchange forward contracts, the Group's exposure is on the full amount of the foreign currency payable on settlement. The Group minimises credit risk relating to foreign exchange forward contracts by limiting the counterparties to major local and international banks, and does not expect to incur any losses as a result of non-performance by these counterparties.

Financial assets recorded in the financial statements, which are net of impairment losses, represent the company and Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit exposure of forward exchange contracts is represented by the fair value of these contracts.

13. TRADE AND OTHER RECEIVABLES (continued)

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 R504.3 million (2018: R607.2 million) and R290.7 million (2018: R393.6 million) for the Group and company, respectively.

It is the Group's policy to provide for impairment based on expected credit losses by applying a provision matrix. The provision matrix is split between different customer categories with different risk profiles, as tabled below. Individual debtors are also assessed and debtors that have defaulted in payments or the probability exists that the debtor is experiencing financial difficulties will be provided for (individually assessed).

Debtors are segmented into the below four main types taking into consideration the exposure in the markets they operate in:

Dealers – resellers who sell into all sectors of the economy
Retail – resellers that sell directly to the public through e-tail channels or physical stores
Government – resellers that sell to government and parastatals
Export – resellers that we export to, limited to Africa

	Total R000	Dealers R000	Retail R000	Government R000	Export R000
GROUP					
2019					
Trade receivables	864 973	482 094	208 551	133 451	40 877
Expected credit loss rate (%)		1.87%	4.06%	5.00%	2.56%
Expected credit loss	26 574	11 061	7 392	6 673	1 448
Less VAT	(3 466)	(1 443)	(964)	(870)	(189)
	23 107	9 618	6 428	5 802	1 259

	Dealers %	Retail %	Government %	Export %
Historical loss ratio (%)	0.66	1.91	2.86	1.18
Forward looking adjustment (%)	1.22	2.15	2.14	1.38
	1.87	4.06	5.00	2.56

	Total R000	Dealers R000	Retail R000	Government R000	Export R000
2018					
Trade receivables	880 524	517 389	140 557	172 454	50 124
Expected credit loss rate (%)		1.68%	5.82%	1.92%	1.44%
Expected credit loss	18 783	7 279	7 608	3 318	578
Less VAT	(2 447)	(947)	(992)	(433)	(75)
	16 336	6 332	6 616	2 886	502

	Dealers %	Retail %	Government %	Export %
Historical loss ratio (%)	1.58	5.53	1.47	1.04
Forward looking adjustment (%)	0.10	0.29	0.45	0.40
	1.68	5.82	1.92	1.44

Historical loss ratios were adjusted for forward looking information. This factor was determined through consideration of the business confidence index and other macro-economic indicators as well as specific trends observed in the segmented customer categories as evidenced by an increase in the historical loss ratios in recent years.

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13. TRADE AND OTHER RECEIVABLES (continued)

	Total R000	Dealers R000	Retail R000	Government R000	Export R000
COMPANY					
2019					
Trade receivables	572 803	318 864	86 103	133 451	34 385
Expected credit loss rate (%)		2.82%	7.00%	5.00%	4.00%
Expected credit loss	23 063	8 989	6 026	6 673	1 375
Less VAT	(3 007)	(1 172)	(786)	(870)	(179)
	20 054	7 816	5 240	5 802	1 196

	Dealers %	Retail %	Government %	Export %
Historical loss ratio (%)	1.60%	4.85%	2.86%	2.62%
Forward looking adjustment (%)	1.22%	2.15%	2.14%	1.38%
	2.82%	7.00%	5.00%	4.00%

	Total R000	Dealers R000	Retail R000	Government R000	Export R000
2018					
Trade receivables	613 292	331 837	63 260	172 454	45 741
Expected credit loss rate (%)		1.19%	9.85%	1.92%	1.09%
Expected credit loss	14 014	3 963	6 233	3 318	500
Less VAT	(1 827)	(517)	(813)	(431)	(66)
	12 187	3 446	5 420	2 887	434

	Dealers %	Retail %	Government %	Export %
Historical loss ratio (%)	1.09	9.56	1.47	0.69
Forward looking adjustment (%)	0.10	0.29	0.45	0.40
	1.19	9.85	1.92	1.09

14. BANK BALANCES AND CASH

Bank balances and cash comprise cash, funds on call and short-term deposits. The carrying amount of these assets approximates their fair value. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Bank balances and cash	221 719	295 376	125 202	160 043

	GROUP		COMPANY	
Net cash from operations	2019 R000	Restated 2018 R000	2019 R000	Restated 2018 R000
Profit for the year	106 535	81 257	89 656	65 928
Adjusted for:				
Income tax expense	26 498	20 183	11 688	13 553
Interest income	(8 035)	(10 658)	(5 434)	(4 251)
Finance costs	112 289	87 255	77 237	59 966
Dividend income	–	–	(46 200)	(19 879)
Depreciation of property, plant and equipment	18 316	20 586	12 261	12 556
Net (profit) loss on disposal of plant and equipment	(7 798)	223	32	194
Unrealised foreign exchange (gains) losses	(16 422)	61 064	(14 659)	47 349
Fair value adjustments of FECs	9 526	(18 409)	7 958	(14 342)
Movement in impairment charge to associate loans	(39)	–	(39)	–
Movement in impairment charge to other loans	(31)	–	(6)	–
Increase in operating lease liability	425	1 366	612	1 189
Share-based payments	10 735	6 686	9 196	6 268
Amortisation of intangible assets	7 356	9 897	4 281	6 642
Loss (profit) on disposal of investment	–	792	–	(5 462)
Share of profit of associates	(19 688)	(15 749)	–	–
Operating cash flows before movements in working capital	239 667	244 493	146 583	169 711
Working capital movements	(255 959)	5 906	(209 850)	17 516
(Increase) decrease in inventories	(240 139)	53 157	(187 114)	7 616
(Increase) decrease in trade and other receivables	(7 593)	107 116	10 141	6 714
Increase in contract assets and liabilities	5 673	3 157	5 617	3 728
Decrease in trade and other payables	(13 900)	(157 524)	(38 494)	(542)
Net cash (used in) from operations	(16 292)	250 399	(63 267)	187 227

Prior period error

An error was noted in the prior year financial statements on the statement of cash flow and thus the prior year statement of cash flow has been restated. The cash flow movement in the operating lease liability and share-based payment liability (included within note 16) were incorrectly classified as cash flows from financing activities as opposed to cash flow from operating activities.

