Mustek

LIMITED

INTEGRATED ANNUAL REPORT 2021

#relevant

ABOUT THIS REPORT

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This integrated annual report presents the holistic performance of Mustek Limited (the Group or company) and its subsidiaries for the year ended 30 June 2021 and presents information on our performance, governance and prospects. Throughout the report we address the Group's challenges, our opportunities and the external factors impacting our operational performance and forward looking strategy. Mustek's 2021 integrated annual report is published during a time of heightened uncertainty due to the COVID-19 pandemic and the recent flare-ups of violence and looting in South Africa. Nonetheless, we aim to provide a transparent, balanced description of our progress towards our strategic objectives.

What are our reporting principles and frameworks?

This integrated annual report has been prepared in accordance with the Value Reporting Foundation's <IR> Framework. 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. Elements of the Global Reporting Initiative (GRIs) G4 sustainability reporting guidelines and the Sustainability Data Transparency Index (SDTI) were also applied.

The Group's previous integrated annual report (2020) 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 Companies Act), the JSE Listings Requirements and, where possible, the recommendations of the King IV Report on Corporate Governance for South Africa (King IV™*). The Board and company secretary implemented the principles and relevant practices of the King IV Code during the 2021 financial year. The Group's annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the Financial Pronouncements as issued by the Financial Reporting Standards Council, while also complying with the Companies Act.

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Find us online
www.mustek.co.za

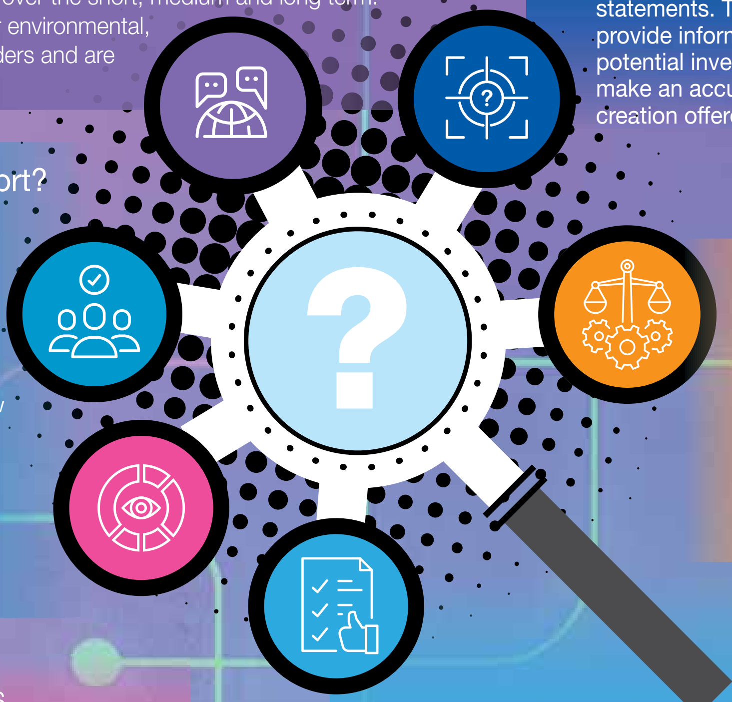
What are our integrated reporting objectives?

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.

In terms of the <IR> 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.

What is our reporting boundary and scope?

This 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 2020 to 30 June 2021. Details of investments in subsidiary and associate companies appear in notes 14 and 15 of the annual financial statements. The intention of this report is to provide information that will enable shareholders, potential investors and all other stakeholders to make an accurate assessment of the value creation offered by Mustek.



Who approves this report?

The executive directors and senior management have been instrumental in the preparation of this report. The Board applied its mind accordingly and is of the opinion that this integrated annual report addresses all material matters and offers a balanced view of the integrated performance of the organisation and its impacts. As such, the Board has fulfilled its responsibilities in terms of the recommendations of King IV. This report was approved by the Board on 18 October 2021.

What about materiality?

This report seeks to describe and contextualise the most material risks and opportunities faced by our business. We consider a matter to be material if it substantially affects our ability to create and sustain value for all our stakeholders in the short, medium and long term. We explain the materiality determination process on page 22 of this report.

Forward looking statements

Many of the statements in this integrated annual report constitute forward looking statements. These are not guaranteeing or predicting future performance. Released during the unprecedented time of COVID-19, this report contains assumptions that are now subject to heightened uncertainty. 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.

How is this report assured?

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 BDO South Africa Incorporated. The Group's broad-based black economic empowerment (B-BBEE) contributor levels were verified by mPowerRatings Proprietary Limited.

Getting your Mustek report

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

Feedback on report

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

GROUP PROFILE

After being founded in 1987 by our current CEO, David Kan, Mustek Limited was listed on the JSE in 1997. The Group comprises the wholly owned operations of Mustek, Rectron and Mecer Inter-Ed, a controlling shareholding in Palladium, noteworthy shareholdings in Sizwe Africa IT Group and Khauleza IT Solutions, and a substantial shareholding in Yangtze Optics Africa Cable (YOAC).

Mustek LIMITED

SUBSIDIARIES

Mustek | Rectron | Mecer Inter-Ed | Palladium Accounting

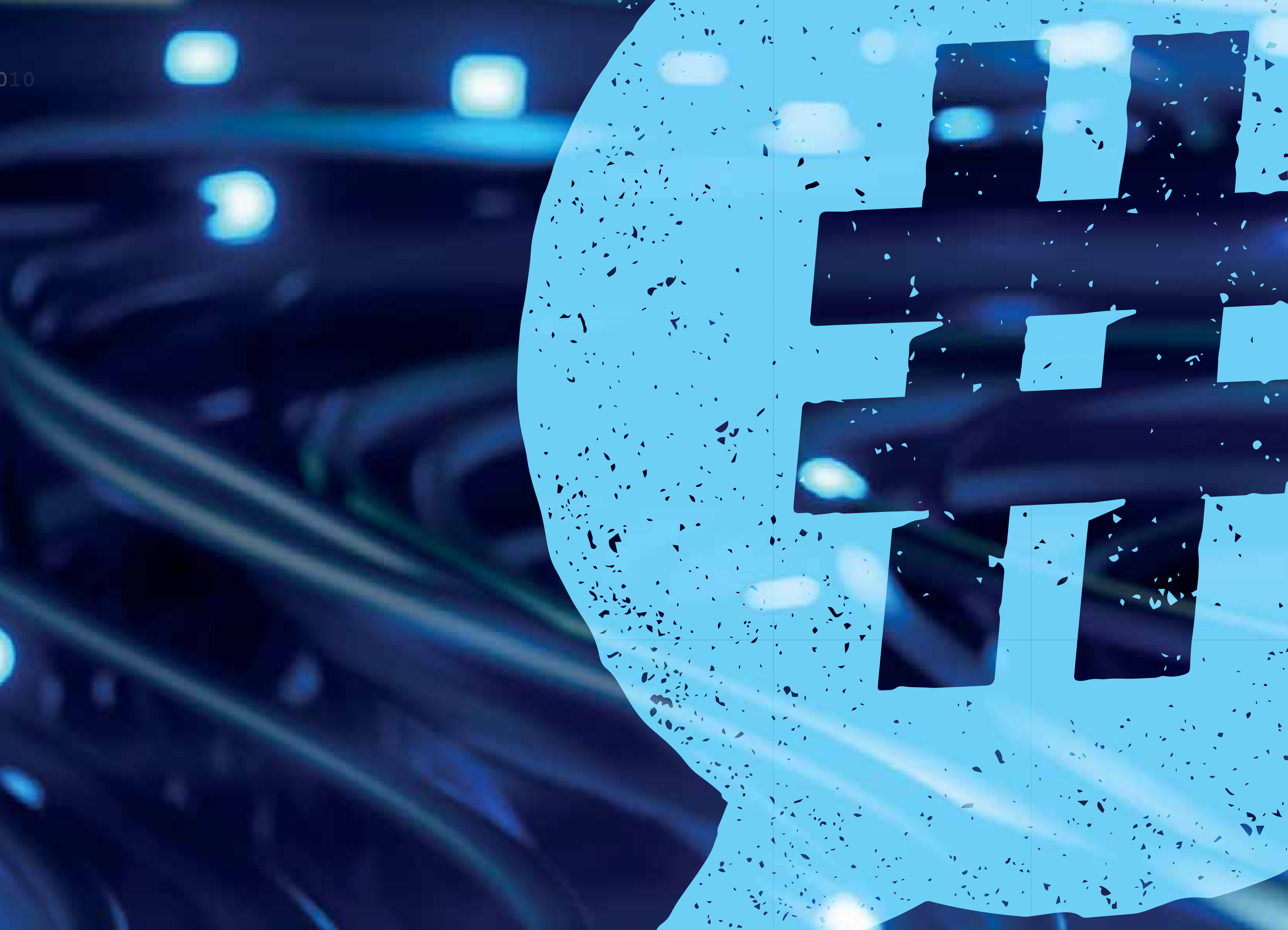
ASSOCIATES

Sizwe IT Group: 36.1% shareholding

Khauleza IT Solutions: 36% shareholding

YOA Cable: 25.1% shareholding

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



OUR TARGET MARKETS

Hardware	Software	Services
Our hardware offering covers a wide range of products, including desktop computers, monitors and keyboards, laptop computers, mobile phones, printers, and infrastructure such as network equipment, servers and storage. The need to equip staff to work from home during the pandemic contributed to our hardware sales.	Customers can choose from two types of software: • traditional software, which is installed and runs on a customer's desktop • cloud software (SaaS), which comes via the internet, typically on a monthly subscription. Increased demand for cloud-based products and services boosted our sales in FY21.	Mustek's services include information technology (IT) outsourcing, managed services, project-oriented IT consulting and support services, such as IT deployment assistance and training. As IT products become increasingly complex, more and more customers are seeking our services and support to help them manage their technology.

The Group's brand portfolio includes:

acer, Acronis, Apple Authorized Reseller, ASUS, asustor, Bitdefender, BLACKFOG, brother at your side, B-Tech, Cooler Master, dynabook, EATON Powering Business Worldwide, EPSON, EVERKI, FUJITSU, HIKVISION, HSM, HUAWEI, Lenovo, Lenovo ThinkServer, logitech, MECER, Microsoft, molex, msi, MST Mustek Security Technologies, Mustek Energy, Mustek POS Solutions, NComputing, NEC, netis, NET Trace, PHILIPS, POSIFLEX, SAMSUNG, SCALE Computing, SIEMON, TOSHIBA, XPG Extreme Gaming Experience

GROUP PROFILE continued

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. As a technology company, we use our technology and communications services to connect people and enable businesses in an increasingly digital world.

In delivering on this vision, Mustek has committed itself to four core values.

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. The Group invests in the development of its staff to increase its knowledge base and ensure that it supplies its customers with the best technical service, and ensures that all its technical staff members are accredited in their fields.

Flexibility

With the IT landscape constantly changing, Mustek believes that business flexibility is vital for success. At Mustek, we have a "can do" attitude that enables us to make whatever operational or product changes that are necessary to respond effectively to trends or opportunities. This culture of flexibility allows Mustek to onboard products quickly, or rejig the assembly line to offer new lines or meet customers' changing requirements. Mustek's staff are both able and eager to find innovative solutions to new challenges.

Efficiency

Mustek strives for efficiency, since this enables the Group to do more with less, thereby ensuring quick response times, whether in terms of stock turnaround times or the time taken to repair/replace a piece of hardware.

Responsibility and accountability

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

CONNECTING FOR A BETTER FUTURE

As the world adapts to the realities of COVID-19, Mustek works to ensure safety of our employees, protect the health and wellbeing of the communities in which we operate, and provide technology and resources that allow our customers to do their best work remotely.

We implemented numerous measures to ensure the safety of our employees and customers, while keeping individuals, communities and businesses connected. All of these initiatives ensure that together we harness the power of digital technology to defeat the pandemic, and connect for a better future.

VALUE CREATION HIGHLIGHTS

Six capitals

1 FINANCIAL CAPITAL

Net asset value per share
2 046.07 cents
(2020: 1 598.08 cents)

Revenue
R8.04 billion
(2020: R6.40 billion)

Headline earnings per share
441.81 cents
(2020: 127.13 cents)

2 MANUFACTURED CAPITAL

70 261
units assembled
(2020: 63 727)

5.44 million
items sold
(2020: 6.32 million)

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.

4 SOCIAL AND RELATIONSHIP CAPITAL

R5.14 million
was spent on corporate social investment (CSI) contributions
(2020: R1.56 million)

Mustek maintained a
level 1 B-BBEE rating,
using the amended ICT sector codes

5 NATURAL CAPITAL

Mustek successfully maintained its
ISO 14001 certification

Energy consumption
reduced by 28%
during the reporting period
(2020: 4% decrease)

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.

OUR OPERATING CONTEXT

We operate in a fast-paced and rapidly evolving industry. This requires anticipating and adapting to shifting circumstances in a way that allows us to pursue our strategic objectives and provide the best products and services to our customers.

MACROECONOMIC SNAPSHOT

Global overview

The world economy has been severely affected by the COVID-19 pandemic. The International Monetary Fund (IMF) estimates that global gross domestic product declined by 3.5% in real terms in 2020. The evolving crisis and measures taken worldwide to contain the spread of the virus accelerated certain long-term and emerging trends in global production, trade, finance and investment.

Production and logistical interruptions due to movement restrictions, alongside intensifying competitive pressures worldwide, have led to a supply chains reassessment by companies around the globe who realised the importance of diversifying their sources of inputs to minimise supply disruption risks and enhance performance.

The IMF projects that global economic growth will recover to 5.5% in 2021 and 4.2% in 2022. The rollout of COVID-19 vaccinations supports the improved outlook, but uncertainty around the impact of renewed waves of infection and new variants of the virus prevails.

South African economy

The already fragile South African economy, which had been experiencing recessionary conditions since the second half of 2019, was not exempt from the damage done by COVID-19.

Real GDP declined by 7% in 2020. Household spending decreased by 5.4% in 2020, prompted by several factors including a steep drop in disposable incomes, job losses, high debt levels, reduced appetite for new credit, and low sentiment.

Consumer price inflation averaged 3.3% in 2020, a 16-year low, assisted by a 7% drop in the petrol price. As the crisis unfolded, the South African Reserve Bank reduced the repo rate by 300 bps since the start of 2020. The repo rate currently stands at 3.50%, the lowest in almost 50 years.

South Africa's fiscal position is particularly challenging. Its budget deficit is estimated at 14% of GDP for 2020/21, while the debt-to-GDP ratio may reach 87.3% by 2023/24. The perturbing fiscal metrics, alongside the inadequate pace of structural reforms and the economy's weak growth prospects risk further downgrades of the sovereign credit ratings if fiscal consolidation and debt sustainability plans are not effectively implemented.

Having recovered somewhat in the second half of 2020 as lockdown restrictions eased, business confidence fell again in the first quarter of 2021. The political protests that led to violence and looting in July 2021 further exacerbated the situation.

On the employment front, 1.4 million jobs were lost during 2020 as lockdown measures impaired economic activity. While some of the 2.2 million jobs lost during the second quarter were steadily recovered, the unemployment rate rose steeply to 32.5% by the fourth quarter, with 7.2 million people without a job.

The ZAR's performance surpassed expectations by posting a remarkable recovery in recent months. A rebound in South Africa's economic growth is expected in 2021, but will likely be relatively modest in light of persistent challenges.

Successive waves of COVID-19

The continuously changing COVID-19 landscape, both in terms of the pandemic itself and the responses of government to it, create a complex operating environment. The regulations and lockdown requirements impact business operations, while the contracting economy constrains consumer demand for products and solutions.

27 March 2020: The **national lockdown** commenced.

1 May 2020: a gradual and **phased easing** of the lockdown restrictions began, with the country reaching alert level 1 restrictions on 21 September 2020.

December 2020: the country experienced a **second wave** of COVID-19 infections. The lockdown was tightened to level 3, again reaching level 1 on 1 March 2021.

17 February 2021: the national COVID-19 **vaccination programme** officially commenced.

31 May 2021: the country was moved from adjusted level 1 to an adjusted level 2 due to the **third wave** of infections.

15 June 2021: the country was moved to **alert level 3**.

28 June 2021: the country was moved to adjusted level 4, with the **Delta variant** fast becoming the dominant strain in the country.

July 2021: South Africa has the **highest number of confirmed COVID-19 cases in Africa** and the 18th highest number of confirmed infections worldwide.

September 2021: **easing of lockdown restrictions to alert level 1.**

OUR OPERATING CONTEXT continued

SOUTH AFRICAN DIGITAL PENETRATION

The broadband infrastructure in South Africa backs consumer technology trends, enabling or hampering the work-from-home and learn-from-home movement.

According to the 2019 Stats SA's general household survey report, 63% of households nationally have access to the internet, and 58.7% access the internet using mobile devices. In the global Speedtest ranking, South Africa climbed three spaces to rank 87th in 2020 for fixed broadband, while the mobile broadband ranking in 2020 also improved.

In 2020, most of the country (99.8%) was covered by 3G, and by 4G (96.4%). The popularity and availability of 5G coverage is rising quickly, although this coverage was only at 0.7% in 2020. Companies that manufacture and sell fibre stand to benefit immensely from this trend.

ACCELERATION OF DIGITAL TRENDS

Digital technologies have become a critical enabler of connectivity, facilitating the "new normal" and connecting people more than ever before. With lockdown restrictions in place, more people have turned to their computers and smartphones as lifelines and tools to substitute their in-person activities online. The explosion in remote working encouraged many more customers to digitise, often via the cloud, to enable better remote work for their employees.

These changes are here to stay. Huawei, a leading global ICT supplier, predicts that six changes will follow the pandemic:

- financial predictability and flexibility (greater dynamism in revenue and procurement forecasting, cost controls, investment, and financing)
- digital-first customer engagement models
- working from home and teleworking as the new normal
- technology-enabled operating models
- new business continuity plans
- data-driven business models.

THE "NEW NORMAL"

The pandemic forced governments and businesses to accelerate their digital transformations and move to the cloud between one and three years ahead of schedule. As new technologies like artificial intelligence (AI) continue to mature, efforts to go digital will expand beyond the office and into production systems, bringing industries into a new phase of intelligent upgrade.

Internet companies spearheaded the first phase of this transformation process. In the second phase, traditional industries – especially finance, manufacturing, education, and healthcare – are optimising the value of their data by moving their production management systems onto the cloud and streamlining the flow of data throughout their organisations. As these industries transform, new digital technologies like 5G, AI, cloud, and Internet of Things (IoT) are converging to create new business models, boost user experience, and improve operating efficiency.