	GROUP 2018			COMPANY 2018		
	As previously reported R000	Restated R000	Impact R000	As previously reported R000	Restated R000	Impact R000
Net cash from operating activities	138 571	149 281	(10 710)	126 444	136 676	(10 232)
Net cash used in financing activities	(28 559)	(39 269)	10 710	(26 770)	(37 002)	10 232
Net cash flow impact			–			–

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15. STATED CAPITAL AND EARNINGS PER SHARE

	GROUP AND COMPANY	
	2019 R000	2018 R000
Authorised share capital		
250 000 000 ordinary shares (2018: 250 000 000)		
Issued share capital/ordinary stated capital		
Opening balance: 73 000 000 ordinary shares (2018: 83 000 000)	–	–
Shares bought back: 3 000 000 ordinary shares (2018: 10 000 000 ordinary shares)	(21 267)	(54 854)
Share buy backs funded by retained income	21 267	54 854
Closing balance: 70 000 000 ordinary shares (2018: 73 000 000)	–	–

	Number of shares ’000	Number of shares ’000
Ordinary shares		
Balance at the beginning of the year	73 000	83 000
Shares bought back and cancelled	(3 000)	(10 000)
Balance at the end of the year	70 000	73 000
Average price paid for share buy back	7.089	5.485

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 16, 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 66%:34%.

Group equity comprises equity attributable to equity holders of the parent.

Earnings per share

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

	GROUP	
	2019 R000	2018 R000
Basic earnings (profit for the year attributable to equity holders of the parent)	104 598	79 807
Group's share of after tax (profit) loss on disposal of property, plant and equipment	(6 068)	434
Group's share on disposal of investment (refer note 11)	–	792
Headline earnings	98 530	81 033
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	70 722	77 802
Effect of dilutive potential ordinary shares – share options	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	70 722	77 802

At year-end, no share options were outstanding (2018: no share options were outstanding). The weighted average market price for the current financial year was R5.65 per share (2018: R4.65 per share).

15. STATED CAPITAL AND EARNINGS PER SHARE (continued)

	GROUP	
	2019 Cents	2018 Cents
Earnings per share		
– Headline earnings per ordinary share	**139.32**	104.15
– Basic earnings per ordinary share	**147.90**	102.58
– Diluted headline earnings per ordinary share	**139.32**	104.15
– Diluted basic earnings per ordinary share	**147.90**	102.58

16. BORROWINGS

	GROUP		COMPANY	
	2019 R000	2018 R000	**2019 R000**	2018 R000
Interest-bearing				
Unsecured – at amortised cost				
Bank overdrafts	**393 488**	254 656	**393 480**	244 501
Total interest-bearing borrowings	**393 488**	254 656	**393 480**	244 501
Interest-free				
Unsecured – non-financial liabilities				
Operating lease liabilities	**3 908**	3 483	**4 502**	3 890
Share-based payment liabilities	**12 229**	8 007	**10 233**	7 549
Amount due to Palladium shareholder	**–**	640	**–**	–
Total interest-free borrowings	**16 137**	12 130	**14 735**	11 439
Total borrowings	**409 625**	266 786	**408 215**	255 940
The borrowings are repayable as follows:				
On demand or within one year	**400 941**	260 536	**397 596**	249 818
In the second year	**7 632**	3 096	**6 622**	3 059
In the third to fifth years inclusive	**1 052**	3 154	**3 998**	3 063
Total borrowings	**409 625**	266 786	**408 216**	255 940
Bank overdrafts	**(393 488)**	(254 656)	**(393 480)**	(244 501)
Amounts due for settlement within 12 months	**(7 453)**	(5 879)	**(4 116)**	(5 317)
Long-term borrowings	**8 684**	6 251	**10 620**	6 122
Consisting of:				
Interest-bearing borrowings	**393 488**	254 656	**393 480**	244 501
Interest-free borrowings	**16 137**	12 130	**14 735**	11 439
	409 625	266 786	**408 215**	255 940

Additional information

Included in borrowings are the following:

Accounts receivable securitisation loans

Included in bank overdrafts is an amount of R378.1 million (2018: R244.5 million), which represents a general banking facility from the Bank of China Limited, bearing interest at JIBAR plus 2% (2018: JIBAR plus 2%) and is repayable by 2 February 2020 (2018: 23 August 2018). It is the intention of the directors to renew the facility for a further period of 12 months. This loan is classified as subsequently measured at amortised cost. The facility is secured over accounts receivable in Mustek Limited and Rectron Proprietary Limited. A working capital ratio of more than one, as well as a net debt-to-equity ratio not exceeding 180%, need to be maintained by Mustek Limited. Furthermore, the total facility of R480 million (2018: R480 million) is limited to 90% of the trade receivables less than 90 days of age, in Mustek Limited. All facility covenants were met in the current and previous financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

16. BORROWINGS (continued)

Reconciliation of liabilities arising from financing activities

	2018 R000	Financing cash flows R000	Non-cash changes R000	2019 R000
GROUP				
Bank overdrafts	254 656	138 832	–	393 488
Amount due to Palladium shareholder	640	(640)	–	–
	255 296	138 192	–	393 488

	2018 R000	Financing cash flows R000	Non-cash changes R000	2019 R000
COMPANY				
Bank overdrafts	244 501	148 979	–	393 480
	244 501	148 979	–	393 480

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 whilst the cash flows normally escalate. These liabilities are not financial instruments, are not secured and do not have an interest component attached to them.

The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Cash due:				
Not later than one year	27 469	23 952	28 830	23 617
Later than one year and not later than five years	28 005	50 636	47 358	51 205
Later than five years	–	–	31 437	–
	55 474	74 588	107 625	74 822
Operating lease liability	3 908	3 483	4 502	3 890
To be expensed:				
Not later than one year	26 108	24 155	28 830	23 670
Later than one year and not later than five years	25 458	46 950	47 108	47 262
Later than five years	–	–	27 185	–
	55 474	74 588	107 625	74 822
Operating lease expenses	31 633	33 139	30 286	29 606

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

Operating lease payments represent rentals payable by the Group for the use of the properties from which it operates. The duration of these leases varies between one and 10 years. None of these leases has any purchase options, nor are any of these leases subject to any restrictive terms. No renewal options have been taken into consideration for the straight-lining of any lease, as the possibility of renewal is reassessed at the end of each lease term.

All lease obligations are denominated in Rand.

16. BORROWINGS (continued)

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group and company's interest rate profile consists of fixed and floating rate loans and bank balances which expose the Group and company to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Financial liabilities				
Loans received and bank borrowings linked to LIBOR	945 936	909 655	603 282	652 762
Loans received and bank borrowings linked to JIBAR	393 488	244 501	393 480	244 501
	1 339 424	1 154 156	996 762	897 263
Financial assets				
Loans granted at fixed rates of interest	7 258	988	44 039	988
Loans granted that are linked to South African prime rate	172 537	186 483	45 315	15 671
Bank deposits linked to LIBOR	48 675	68 022	47 325	65 161
Bank deposits linked to money market rates	34 265	79 331	32 562	79 211
Bank deposits linked to Kenyan prime rate	2 630	2 689	–	–
Bank deposits linked to other foreign prime rates	956	150	–	–
	266 321	337 663	169 241	161 031

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 2019 would decrease/increase by R10.8 million (2018: R8.2 million) and R8.2 million (2018: R7.4 million), respectively.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

16. BORROWINGS (continued)

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

In terms of its borrowing requirements, the Group ensures that adequate funds are available to meet its expected and unexpected financial commitments by maintaining adequate reserves, banking facilities, reserve borrowing facilities and matching the maturity profiles of financial assets and liabilities. Included in note 16 is a listing of the Group and company's borrowing powers, borrowing capacity and banking facilities.

The following table details the Group and company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities.

	Trade and other payables R000	Borrowings R000	Total R000
GROUP			
2019			
Non-interest-bearing	622 237	–	622 237
Variable interest rate instruments	–	1 339 424	1 339 424
	622 237	1 339 424	1 961 661
2018			
Non-interest-bearing	718 217	–	718 217
Variable interest rate instruments	–	1 154 156	1 154 156
	718 217	1 154 156	1 872 373

	Trade and other payables R000	Borrowings R000	Total R000
COMPANY			
2019			
Non-interest-bearing	435 074	–	435 074
Variable interest rate instruments	–	996 762	996 762
	435 074	996 762	1 431 836
2018			
Non-interest-bearing	446 582	–	446 582
Variable interest rate instruments	–	897 263	897 263
	446 582	897 263	1 343 845

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 307.1 million (2018: R2 182.1 million):

	GROUP	
	2019 R000	2018 R000
General overdraft and similar facilities	1 153 081	1 148 624
Letters of credit facilities	1 154 095	1 033 452
Total facilities	2 307 176	2 182 076
Utilised facilities	(1 339 424)	(1 144 000)
Unutilised facilities	967 752	1 038 076

17. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2019 R000	Re-presented 2018 R000	2019 R000	Re-presented 2018 R000
Letters of credit and trade finance payables	945 936	899 500	603 286	652 762
Trade payables	575 318	663 692	411 958	420 465
Other payables	19 045	24 982	4 375	4 060
Accruals	27 874	29 543	18 741	22 057
VAT payable	8 240	423	–	–
Short-term borrowings	7 453	5 879	4 116	5 317
Total trade and other payables	1 583 866	1 624 019	1 042 476	1 104 661

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 154.0 million (2018: R1 033.5 million) and interest is calculated at LIBOR plus 2.0%. These facilities are carried at amortised cost, as the interest rate is market related and fair value therefore approximates amortised cost.

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases stated is 112 days (2018: 119 days).

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

Accruals consist of accruals for leave pay and accruals for bonuses.

Employee entitlements to annual leave are recognised as services are rendered. An accrual, based on total employment cost, is raised for the estimated liabilities as a result of services rendered by employees up to statement of financial position date.

The bonus accrual relates to the annual 13th cheque payable to employees of the Group and the company.

Re-presentation: Reclassification adjustment

In the previous financial year, tax liabilities were disclosed in note 17 Trade and other payables. During the current financial year, tax liabilities were reclassified and disclosed separately on the face of the balance sheet for enhanced reporting in accordance with IAS 1.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management

The Group's Board of directors provides financial risk management services to the business, coordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives and exposure levels is governed by the Group's policies approved by the Board of directors. The Group does not use derivative financial instruments for speculative purposes. The Group enters into financial instruments to manage and reduce the possible adverse impact on earnings of changes in interest rates and foreign currency exchange rates.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. It is the Group's policy to enter into foreign exchange forward contracts to buy and sell specified amounts of foreign currencies in the future at a predetermined exchange rate for approximately 50% of the Group's foreign currency commitments. The Group uses contracts with terms of up to 120 days. The contracts are entered into to manage the Group's exposure to fluctuations in foreign currency exchange rates, as a means of economic hedging.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

18. FINANCIAL INSTRUMENTS AND 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)	
	2019 R	2018 R	2019 R	2018 R000	2019 R	2018 R000	2019 R	2018 R000
GROUP								
BUY:								
US Dollar								
Less than three months	14.44	12.95	30 251	82 987	436 676	1 074 845	(2 804)	18 409
Three to six months	14.89	–	2 000	–	29 780	–	(6 722)	–
							(9 526)	18 409
Foreign currency assets							297	31 077
Foreign currency liabilities							(9 823)	(12 668)
							(9 526)	18 409

	Rate		Foreign currency		Contract value		Fair value assets (liabilities)	
	2019 R	2018 R	2019 R	2018 R000	2019 R	2018 R000	2019 R	2018 R000
COMPANY								
BUY:								
US Dollar								
Less than three months	14.46	12.91	22 688	66 471	327 989	858 292	(1 236)	14 342
Three to six months	14.89	–	2 000	–	29 780	–	(6 722)	–
							(7 958)	14 342
Foreign currency assets							–	27 010
Foreign currency liabilities							(7 958)	(12 668)
							(7 958)	14 342

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

	Average spot rate		Closing spot rate	
	2019 R	2018 R	2019 R	2018 R
US Dollar	14.19	12.87	14.14	13.71
Euro	15.34	15.34	16.10	15.97

18. FINANCIAL INSTRUMENTS AND 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:

	2019			2018		
Functional currency (liabilities) assets	**United States Dollar R000**	**Euro R000**	**Other* R000**	United States Dollar R000	Euro R000	Other* R000
GROUP						
South African Rand	**(771 426)**	**(15 144)**	**10 550**	(735 588)	(1 054)	15 365
Kenyan Shilling	**683**	**–**	**2 630**	(9 804)	–	2 689
	(770 743)	**(15 144)**	**13 180**	(745 392)	(1 054)	18 054
COMPANY						
South African Rand	**(518 377)**	**(15 146)**	**–**	(486 661)	(1 068)	–
	(518 377)	**(15 146)**	**–**	(486 661)	(1 068)	–

** Other currencies include British Pound, United Arab Emirates Dirham, Namibia Dollar, Lesotho Maluti and Zambian Kwacha.*

Foreign currency sensitivity analysis

The Group is mainly exposed to United States Dollar and the Euro. The following table details the Group's sensitivity to a 10% increase and decrease in the United States Dollar against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items such as cash balances, trade receivables, trade payables and loans and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number represents a gain whilst a negative number represents a loss. A 10% decrease in the United States Dollar against each foreign currency exchange rate would have an equal but opposite effect, on the basis that all other variables remain constant. It ignores the effect of any foreign exchange forward contracts that would have mitigated the risk. There were no changes in the methods and assumptions used in preparing the foreign currency sensitivity analysis:

	2019 R000	2018 R000
GROUP		
Profit before tax	**76 878**	76 239
COMPANY		
Profit before tax	**50 323**	48 559

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position

Fair value measurements of financial assets and liabilities are analysed as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels of financial assets and liabilities during the current or previous financial year.