SOURCES:

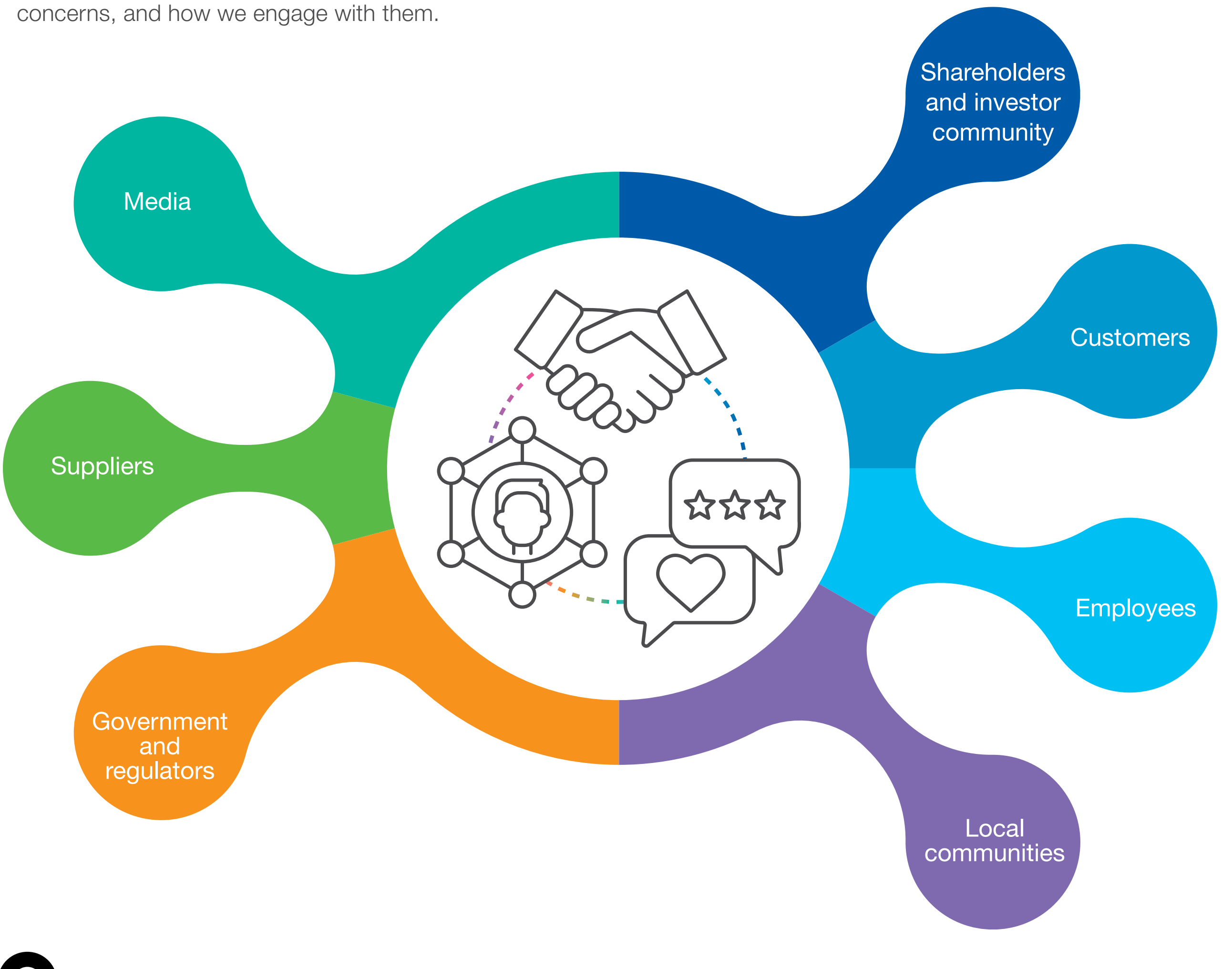
- *Economic Trends: Key trends in the South African economy 31 March 2021 (Compiled by: Department of Research and Information, Industrial Development Corporation of South Africa Limited)*
- *The State of the ICT Sector Report in South Africa 2021 (Independent Communications Authority of South Africa)*
- *The Path to the Next Normal, McKinsey & Company, May 2020.*

KEY RELATIONSHIPS

Mustek's growth, value creation and long-term sustainability depend on the quality of our relationships with our various stakeholders. Building and maintaining relationships based on trust, mutual respect and credibility are central to our operations.

Mustek's stakeholder engagement approach

Stakeholder engagement is important to the Group. We foster transparent communication channels to share information and proactively resolve concerns. Stakeholder perceptions are carefully considered when reviewing and refining our strategy, managing risks, identifying opportunities and safeguarding our reputation. The report of Mustek's Social and Ethics Committee (page 96) provides an overview of our key stakeholder groups, their interests and concerns, and how we engage with them.



OUR BUSINESS MODEL

Six capital highlights

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 make timely acquisitions or enter strategic partnerships.

Our business activities are geared to grow revenue and generate high levels of cash to be reinvested in the resources and relationships that we need to do business and to deliver on our strategy.

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 takes advantage of 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** that sustain a wide variety of resellers and solution providers who supply to all parts of the consumer, business and public sector market
developing and incentivising a skilled workforce to provide outstanding service, technical expertise and support	**a stockholding policy that fulfils customer orders promptly**, supported by the 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

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 IoT will connect a far broader range of devices than previously associated with IT
- a harmonious workforce that is constantly upskilled and promoted through definitive career paths
- a loyal, thousands-strong reseller and solutions provider base that competitors cannot match. Our solutions providers and resellers extend across most ICT market segments, from SMEs to the large corporate and public sector organisations
- a long-established and efficient distribution network that sustains Mustek's deep reach 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.

Business activities

Product acquisition

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

Innovation

- Updating our product knowledge and solutions expertise
- Anticipating, identifying, procuring and delivering the right products, at the right time and at the right price
- Designing and implementing software and hardware solutions to meet specific needs.

Warehousing

- Managing logistics
- Managing stock
- Maintaining one of the largest inventories in the country and reasonable stock levels across branches
- Fulfilling orders in the shortest possible time.

Technical expertise

- Developing and retaining high-performance staff
- Managing warranties and repairs in-house
- Appointing dedicated subject matter experts for each product and technology, supported by a research and development (R&D) division
- Providing service and technical support at all levels.

Reseller and solutions provider

- Maintaining a national network of direct and indirect partners
- Supporting resellers and solutions providers that supply services and products to all parts of the consumer, business and public sector market.

Customer satisfaction

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

Distribution

- Coordinating a national network of branches/ resellers
- Providing door-to-door delivery and logistics services.

1 FINANCIAL CAPITAL

INPUTS

- Shareholder funds
- Banking funds
- Supplier funding.

OUTPUTS

- Cash generated from operations: R431.31 million
- Profit for the year: R296.43 million
- Revenue: R8.04 billion
- Net asset value per share: 2 046.07 cents
- Headline earnings per ordinary share: 441.81 cents
- Income tax expense: R110.83 million.

2 MANUFACTURED CAPITAL

INPUTS

- Inventory
- Premises – head office and branches
- Warehousing
- Assembly line
- Fleet.

OUTPUTS

- Property, plant and equipment: R200.90 million
- Assembled units: 70 261
- Items sold: 5.44 million
- Our Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa.

3 HUMAN CAPITAL

INPUTS

- Mustek's Board and executive management
- 616 Mustek direct employees
- 342 Rectron direct employees
- Management and employees of the associated companies.

OUTPUTS

- Investment in staff development in Mustek company: R16.76 million
- Investment in staff development in Rectron: R8.37 million
- Employee turnover for Mustek: 21.60%
- Return to work and retention rates after parental leave: 100%
- Mustek's absenteeism rate: 1.12%
- Rectron's absenteeism rate: 1.47%.

4 SOCIAL AND RELATIONSHIP CAPITAL

INPUTS

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

OUTPUTS

- Mustek B-BEE rating: level 1
- Rectron B-BEE rating: level 1
- CSI spend: R5.14 million
- Awards:
  - o Microsoft Commercial Device Partner of the Year – Mecer
  - o Lenovo Data Centre Group – Distributor of the Year
- Strong reseller base between Mustek and Rectron: > 10 000 resellers.

5 NATURAL CAPITAL

INPUTS

- Power
- Land
- Raw materials are processed into components.

OUTPUTS

- Energy management system (EnMS) based on the ISO 50001 international standard implemented at the Midrand facility
- ISO 14001 certification (maintained since 2004)
- Sanctions or fines for non-compliance with environmental laws and regulations: none
- Waste recycled: 174 tonnes
- Energy consumed by Mustek: 9 692 GJ
- Energy consumed by Rectron: 6 000 GJ
- Replacement of ICT equipment with energy-efficient units, installing rooftop solar panels and LED lights.

6 INTELLECTUAL CAPITAL

INPUTS

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

OUTPUTS

- Comprehensive, high-value solutions
- Partnerships with the best providers of forward-thinking technology solutions and services
- Improved operational efficiencies and cost management
- Risk identification and mitigation
- Mustek Gauteng's certifications:
  - – ISO 9001:2015 (Quality)
  - – ISO 14001:2015 (Environment).

OUTCOMES

- Mustek has adequate working capital to thrive and expand
- Assets exceed liabilities
- Focus on optimal working capital management
- Net finance charges decreased from R100.87 million to R70.18 million.

OUTCOMES

- Ability to customise products to meet customer demands
- Improved inventory ageing
- Gross profit percentage increased from 14.23% to 14.78%.

OUTCOMES

- Transparent career paths
- Enhanced experience and skills
- Raised service levels
- Portable skills for the ICT industry
- Employees are able to provide for families and communities.

OUTCOMES

- Outstanding service delivery, underpinned by open channels of communication
- Enhanced reputation
- Brand awareness in new segments
- B-BBEE transformation
- A formal CSI programme improving the quality of, and access to, education for previously disadvantaged communities and handicapped individuals.

OUTCOMES

- Installations that will pay for themselves in a relatively short time and significantly reduce our overall electricity demand and usage
- Responsibly recycled electronic waste
- Negative impacts on the environment reduced.

OUTCOMES

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

CHAIRMAN'S INTRODUCTION

Over the past 20 months, COVID-19 and the national lockdown responses have driven a fundamental shift in the way people work, live and learn.

#relevant

Rev Dr Vukile Mehana

Not only are most people now working and learning from home, but most individuals, families and communities are embracing a much more isolated, or at least physically separated, existence than was ever the case before.

This physical separation from the traditional workplace, from clients, and from other people who would normally form part of our social circles has created a massive need for effective digital connectivity. This, in turn, has translated into significant opportunities for Mustek over the past financial year.

While it is likely that the vaccination rollout, once it gains real traction, will eventually encourage greater physical connection at a social level, it is unlikely that the world will ever fully return to what it was with employees expected to commute to centralised onsite locations. Many organisations have already indicated that working from home, or flexible work arrangements, will remain their "normal" workplace structure into the future, and that means that most employees will require modern and reliable computing equipment and connectivity infrastructure to operate effectively from any location. It all augurs well for our Group in the coming years, given our strategic commitment to remaining highly relevant, service oriented and customer-focused going forward.

Maintaining our success trajectory through good corporate governance

Apart from the large investments of money, time and other resources required to ensure the safety of our staff and clients during the pandemic, COVID-19 has added significantly to the regulatory burden of our business. With the addition of ongoing legislative changes that have taken place and are planned going forward. It would be easy for a business to make the mistake of becoming so bogged down by compliance requirements that it loses sight of its core business objectives.

At Mustek, we are fortunate not to be exposed to this risk, thanks mainly to the very solid corporate governance foundations we have laid in previous years and continue to build on today. For us, good corporate governance has always been about far more than just ticking compliance checkboxes and scorecard items. Rather, we recognise that good corporate governance is the only sure way of keeping our "ship balanced", irrespective of the storms we have to navigate in our operating environment.

In the 2021 financial year, those challenges included, but were not limited to, protecting our people in the face of the pandemic, stabilising and supporting our human resources (HR) functions to underpin the resilience of our entire organisation, and ensuring that our Board remained relevant with the most appropriate mix of qualifications and experience.

Our long-held commitment to ensuring robust corporate governance structures ensured that we were able to manage these challenges with relative ease, while still remaining fully focused on supporting the business and its executive leadership team in their vital duties.

CHAIRMAN'S INTRODUCTION continued

Growing sustainable shareholder value

One of the most significant challenges for any business operating in the fast-moving ICT industry is that of balancing the need for short-term competitiveness with the imperative to secure long-term sustainable growth. Historically, our Group has always taken a longer-term view and our strategic focus has been on building a strong base in the short term on which our long-term vision can be realised.

Of course, we are not prepared to simply rest on our laurels after the stellar performance in the 2021 financial year. We will continue to invest in carefully considered new businesses, divisions and resources in order to unlock what we perceive to be the biggest value and growth opportunities in our industry in the coming years. Importantly, all our investment decisions are informed by business sustainability considerations. We are committed to steadily increasing the value we provide to our shareholders, and all our stakeholders over time.

A key component of stakeholder value is our Group's delivery on its commitment to transformation, not only of our own business, but our industry as a whole. We continue to prioritise the diversity of our workforce and its alignment with the racial and cultural demographics of our country. The challenges of COVID-19 have also not caused us to lose sight of our commitments to provide opportunities to historically disenfranchised individuals as a way of enabling and empowering them to transform their lives, families and communities.

Central to this socio-economic upliftment is our ongoing investment into the training and development of our staff across all employment levels. We believe wholeheartedly in the value that lifelong learning offers to unlock personal and career development opportunities, and we want our employees to have full access to those opportunities.

Our commitment to empowerment and upliftment extends far outside of our own operations as well. We consider our CSI programmes to be a core informant of our social licence to operate and during the COVID-19 crisis we have continued, and in many cases intensified, our focus on delivering support to programmes and projects that fall within our key focus areas, which are education, training, and community development and support. In the year under review, we invested R5.14 million into such CSI initiatives. Much of this financial investment went towards providing COVID-19 relief, the continued delivery of skills programmes, and the provision of essential resources to vulnerable people and families.

Investing in the safety of our staff

While there are a number of jobs across the Group that can be performed remotely, many of our employees are required to work on site at our various offices, depots and warehouses. We recognise the safety risks that these employees are exposed to in these centralised and often busy locations, and we have invested extensively to minimise their chances of contracting the virus and act swiftly to support them in the unfortunate event that they do.

In addition to a large-scale rollout of sanitising stations and personal protective equipment, our investment has included bringing in medical staff and equipment to offer all employees easy access to regular testing. We see early identification of infection as a win-win situation. The employee benefits from being able to isolate immediately and recover as quickly as possible, and the business benefits from a healthy workforce and shorter durations of absenteeism.

Looking forward

Our success in recent years has enabled us to grow our business at an organic level by adding a number of outstanding business partners, suppliers and vendors. Some of the most reputable brands in the world recognise the relevance of the Mustek Group as a vital contributor to the economic and social development of South Africa.

Our success over the past financial year has paved the way for continued growth in the coming years. Our business model has been specifically designed to allow us to unlock such growth through a combination of innovation, anticipation and impeccable service delivery, and we are confident that this strategic approach will fuel our continued success.

Conclusion and thanks

My fellow Board members and I commit to remaining focused on ensuring that our Group is always well governed, compliant with all regulations, aligned with global best practices, and effectively managing its working capital through the application of world-class financial and risk controls.

On behalf of the Board, I would like to express our thanks and congratulations to every employee, manager and executive who made the 2021 financial year one of the Group's most successful yet. Special thanks go to our Group CEO, David Kan, for his visionary and inspirational leadership, and to the entire executive team for their sustained commitment even in the face of numerous challenges over the past 12 months.

Thank you, also, to my fellow Board members for your dedication, support and sound guidance. To our vendors, business partners and suppliers thank you for your willingness to go the extra mile in support of our business during these difficult times.

Rev Dr Vukile Mehana
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

Relevance is arguably one of the most vital cornerstones of any successful and sustainable business.

#relevant

David Kan

No amount of strategising, planning or investing can maintain a business that has lost its relevance to its customers and to society as a whole. While the COVID-19 pandemic has created a situation in which the relevance of many businesses, and even industries, has been called into question, for the ICT industry the opposite is true. If anything, the pandemic and subsequent movement restrictions have highlighted the importance, and increased the relevance, of the entire sector.

Of course, while widespread digitisation and a shift to remote working arrangements have increased the need for enabling and empowering technology, merely playing in the ICT space is still no guarantee of business success. That requires an ability to assert yourself as a leading and preferred provider of the digital solutions demanded by a changing world, which is what Mustek has largely succeeded in doing over the 2021 financial year.

A pleasing, and sustainable, performance

Despite the many operational and employee safety challenges that we faced over the past 12 months, from a financial point of view, the Group enjoyed an excellent 2021 financial year. Revenues, cash flows and profitability were all strong across the majority of our operations, as demand for many of our core product offerings like notebooks, desktops, and connectivity devices grew steadily on the back of remote working and learning arrangements.

In addition to the positive revenue growth and increase in gross profit, our business benefited from the sustained Rand strength, which resulted in the somewhat unusual achievement of a foreign exchange (forex) profit for the year. The historically low local interest rate environment also contributed to our bottom line by enabling the achievement of interest savings of around R30 million over the year in review. We are hopeful that this will continue in the short to medium term, but we expect interest rates to start trending upwards again in the not-too-distant future.

CHIEF EXECUTIVE OFFICER'S REVIEW continued

However, while the benefits of a strong Rand and low interest rates may be temporary for our business, we have no doubt that the third contributor to our outperformance in 2021, namely our significantly larger market, will remain firmly in place – and that is certainly the most important contributing factor to sustainable business growth and profitability going forward.

Another key driver of our strong performance over the year under review was the fact that we entered the COVID-19 lockdown periods with a sufficient amount of inventory on hand, which allowed us to consistently meet increasing consumer demand.

At an operational level the **Mustek** and **Rectron** businesses were the top performers of all Group businesses in the year under review, increasing year-on-year revenues by 22.6% and 30.0% respectively. Between them, these two businesses represent around 95% of the Group's total turnover and profitability, so their strong performances were more than sufficient to offset the few pockets of underperformance that we experienced in other areas.

Palladium also delivered very solid results for the 2021 financial year, growing both revenue and profits despite the fact that the pandemic translated to a less than optimal operating environment.

After a promising contribution in the 2020 financial year, in which **YOAC** had good prospects for growth and increased profitability, the rapidly weakening Rand at the start of the pandemic effectively decimated all their profits. Despite this, YOAC came back stronger than ever in the year under review, contributing R11.6 million towards associate income. The company and all its employees are to be commended for the outstanding effort they put in to keep up with the massive demand for the fibre cabling they produce. For much of the past year, they have operated around the clock and their results are testament to this exceptional commitment.

Khauleza financial performance was relatively flat and **Sizwe's** contribution was negatively impacted by a loss on the sale of an investment in a subsidiary and the impairment of property, plant and equipment. The Group's share of these losses of R3.0 million and R7.5 million respectively, are added back in the calculation of headline earnings. That said, there is evidence of growing demand for the products and services of these two businesses, and we expect that the increasing digital technology requirements will soon be matched by a similar growth in demand for more robust infrastructure, at which point Sizwe and Khauleza will almost certainly come into their own.