Level 2 financial assets and liabilities consist of assets and liabilities arising from open foreign exchange contracts. The inputs used to measure the fair value of these assets and liabilities, are valuations received from the financial institutions with which the contracts are held. These valuations are based on the difference between contract exchange rate and the exchange rate at the end of the reporting period.

Please refer foreign currency risk management for a foreign currency sensitivity analysis, which includes the potential profits or losses on open foreign currency contracts due to movements in exchange rates.

	Level 1 R000	Level 2 R000	Level 3 R000
GROUP			
2019			
Fair value through profit and loss			
Foreign currency assets	–	297	–
Foreign currency liabilities	–	(9 823)	–
Total – Fair value through profit and loss	–	(9 526)	–

	Level 1 R000	Level 2 R000	Level 3 R000
COMPANY			
2019			
Fair value through profit and loss			
Foreign currency assets	–	–	–
Foreign currency liabilities	–	(7 958)	–
Total – Fair value through profit and loss	–	(7 958)	–

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position (continued)

Reconciliation of level 3 fair value measurements of financial assets and (liabilities):

	Level 1 R000	Level 2 R000	Level 3 R000
GROUP			
2018			
Fair value through profit and loss			
Foreign currency assets	–	31 077	–
Foreign currency liabilities	–	(12 668)	–
Total – Fair value through profit and loss	–	18 409	–

	Level 1 R000	Level 2 R000	Level 3 R000
COMPANY			
2018			
Fair value through profit and loss			
Foreign currency assets	–	27 010	–
Foreign currency liabilities	–	(12 668)	–
Total – Fair value through profit and loss	–	14 342	–

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
2018			
GROUP			
Opening balance	–	–	18 741
Disposal of investment	–	–	(18 741)
Closing balance	–	–	–
2018			
COMPANY			
Opening balance	–	–	9 001
Disposal of investment			(9 001)
Closing balance	–	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

19. STAFF COST AND RETIREMENT BENEFIT PLANS

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Staff costs	**346 230**	317 437	**226 369**	211 643
Pension contributions (defined contribution plan)	**12 802**	11 593	**9 560**	8 582

Refer note 21 for details with regards to directors' emoluments.

Contributions to defined contribution retirement benefit plans are recognised as an expense as they fall due. Contributions made to state-managed retirement benefit schemes are dealt with as contributions to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

The Mustek Group Retirement Fund, a defined contribution fund, was established with effect from 1 January 1998. The fund has been registered by the Registrar of Pension Funds and is governed by the Pension Funds Act No 24 of 1956 as amended. The majority of the Group's employees belong to this fund.

20. GUARANTEES AND CONTINGENT LIABILITIES

Limited guarantees

- Standby letter of credit for Intel International BV for US$0.5 million.
- US$0.5 million guarantee of payment in favour of Lenovo PC HK Limited on behalf of Mustek East Africa Proprietary Limited.
- R5.768 million guarantee of payment in favour of Department of Customs & Excise, South African Revenue Service.
- R30 million guarantee of payment in favour of First National Bank on behalf of Sizwe IT Group Proprietary Limited.

Legal dispute

One of Mustek's biggest debtors went into business rescue in the latter part of 2017 and an amount of R20.0 million was outstanding after receiving an insurance settlement from its credit insurer. The R20 million was secured with a guarantee that was disputed by the insurance company that issued the guarantee.

On 29 July 2019, judgment was handed down in the legal dispute with an insurance company that related to the validity and enforceability of a guarantee issued by an insurance company in favour of Mustek and the High Court ruled in favour of the insurance company. The after tax effect of R12.6 million was fully accounted for in the 30 June 2019 financial statements.

Apart from the aforementioned matter, the Group has no significant legal matters pending.

21. RELATED-PARTY TRANSACTIONS

During the 2019 financial year the company had the following related parties:

Subsidiaries

2019 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Brobusmac Investments Proprietary Limited[1]	Loan	–	(7 960)
Brotek Proprietary Limited[1]	Loan	1 020	(27 435)
Mecer Inter-Ed Proprietary Limited	Loan	145	2 721
	Purchases	(6 218)	–
	Management fees	120	–
Mecer Technology Limited	Management fees	(6 803)	–
	Purchases	(148)	–
Makeshift 1000 Proprietary Limited[4]	Loan	–	43 192
Mustek Capital Proprietary Limited[1]	Loan	–	(10 520)
Mustek East Africa Limited[1]	Sales	1 036	1 346
	Loan	(12 081)	43 064
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]	Loan	144	24 024
Rectron Holdings Limited[1]	Sales	69 765	7 401
	Purchases	(226 344)	(15 261)
Zatophase Proprietary Limited	Loan	(10 400)	–

[1] Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.
[2] R3.5 million of the amount outstanding has been impaired to date.
[3] R16.8 million of the amount outstanding has been impaired to date.
[4] R43.2 million of the amount outstanding has been impaired to date.
[5] R1.1 million of the amount outstanding has been impaired to date.
[6] R1.0 million of the amount outstanding has been impaired to date.

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

Associates

2019 Related party	Type of transaction	Amount of transaction received R000	Amount receivable (payable) R000
Continuous Power Systems Proprietary Limited[1]	Loan	3 941	1 300
Sizwe Africa IT Group Proprietary Limited	Sales	31 118	986
Khauleza IT Solutions Proprietary Limited	Sales	4 567	458
Yangtze Optics Africa Holdings Proprietary Limited	Sales	450	13
	Purchases	(7 222)	(169)
	Rent received	105	–

[1] Amounts receivable are unsecured and no guarantees have been received. Impairment has been provided on this loan. Refer to note 10 for further information.

Note: Refer to note 10 for a complete list of associates.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

21. RELATED-PARTY TRANSACTIONS (continued)

Other related parties

2019 Related party	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Mustek Electronics Properties Proprietary Limited[1]	Common directorship	Operating lease	(18 265)	–

[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.

During the 2018 financial year the company had the following related parties:

Subsidiaries

2018 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Brobusmac Investments Proprietary Limited[1]	Loan	–	(7 960)
Brotek Proprietary Limited[1]	Loan	(21 599)	(26 415)
Mecer Inter-Ed Proprietary Limited	Loan	(2 783)	2 866
Mecer Technology Limited	Management fees	(6 141)	–
	Purchases	(142)	–
Makeshift 1000 Proprietary Limited[4]	Loan	–	43 192
Mustek Capital Proprietary Limited[1]	Loan	–	(10 520)
Mustek East Africa Limited[1]	Sales	116	–
	Loan	(2 025)	30 983
Mustek Lesotho Proprietary Limited[6]	Loan	–	952
Mustek Limited Company Limited[2]	Loan	–	3 511
Mustek Middle East FZCO[5]	Loan	–	1 118
Quickstep 94 Proprietary Limited[3]	Purchases	(9 426)	–
	Management fees	120	–
	Loan	(3 008)	24 168
Rectron Holdings Limited[1]	Sales	70 701	199
	Purchases	(249 091)	(16 675)
Zatophase Proprietary Limited	Loan	4 400	(10 400)

[1] Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.
[2] R3.5 million of the amount outstanding has been impaired to date.
[3] R16.8 million of the amount outstanding has been impaired to date.
[4] R43.2 million of the amount outstanding has been impaired to date.
[5] R1.1 million of the amount outstanding has been impaired to date.
[6] R1.0 million of the amount outstanding has been impaired to date.

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

21. RELATED-PARTY TRANSACTIONS (continued)

Associates

2018 Related party	Type of transaction	Amount of transaction received R000	Amount receivable (payable) R000
Continuous Power Systems Proprietary Limited[1]	Loan	(2 973)	5 241

[1] *Amounts receivable are unsecured and no guarantees have been received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

Note: Refer to note 10 for a complete list of associates.

Other related parties

2018 Related party	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Columbus Technologies Proprietary Limited[1]	Previous associate	Loan	370	–
Mustek Electronics Properties Proprietary Limited[2]	Common directorship	Operating lease	(18 265)	–

[1] *Columbus Technologies Proprietary Limited is no longer a related party but the loan amount above was made to Columbus Technologies Proprietary Limited while it was an associate of the company.*

[2] *Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

Interest of directors in contracts

Mustek Limited has entered into a lease agreement with Mustek Electronics Properties Proprietary Limited, with effect from 1 September 2011 and terminating on 31 August 2016. The lease agreement was renewed during the 2017 financial year, with effect from 1 September 2016 and terminates on 31 August 2021. David Kan, chief executive officer of Mustek Limited, is both a director and the majority shareholder of Mustek Electronics Properties Proprietary Limited. Lease payments to the amount of R18.2 million (2018: R18.2 million) were paid with regards to the lease agreement (refer to note 16).

The aforementioned transaction was done at arm's length.

Apart from the aforementioned lease agreement, the directors have certified that they were not materially interested in any transaction of any significance with the company or any of its subsidiaries. Accordingly, a conflict of interest with regards to directors' interest in contracts does not exist.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

21. RELATED-PARTY TRANSACTIONS (continued)

Key management personnel compensation

The remuneration of directors and other members of key management during the year was as follows:

	GROUP 2019 R000	GROUP 2018 R000	COMPANY 2019 R000	COMPANY 2018 R000
Short-term benefits	16 127	20 965	14 543	13 074
Share-based payments	10 735	6 686	9 196	6 268
Post-employment benefits	651	620	651	620
	26 862	28 271	23 739	19 962

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

2019	Fees for services R000	Basic salary R000	Expense allowances R000	Pension fund contribution R000	Bonus and performance-related R000	Share appreciation rights exercised R000	Fringe benefit on interest-free loan R000	Total R000
Executive directors	–	8 724	688	651	2 013	6 513	3 118	21 707
DC Kan	–	3 157	322	261	748	1 670	1 860	8 018
H Engelbrecht	–	3 074	270	265	722	3 507	1 020	8 858
CJ Coetzee	–	2 493	96	125	543	1 336	238	4 831
Non-executive directors	1 565	–	–	–	–	–	–	1 565
VC Mehana	457	–	–	–	–	–	–	457
LL Dhlamini	298	–	–	–	–	–	–	298
ME Gama	426	–	–	–	–	–	–	426
RB Patmore	384	–	–	–	–	–	–	384
	1 565	8 724	688	651	2 013	6 513	3 118	23 272
2018								
Executive directors	–	8 254	647	620	1 377		2 796	13 694
DC Kan	–	2 996	281	251	512		1 667	5 707
H Engelbrecht	–	2 912	270	251	494		914	4 841
CJ Coetzee	–	2 346	96	118	371		215	3 146
Non-executive directors	1 503	–	–	–	–		–	1 503
VC Mehana	436	–	–	–	–		–	436
LL Dhlamini	289	–	–	–	–		–	289
ME Gama	412	–	–	–	–		–	412
RB Patmore	366	–	–	–	–		–	366
	1 503	8 254	647	620	1 377		2 796	15 197

21. RELATED-PARTY TRANSACTIONS (continued)

Directors' shareholding

At 30 June 2019, the directors collectively held the following direct and indirect interests in shares in the company, which represents 23.29% (2018: 22.5%) of the issued share capital of the company. (No change occurred between 30 June 2019 and 4 September 2019):

	Beneficial			
	Direct		Indirect	
	2019	2018	2019	2018
DC Kan	2 288 046	2 288 046	11 625 412	11 625 412
H Engelbrecht	1 750 000	1 750 000	–	–
CJ Coetzee[1]	642 923	735 000	–	–
	4 680 969	4 773 046	11 625 412	11 625 412

[1] *Includes 207 923 shares held through contracts for difference (2018: 300 000 shares held through contracts for difference).*

These shareholdings exclude options held. The remainder of the directors do not hold any shares.

Share-based payments

Share appreciation rights scheme

The object and purpose of the scheme is to incentivise certain selected senior employees by granting options to such employees to enable them to benefit from an improvement in the price of the company's shares as listed on the JSE, in the manner and on the terms and conditions set out in the scheme.

The directors may, on an annual basis or from time to time, grant options to employees selected by the Remuneration and Nominations Committee. The Remuneration and Nominations Committee shall determine the number of share appreciation rights (SARs). The price at which SARs may be granted will be 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. All SARs granted will remain in force for a period of six months after vesting.

SARs 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.

The price at which SARs may be exercised will be 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. Upon the exercising of the SARs, the employee will be paid an amount determined as the difference between the exercise price and the grant price multiplied by the number of SARs, less any tax that may at that time be applicable to such a cash bonus.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

21. RELATED-PARTY TRANSACTIONS (continued)

Share-based payments (continued)

Share appreciation rights scheme (continued)

	Weighted average price (Rand)		Number of options	
	2019	2018	**2019**	2018
Phantom shares outstanding at the beginning of the year	**5.24**	6.47	**8 613 068**	7 584 000
Phantom shares granted during the year	**6.71**	4.12	**2 085 598**	3 453 786
Phantom shares exercised during the year	**4.71**	6.16	**(1 950 000)**	(750 000)
Phantom shares that lapsed during the year	**8.44**	8.15	**(1 299 087)**	(1 674 718)
Phantom shares outstanding at year-end	**5.24**	5.24	**7 449 579**	8 613 068

A total of 2 085 598 phantom shares were granted to a number of employees during the current financial year. A total of 1 950 000 phantom shares with a grant price of R4.71 were exercised during the year at an exercise price of R8.05.