Risks, challenges and opportunities

While our good inventory levels have carried us through much of the pandemic, the global shortage of components is likely to make meeting the steady demand for technology increasingly challenging in the coming months. Most of the big global brands have set specific stock allocations for their customers, which means that it is having the knock-on effect of steadily increasing lead times.

Component shortages also cause price increases, which adds to end-customer frustrations. It is unlikely that the current shortage will be fully addressed before 2023, so we have adapted our operations accordingly and are placing a priority on managing the expectations of our customers.

The possibility of increases in South Africa's short-term interest rate is another risk that we need to remain cognisant of. While a gradual rise in the repo rate does not pose a direct threat to our operations, it can impact our overall results by pushing up our finance costs. An increasing interest rate environment also puts pressure on consumers who make use of credit, which may have a negative impact on buying patterns in the longer term.

A final, very significant business risk is the violent protests and widespread looting that brought many businesses, communities, towns and cities to their knees in the middle of July 2021. While there were undoubtedly many factors that contributed to these devastating events, the almost immediate impact they had on the Rand, and on international sentiment regarding South Africa's socio-economic stability, are cause for concern. As a Group, we are committed to doing whatever we can to not only help rebuild those parts of South Africa that were physically destroyed by the violence, but also restore the social fabric of our society.

On a more positive note, we continue to view our positioning in the market as a potentially significant opportunity for our business. For some time now our strategy has focused on positioning Mustek as a value-added solutions provider, rather than just a product distributor. We continue to press forward with this strategic focus and we are seeing pockets of success, such as our effective partnerships with our Huawei customers in designing comprehensive solutions. We also see exciting possibilities for progressing with this positioning in our software and cybersecurity offerings.

Our effort to grow our training and enterprise development centre also remains intact, despite the challenges we faced in this regard due to COVID-19. While we were forced to rethink the extensive planning that we had done previously for classroom environments, profitability in this business area effectively doubled over the financial year in review. With the adaptation to remote digital learning complete, we see significant growth opportunities in this business which, when it materialises, will also be an important contributor to increasing our profit margins.

Looking forward

We are realistic with our expectations going forward. The 2021 financial year was a truly exceptional one in all respects, but that success was achieved on the back of very unique circumstances. That said, we are confident that we are in a strong position going forward, and hopeful that we will build on them, albeit less spectacularly, in the coming year. The most significant influencer of our performance in 2022 is likely to be the ongoing component shortages – that this is a largely unknown and unpredictable factor. However, we have the necessary contingency plans in place to limit the potential negative impact of this continuing industry-wide issue.

On the plus side, we are very confident that the work and learn-from-home reality is more than a passing trend. Employees had a glimpse of what their workplaces can be, and most will demand this type of flexibility from their employers in the future. This scenario has created, and is still building, a valuable new customer base for our business and our future growth is limited only by our ability to capitalise on the opportunities it presents.

Thanks

I would like to extend my thanks to our staff, across all our Group operations, for their continued contribution to the success of our business, even in the face of the many personal and professional challenges they have faced over the past year. Our Group increased its revenue by 25.6% for the year. That is no small feat, and we have our committed, loyal and hardworking employees to thanks for it.

Thank you also to our vendors and business partners whose reliability and support were pillars on which our success was built.

Finally, a heartfelt thank you to our loyal customers for their ongoing support, even when there were times that we could not immediately deliver on their expectations. The tolerance and understanding we have received from our customer base speaks volumes about the high regard in which they hold our brands, and we are committed to doing everything we can to maintain the quality and service standards to which they are accustomed as we grow our business.

David Kan
CEO

OUR TOP RISKS

As at 30 June 2021, our top risks include:

	DESCRIPTION	POTENTIAL IMPACT
1	Theft of stock, including: • Armed robbery • Vehicle hijacking • Looting during protests.	• Physical harm to staff • Financial loss to the business • Reputational damage • Loss of customer confidence and therefore market share.
2	**Cybercrime** Loss of information privacy and/or integrity due to unauthorised access by employees or external hackers.	• Contravention of the Protection of Personal Information Act (POPIA) • Loss of information privacy or integrity • Fraud and financial loss • Loss of investor and customer confidence.
3	**Supply chain disruption** Global shortage of electronic components	Global trade and supply chains were constricted by lockdown and movement restrictions all over the world. Paired with a sudden and dramatic increase in demand, component shortages ensued. Lead times become longer, allocations are smaller, and supply forecasts become more difficult.
4	**COVID-19** The pandemic's impact on business continuity and contingency planning	These realities may lead to reputational risk and loss of business due to lack of human resource capacity or shutting operations for several days to decontaminate, investigate and re-evaluate controls.
5	**Exchange rates** Weakening of the ZAR against the US	Significant forex losses following significant increases in USD-denominated accounts payable.

MITIGATING CONTROLS	CURRENT SITUATION
• Independent security at the gate with panic remotes. Back-up armed response • 24/7 onsite monitoring of Mustek and Securitas perimeter cameras, recording activity internally and externally. The facilities manager checks daily that cameras are operational • Well maintained electric fence • A weekly alarm report, reviewed by the facilities manager. A monthly report is provided to the operations manager • Scanning of driver's licence and vehicle registration at the gate on entrance • Extra access control to restricted stock areas • Reinforced security for high-risk shipments • Pre-notification is required from suppliers to control goods being received • Sufficient insurance.	Our Durban warehouse and office fell prey to looters in July 2021.
• Firewall software installed and monitored by an independent service provider in accordance with a service level agreement • User accounts and network access are managed by means of programmed access restriction • The integrity and privacy of data transmission protected by encryption • POPIA Compliance Roadmap established and being implemented • ISO 27001 requirements are being implemented. Password policy is being reviewed • Cybercrime policy defined • As part of POPIA and ISO 27001 implementation, an awareness programme will be further defined and implemented • Cybercrime insurance.	Mustek complies with the POPI Act and has experienced no major cyberbreaches.
• Updating and refining forecasting processes • Ordering larger consignments of stock • Managing customer expectations around lead times and pricing • Informing salespeople to avoid backorders on all items • Tightly controlling discounts • Planning for longer lead times as part of stock management • Providing alternative products and brands for customers.	While Mustek has been able to manage its stock levels so far, the supply constraints are bound to worsen.
• COVID-19 policy • Risk assessment and SOP • Medical surveillance procedure • Reporting of possible infection procedure • Special arrangements for high-risk staff (who would be more significantly affected) • Social distancing rules and regular handwashing/sanitising practices • Wearing masks is compulsory for everyone • Consistently educating staff on safe practices for protection both at the workplace and while travelling.	At the time of writing, South Africa was experiencing its third and worst wave of infection, and vaccination rollouts have been slow.
• Foreign currency liabilities are hedged by means of forward exchange contracts and options • The CEO and finance director (FD) manage USD exposures • Coverage is always taken at a minimum of 70%.	In FY21, we made an unprecedented forex profit.

OUR TOP RISKS continued

DESCRIPTION	POTENTIAL IMPACT
6 Sales fraud risk Orders placed fraudulently under a customer's account	Unfair collusion between salespeople and dealers could lead to: • Reputational damage • Financial loss in the form of dispatched stock disputed by the customer • Loss of customers due to broken trust in Mustek.
7 Political and social instability	South Africa's political and social instability impacts the economic environment, leading to downgrades, recession, lack of policy certainty and lack of implementation of approved policies and plans.
8 Increasing overlap of shared customer contribution between the Mustek and Rectron companies	• Loss of profit due to both companies offering the same product to the same target markets at different pricing, resulting in lower margins • From a Group level, not leveraging the advantages offered by economies of scale. This risk will only be effectively mitigated when both companies are on the same business software system with the same policies and controls.
9 Non-compliance with laws and regulations	Non-compliance may lead to litigation, damage to public perception and compromise the company's ability to secure future business: • Financial consequences in the form of penalties and fines • Imprisonment.
10 Poor credit management	• Late payments from customers may result in cash flow difficulties • Credit sales to over-traded or non-creditworthy customers may result in bad debt.

The Board's Audit and Risk Committee (ARC) meets at least quarterly to review all risk management processes, procedures and outcomes. When necessary, external experts facilitate the identification of risks and how these should be mitigated. For more information, view the ARC report on page 126.

MITIGATING CONTROLS	CURRENT SITUATION
• Maximum limit of the one-time password agreed by Exco • Credit policy reviewed and updated • New customers are called by the credit vetting clerk before applications are processed • Annual review conducted to check conflicts of interest with staff • Halting certain customer services, such as the delivery of packages via the Post Office or Uber.	Criminals are becoming increasingly innovative and Mustek is updating its processes accordingly.
• Remaining vigilant and flexible • Managing operational efficiencies.	Undercurrents of social dissatisfaction and mistrust of political institutions encourage violence and looting, as seen in July 2021.
• The Mustek Group executive management has overview of both companies and can develop strategies to manage product overlap between the companies • Adoption of the same business software system within Mustek and Rectron enables useful comparison of results.	A wide choice of brands is providing alternative products for customers while supply chains are constricted.
• Group Governance, Risk and Compliance Executive appointed • Subject matter specialists ensure that we are up to date with the laws and regulations that apply to their area • Assurance providers assure compliance • Group legal register is reviewed annually • Staff training in the application of laws, regulations and controls • Subscription to Lexus Nexus alerts on changes to laws/Acts identified in the Legal Register.	Mustek's policies and practices are regularly reviewed against legislation and regulations.
• Prospective customers are assessed for creditworthiness • Adherence to strict credit policy • Customer accounts are monitored daily and overdue accounts followed up • Accounts go on stop-supply if payments are overdue • The adequacy of credit insurance is monitored and increased if necessary.	In FY21, bad debt expense was at acceptable levels.

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 for insights on its strategy. 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.

#relevant

Supply chain constraints

Technology companies are grappling with the global shortage of electronic components. As the COVID-19 pandemic forced entire countries into shutdown, working and learning from home became a necessary shift for many organisations, resulting in a radical increase in demand for a range of computing products. The shortage is not limited to any one component or brand – everything, from the power chips in mobile phones to the semiconductors that are essential building blocks for computers and gaming consoles, is in short supply. Coupled with disruptions in manufacturing and transportation logistics, the increased demand frustrated local distribution channels.

As a result, manufacturers have struggled to keep up with demand in recent months. While COVID-19 contributed to the problem, uncertainties stemming from the U.S.-China trade war also played a role, alongside a drought in Taiwan, home to the largest semiconductor maker in the world. Component shortages are expected to linger until mid-2022.

Mustek has been able to minimise the effects of the shortage so far. However, products (including laptops, tablets, printing and scanning equipment, and peripherals) take substantially longer to reach the Group. As the estimated time and quantity of product arrival becomes unclear, Mustek needs to order and forecast longer in advance.

It does leave distributors and other businesses in the uncomfortable position of explaining to price-sensitive customers why prices have increased drastically in the past year. Larger enterprise customers have felt the strain on their budget the most, and while some were able to delay the rollout of their technology upgrades, most have needed to invest in additional hardware to support a remote working environment.

Mustek has been working very closely with all our suppliers and manufacturers to manage the situation. Our priority is to keep offering a consumer-friendly solution to our resellers.

Rising socio-economic pressure in the wake of COVID-19

Besides the obvious health crisis presented by the pandemic, countries all over the world are seeing social and economic ramifications as well. South Africa was no different. During hard lockdown periods, many enterprises of all sizes halted operations, cut working hours and laid off staff. The pandemic caused an estimated 6.1% fall in per capita income in 2020 and is expected to lead to a further 0.2% decline in 2021.

South Africa's pre-existing structural constraints, including persistent power-supply disruptions, are expected to exacerbate social discontent. Recent outbursts of violence and looting are one example. Mustek had ensured that all employees received full pay during the lockdown period, mitigated retrenchments and granted CPI-related increases.

In July 2021, riots erupted across South Africa, escalating into some of the worst violence witnessed in South Africa since the 1990s. Mainstream media broadcast footage of shopping centres and malls burning, blocked highways and looted businesses and warehouses. Mustek felt the effects directly: criminals burned down our Durban office and warehouse after ransacking it and damaged our fleet of vehicles. Thankfully, our premises were empty of staff at the time after we informed them to stay at home.

While we were fortunate that none of our employees were counted among the people who lost their lives during these protests, the rising social discontent, increasing crime levels and violent unrest poses a risk to the business sustainability, property and livelihoods. However, Mustek has been around since 1987, seeing the country through all of its ups and downs, and we hold out hope for a better future.

Health and safety of employees

Throughout the pandemic, the physical and mental health of all our employees has been a top priority. Lockdown restrictions limited our face-to-face interactions and, while it was a challenging period for our teams, safeguarding our people and maintaining our ability to serve customers make us resilient in the long term.

All Mustek workplaces adhere to applicable laws and regulations, as well as the highest standards recommended by international health organisations. Mustek's measures for protecting workers from exposure to and infection with COVID-19 cater for different types of work – while many of our office staff could work from home, our warehouse staff cannot. Mustek adopted infection control strategies based on a thorough hazard assessment, using appropriate combinations of engineering and administrative controls, safe work practices, and personal protective equipment (PPE) to prevent worker exposures. The Group also provided extensive training on elements of infection prevention, both within the work environment and while travelling.

Mustek continues to record positive COVID-19 cases among our employees, often leading to an entire business unit needing to be tested and quarantined. While it is expensive to monitor our employees for signs of the virus, and conduct as many tests as we do, it helps to keep them safe while also limiting the amount of time lost to quarantine and self-isolation in positive cases.

Cybersecurity and privacy protection

Digital technology drives almost every part of modern-day life. As digital transformation picks up speed, so the risk of cybersecurity and privacy protection grows. In a digital, intelligent world powered by technologies like 5G, cloud and AI, maintaining secure and stable cyberspace is critical to protecting businesses reputations and people's livelihoods.

As always, cybersecurity and privacy protection remain a top priority for Mustek. Our customers and partners around the world placed their trust in us. We confront challenges in these domains through impeccable corporate governance, responsible management systems and by keeping abreast of technological innovation. We will continue to offer secure, trustworthy, and quality products, solutions, and services in order to help our customers enhance their cyber-resilience.

Mustek is fully compliant with all aspects of the POPIA, which came into effect on 1 July 2021.

Clean energy and reducing our environmental impacts

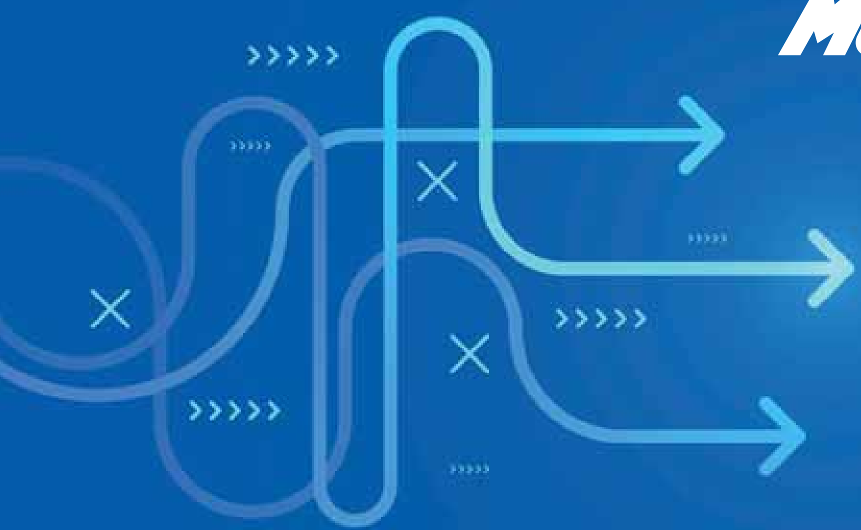
So far, more than 110 countries have committed to carbon neutrality targets and are speeding up their transition from fossil energy to renewable energy. Investors and other stakeholders are calling on companies to disclose more about their sustainability and environmental practices, supporting the growing importance of climate issues.

As an ICT business, the greatest contribution that Mustek can make to alleviating climate change is supporting our customers in using technology in a sustainable way, particularly in moving their IT products and services to the cloud. Realising a global vision of carbon neutrality will require the transformation of energy systems, which are a key part of the digital infrastructure. New ICT technologies are converging to drive digital and intelligent transformation in all industries, promising cost savings, efficiency gains, and new value.

At the same time, Mustek is doing what we can to reduce our own environmental impact. We align to the ISO 14001 environmental operating standard and are transferring to sustainable renewable energy. Becoming more energy efficient is a win-win situation, as it reduces environmental impacts while delivering measurable cost reductions. Ultimately, we want to cut carbon emissions, promote renewable energy, and reduce electronic waste.

STRATEGY

Our strategy at a glance



Be South Africa's ICT supplier of choice

Create sustainable shareholder value

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

Anticipate ICT trends **internationally** and **locally**

Increase the Group's **strategic partnerships** and **business units**

How we intend to achieve our goals

Position 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. Our strategy expertly applies financial, intellectual, manufactured and human capital to create value for all stakeholders. Although simple, it is much easier said than done. It is based on anticipating and providing for trends that tech-savvy customers will pursue.

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. Mustek takes 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.

We 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 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. The next wave about to hit the continent will include new infrastructures such as broadband fibre optic cables and data centres.

Mustek regularly monitors trends such as South Africa's digital transformation efforts and how IoT will reshape organisations, people and hardware. COVID-19 has expanded demand for alternative solutions in the context of the "new ways of working".

Increase the Group's strategic partnerships and business units

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

Mustek's 36% 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 the preferred single point of contact 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 match customer technology needs perfectly. 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.

Our strategy in action

Objective	Performance this year	Future initiatives
Grow our training and enterprise development centre	Mecer Inter-Ed performed well during the year, approximately doubling its profitability. This is a significant achievement, considering that the company needed to adjust to online training during the year. Although this is still only a small part of our operations, the gross profit margins are attractive and its growth potential may contribute substantially to Mustek's balance sheets in future.	Providing training to countries outside of South Africa as Rand price is attractive and IT skills are needed all over the world.
Dispose of non-core assets	The conditions required for selling underperforming assets were not met during FY21.	Continuing programme specifically focusing on disposing of the property in Nairobi, Kenya.
Continue share buyback while earnings enhancing and trading at a discount to tangible net asset value (TNAV)	We bought back 4.0 million shares at an average price of 981.4 cents per share.	The share buyback programme remains on our agenda and we will continue notifying investors of Mustek share buybacks in accordance with JSE and applicable regulations.
Maintaining sufficient liquidity	We generated R431.3 million cash from operations after decreasing inventory days from 92.8 days to 67.8 days and decreasing trade receivable days from 55.0 days to 49.2 days.	While the sharp spike in demand for new ICT products will probably ease, we anticipate that the demand will be sustained and supplemented by the much larger replacement market.
Safeguarding the health and safety of our employees	In addition to a large-scale rollout of sanitising stations and personal protective equipment, our investment has included bringing in medical staff and equipment to offer employees easy access to regular testing.	We will continue implementing our COVID-19 protocols and preventative measures.

Looking ahead

Our strategic priorities during the next 12 months include establishing a software distribution division, the implementation of a new enterprise resource planning (ERP) at Mustek and compliance with POPIA.