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

	30 June 2019	30 June 2018
Share price	**R8.10**	R6.85
Grant price	**R5.50/R4.12/R6.71**	R4.71/R8.64/R5.50/R4.12
Expected volatility	**41.09%/38.56%/36.16%**	37.01%/37.03%/36.38%/34.32%
Expected life	**0 years/1 year/2 years**	0 years/0 years/1 year/2 years
Risk-free rate	**6.87%/6.52%/7.81%**	7.24%/7.19%/7.43%/7.63%
Expected dividend yield	**2.9%/2.9%/2.9%**	2.8%/2.5%/3%/3.5%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous four years. The Group and company recognised an expense of R10 734 684 and R9 196 171, respectively (2018: R6 685 553 and R6 268 295, respectively) related to cash-settled share appreciation rights during the current year.

Outstanding phantom shares are exercisable at the following values and in the following periods ending 30 June:

Option price	2020	2021	2022	Number of undelivered phantom shares	Total Rand value
R5.50	2 110 000	–	–	2 110 000	11 605 000
R4.12	–	3 253 981	–	3 253 981	13 406 402
R6.71	–	–	2 085 598	2 085 598	13 994 363
	2 110 000	3 253 981	2 085 598	7 449 579	39 005 764

21. RELATED-PARTY TRANSACTIONS (continued)

Share appreciation rights scheme (continued)

The directors have the following phantom share options outstanding:

Director	Grant price	Grant date	Undelivered phantom shares at 30 June 2019	Undelivered phantom shares at 30 June 2018
DC Kan	R4.71	1 July 2011	–	500 000
H Engelbrecht	R4.71	1 July 2011	–	1 050 000
CJ Coetzee	R4.71	1 July 2011	–	400 000
DC Kan	R8.64	13 November 2015	–	246 667
H Engelbrecht	R8.64	13 November 2015	–	209 666
CJ Coetzee	R8.64	13 November 2015	–	172 666
DC Kan	R5.50	14 November 2016	400 000	400 000
H Engelbrecht	R5.50	14 November 2016	340 000	340 000
CJ Coetzee	R5.50	14 November 2016	280 000	280 000
DC Kan	R4.12	16 February 2018	570 874	570 874
H Engelbrecht	R4.12	16 February 2018	485 243	485 243
CJ Coetzee	R4.12	16 February 2018	399 612	399 612
DC Kan	R6.71	19 February 2019	350 522	–
H Engelbrecht	R6.71	19 February 2019	297 943	–
CJ Coetzee	R6.71	19 February 2019	245 365	–
			3 369 559	5 054 728

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each statement of financial position date.

22. POST-STATEMENT OF FINANCIAL POSITION EVENTS

On 29 July 2019, judgment was handed down in the legal dispute with an insurance company that related to the validity and enforceability of a guarantee issued by an insurance company in favour of Mustek and the High Court ruled in favour of the insurance company. The after tax effect of R12.6 million was fully provided for in the 30 June 2019 financial statements.

23. GOING CONCERN

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

24. NON-CURRENT ASSET HELD-FOR-SALE

	GROUP		COMPANY	
	2019 R000	2018 R000	2019 R000	2018 R000
Land	–	9 420	–	–
	–	–	–	–

Land (Extent of Erf 326, Randjespark), belonging to a subsidiary within the Group, Brotek Proprietary Limited, was classified as held-for-sale during the previous financial year. The land was purchased during the 2014 financial year and the sale of the land was approved by the Board in October 2017 in line with Mustek delegation of authority. The sale agreement was reached in November 2017; however, the title deed transferred to the buyer in July 2018. As a result, the land was classified as held-for-sale as at 30 June 2018.

The land was stated at carrying value which is in accordance with IFRS 5 which states that assets held-for-sale should be carried at the lower of carrying amount and fair value less costs to sell. Therefore there has been no gain or loss on reclassification of the asset.

The land falls within the business segment "Mustek" and the geographical segment "South Africa".

25. CHANGE IN ACCOUNTING ESTIMATE

Rectron Proprietary Limited, a subsidiary within the Group, reassessed the useful lives of certain assets on 1 July 2018. The effect of the change in the accounting estimate has been recognised prospectively by including it in the current year and will be included in future periods affected. The carrying amount of the related assets have been adjusted accordingly.

The effect of the change in the accounting estimate in the current period resulted in a R2.1 million decrease in profit, with a corresponding increase of R2.1 million in the carrying amount of the related assets.

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, 28 November 2019 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 2019; 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

	2019
Record date in order to be eligible to receive the AGM notice	Friday, 18 October
AGM notice posted to shareholders	Tuesday, 29 October
Last date to trade in order to be eligible to vote at the annual general meeting	Tuesday, 19 November
Record date in order to be eligible to vote at the annual general meeting	Friday, 22 November
Submit forms of proxy for administration purposes for the annual general meeting (by 10:00)	Tuesday, 26 November
Annual general meeting (at 10:00)	Thursday, 28 November
Results of the annual general meeting released on SENS	Thursday, 28 November

1. Shareholders entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the company. A form of proxy, in which are set out the relevant instructions for its completion, is enclosed for the use of a certificated shareholder or own-name registered dematerialised shareholder who wishes to be represented at the annual general meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the annual general meeting.

2. The instrument appointing a proxy and the authority (if any) under which it is signed must preferably reach the company's transfer secretaries at the address given below by 10:00 on Tuesday, 26 November 2019. It can also be given to the chairman of the annual general meeting up to the commencement of the annual general meeting.

3. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who wish to attend the annual general meeting in person will need to request their Central Securities Depository Participant (CSDP) or broker to provide them with the necessary letter of representation in terms of the custody agreement entered into between such shareholders and the CSDP or broker.

4. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who are unable to attend the annual general meeting and who wish to be represented thereat, must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between them and the CSDP or broker in the manner and time stipulated therein.

5. Shareholders present in person, by proxy or by authorised representative shall, on a show of hands, have one vote each and, on a poll, will have one vote in respect of each share held.

6. In terms of the Companies Act, any shareholder or proxy who intends to attend or participate at the annual general meeting must be able to present reasonably satisfactory identification at the meeting for such shareholder or proxy to attend and participate at the annual general meeting. A green bar-coded identification document or identity card 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 2019 as set out in the company's Integrated Annual Report 2019 of which this AGM notice forms part of.

2. To consider and, if deemed fit, approve, with or without modification, the following special and ordinary resolutions:

   Note:
   For any of the ordinary resolutions number 1 to 9 and 11 to be adopted, more than 50% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

   For any of the special resolutions number 1 to 3 to be adopted, 75% or more of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

   For ordinary resolution number 10 to be adopted, 75% or more of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

ORDINARY BUSINESS

1. **Ordinary resolution number 1: Re-election of Hein Engelbrecht**

   "Resolved that Hein Engelbrecht, 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 Hein Engelbrecht may be viewed on page 70 of the Integrated Annual Report of which this notice forms part.