Strategic objectives for FY22	
• Introduce new products • Maintain B-BBEE level 1	• Continue share buyback while earnings enhancing and trading at a discount to TNAV • Dispose of non-core assets

SIX-YEAR FINANCIAL REVIEW

for the year ended 30 June 2021	2021 R000	2020 R000	2019 R000	2018 R000	2017 R000	2016 R000
SUMMARISED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME						
Revenue	8 035 521	6 397 419	5 845 907	5 671 293	5 243 147	5 432 617
Cost of sales	(6 847 554)	(5 487 275)	(5 028 353)	(4 875 873)	(4 581 639)	(4 737 192)
Gross profit	1 187 967	910 144	817 554	795 420	661 508	695 425
Distribution, administrative and other operating expenses	(671 968)	(662 907)	(574 353)	(601 857)	(459 043)	(481 764)
EBITDA	515 999	247 237	243 201	193 563	202 465	213 661
Headline profit	305 726	88 992	98 530	81 033	73 950	77 396
SUMMARISED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION						
Assets	3 627 062	3 627 154	3 097 323	2 930 447	2 980 199	3 085 558
Property, plant and equipment	200 899	187 939	184 981	170 478	156 237	152 458
Right-of-use assets	79 274	29 956	–	–	–	–
Intangible assets	144 631	126 832	108 794	100 261	93 516	67 059
Investments and loans	202 559	195 858	183 776	177 256	180 926	152 657
Deferred tax assets	43 365	30 710	25 478	21 923	16 572	17 312
Current assets	2 956 334	3 055 859	2 594 294	2 451 109	2 532 948	2 696 072
Assets classified as held for sale	–	–	–	9 420	–	–
Equity and liabilities	3 627 062	3 627 154	3 097 323	2 930 447	2 980 199	3 085 558
Equity attributable to equity holders of the parent	1 350 406	1 118 659	1 045 944	984 436	970 333	987 918
Non-controlling interest	7 174	8 012	7 448	8 879	8 128	(581)
Borrowings and other liabilities	43 479	42 264	8 684	6 251	5 637	499
Lease liabilities	58 823	10 139	–	–	–	–
Deferred tax liabilities	2 642	6 213	8 103	8 898	10 617	4 504
Non-current contract liabilities	23 014	17 686	17 514	15 788	13 215	12 632
Current liabilities	2 141 524	2 424 181	2 009 630	1 906 195	1 972 269	2 080 586

RATIOS

for the year ended 30 June 2021	2021	2020	2019	2018	2017	2016
KEY BALANCE SHEET FIGURES						
Total assets (R000)	3 627 062	3 627 154	3 097 323	2 930 447	2 980 199	3 085 558
Ordinary shareholders' equity (R000)	1 350 406	1 118 659	1 045 944	984 436	970 333	987 918
Return on ordinary shareholders' equity (%)	23.8	8.0	10.3	8.2	7.5	7.5
Net asset value per share (cents)	2 046	1 598	1 494	1 349	1 169	1 008
MARKET INFORMATION AT 30 JUNE						
Ordinary shares in issue	66 000 000	70 000 000	70 000 000	73 000 000	83 000 000	98 000 000
Weighted average number of ordinary shares	69 197 929	70 000 000	70 722 365	77 802 385	91 003 326	100 674 409
Headline earnings per share (cents)	441.8	127.1	139.3	104.2	81.3	76.9
Market price per share (cents)						
– year-end	1 070	704	810	685	423	530
– highest	1 095	934	930	725	576	945
– lowest	491	411	600	353	385	451
Number of transactions	4 167	2 121	1 482	2 809	3 569	5 607
Number of shares traded	30 456 648	13 860 073	17 988 167	29 435 720	34 842 319	32 317 053
Value of shares traded (R)	259 664 337	94 602 044	137 351 616	166 329 804	161 864 002	244 417 366
Percentage of issued shares traded (%)	44	20	25	38	38	32
LIQUIDITY AND LEVERAGE						
Interest cover (times)	7.4	2.5	2.3	2.5	2.3	2.3
Net cash from (used in) operating activities (R000)	220 762	339 520	(171 352)	149 281	99 859	13 233
Current ratio (times)	1.4	1.3	1.3	1.3	1.3	1.3
PROFITABILITY						
Operating margin (%)	6.4	3.9	4.2	3.4	3.9	3.9

Glossary

EBITDA – earnings before interest, taxation, depreciation and amortisation

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

Net asset value (ordinary shareholders' equity) – total assets less total liabilities and non-controlling interest

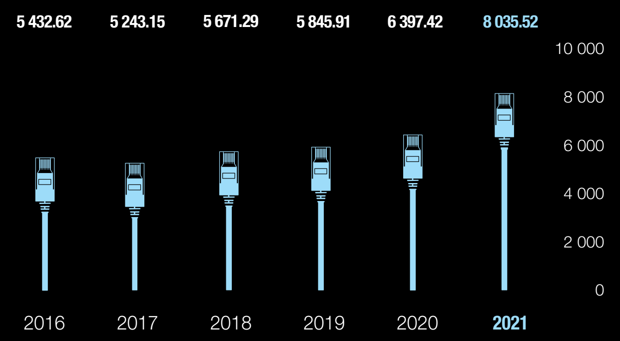
Interest cover – EBITDA divided by net interest paid

Current ratio – current assets divided by current liabilities

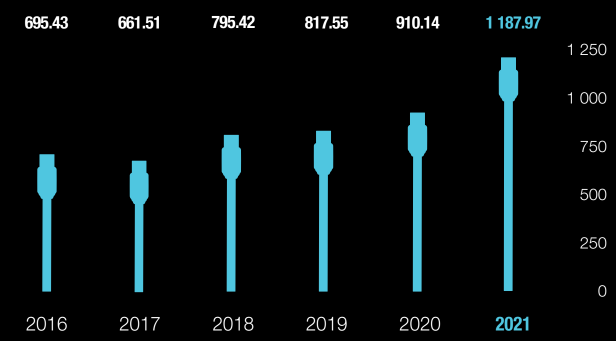
Operating margin – EBITDA as a percentage of revenue

Performance indicators over time

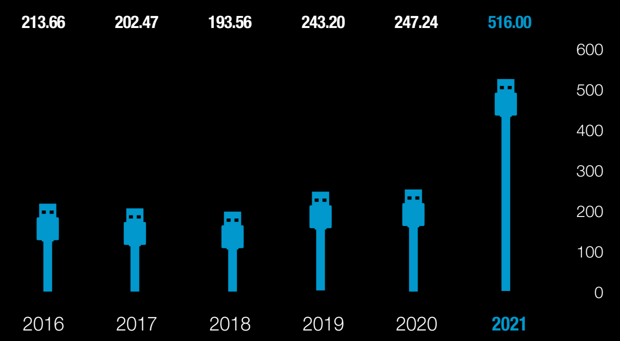
Revenue
(R million)



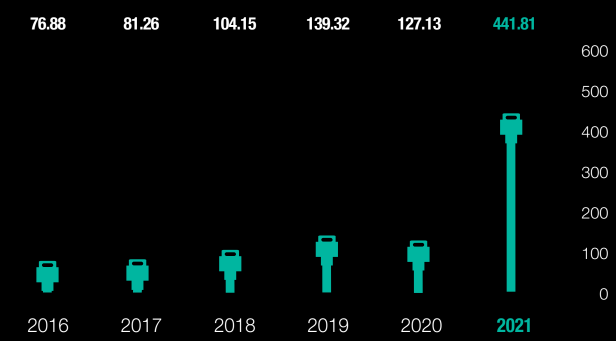
Gross profit
(R million)



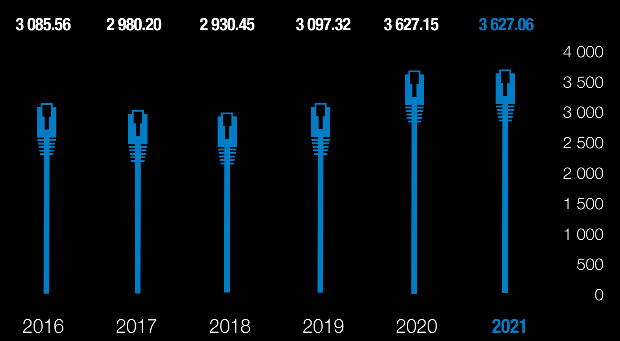
EBITDA
(R million)



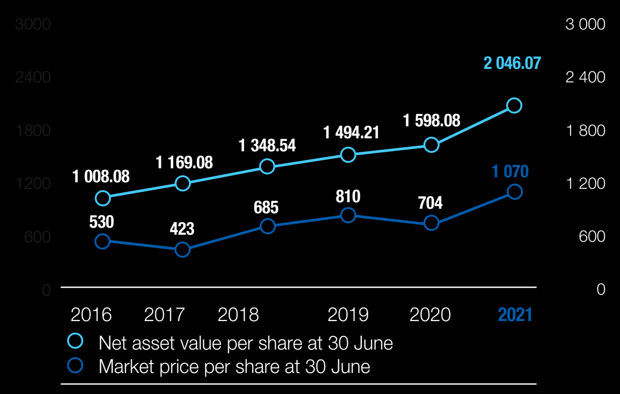
Headline earnings per share
(Cents)



Total assets
(R million)



Share price vs NAV at 30 June
(Cents)



MUSTEK

Group structure

Mustek LIMITED

SUBSIDIARIES

rectron
Pursuing Excellence

Mecer Inter-Ed

palladium ACCOUNTING

ASSOCIATES

SIZWE IT GROUP
36.1%
shareholding

KHAULEZA IT SOLUTIONS
36%
shareholding

YOA CABLE
25.1%
shareholding

MUSTEK BRANCH LOCATIONS

Mustek

BRANCHES

Branches are based in Gauteng, Limpopo, Mpumalanga, Free State, KwaZulu-Natal, Eastern Cape, Northern Cape and Western Cape

MUSTEK continued

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.

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 added specific ICT services to complement its hardware, recognising 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 PC brands 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 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 human resources (HR) policies are covered in more detail in the human capital section on page 64 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 119.

Future prospects and forward planning

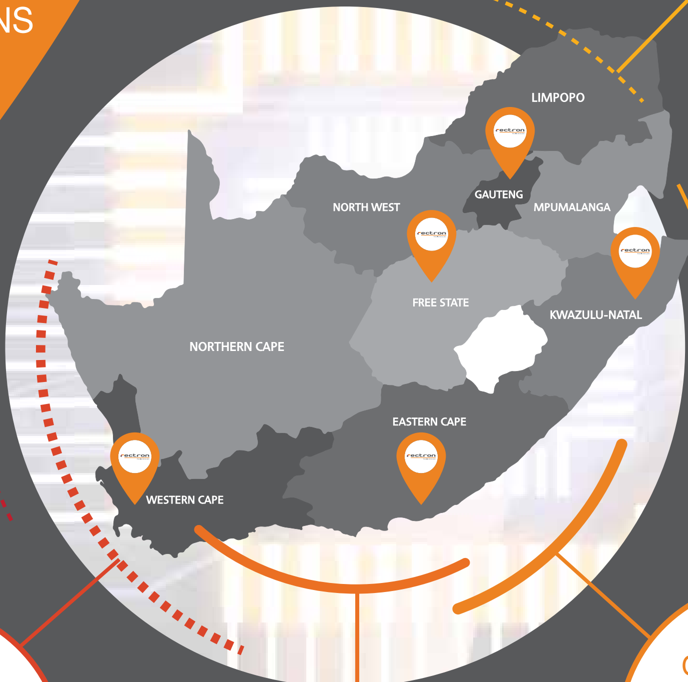
South Africa is a developing nation with an ever-growing demand for new technology. With its broad product offering and in-depth understanding of its value proposition, Mustek continues to secure a sustainable future for the Group and its stakeholders.

RECTRON

Rectron at a glance

Rectron has been a wholly owned Mustek subsidiary since 2007.

RECTRON BRANCH LOCATIONS



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

MARKETS SERVED
Southern African consumers served indirectly through a reseller and retail channel:
• SMEs • businesses
• government • academic institutions

BRANCHES
Branches are in Gauteng, Free State, KwaZulu-Natal, Eastern Cape and Western Cape

FOCUS
Developing and servicing a wide pool of resellers according to their changing needs

PRIMARY PRODUCTS
• IT components • mobile solutions • gaming products and components • software • printing solutions • consumer products • cloud solutions • point of sale • data centre solutions • surveillance • enterprise solutions

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

RECTRON continued

Who we are

Rectron is a proudly South African company and one of the powerhouses in the South African IT distribution landscape. We pride ourselves on being southern Africa's leading distributor to SME enterprise resellers. We embrace digital transformation, thereby making it easy and transparent to do business with us, and are fully committed to growing and empowering the 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.

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 employees. 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 enable our customers to build sustainable businesses that will thrive well into the future.

Culture

Rectron's biggest asset is its passionate and loyal staff.

We believe that our open and developmental approach to staff empowerment 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 this to build a positive working environment that promotes internal growth.

As testament to this, 39% of our entire staff complement has been with the company for over 10 years.

Promise

Pursuing excellence.

What we do

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 sales 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. This contributes 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 IT 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 service 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
- IoT products
- build-to-order PCs and servers
- surveillance
- security solutions
- vertical solutions, such as large format displays
- industrial drones
- data centre solutions.

RECTRON continued

In FY21, we strengthened our offering by onboarding new brands in:

- Newland point of sale products
- Godex point of sale printers.

Rectron is a majority shareholder in Palladium, a proudly South African software vendor. Palladium has developed an accounting package for small to medium-sized businesses that is well suited to many of our customers and will generate additional revenue streams for Rectron. Palladium's operational review is available on page 38 of this report.

Rectron's evolving business model

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

Rectron's RCT-Cloud is the home of our cloud business. It hosts direct integrations with our vendor partners, ensuring immediate turnaround on orders processed. RCT-Cloud extends our functionality through the provision of a reseller e-commerce portal. 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 located 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 2021

Our investment into new product verticals and the enterprise development category, as well as being a customer needs-led organisation, allows us to adapt to industry needs and changes. Rectron benefited from the surge in demand for its products. The addition of HP Printers, Zebra and DJI Enterprise to their range of products towards the end of the 2020 financial year, assisted their 30.0% revenue growth.

B-BBEE status and human capital development

Rectron is a certified level 1 B-BBEE contributor and supports local SMMEs 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 skillsets for our employees. Each staff member receives 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.

Corporate social responsibility

Our Group corporate and social responsibility (CSR) programme aims to drive educational activities and opportunities within the ICT sector. We focus on supporting sustainable projects with longer-term partnerships and measurable results, rather than once-off requests.

Code for Change

Code for Change, previously Change the World Trust, partnered with Rectron in 2007. This non-profit organisation provides coding skills and empowers digital entrepreneurs in secondary schools. Code for Change believes that South Africa's youth possess the idealism, enthusiasm, energy and intellect needed to transform today's society; they simply need the tools to do so. With Rectron's support, more youth are equipped to build a career in digital.

Abraham Kriel Bambanani

Rectron is a longstanding partner of Abraham Kriel Bambanani. Rectron assisted the Maria Kloppers campus, a children's home that provides a safe environment for over 50 traumatised children in need. The size of this large property presented security challenges, and Rectron supplied and installed a full Vivotek surveillance system that provides full visibility of the campus.

Bokamoso Life Centre

Bokamoso Life Centre is a community centre in the rural township of Winterveldt that provides a host of services to at-risk youth. Rectron donated critical IT equipment so that the centre's online learning programme, Velle, could continue during the COVID-19 lockdown. The Velle programme provides remote facilitated learner support with a strong focus, in the 2021 academic year, on revision and exam preparation for the Grade 12 class of 2021.

United Cerebral Palsy Association of South Africa

The United Cerebral Palsy Association of South Africa serves persons with cerebral palsy, empowering them to live happy and fulfilled lives. Most of the approximately 40 beneficiaries are permanent residents. Rectron donated ICT equipment to the association, helping them upgrade the IT centre that hosts special educational software as part of the stimulation centre. Power back-up solutions were also included to keep phones and computers running during loadshedding, as well as the oxygen machines in the children's residence.

Future prospects and forward planning

Rectron's long-term sustainability relies on a dynamic strategy that responds to customer needs. To do this, we have a more solutions-focused approach, driven by existing and emerging trends. The recent market shift towards remote working provided a host of opportunities for us to help customers adapt.

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

https://www.rectron.com

RECTRON continued

FY21 PRIORITIES

Financial capital

- Working capital management
- Maximised return on equity
- Forex management
- Operating expenses optimisation
- Achieved level 1 B-BBEE status.

Customer focus

- Continued focus on superior customer experience
- Customer needs-driven decision-making digital transformation.

Go to market

- Growth in RCT brand presence and product portfolio
- Business development in new verticals according to customer needs.

Human capital

- Prioritise the health and safety of our staff during these COVID-19 times
- Drive a culture of “we serve” in all departments
- Drive diversity through the Basadi programme
- Nurture talent at Rectron.

Rectron executive team

Spencer Chen
Managing director

Martin Roets
Operations director

Christiaan Engelbrecht
Financial director

Mathew Hall
Product director

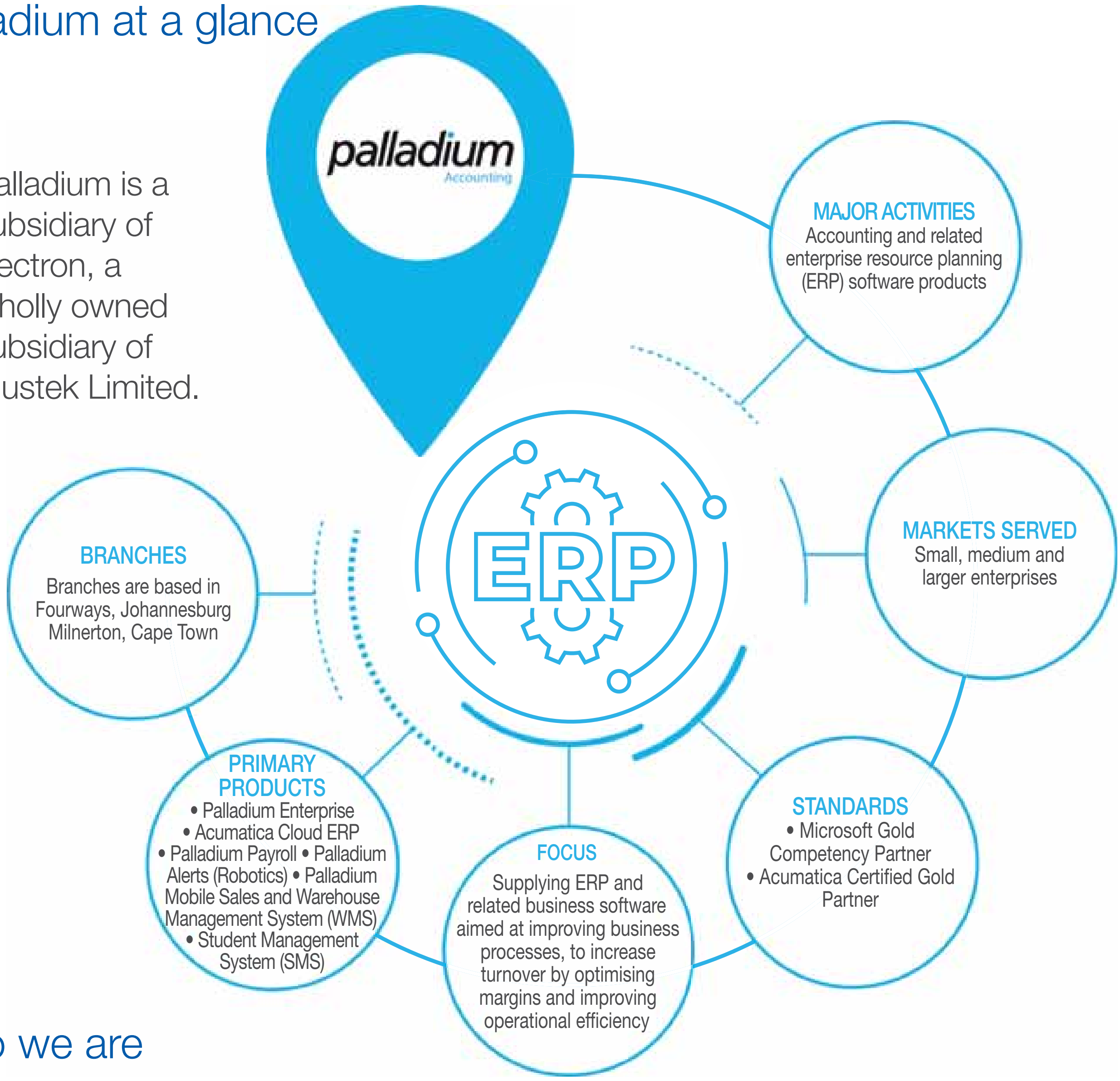
Elaine Wang
Cloud and software solutions director

EXCELLENCE

PALLADIUM

Palladium at a glance

Palladium is a subsidiary of Rectron, a wholly owned subsidiary of Mustek Limited.



Who we are

Palladium's business software range offers businesses a highly affordable, complete end-to-end ERP solution range. We increase operational efficiency by using basic robotics to reduce mundane tasks. This frees up employees to focus on more important activities.

As one of few South African-owned accounting software companies on the market, we can adapt to changing local requirements more quickly than our competitors. The software enables complete flexibility within cloud or desktop deployment options. The Palladium solution has an embedded virtual private network capability, allowing users to work from anywhere and alleviating the need to have a server at the office.

What we do

Palladium has two business units:

- The Acumatica Cloud ERP division focuses on the sale, support and modification of the Acumatica Cloud ERP product range to larger businesses in Africa
- The Palladium Accounting Software division focuses on the development, sale and support of the Palladium product range throughout Africa.

Palladium's own ERP software features are developed in line with three core business success values:

- increasing turnover
- optimising margins
- improving operational efficiency.

Palladium uses Microsoft technologies to develop all its products. Customers can choose between a subscription or perpetual model, with added options for additional support.

Palladium Accounting Software products

Palladium ERP

Palladium's ERP solution caters from the start-up, single-user business right through to large organisations. Basic features include full transactional data storage with document storage on every processing screen and Masterfile. Upsell items assist in increasing turnover while order or quote cancellation reasons allow customers to analyse the opportunity cost of running the business. Customers can use approvals to manage costs or even price over-rides, whether it is on the desktop application or on a mobile phone.

Palladium Accounting Individual

This solution is completely free of charge to the customer, aimed at start-up businesses. It is a fully functional application that includes invoicing, a general ledger, and accounts with customers and vendors.

Performance 2021

The 2021 year was a very successful year, with revenue increasing by 33% and profit before tax by 69%. The development of the Payroll and Mobile modules were completed in the prior financial year and the Palladium Premium edition was released. These developments added 138% more Palladium users in the year with Mobile users doubling and Payroll users increasing tenfold from the year before.

From a brand perspective, Palladium is becoming more well-known, and we see a resurgence in the number of people who want to join our reseller programme throughout Africa.

Future prospects and forward planning

Palladium is unique to the South African accounting software landscape in that we are in the process of converting our application to a browser-based offering. The market for legacy software in South Africa is saturated and there are only a few true cloud-based solutions available that cater for the mid-tier market. In order to remain competitive, businesses will need to adopt smart, cloud-based business applications that offer viable alternatives to the unwieldy, inflexible and expensive systems that have long dominated the sector. Resellers will gain more revenue and profit from the products that Palladium offers than from other products that they simply resell. Palladium allows them to provide their customers with consultation and additional services opportunities.

Through the Palladium investment, Rectron will offer its partners the necessary support and services to grow their businesses around cloud and managed services.

Complementary products and modules

Business Alerts module

The Business Alerts module enables customers to monitor their business by exception. Business Alerts create a centralised communication hub by monitoring data fields in the customers' Palladium or ERP database for specified activities. Examples of alerts include changes to credit limits, credit notes, or sending an automated email to a salesperson advising them of inactive customers.

Palladium payroll

Payroll is a cloud-based product that is compliant with all the relevant South African legislation surrounding payrolls. The solution includes a free Employee Self-Service module, allowing staff to perform basic features such as viewing previous payslips or applying for leave.

Magento Webstore Plugin

This module allows our clients to have a fully fledged business-to-business (B2B) or business-to-consumer (B2C) store up and running in no time. It integrates orders, customers, inventory items, images and customer receipts directly into the accounting software application.

Offline PoS

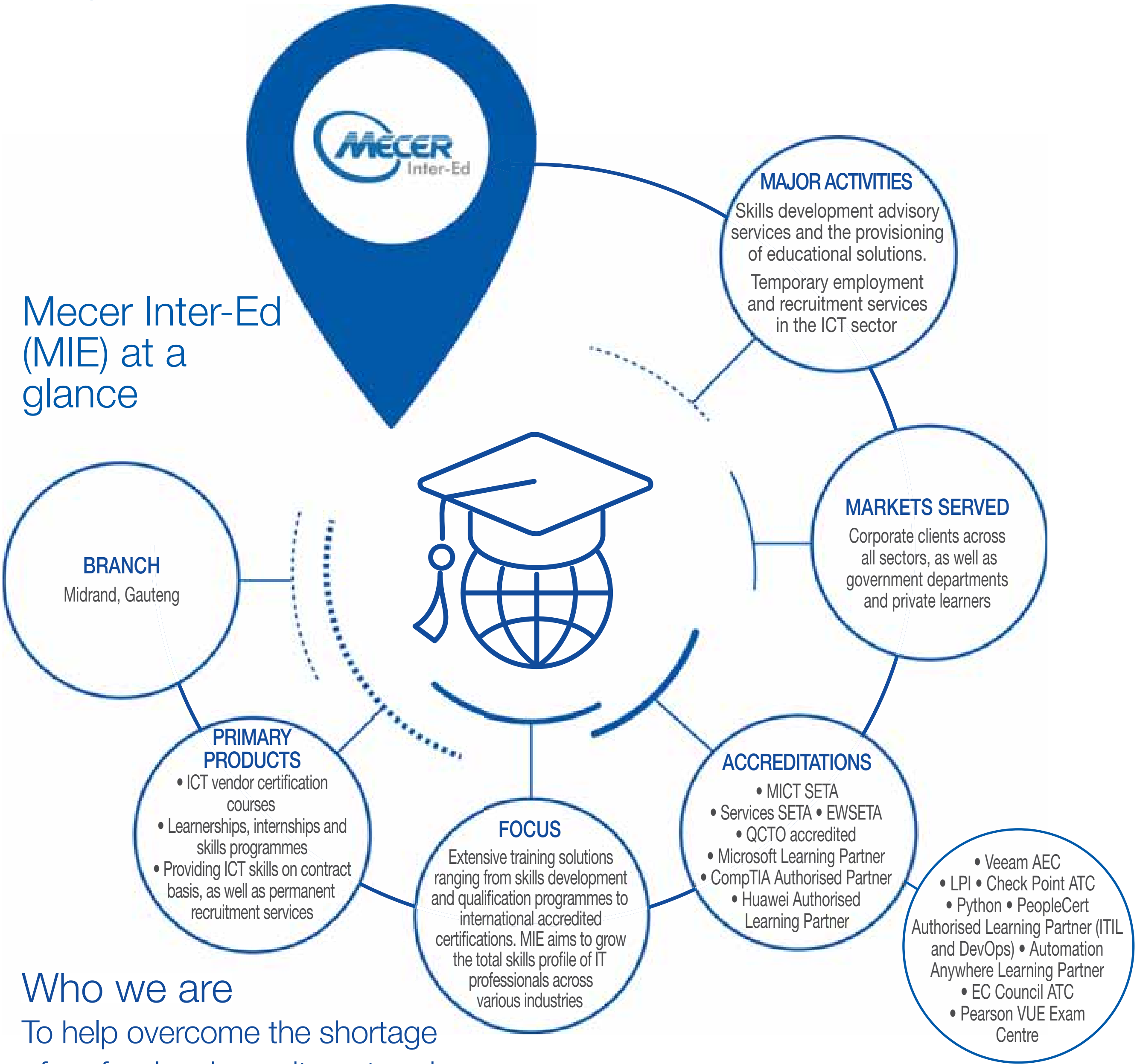
Our Offline PoS module is a fully standalone PoS terminal with dynamic online/offline capabilities, removing the need for a local network cable or internet connection.

Mobile Sales and Warehousing

Our mobile application suite offers full warehousing and mobile salesforce capabilities. It includes goods, receiving, picking, packing, putaway, warehouse and bin transfers, delivery advice, POD management, sales orders and quotes with sign-on-glass capabilities, and GPS tracking to locate drivers or sales representatives.

MECER INTER-ED

Mecer Inter-Ed (MIE) at a glance



Who we are

To help overcome the shortage of professional recruitment and training solutions available to entry-level ICT learners, MIE functions as a broad-based training provider accredited with various Sector Education and Training Authorities (SETAs) and an approved partner for various international ICT vendors. MIE provides training, learnerships and internships both to employees within the Mustek Group and to resellers, clients and MIE's growing list of corporate clients.

By catering for learners looking to enter the ICT industry as well those seeking career advancement, MIE realises Mustek's passion for people development in a tangible way. Its convenient location at Mustek's Midrand head office makes it easy for employees to further their studies and develop their careers. Management supports and encourages all staff to take advantage of the opportunities offered and a quick poll suggests that most employees take advantage of this perk.

Our breadth of certification training, flexible classroom and virtual training options, in tandem with our comprehensive, rolling-six-month training schedule, makes MIE the training partner of choice. MIE provides corporate training in emerging technologies by providing our students with access to subject matter experts and delivering authorised and industry-leading instruction, through multiple delivery formats. MIE is a level 1 B-BBEE contributor.

What we do

MIE provides SETA accredited skills development training, learnerships and internships. Our products and services also include international training and certifications as an authorised training partner for some of the biggest names in technology such as Huawei, Microsoft, EC-Council, Veeam, Checkpoint, CompTIA, Python, CertNexus, ITIL, DevOps and LPI.

MIE can design a learning solution or training programme to address any team's skills gaps and develop personalised training programmes across all levels and technical requirements. Our highly qualified, cross-vendor-certified instructors will deliver training that includes extensive hands-on experience.

MIE is a certified Pearson VUE testing centre that offers students the opportunity to certify on a variety of international exams.

Performance 2021

MIE was relaunched in July 2019, with new premises, facilities and equipment, and a strategy focused on securing external business, as opposed to only serving an internal support function. MIE strengthened the relationships it has with its premium vendors, Microsoft and Huawei. Large investments were made in training and lab equipment as well as state-of-the-art virtual delivery technology, and the business has reaped the benefits from an impressive pipeline.

During the COVID-19 lockdown period, MIE shifted its on-premises training delivery focus to virtual instructor-led training (VILT) seamlessly, to support the mandatory work-from-home practices. Our VILT approach has all the advantages of traditional classroom training, but with added flexibility and convenience. Students learn from a live subject matter expert in an interactive and immersive learning experience.

Courses were transitioned to VILT late in FY20 and during FY21 approximately 65% of all students who completed training courses at MIE did so virtually. Viewing COVID-19 and VILT as an opportunity rather than a challenge has yielded handsome results – student numbers, courses delivered, revenue recorded and profits increased.

Future prospects and forward planning

Newer technologies such as cloud computing, AI, IoT, machine learning, robotic process automation and new developments in cybersecurity have all been launched in the past several months. These previous "catch-phrases" have become common trends with associated growth in training demand. Coupled with associated strategic directives and funding from the MICT SETA, the Unemployment Insurance Fund (UIF) and various government departments, we foresee tremendous opportunity to upskill youth and UIF beneficiaries who lost their jobs and who would benefit greatly from being reskilled and prepared for the new world of work. The company is growing in active clients, students, facilities, width and breadth of offering, investment in technology, employees and access to skills. Our newly launched Talent Management division is exceeding expectations in the high rate of placement of contractors in the temporary employment services space and will continue to do so as we expand our focus into other sectors outside of just ICT.

Areas of expertise

- Cloud computing
- Cybersecurity
- AI
- IoT
- ICT infrastructure
- ICT security
- Service management
- Open source
- RPA and machine learning

Product offering

Learnerships, internships and skills programmes

MICT SETA

NQF Level 3: National Certificate: Information Technology: End-User Computing
NQF Level 4: Further Education and Training Certificate: Information Technology: Technical Support
NQF Level 5: National Certificate: Information Technology: Systems Support
NQF Level 4: Further Education and Training Certificate: Information Technology: Systems Development
NQF Level 5: National Certificate: Information Technology (Systems Development)

SERVICES SETA

NQF Level 4: Further Education and Training Certificate: Generic Management
NQF Level 5: National Certificate: Generic Management
NQF Level 2: National Certificate: New Venture Creation (SMME)

EWSETA

NQF Level 2: National Certificate: Hot Water System Installation
NQF Level 5: National Certificate: Energy Regulation
NQF Level 1: General Education and Training Certificate: General Technical Practice

QCTO

NQF Level 4: Occupational Certificate: Hot Water System Installer (Solar Water Installer)
NQF Level 5: Occupational Certificate: Solar Photovoltaic Service Technician.

Vendor certifications

Automation Anywhere
CertNexus
Cisco
CompTIA
DevOps
Huawei
ITIL
Linux Professional Institute
Management and Soft Skills
Microsoft End-User
Microsoft Technical
Python

https://mecerintered.co.za

SIZWE AFRICA IT GROUP

Sizwe Africa IT Group at a glance

Mustek owns 100% of Zatophase Proprietary Limited, an investment company with a 36.1% stake in Sizwe.

SIZWE BRANCH LOCATIONS

MAJOR ACTIVITIES
Comprehensive ICT service solutions provider

MARKETS SERVED
Public and private sector clients

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

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

FOCUS
Integrated ICT solutions

CORE BUSINESS VALUE
Cost saving and user productivity

Technical point of presence
Office
Head office

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 continuously supporting transformation through various initiatives supporting the ICT Charter Code. This will drive inclusive economic growth and sustainable employment, particularly for women, youth and entrepreneurs.

We are passionate about partnerships and using the power of technology to overcome societal challenges and create the kind of future we want for ourselves and our country. Using our knowledge, expertise and partnerships with leading providers in the hardware and software arena, we create robust IT ecosystems that deliver tangible results and complete peace of mind for our clients. These solutions are not just about better business. We also partner with educational organisations to help bridge the technology gap and give rise to a new generation of tech-savvy South Africans.

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 software-as-a-service (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
- Heating, ventilation, air handling, cooling (HVAC)
- Civil infrastructure
- Back-up and redundant power management (generators and UPS)
- Data centre design, implementation and maintenance
- Diesel replenishment
- Alternative energy
- Inside/outside plant optic fibre
- Access control.

SIZWE AFRICA IT GROUP continued

The Sizwe approach

Sizwe Africa IT Group offers the full spectrum of IT services and solutions required by modern enterprises. These include a dedicated solutions architecture division, physical networking and data centre services and 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:

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 country-wide 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 emphasise women and youth-owned businesses in particular, aim to prepare them for subcontracted work.

A partnership-driven approach

Our close professional partnerships with multinational manufacturers, suppliers and subcontractors 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. Our three focus areas are education, entrepreneurship and the environment.

Education

Education is the primary focus area of our 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.

Walter Sisulu Primary School in Olievenhout, Gauteng

Sizwe Africa IT Group donated ICT hardware and solutions to improve the teaching and learning environment. These include:

- Laptops
- A back-up solution
- Wi-Fi services
- Technical and maintenance support.

Delivering

Ramogabudi Secondary School in Mokopane, Limpopo
Sizwe Africa IT Group donated ICT hardware and solutions to improve the teaching and learning environment. These include:
- Laptops
- Access point installation
- Wi-Fi services
- Technical and maintenance support.

Matric math and science revision for class of 2021
In an effort to support and assist Grade 12 learners during the challenging times of COVID-19, Sizwe Africa IT Group partnered with Primestars Marketing and other organisations to sponsor the matric math and science revision programme. A minimum of 20 000 learners are expected to participate in the programme in 2021. Learners will be transported to 10 revision sessions (2.5 hours each) in Ster-Kinekor cinemas while adhering to COVID-19 safety protocols.

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, 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.

We also partner with the Department of Human Settlements in Winterveldt on "living conditions upliftment" initiatives such as the establishment of an internet café owned by youth. We aim not only to improve the living conditions, but also to create self-sustainable businesses that will create employment in the community.

Environmental
Sizwe Africa IT Group is committed to reducing the current load on South Africa's energy grid and driving 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 maintains 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 advise clients of the proven cost benefits of these alternative energy solutions.

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.

Innovation

Containerised solutions
Today's businesses want the flexibility to scale up or down, depending on their workload. The solar-powered solution offers a modular approach to expanding infrastructure and facilities permitting organisations to scale their office space requirements using containerised educational, facilities or office and data centre solutions.

This innovative solution allows for mobility, pre-installed utilities and technology, quicker deployment, cost saving and convenience.

The benefits of a containerised office solution include:
- Quicker deployment than building additional space
- Less expensive than embarking on a building project
- More cost-effective than moving premises
- More convenient than moving to a bigger premise
- More customised solutions: rent or buy, whichever works best for your balance sheet
- More flexibility: scale up or down as your business needs evolve.

Excellence Together

SIZWE AFRICA IT GROUP continued

Green Smart Solution

There is a great need for quality and equitable education for all South African learners, especially in the rural areas. The Green Smart Solution offers mobile school infrastructure that will transform the learning experience, even in the most remote of areas. We collaborate with partners to provide e-learning software and data to learners.

The facility is flexible, scalable and fully self-sustainable.