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

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

   "Resolved that Ralph Patmore, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

   An abbreviated curriculum vitae in respect of Ralph Patmore may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

   The Remuneration and Nominations Committee has considered Ralph Patmore's past performance and contribution to the company and in, accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that Ralph Patmore is re-elected as a director of the company.

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

   "Resolved that Lindani Dhlamini, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering herself for re-election, be and is hereby re-elected as director."

   An abbreviated curriculum vitae in respect of Lindani Dhlamini may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

   The Remuneration and Nominations Committee has considered Lindani Dhlamini's past performance and contribution to the company and in, accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that Lindani Dhlamini is re-elected as a director of the company.

   Reason for ordinary resolutions number 1 to 3

   The reason for ordinary resolutions number 1 to 3 is that article 5.1.8 of the memorandum of incorporation of the company and, to the extent applicable, the Companies Act, requires that a component of the directors rotate at the annual general meeting and, being eligible, may offer themselves for re-election as directors.

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

   "Resolved that the reappointment of Deloitte & Touche as independent auditors of the company for the ensuing year (the designated auditor being Carmeni Naidoo) on the recommendation of the company's Audit and Risk Committee be hereby ratified."

   Reason for ordinary resolution number 4

   The reason for ordinary resolution number 4 is that the company, being a public listed company, must have its financial results audited and such auditor must be appointed or reappointed each year at the annual general meeting of the company as required by the Companies Act.

5. **Ordinary resolution number 5: Appointment of Lindani Dhlamini as a member and chairman to the Audit and Risk Committee**

   "Resolved that Lindani Dhlamini be elected a member and chairman of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

   An abbreviated curriculum vitae in respect of Lindani Dhlamini may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

6. **Ordinary resolution number 6: Appointment of Ralph Patmore as a member to the Audit and Risk Committee**

   "Resolved that Ralph Patmore be elected a member of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

   An abbreviated curriculum vitae in respect of Ralph Patmore may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

7. **Ordinary resolution number 7: Appointment of Mdu Gama as a member to the Audit and Risk Committee**

   "Resolved that Mdu Gama be elected a member of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

   An abbreviated curriculum vitae in respect of Mdu Gama may be viewed on page 71 of the Integrated Annual Report of which this notice forms part.

Reason for ordinary resolutions number 5 to 7
The reason for ordinary resolutions number 5 to 7 (inclusive) is that the company, being a public listed company, must appoint an Audit Committee as prescribed by sections 66(2) and 94(2) of the Companies Act, which also requires that the members of such Audit Committee be appointed, or reappointed, as the case may be, at each annual general meeting of a company.

8. Ordinary resolution number 8: Endorsement of remuneration policy and implementation report

Ordinary resolution 8.1 "Resolved that the company's remuneration policy, as set out in the remuneration report on pages 86 to 89 of the Integrated Annual Report of which this notice forms part, be and is hereby approved by way of a non-binding advisory vote of shareholders of the company in terms of the King IV Report on Corporate Governance."

Ordinary resolution 8.2 "Resolved that the implementation report, as set out on pages 90 and 91 of the Integrated Annual Report of which this notice forms part, be and is hereby endorsed as a non-binding advisory vote of shareholders of the company in terms of the King IV Report on Corporate Governance."

Reason for ordinary resolutions number 8.1 and 8.2
The reason for ordinary resolutions number 8.1 and 8.2 is that King IV recommends that the remuneration policy of the company be endorsed through separate non-binding advisory votes by shareholders at the annual general meeting of a company. Failure to pass these resolutions will not have legal consequences relating to existing arrangements. However, the Board of directors of the company will take the outcome of the vote into consideration when assessing the company's remuneration policy and implementation report.

9. Ordinary resolution number 9: Placing unissued shares under directors' control

"Resolved that the unissued shares in the company, limited to 5% of the number of shares in issue at 29 October 2019, 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 29 October 2019 on the terms and further restrictions more fully set out in ordinary resolution number 10 below.

10. Ordinary resolution number 10: General authority to issue shares for cash

"Resolved that the directors of the company be and are hereby authorised by way of a general authority, to allot and issue any of its unissued shares for cash placed under their control as they in their discretion may deem fit, without restriction, subject to the provisions of the Listings Requirements of the JSE, and subject to the provision that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution, shall be limited to 5% (3 500 000 shares) of the issued share capital at 29 October 2019, 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 of that class. For purposes of determining whether the aforementioned 5% has been or will be reached, the securities of a particular class will be aggregated with the securities that are compulsorily convertible into securities of that class and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible. The number of securities of a class which may be issued shall be based on the number of securities of that class in issue at the date of such application less any securities of the class issued during the current financial year, provided that any securities of that class to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were securities in issue at the date of application

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

- in determining the price at which an issue of shares will be made in terms of this authority the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over the 30 trading days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE should be consulted for a ruling if the securities have not traded in such 30 business day period
- any such issue will only be made to public shareholders as defined in paragraphs 4.25 to 4.27 of the Listings Requirements of the JSE and not to related parties
- any such issue will only be securities of a class already in issue or, if this is not the case, will be limited to such securities or rights that are convertible into a class already in issue."

The reason for ordinary resolution number 10
For listed entities wishing to issue shares, it is necessary for the Board not only to obtain the prior authority of the shareholders as may be required in terms of their memorandum of incorporation contemplated in ordinary resolution number 10 above but it is also necessary to obtain the prior authority of shareholders in accordance with the Listings Requirements of the JSE. The reason for this resolution is accordingly to obtain a general authority from shareholders to issue shares in compliance with the Listings Requirements of the JSE. The authority granted in terms of this resolution number 10 must accordingly be read together with authority granted in terms of ordinary resolution number 9 above and any exercise thereof will be subject to the conditions contained in ordinary resolution number 10.

Note: This resolution requires the approval of not less than 75% of the votes cast by shareholders present or represented by proxy and entitled to vote at this annual general meeting.

11. Ordinary resolution number 11: Authority to action

"Resolved that any one director of the company and/or the company secretary is hereby authorised to do all such things and sign all such documents as deemed necessary to implement the ordinary and special resolutions as set out in this notice convening the annual general meeting at which these resolutions will be considered."

The reason for ordinary resolution number 11
The reason for ordinary resolution number 11 is to ensure that the resolutions voted favourably upon is duly implemented through the delegation of powers provided for in terms of clause 5.3 of the company's memorandum of incorporation.