The benefits of the Green Smart Solution include:

- Ease of scalability
- Return on investment (ROI)
- Deployment within weeks
- Secure, self-sufficient and off-the-grid solution
- Low total cost of ownership (TCO)
- Fully mobile units
- Capex or opex financing options.

Hosted Cloud Solutions

The future is in the cloud and against this backdrop Sizwe Africa IT Group launched new hosted ICT services that will enable SMEs to remain relevant and accessible to their customer base even during challenging times. The pre-built solutions are also scalable, so that customers can increase the number of services and capacity as their companies grow.

Service offerings:

- Web hosting
- Mail hosting
- Backups as a service
- Server hosting
- Domains
- Certificate SSL services
- Cybersecurity antivirus
- 24/7 ticketing system
- Enterprise class server infrastructure billed at low prices.

Benefits of Hosted Cloud Solutions:

- Simple services procurement from the Sizwe Cloud Marketplace
- Scalable solutions
- Client dashboard for easy management
- Client multifunctional authentication to protect clients' data.

Sizwe's certification and accreditation

Certifications

- OHSAS 45001: 2018 Occupational, Health and Safety Management
- ISO/IEC 27001: 2013 Information Security Management
- ISO/IEC 20000-1: 2018 Information Technology Service Management
- ISO 14001: 2015 Environmental Management
- ISO 9001: 2015 Quality Management
- ISO 22301: 2019 Business Continuity Management

Partner certifications

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

Operational update

Sizwe Africa IT Group continues to navigate the challenges brought on by the advent of the COVID-19 pandemic. Unfortunately, lucrative contracts have been lost. On 30 June 2021, we concluded a realignment process that sees us adapting our business to the needs of our clients while positioning Sizwe to maximise the opportunities that are presented by the Fourth Industrial Revolution. The IoT, cloud-based solutions and cybersecurity have all been in ever-greater demand in the market. The business has been restructured as a sales-driven organisation, and a chief revenue officer has been appointed to align all revenue-generating portfolios to drive profitable growth.

https://sizwegroup.co.za

Sizwe executive team

Vukile Mehana
Chief executive officer

Avhaa Rathogwa
Chief revenue officer

Philip Fourie
Executive: Service delivery

Albertus Stoop
Executive: Finance and HR

Tasnym van Wyk
Executive: Converged connectivity and infrastructure solutions

Aadiel Ayob
Executive: Innovative enterprise services and solutions

Ithumeleng Mochocho
Executive: Technology partners

Sibongile Radebe
Executive: Corporate services

KHAULEZA IT SOLUTIONS

Khauleza IT at a glance

KHAULEZA IT SOLUTIONS

KHAULEZA BRANCH LOCATIONS

MAJOR ACTIVITIES
Provider of ICT products and services

BRANCHES
Pretoria, Durban, Mahikeng, Cape Town, Bloemfontein, East London, Gqeberha, Kimberley, Nelspruit, Middelburg, Polokwane and Potchefstroom

MARKETS SERVED
Public and private sectors

PRIMARY PRODUCTS
ICT services and alternative energy solutions

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

STANDARDS
ISO 9001:2015
ISO 27001:2013

- Branches
- Points of presence

PRIMARY BRANDS

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

Who we are

Khauleza IT Solutions Proprietary Limited is a national ICT service provider with a level 1 B-BBEE status. Our commitment to B-BBEE, as well as our enterprise and supplier development and learning are core focus areas, from our 58.33% 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. Our skilled employees deliver services in all ICT disciplines and we partner with selected technology firms, vendors, and SMMEs to enhance our service offering.

95 employees

94 vehicles

11 logistics centres

1 repair centre

Multiple SMME partnerships

KHAULEZA IT SOLUTIONS continued

What we do

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.

ICT distributed services

- Helpdesk
- Maintenance services
- In-house repairs
- Deployment services
- IMACD and end-user equipment
- Procurement
- Server services
- Infrastructure services
- Cabling services
- WAN and LAN design
- Print management services

Extended services and products

- Renewable energy services
- Alternative energy, solar power and grid-interactive services
- Energy consulting and site assessments

Social responsibility

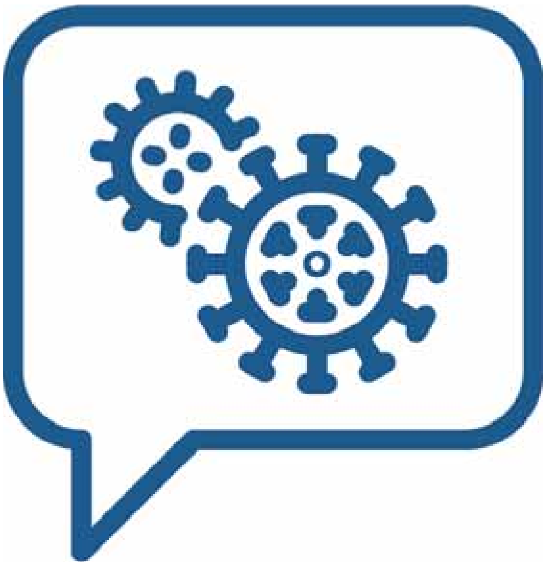
At Khauleza IT Solutions, we strive for good corporate citizenship and take our social responsibility seriously. During the year under review, we initiated two CSI initiatives.

The first was an NQF Level 5 learnership in Ga-Rankuwa, for 25 post-matric learners. This ran from March 2020 to February 2021. It included four months of theoretical training and eight months of practical work placements for the learners. Learners were provided with a monthly stipend.

We also provided sponsorship for the development of ICT infrastructure, printers, mouse, MS home and business 2019, anti-virus and laptops to Fundulwazi Secondary School.

KHAULEZA IT SOLUTIONS

Leadership team

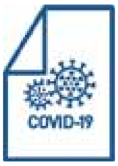


COVID-19

We implemented the following policies and procedures to help protect our employees and clients from COVID-19:

- Communicable diseases policy
- COVID-19 procedure document
- Building entrance registers for visitors and employees.

Employees are able to work from home as necessary. An employee contingency plan is in place to assist if employees are unable to work due to COVID-19.



We also put up COVID-19 awareness posters in all our regional offices. Safety measures outside of the office environment were communicated to all employees.

https://www.khauleza.co.za

Our management team has extensive experience in servicing public and private sector ICT needs:

Raymond Risk
Chief executive officer

David Kan
Non-executive director

Siyabonga Maclean
Executive director: Strategy and finance

YANGTZE OPTICS AFRICA CABLE (YOAC)

YOAC at a glance

What we do

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 one 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 network operators and the distribution market.

Performance

YOAC showed strong sales growth in the second half of the 2020 calendar year, following the easing of restrictive COVID-19 lockdown conditions. This momentum was carried over into 2021, with annualised consolidated growth of 64% in sales revenue and 307% in operating profit compared to the previous year.

Forex losses were reversed in the current year, following the appreciation of the Rand against major international currencies and the positive effect of measures implemented to limit forex losses.

An increase in operational capacity utilisation from 65% of installed capacity to 90%, fuelled by sales, resulted in a robust operational profit. This strong sales revenue growth

was on the back of a spike in the fibre-to-the-home market, driven by renewed private investment and the ongoing COVID-19 pandemic driving work from home and remote learning trends.

YOAC maintained a B-BBEE level 3 score in 2020/2021, constrained by limited opportunities to improve on skills development due to COVID-19 restrictions.

Employment and skills development

YOAC introduced a fourth manufacturing shift during the financial year, increasing the number of employment opportunities by 27. YOAC currently employs 105 permanent employees, and 14 learners through a skills development programme with various tertiary institutions in the greater eThekwini area.

YOAC is committed to empowering women and people from previously disadvantaged backgrounds – nearly a third of YOAC's workforce are female.

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 training and mentorship.

Corporate social responsibility

The company's CSR programmes focus on education. In 2021, YOAC sponsored back-to-school stationery for 28 children from the community.

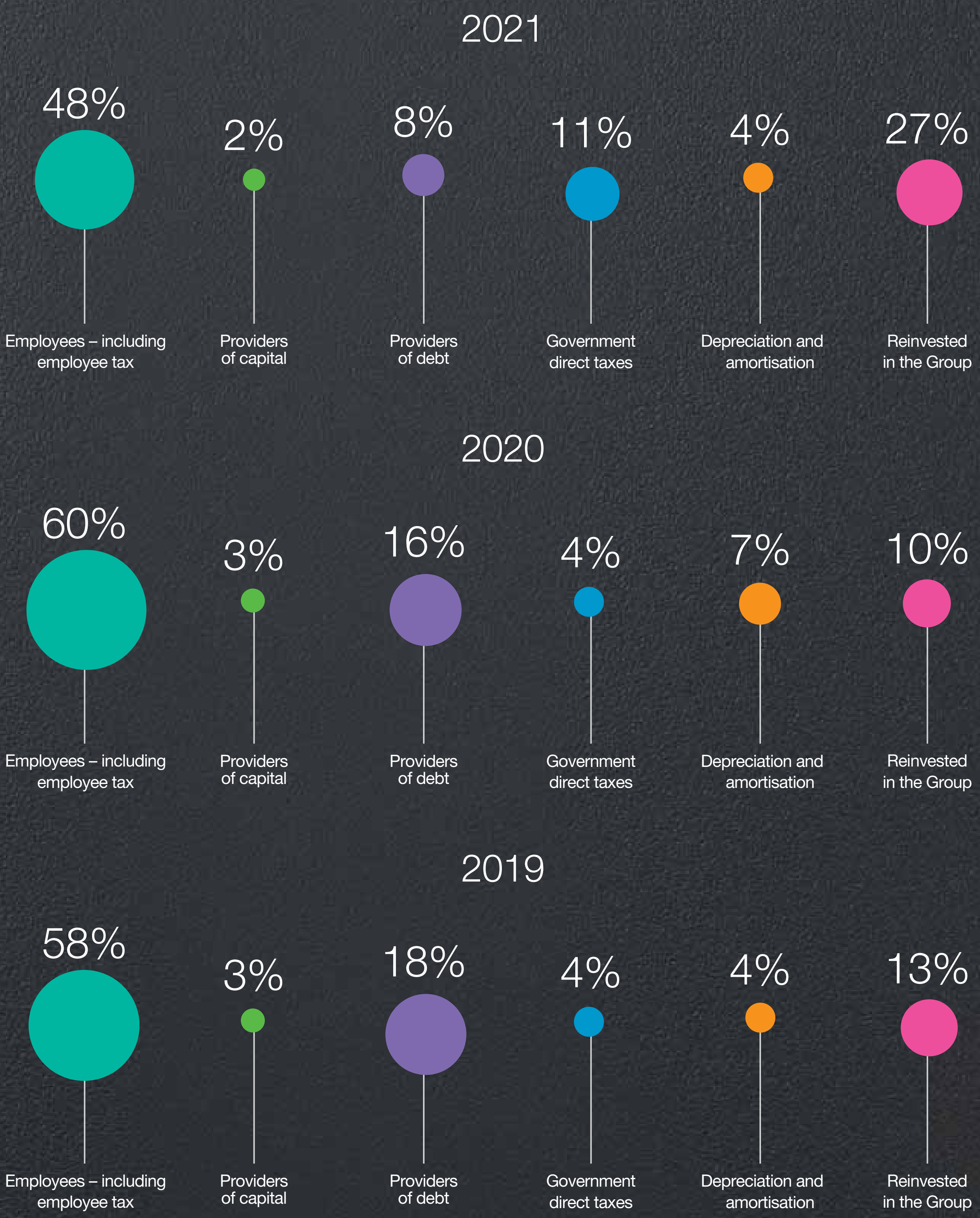
Future prospects and forward planning

We expect sales revenues in FY22 to remain robust, resulting from significant capital injections committed by optical fibre network owners.

YOAC enjoys a healthy and balanced customer base, amplified by growing direct sales and secured distributor sales channels. We are represented at nearly all the optical fibre network owners in South Africa. YOAC continues to invest in new product development and launched three new cable products over the reporting period that will positively improve sales margins in the medium term.

https://www.yoacables.com

VALUE CREATED



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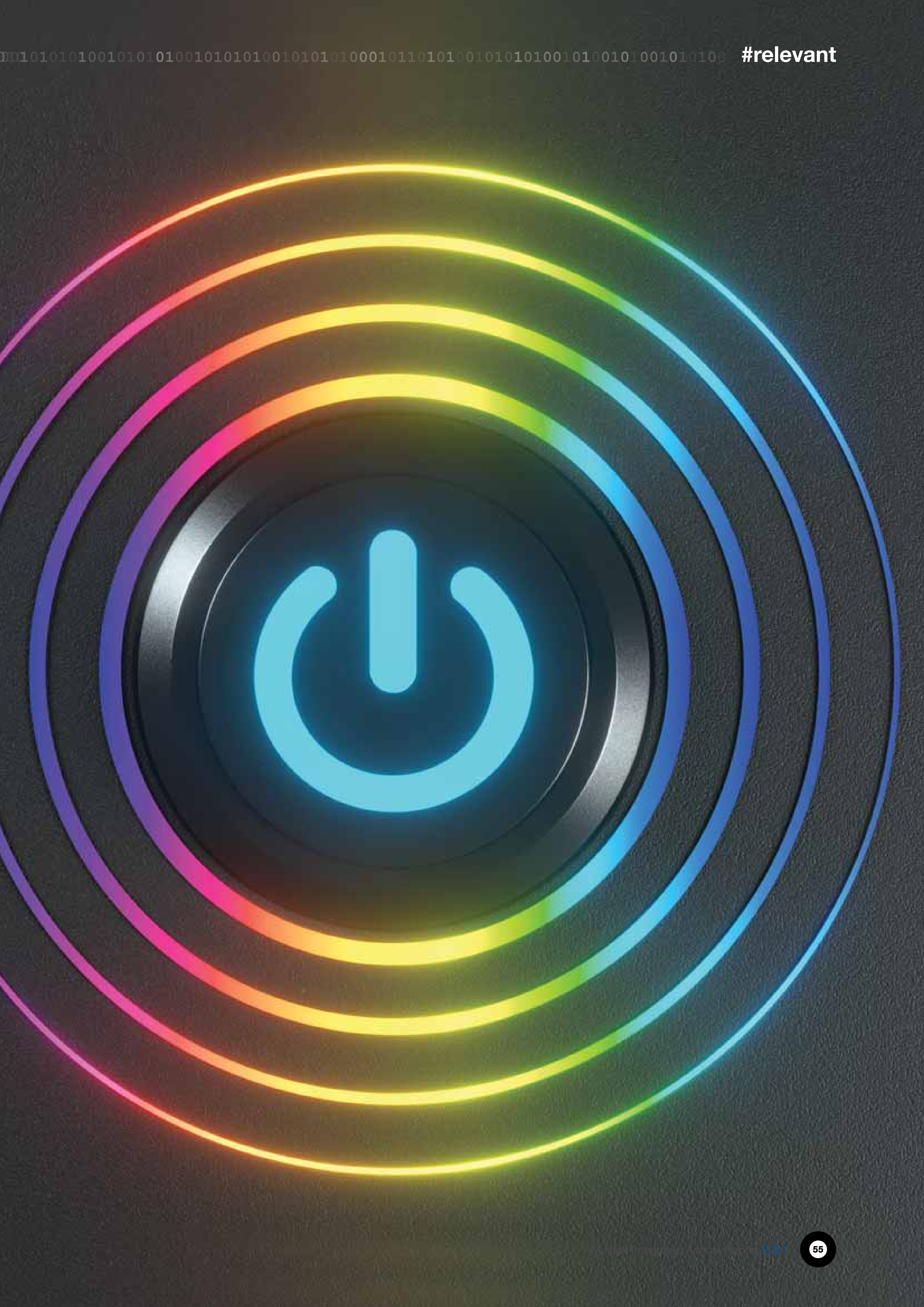


OUR SIX CAPITALS

For the purpose of integrated reporting, Mustek's value creation performance is divided into six capitals, in line with the <IR> Framework: financial, manufactured, intellectual, human, natural, and social and relationship capital. These capitals underlie much of the disclosure in this integrated annual report, anchoring our disclosure and demonstrating the integration of strategy and sustainable development issues.

Financial capital

is the pool of funds that is:

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

Highlights

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

Net asset value per share
2 046.07 cents
(2020: 1 598.08 cents)

Revenue
R8.04 billion
(2020: R6.40 billion)

Headline earnings per share
441.81 cents
(2020: 127.13 cents)

Dividend per share
90.00 cents
(2020: 26.00 cents)

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, and 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.

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 inventory, 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
- macroeconomic 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 ZAR/USD exchange rate is a defining factor in the ICT industry, as the bulk of ICT inventory is USD based. Mustek is exposed to events that occur in the markets from where it acquires products, as well as to the South African and other markets to which it offers products and services. Significant and/or abrupt changes in the value of the Rand against the USD can impact the Group's financial results in various ways.

Exchange rate fluctuations affect prices, and the Rand's propensity for sharp movements against other major currencies is an ongoing challenge. In FY21, the ZAR strengthened against the USD and resulted in an unprecedented forex profit for Mustek Group of R10.48 million.

Mustek cannot influence broader economics but does apply a hedging policy to minimise foreign currency exchange risk and retain a broad spread of suppliers.

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

OUR SIX CAPITALS continued

Financial capital continued

The COVID-19 outbreak has placed significant pressure on an already difficult macroeconomic environment. While the scale of the outcome remains uncertain, it is clear it will have significant long-term ramifications for the global economy and will compound existing macroeconomic challenges in our key markets.

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. 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 of ICT trends, both internationally and in South Africa. The focus on procurement minimises the risk of obsolete inventory.

The Group's trade receivables are ceded as security against a revolving credit facility. The pricing of this facility is intended to reduce the Group's overall cost of funding. The Group has no significant concentration of credit risk, as our exposure is 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 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 18 of the annual financial statements.

Performance

Profitability

- The Group had an exceptional trading performance for the financial year to 30 June 2021 with our diversified portfolio of products and services providing a clear advantage in the marketplace. Revenue continued the growth trajectory that started during the previous financial year due to surging demand sparked by remote working requirements and remote learning.
- The Group's revenue increased by 25.6% to R8.04 billion (2020: R6.40 billion). It is pleasing to note that the revenue growth was across the board with the Group's two largest segments Mustek and Rectron growing their revenue by 22.6% and 30.0% respectively. Rectron benefited from the surge in demand for its products. The addition of HP Printers, Zebra and DJI Enterprise to their range of products towards the end of the 2020 financial year, assisted their growth.
- The gross profit percentage increased to 14.8% (2020: 14.2%) predominantly as a result of the increased demand for the Group's products and worldwide supply shortages.
- The ZAR/USD exchange rate strengthened during the year and the Group managed to earn foreign currency profits of R10.5 million compared to foreign currency losses of R56.8 million in the comparative period.
- Distribution, administrative and other operating expenses increased by 18.4%, mainly due to an increase in commissions and incentive bonuses due to the overperformance by the Group.
- Net finance charges decreased from R100.9 million to R70.2 million predominantly as a result of lower interest rates.
- The contribution from associates decreased from R17.5 million to R5.3 million. The contribution from Sizwe was negatively impacted by a loss on the sale of an investment in a subsidiary and the impairment of property, plant and equipment. The Group's share of these losses of R3.0 million and R7.5 million respectively, are added back in the calculation of headline earnings. The Group owns 25.1% of YOA, an associate company that manufactures fibre optic cable. YOA continues to grow its market and contributed R11.6 million towards associate income.
- Mustek's headline earnings per share is 247.5% higher at 441.81 cents (2020: 127.13 cents) and basic earnings per share is 242.2% higher at 424.54 cents (2020: 124.05 cents).
- The measure adopted by the company, in determining the JSE trading statement requirement, is applied on basic earnings per share and headline earnings per share.