SPECIAL BUSINESS

2.1 Special resolution number 1: Remuneration of non-executive directors

"Resolved that the remuneration payable to the non-executive directors be approved on the following basis with effect from this annual general meeting until the next annual general meeting held in 2020:

Category	Recommended remuneration
Chairman	R413 100 annual retainer
Board member	R106 500 annual retainer R15 800 per meeting attended
Audit and Risk Committee	
Chairman	R85 150 annual retainer R19 950 per meeting attended
Member	R53 950 annual retainer R13 100 per meeting attended
Remuneration and Nominations Committee	
Chairman	R63 000 annual retainer R18 500 per meeting attended
Member	R46 650 annual retainer R12 400 per meeting attended
Employment Equity Committee	
Chairman	R31 300 annual retainer
Member	R17 800 annual retainer
Social and Ethics Committee	
Chairman	R27 300 annual retainer R10 150 per meeting attended
Member	R11 350 annual retainer R4 900 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 2), to authorise the Group to provide any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to such term in section 45(1) of the Companies Act) that the Board may deem fit to any related or inter-related company of the Group (related and inter-related will herein have the meanings attributed to those terms in section 2 of the Companies Act), on the terms and conditions and for the amounts that the Board of directors may determine."

Reason for and effect of special resolution number 2

The reason for and the effect of special resolution number 2 is to provide a general authority to the Board of directors of the Group for the Group to grant direct or indirect financial assistance to any company forming part of the Group, including in the form of loans or the guaranteeing of their debts.

2.3 Special resolution number 3: Authority to repurchase shares by the company

"Resolved as a special resolution that the company and its subsidiaries be and are 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
- the company and its subsidiaries may not effect a repurchase during any prohibited period as defined in terms of the Listings Requirements of the JSE unless there is a repurchase programme in place as contemplated in terms of 5.72(g) of the Listings Requirements of the JSE."

Reason and effect of special resolution number 3

The reason for and effect of special resolution number 3 is to grant the directors a general authority in terms of its memorandum of incorporation and the Listings Requirements of the JSE for the acquisition by the company and/or its subsidiaries of shares issued by it on the basis reflected in the special resolution.

In terms of the Listings Requirements of the JSE any general repurchase by the company and/or its subsidiaries must, inter alia, be limited to a maximum of 20% of the company's issued share capital in any one financial year of that class at the time the authority is granted.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

OTHER BUSINESS

To transact such other business as may be transacted at an annual general meeting or raised by shareholders with or without advance notice to the company.

INFORMATION RELATING TO THE SPECIAL RESOLUTIONS

1. The directors of the company or its subsidiaries will only utilise the general authority to purchase shares of the company and/or the subsidiary as set out in special resolution number 3 to the extent that the directors, after considering the maximum shares to be purchased, are of the opinion that the Group position would not be compromised as to the following:
   - the Group's ability in the ordinary course of business to pay its debts for a period of 12 months after the date of this annual general meeting and for a period of 12 months after the purchase
   - the consolidated assets of the Group will at the time of the annual general meeting and at the time of making such determination be in excess of the consolidated liabilities of the Group. The assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements of the Group
   - the ordinary capital and reserves of the Group after the purchase will remain adequate for the purpose of the business of the Group for a period of 12 months after the annual general meeting and after the date of the share purchase
   - the working capital available to the Group after the purchase will be sufficient for the Group's requirements for a period of 12 months after the date of the share repurchases

   and the directors have passed a resolution authorising the repurchase, resolving that the company has satisfied the solvency and liquidity test as defined in the Companies Act and resolving that since the solvency and liquidity test had been applied, there have been no material changes to the financial position of the Group.

2. For the purposes of considering special resolution number 3, and in compliance with paragraph 11.26 of the Listings Requirements, the information listed below has been included in the Integrated Annual Report, in which this notice of annual general meeting is included, at the places indicated:
   - Directors and management (pages 70 and 71)
   - Major shareholders (page 105)
   - Directors' interests in securities (page 165)
   - Share capital of the company (page 150)
   - Contingent liabilities (page 160)
   - Responsibility statement (page 174)
   - Material changes (page 174).

3. For purposes of special resolution number 2, the Board 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
   - 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
29 October 2019

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, 28 November 2019 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. 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 2019			
Ordinary resolution number 1: To re-elect Hein Engelbrecht as director			
Ordinary resolution number 2: To re-elect Ralph Patmore as director			
Ordinary resolution number 3: To re-elect Lindani Dhlamini as director			
Ordinary resolution number 4: Confirmation of auditor's reappointment			
Ordinary resolution number 5: Appointment of Lindani Dhlamini to Audit and Risk Committee			
Ordinary resolution number 6: Appointment of Ralph Patmore to Audit and Risk Committee			
Ordinary resolution number 7: Appointment of Mdu Gama to Audit and Risk Committee			
Ordinary resolution number 8: 8.1 Endorsement of remuneration policy			
8.2 Endorsement of the implementation report			
Ordinary resolution number 9: Placing of shares under the directors' control			
Ordinary resolution number 10: General authority to issue shares for cash			
Ordinary resolution number 11: Authority to action			
Special resolution number 1: Remuneration of non-executive directors			
Special resolution number 2: Financial assistance to related and inter-related companies			
Special resolution number 3: General authority to the company and its subsidiaries to repurchase shares			

(indicate instruction to proxy by way of a cross in the space provided above)

Unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

Signed this ______________ day of ______________ 2019

Signature ______________________________

Please read the notes on the reverse side hereof.

NOTES TO THE FORM OF PROXY

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(s) provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the meeting as he/she deemed fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.

4. Dematerialised shareholders who wish to attend the meeting or to vote by way of proxy must contact their participant or broker who will furnish them with the necessary authority to attend the meeting or to be represented thereat by proxy. This must be done in terms of the agreement between the member and his/her participant or broker.

5. Forms of proxy must be lodged at the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 (PO Box 61051, Marshalltown, 2107) so as to be received by 10:00 on Tuesday, 26 November 2019. It can also be given to the chairman of the annual general meeting up to the commencement of the annual general meeting.

6. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

7. Documentary evidence establishing the authority of the person signing this form of proxy in a representative or other legal capacity must be attached to this form of proxy unless previously recorded by the transfer secretaries of the company or waived by the chairman of the meeting.

8. Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).

9. The chairman shall be entitled to reject the authority of a person signing the form of proxy:
   - under a power of attorney, or
   - on behalf of a company

   unless that person's power of attorney or authority is deposited at the registered office of the transfer secretaries not less than 24 hours before the meeting.

10. Where shares are held jointly, all joint holders are required to sign the form of proxy.

11. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

12. On a show of hands, every shareholder present in person or represented by proxy shall have only one vote, irrespective of the number of shares he/she holds or represents.

13. On a poll, every shareholder present in person or represented by proxy shall have one vote for every share held by such shareholder.

14. A resolution put to the vote shall be decided by a show of hands, unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the annual general meeting.

15. The directors have not made any provision for electronic participation at the annual general meeting.

CORPORATE INFORMATION

Company secretary

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Transfer secretaries

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Sponsor

Deloitte & Touche Sponsor Services Proprietary Limited