Return on equity

- 23.8% (2020: 8.0%).

Inventory

- Inventories include goods in transit of R166.7 million (2020: R213.5 million). Inventory days (excluding inventories in transit) improved to 67.8 days (2020: 92.8 days)
- Current ratio: 1.4 times (2020: 1.3 times).

Trade receivable

- Trade receivable days improved to 49.2 days (2020: 55.0 days).

More information regarding the Group's operational and geographical segment performance can be found in note 3 to the annual financial statements.

Looking ahead

- 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 an ERP system at both Mustek and Rectron will create opportunities to improve synergies between the two operations and will receive considerable attention in the 2022 financial year.

MANUFACTURED CAPITAL

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

Highlights

Included in Mustek's **manufactured capital** are:

- assembled and purchased inventory
- owned and leased offices and branch facilities
- warehousing
- logistics fleet (both owned and outsourced).

Units assembled
70 261
(2020: 63 727 units)

Items sold
5.4 million
(2020: 6.3 million)

Complaints logged
132
(2020: 134)

ISO 9001 certification verified by BSI
67.8 inventory days
(2020: 92.8 days)

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 database (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.

As at 30 June, the Group's inventory on hand amounted to R1.273 billion (2020: R1.396 billion). Mustek's local stockholding policy is a competitive differentiator for ordering and delivering stock to customers and in processing warranties, returns and replacements of faulty technology. By maintaining healthy inventory levels at each regional head office, Mustek ensures that warranties, returns and replacements of faulty technology are dealt with quickly and efficiently.

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

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

Mustek applies its knowledge and understanding of ICT trends to a formal procurement process to ensure that the correct products, in the right quantities, are procured at the right time, thereby 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 and 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 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 ISO 9001 certification in 2003. All its business processes are included in the scope of its quality management system (QMS) and technological standards. These include 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
- asset insurance
- maintenance and review of the complaint register.

Supply chain

The Group's supply chain is extremely simple. It procures IT components and finished products from a diverse range of suppliers, internationally and locally. Components are sold by Rectron or assembled by Mustek into Mecer desktop PCs and laptops. The multinational brands are sold through resellers or directly to corporate clients. Mustek's assembly line is used to provide value-added services to corporate clients such as mass setup and image loading. We hold distribution rights and authorised service agent agreements with most of our brands. Mustek's vendors are primarily international brands who report extensively on the sources of their components. We also conduct regular due diligence and quality checks on our own ICT component suppliers.

Looking ahead

For 2021 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.

HUMAN CAPITAL

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

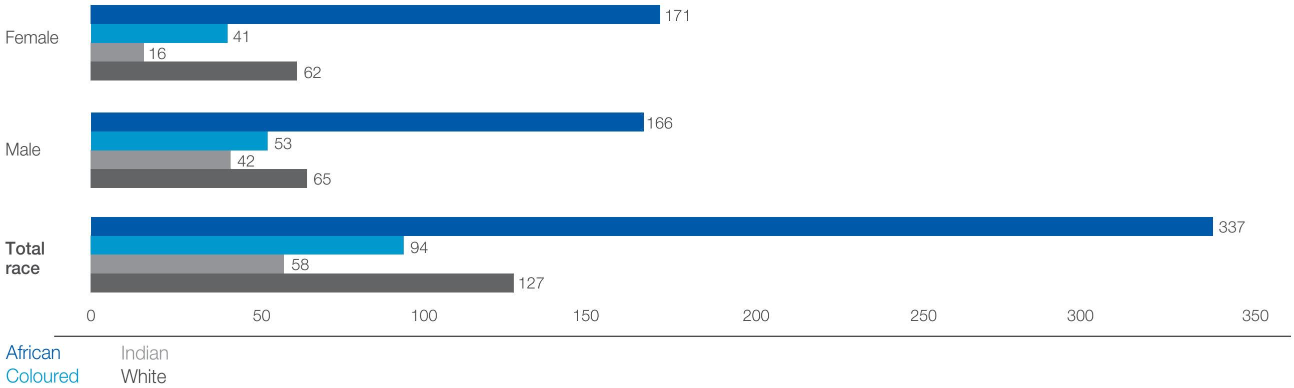
Mustek's permanent workforce

Headcount as at 30 June 2021

Site	Number of employees	% breakdown
Mustek Gauteng	400	64.94
Mustek Western Cape	86	13.96
Mustek KwaZulu-Natal	53	8.60
Mustek Eastern Cape	30	4.87
Mustek Free State	13	2.11
Mustek Mpumalanga	11	1.79
Mustek Limpopo	10	1.62
Mustek Northern Cape	6	0.97
Mustek North West	7	1.14
Total	**616**	100.00

Employee diversity statistics as at 30 June 2021

(Number)



In total, Mustek had 616 employees that included six foreign nationals.

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.

No collective bargaining agreements are presently applicable to the Mustek or Rectron workforces.

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

Mustek's core values embody respect, dignity and fair treatment. 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.

OUR SIX CAPITALS continued

Human capital continued

The Group's total investment in the training and development of employees during the 2021 financial year amounted to

R26.12 million

(2020: R19.64 million)

Rectron's training spend as at end June 2021 was

R8.37 million

(2020: R5.44 million)

Mustek's training spend as at end June 2021 was

R16.76 million

(2020: R13.65 million)

MIE's training spend as at end June 2021 was

R0.99 million

(2020: R0.55 million)

Employee turnover for Mustek for the current year amounted to

21.60%

(2020: 6.48%)

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

100%

Overview

Employee turnover for Rectron for the current year amounted to

11.95%

(2020: 11.21%)

The total number of recordable injuries reported, including medical treatment cases and LTIs was

25 injuries

Mustek 24 and Rectron 1

(2020: 50 injuries)

Mustek's absenteeism rate was recorded as

1.12%

(2020: 1.35%), and **Rectron's as 1.47% (2020: 1.32%) for 2021**

Mustek was involved in **9 CCMA cases** during the year **(2020: 3)** and **Rectron** had **1 CCMA case (2020: 0)**

During FY21 **Mustek** lost

1 814.15

(2020: 2 220.75)

and **Rectron**

1 430.00

(2020: 1 475.00)

productivity/working days

100%

of staff nationally were trained on cybersecurity, anti-corruption policies and procedures. We experienced no incidents of corruption

Career development – the Mustek way

Ongoing skills development and training are recognised as business imperatives and Mustek is committed to developing the industry leaders of the future from within our own ranks. Employee development aligns the Group with national directives by prioritising skills development for previously disadvantaged individuals.

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 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 (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, to provide NQF accredited courses in these areas. These courses are also extended to external trainees.

The Mustek Training Centre (Mercer Inter-Ed) 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
- retaining skills better, as fewer staff resign due to external financial pressures
- improving staff morale
- reducing the number of external financial deductions
- building 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. This 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 on to employees. COVID-19 occupational health and safety training was rolled out across the Group at all levels of employment. Employees were informed of all hazards pertaining to COVID-19, as well as the recommended precautionary measures. COVID-19 safety inductions were conducted at department level to limit a mass gathering of employees.

Health and safety

Mustek adheres to all applicable health and safety legislation and conducts its business according to the 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 causing at least one lost day are reported to payroll and injuries resulting in three or more days lost from work are reported to the Commissioner for Workmen's Compensation.

OUR SIX CAPITALS continued

Human capital continued

Occupational injuries on duty are recorded as follows:

Health and safety indicator	Mustek 2021	Mustek 2020	Mustek 2019	Mustek 2018	Rectron 2021	Rectron 2020	Rectron 2019	Rectron 2018
First aid cases (FACs, ie injuries on duty leading to minor treatments, such as a plaster or a pain tablet)	**4**	26	19	28	**51**	64	72	98
Medical treatment cases (MTCs, ie injuries on duty leading to medical treatment, but no lost days)	**11**	3	3	1	**0**	0	0	2
Lost time injuries (LTIs, ie injuries on duty leading to at least one lost day)	**9**	14	10	12	**1**	7	3	1
Total number of recordable injuries, including MTCs and LTIs	**20**	17	13	13	**1**	7	3	3

Rectron's human capital

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

Rectron's permanent workforce

Headcount as at 30 June 2021

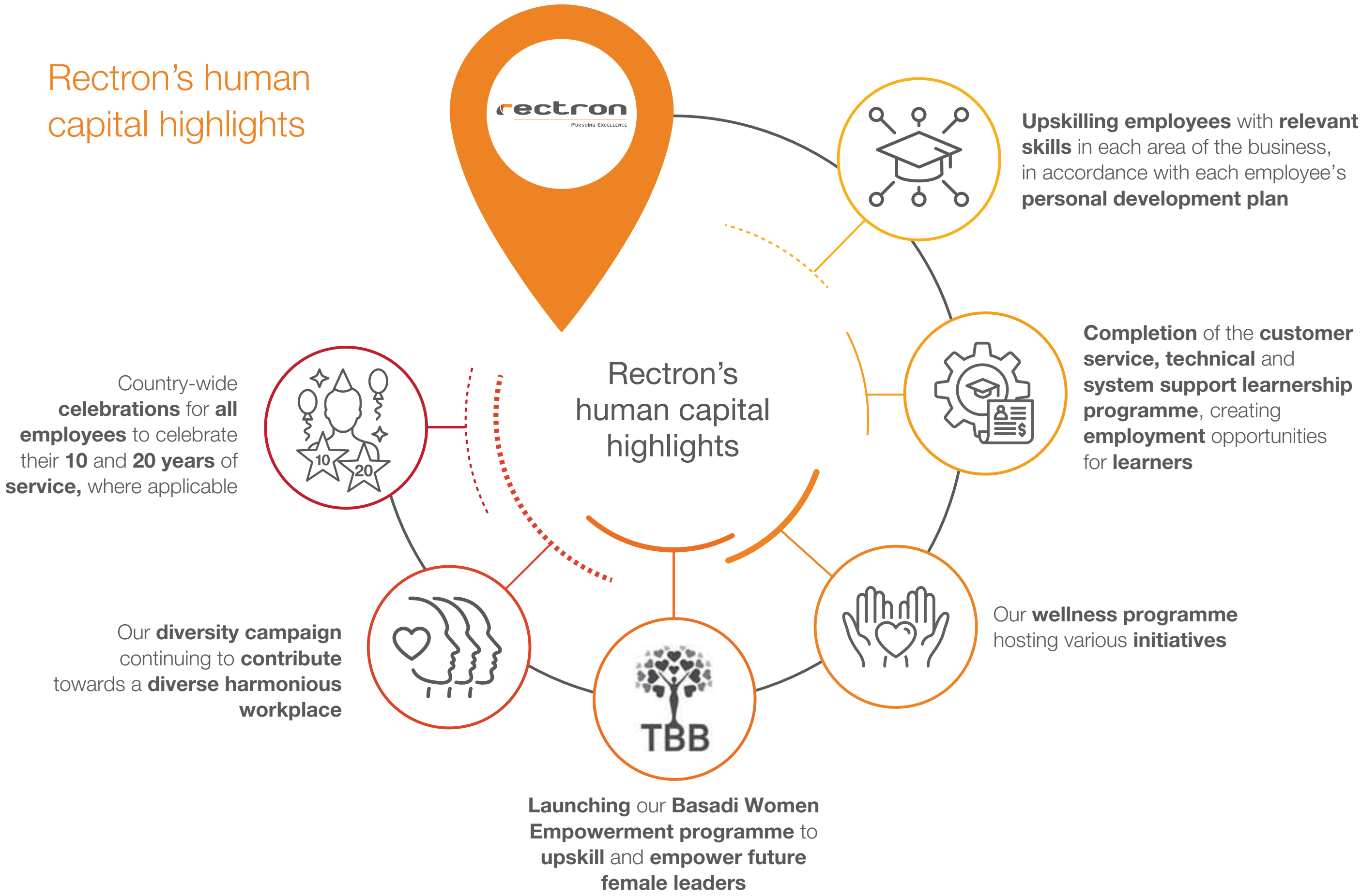
Site	Number of employees	% breakdown
Rectron Gauteng	**243**	66.39
Rectron Western Cape	**54**	14.76
Rectron KwaZulu-Natal	**34**	9.29
Rectron Eastern Cape	**19**	5.19
Rectron Free State	**16**	4.37
Total	**366**	100.00

Employee diversity statistics as at 30 June 2021

Race	Total	Race %	Female	Female %	Male	Male %
African	**217**	59.29	128	67.02	89	50.86
Coloured	**44**	12.02	20	10.47	24	13.71
Indian	**36**	9.84	17	8.90	19	10.86
Black sub-total	**297**	81.15	165	86.39	132	75.43
White	**69**	18.85	26	13.61	43	24.57
Total	**366**	100.00	191	100.00	175	100.00

In total, Rectron had 366 employees that included five foreign nationals.

Rectron's human capital highlights



Rectron human capital vision

Rectron's HR and development programmes are important for keeping employees' competencies aligned with the overall strategic plans and goals of the organisation. Employees are an asset to the company and we are committed to ensuring that Rectron is considered the best place to work. 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 promote the achievement of work-life balance and wellness. We used our employee wellness programme to create awareness of the potential benefits to employees of 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 the necessary benefits.

Diversity

We foster a diverse, inclusive employee community with a positive work environment by conducting regular organisational climate surveys; we use the information to collaborate with managers to make the 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

Effective 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 be properly equipped to meet and exceed customer standards. Rectron's training is also mapped to the skills development plans of each employee to close the skills gap for their job competencies.

OUR SIX CAPITALS continued

SOCIAL AND RELATIONSHIP CAPITAL

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 Mustek's brand and reputation
- our social licence to operate

Maintaining key relationships

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.

The interaction and integration of global economies mean there are multiple people, customers, investors, funders, communities, companies, governments, regulators, and economies that are affected by Mustek's operations, and thus have either a direct or indirect interest in our strategy and success. We consider these stakeholders integral to achieving our vision of being South Africa's ICT supplier of choice. Mustek is committed to working with each of its diverse stakeholders to understand their unique objectives and understand opportunities where we can leverage our strengths to collaborate and achieve collective benefits.

Stakeholder feedback enables us to mould and enhance our strategy and operations to deliver more tangible value. Our stakeholder engagement framework, which includes regular constructive engagement, opportunities for feedback, and varied platforms for open dialogue, is managed by the Group's stakeholder relations officer and supported by the Group's Board of directors.

OUR SIX CAPITALS continued

Social and relationship capital continued

Stakeholder group	Engagement approach	Key issues and interest areas	How we engage
The investor community • Shareholders • Prospective investors • Asset managers • Bankers	Mustek pursues engagement opportunities that cultivate trust with shareholders, investors, analysts and funders through transparent communication of operations, strategies and overall performance. In order to maintain good relationships, Mustek is diligent in its management of finances, from the management of cash and debt to related risk.	• Prudent financial management • Disclosure of financial and related information • Liquidity • Macroeconomic concerns • Dividend payments • Management of risk and related exposure • External assurance providers • Long-term stability • Sound governance	• Operational visits • Communication through the Securities Exchange News Service (SENS) • One-on-one communication between stakeholders and executive management • The publication of interim and full-year financial results and our integrated annual report • The provision of financial information demonstrating conformance with debt covenants. • Corporate website • Feedback emails • Annual general meetings
Employees	Mustek appreciates the pivotal role that employees play in its ongoing operations. They are an important pillar without which Mustek would not be able to deliver on its goals. It is incumbent on Mustek to maintain an open and mutually beneficial relationship with its staff members.	• Job security • Fair remuneration • Ongoing training and personal development • Non-discriminatory work environment • Career paths • Performance management • Incentives and rewards • Health and safety	• Induction and orientation of new employees • Human resource policies and procedures • One-on-one supervision and instruction sessions with line managers • Emails and posters • Performance reviews • Regular employee training • Group communication via email updates • Employee engagement surveys • Team building and social events
Business partners • Customers • Resellers	Mustek sustains revenue generation and growth through partnerships with its reseller base and customers. The Group maintains constant communication with these customers to solve their problems and enable them to realise more value in their operations.	• Diverse product and service offering across the Group • Innovation and early adaptation to emerging trends • Product quality, availability and after-sales support (lifecycle management) • Reputable and sought-after vendors • Effectiveness of processing and transacting systems • High degree of technical competence • Stock availability and supply chain management • Environmental impacts and "green products"	• Personal management meetings and visits • Service management reports • Customer surveys • Solution and service updates and launches • Incentive schemes • Digital email service • Web-based reseller portal • Corporate website and brochures • Roadshows, exhibitions and conferences • Contract negotiations • Telephonic support • Social media interactions

Stakeholder group	Engagement approach	Key issues and interest areas	How we engage
Suppliers and vendors	Mustek seeks partnerships that enable it to provide products and solutions of superior quality. It is important that we have a clear understanding of our suppliers' and solution partners' plans and goals, achieved through frequent and mutually beneficial communication. These partnerships include international vendors such as Huawei, Samsung, Lenovo and Microsoft.	• Alignment of individual strategies and objectives • Maximising benefits to stakeholders • Extending market reach • Innovation and early adaptation to emerging trends • Meeting financial targets • Accreditations and quality of training programmes • Scope for alignment and scale of operations • Supply chain management	• Relationship management meetings and visits • Performance audits and reports • Technology conferences • Technology certifications • Contract negotiations
Regulatory agencies and government	The government can permit Mustek to operate or deny it the ability to do so, since it provides licences to operate. As a company listed on the JSE, Mustek is required to meet certain regulations, and maintain proactive communication with various regulatory bodies. The company ensures that it remains a going concern by complying with the requirements of legislation, guidelines, procedures and policies.	• Compliance with legislation and regulations • Governance • Taxation • Import and customs controls • Diversity • Empowerment and transformation • Data privacy	• Written correspondence • Interim and annual reports • External and internal audits • Collaborative forums • Business associations • Interpersonal meetings
Communities	Mustek embraces its responsibility to make a positive contribution to local communities and proactively seeks out opportunities to contribute to the communities in which it operates. Mustek focuses on technology education in disadvantaged communities and values the relationships that have been cultivated through these engagements.	• Social investment • Community upliftment/ financial education/ inclusion • Mitigating the impacts of the COVID-19 pandemic and its effects on remote schooling and access to data • Development and education opportunities in previously disadvantaged communities	• CSI initiatives • Open dialogue • Media releases

OUR SIX CAPITALS continued

Social and relationship capital continued

Transformation and maintaining our social licence to operate

B-BBEE

Our commitment to transformation and B-BBEE is one of our strategic cornerstones. We view B-BBEE as both a moral and business imperative, and we continue to make good strides towards meeting and improving our B-BBEE ownership, transformation, recognition and business development targets.

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

Mustek Limited Group achieved an overall level 1 B-BBEE contributor status. The consolidated Group scorecard includes, among other subsidiaries, Mustek and Rectron. Both Mustek and Rectron achieved level 1 B-BBEE contributor status individually.

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 2021 financial year, the Group spent R26.12 million on staff training and skills development (2020: R19.64 million).

Procurement

Mustek procures goods and equipment that are not readily available in South Africa, mainly from overseas manufacturers. We procure significant input quantities from internationally recognised manufacturers in the Far East. Mustek does not deny the possibility that imports may be produced under unsatisfactory employment conditions; therefore, we only procure from accredited vendors. Mustek personnel inspects vendor premises to monitor working conditions.

These imports are excluded from the Group's total procurement spend in terms of the B-BBEE ICT sector codes.

Mustek meets the definition of a level 1 B-BBEE contributor in terms of its preferential procurement, as at 30 June 2021. We aim to secure full B-BBEE certificate compliance for all suppliers including EMEs, qualifying small enterprises (QSEs), and black-owned and black women-owned enterprises. For the past three years, we have consistently outperformed the 80% target for preferential procurement with BEE-compliant suppliers. In total, 100.45% (FY20: 114%) of the total procurement spend was to suppliers with valid B-BBEE certificates. The percentage declined in the last year, mainly due to the effect of economic conditions on our suppliers. Some could not afford B-BBEE verification and others completely closed. However, we achieved above 100% of our procurement spend towards empowering suppliers due to the multiplier factor and deliberate efforts to garner B-BBEE certificates for suppliers.

CSI

Our approach to CSI

Mustek Group channels its CSI toward education, training, community development and support.

Our CSI programme aims to empower previously disadvantaged communities to access opportunities in the mainstream economy, by improving the quality of, and access to, education. It also supports and facilitates the implementation of IT laboratories in selected schools. In this way, Mustek expands its pool of talent available in local communities.

Mustek regularly donates ICT equipment to Pathways, a centre for children with severe cognitive and physical disabilities, and Fit for Life, a programme that addresses the problem of youth unemployment providing life, work and entrepreneurial skills to selected candidates.

Helping COVID-19 patients at Baragwanath stay connected

Mustek, in collaboration with its partners, helped to install free secure Wi-Fi at Chris Hani Baragwanath academic hospital, at no cost to patients or doctors. The project was born out of the need to help severely ill COVID-19 patients to communicate with loved ones. Mustek sponsored 10 Mecer tablets and 30 Huawei access points (APs), allowing patients to stay connected with loved ones through video calls and messaging applications.

This joint solution is intended for use long after the immediate need for connectivity during COVID-19 passed.

CSI spend 2021

Mustek Group's CSI spend is calculated based on the Group's NPAT. Following excellent group performance during FY21, CSI spend increased to approximately R5.14 million (FY20: R1.56 million).

Mustek's contributions were allocated to:

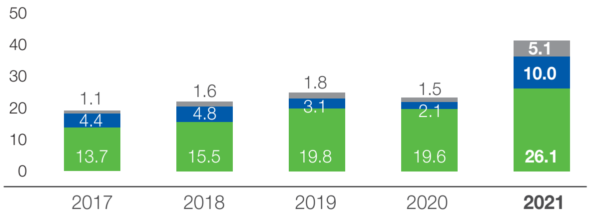
Beneficiary	Project description	% of spend benefiting black individuals	Amount
Baragwanath Hospital	Grant ICT equipment	75	1 297 767
Jityaza Primary School	Grant ICT equipment	100	16 817
Protec Academy	Grant ICT equipment	100	675 899
Florida Islamic School	Grant ICT equipment	75	233 361
Afrika Tikkun	Grant ICT equipment	75	1 279 650
BJ Mnyanda Primary School	Grant ICT equipment	75	435 034

Rectron's contributions were allocated to:

Beneficiary	Project description	% of spend benefiting black individuals	Amount
Abraham Kriel	Grant ICT equipment	90	333 053
UCPA	Grant ICT equipment	75	307 435
MSC	Grant ICT equipment	100	345 863
Bokamoso	Grant ICT equipment	100	121 200
Code for Change	Grant ICT equipment	100	28 412
Life Choices	Grant ICT equipment	100	64 952

Group transformative expenditure year on year

(R million)



Skills development expenditure
Enterprise development expenditure
CSI expenditure

Protection of customer data

Our customers self-register 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 breaches 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.

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

Mustek is fully compliant with all aspects of the POPIA, which came into effect on 1 July 2021.

Rectron frequent buyer rewards

The Rectron Rewards incentive programme enhances reseller loyalty. Rectron Rewards enables resellers to order online, check stock availability and review their account balances. They also have access to online product training.

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 AWARDS

Due to COVID-19, many of the usual awards events have been postponed.

2021

- Microsoft Commercial Device Partner of the Year – Mecer
- Lenovo Data Centre Group – Distributor of the Year
- CompTIA Outstanding Leader Award for South Africa – Mecer Inter-Ed

2020

- Microsoft OEM Partner of the Year – Mecer
- Microsoft – Product Manager of the Year – Jane Nyati
- Lenovo Data Center Group (DCG) – Distributor of the Year
- Lenovo DCG – Champion – Trevor van Zyl
- Microsoft Commercial Devices Partner of the Year

OUR SIX CAPITALS continued

NATURAL CAPITAL

5

Natural capital

The world's stock of natural resources, renewable and non-renewable, 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
- land

Overview

To achieve true sustainability, we need to balance economic, social and environmental sustainability factors in harmony. Sustainably using natural resources ensures that future generations have access to an equal, if not better, quality of life than current generations. Conservation of the natural environment and economic development are two sides of the same coin, and technology or innovation can be applied responsibly in the interest of improving the environment.

Mustek Group both uses and promotes innovative technology in the interest of conserving our environment.

Mustek uses:

- Coal-based electricity sourced from Eskom
- Petrol and diesel to fuel vehicles and generators
- Solar energy to power buildings, thereby reducing emissions and the overall cost of electricity
- Manufactured components for Mecer hardware
- Packaging material
- Water.

2021 highlights

- Rectron replaced all lighting with LED lights at the Gauteng head office This reduced the grid electricity consumption by 4%, even with an increase in business activities.
- Emissions decreased for Mustek by 2% due to a reduction in electricity consumption.

Management approach

Environmental performance is a strategic focus area for Mustek. Environmental goals are incorporated into routine operations, procedures and processes and are integrated into employee training.

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.

We used the systematic approach of ISO 14001 and ISO 50001 to improve environmental management and energy usage. ISO 14001 includes consideration for "future challenges" for environmental management, including being part of sustainability and social responsibility; linking to strategic business management; engaging stakeholders; and managing parallel systems such as greenhouse gas and energy.

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

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 ISO 14001 certified, 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, through the systematic application of risk assessment, management and communication.

Mustek's defensive approach is to maintain ISO 14001. As required by the standard, Mustek aims to identify activities, products, or services that interact or can interact with the environment and whether the associated 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
- The Group's objective is to reduce its emissions where possible, supported by ongoing energy management improvement initiatives as follows:
  - replacing all LED lights with more energy-efficient options that produce higher LUX levels, on an ongoing basis
  - replacing old air conditioners as they fail with more environmentally-friendly ones – those that operate with R410a coolant that results in a smaller greenhouse gas impact, or those with inverters that consume less power and produce a higher output
  - installing solar PV panels on the roof of the Midrand head office's South building, enabling servers to run off grid.

  Although Mustek's operational activities increased over the course of the year, except during some of the more stringent levels of lockdown, overall emissions decreased by 12.3%% to 2 155 CO_2e (FY20: 2 458 CO_2e).
- Mustek and Rectron will register with the Department of Environment, Forestry and Fisheries as required by the Waste Act, 59 of 2008's Extended Producer Responsibility regulations
- Electronic waste is classified as hazardous in its waste form. It is thus collected and responsibly recycled, with 15 tonnes (2020: 15 tonnes) of e-waste recycled by Mustek and its bigger branches in this financial year
- Rectron Gauteng recycled 18 tonnes of waste of which 8 tonnes was e-waste.

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 its first energy reduction target, which was reached mainly through the installation of thousands of LED lights and the solar panel project as 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%.

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 in 2019, included a PV system in the building of its new Cape Town office.

Rectron replaced all the lights with LED lights at the Midrand head office. This has reduced the grid electricity consumption and hence emissions, by 4%, even with an increase in business activities. Rectron has been optimising its Eastern Cape PV plant with the objective to go "off grid". The improvement in PV generation was not realised due to delays in gaining approval from the city council on certain matters.

Emissions

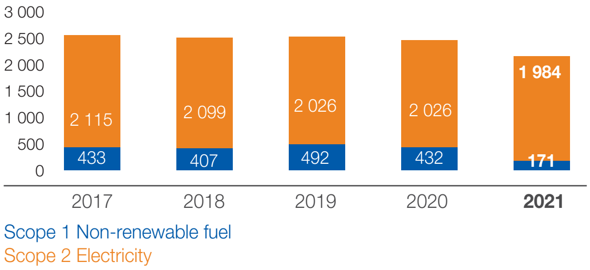
Mustek – emissions (tonnes CO_2e)		2017	2018	2019	2020	2021
Scope 1	Stationary fuels	8	10	27	32	38*
	Company-owned vehicles	372	366	386	323	59
	Other fugitive emissions (non-Kyoto gases)	53	31	79	77	74
	Total non-renewable fuel	**433**	**407**	**492**	**432**	**171**
Scope 2	Electricity**	2 115	2 099	2 026	2 026	1 984
	Total emissions	**2 548**	**2 506**	**2 518**	**2 458**	**2 155**

Use of diesel increased again due to loadshedding.
** *Mustek uses internal meters to measure electricity consumption. These values are under review with City Power and Mustek is working to resolve this.*

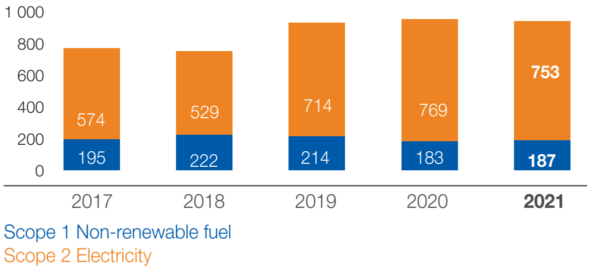
Rectron – emissions (CO_2e)	2017	2018	2019	2020	2021
Scope 1 Non-renewable fuel	195	222	214	183	187
Scope 2 Electricity*	574	529	714*	769*	753*
Total emissions (Scope 1 and Scope 2)	**769**	**751**	**928**	**952**	**940**

* *Data for energy calculations taken from self meters installed onsite and corrected for 2019 and 2020.*

Mustek – emissions
(CO_2e)



Rectron – emissions
(CO_2e)



OUR SIX CAPITALS continued

Natural capital continued

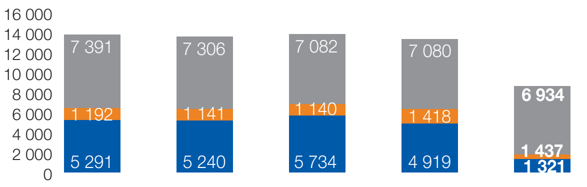
Energy

Mustek – energy consumption (GJ)		2017	2018	2019	2020	2021
Scope 1	Stationary fuels	113	137	373	435	513
	Company-owned vehicles (P)	2 734	2 744	2 564	2 057	212
	Company-owned vehicles (D)	2 444	2 360	2 797	2 427	596
	Total non-renewable fuel	**5 291**	**5 240**	**5 734**	**4 919**	**1 321**
	Renewable fuel (solar)	1 192	1 141	1 140	1 418	1 437
Scope 2	Electricity (GJ)	7 391	7 306	7 082	7 080	6 934
	Total energy consumed	**13 874**	**13 687**	**13 956**	**13 417**	**9 692**

Rectron – energy consumption (GJ)	2017	2018	2019	2020	2021
Scope 1 Renewable fuel	1 220	1 306	1 337	1 038	812*
Scope 1 Non-renewable fuel	2 677	3 042	2 941	2 506	2 555
Scope 2 Electricity consumed	2 007	1 850	2 494	2 688	2 633
Total energy consumed	**5 904**	**6 198**	**6 772**	**6 232**	**6 000**

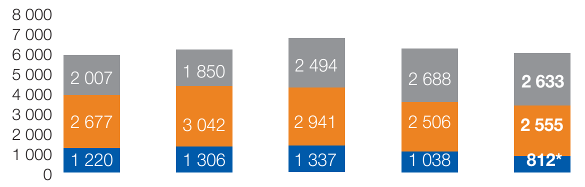
* *The goal to take the Eastern Cape Branch off grid was not attained this year due to some elements still requiring council approval, thus the decrease in the amount recorded for renewable fuel.*

Mustek – energy consumption
(GJ)



Scope 1 Non-renewable fuel
Scope 1 Renewable fuel
Scope 2 Electricity consumed

Rectron – energy consumption
(GJ)



Scope 1 Non-renewable fuel
Scope 1 Renewable fuel
Scope 2 Electricity consumed

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 and Rectron therefore utilise 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 landfilling of hazardous waste.

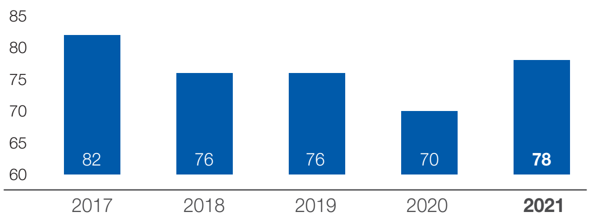
At Mustek's Gauteng site, a waste management company has an onsite team to separate waste into various streams, which are collected and sent for recycling, or disposed of at a permitted landfill site. The tonnage per stream is reported back to Mustek. Waste also contributes to the Group's emissions, 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 and its bigger branches this year increased by 16%, due to an increase in business activities resulting in increased waste. Mustek Gauteng targets a recycling percentage of 75% to 78% which was achieved for FY21 (FY20: 70%).

Group waste

Mustek and Rectron – waste (tonnes)	2017	2018	2019	2020	**2021**
Mustek recycled waste (including branches)	206	149	150	134	**156**
Rectron recycled waste (Gauteng only)	11	11	11	8	**18**

Mustek Gauteng – Recycled waste
(%)



Rectron Gauteng recycled 18 tonnes of waste, an increase of 10 tonnes due to an increase of business activities and e-waste being recycled for the first time.

OUR SIX CAPITALS continued

In this information age, and especially in the COVID-19 era, intellectual capital can be the difference between 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. In brief, intellectual property (IP), human capital, social and relationship capital, and corporate processes combine to produce intellectual capital.

INTELLECTUAL CAPITAL

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

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

Intellectual capital in the ICT sector

In the ICT industry, more so than in many others, the most successful companies are defined by the talent they can deploy in vital internal roles such as innovation, logistics, product/service development, human development and marketing. With ICT developing at warp speed due to the pandemic-inspired shift to remote working, retaining top talent has become increasingly crucial to sustainable profitability in this hyper-competitive industry. Another key factor for ICT wholesalers and distributors is access to the top ICT brands.

Mustek has established a corporate culture based on respect, hard work, ethics, innovation and generous rewards. As a result, employee churn is historically low and the Group's executive and technology leadership remain stable from year to year.

As a result, Mustek depends on the cumulative intellectual capital refined over 34 years to inform, adapt and drive our business strategy. Building onto the five other capitals, Mustek's intellectual keeps the Group sustainably profitable, year after year.

How we leverage intellectual capital to drive our strategy

The ICT industry is fiercely competitive and fast moving. Mustek's adaptability and understanding of the industry and consumer trends are critical to staying relevant in future while meeting current demands.

The Group's intellectual capital is refined by continually:
- 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
- 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. In 2008, in response to the ICT industry's evolution beyond products and brands, Mustek repositioned 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. Mustek has since grown into a truly all-round ICT solutions provider, able to offer any corporate, office or home ICT-related solution on any scale throughout South Africa.

Nevertheless, sought-after brands attract our target audiences. Mustek accumulated a stable of global, leading brands such as Microsoft, Samsung, Huawei, Lenovo, Apple and many others. It is a formidable portfolio supported by South Africa's leading distribution and servicing network.

Mecer, our in-house brand and easily the most well recognised local South African ICT brand, continues to grow sales volumes across its growing portfolio of computer, power supply and peripheral ICT hardware.

Green energy solutions

Mustek has added green energy solutions to the ICT stack as a natural extension of our UPS business. What started as an internal trial of solar power for our server room and conveyor belts has become a strong business.

Excellence through international standards and awards

2021
- Mecer – Microsoft Commercial Device Partner of the Year
- Lenovo – Data Centre Group Distributor of the Year

2020
- Mecer – Microsoft OEM Partner of the Year
- Jane Nyati – Microsoft – Product Manager of the Year

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.

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), including the import, sales, assembly, testing, distribution, installation and servicing of computer-related equipment and technological standards.

OUR LEADERSHIP TEAM

A diverse and effective leadership team

David Kan (62)

Chief executive officer

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

Hein Engelbrecht (52)

Managing director

Hein Engelbrecht 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 (46)

Financial director

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

Pamella Marlowe (39)

Independent non-executive director

Pamella Marlowe is a Founder and Managing Director of DNM Consulting Pty Ltd and Pamag Incorporated. She holds a Bachelor of Accountancy degree from the University of the Witwatersrand, a HDipTax qualification from Nelson Mandela Metropolitan University and is a registered chartered accountant. She is a registered Tax Practitioner with SARS and a Registered Auditor with IRBA.

She is a member of the IoDSA and a Certified Director by the IoDSA. She is a member of the Finance Committee of St Peter's College, a Trustee of the Enviroserv BBOS Trust, the Chairperson of the Resultant Finance Risk and Audit Committee and a Non-Executive Director of Resultant Finance.

#relevant

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

Shelley Thomas (54)

Independent non-executive director

Shelley has over 20 years of experience sitting on boards and oversight committees in the public and private sectors. Her experience includes the head of forensic, compliance, and governance and that of financial director. Shelley previously sat on a regulatory board for 11 years, where she provided regulatory oversight for operating licences.

Rev Dr Vukile Mehana (68)

Non-executive chairman

Rev Dr Mehana is an ordained Minister of the Methodist Church. He is currently the Executive Chairman of Sizwe Africa IT Group. He is a former Chairperson of the Governing Council of the University of KwaZulu-Natal, the founder and former Chairperson of the Community Schemes Ombud Services (CSOS), a former Chairperson of the NHBRC and a former adjunct Professor at the University of Cape Town Graduate School of Business. 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) with DPhil from the University of Johannesburg and a DBA from the Commonwealth University.

Ralph Patmore (69)

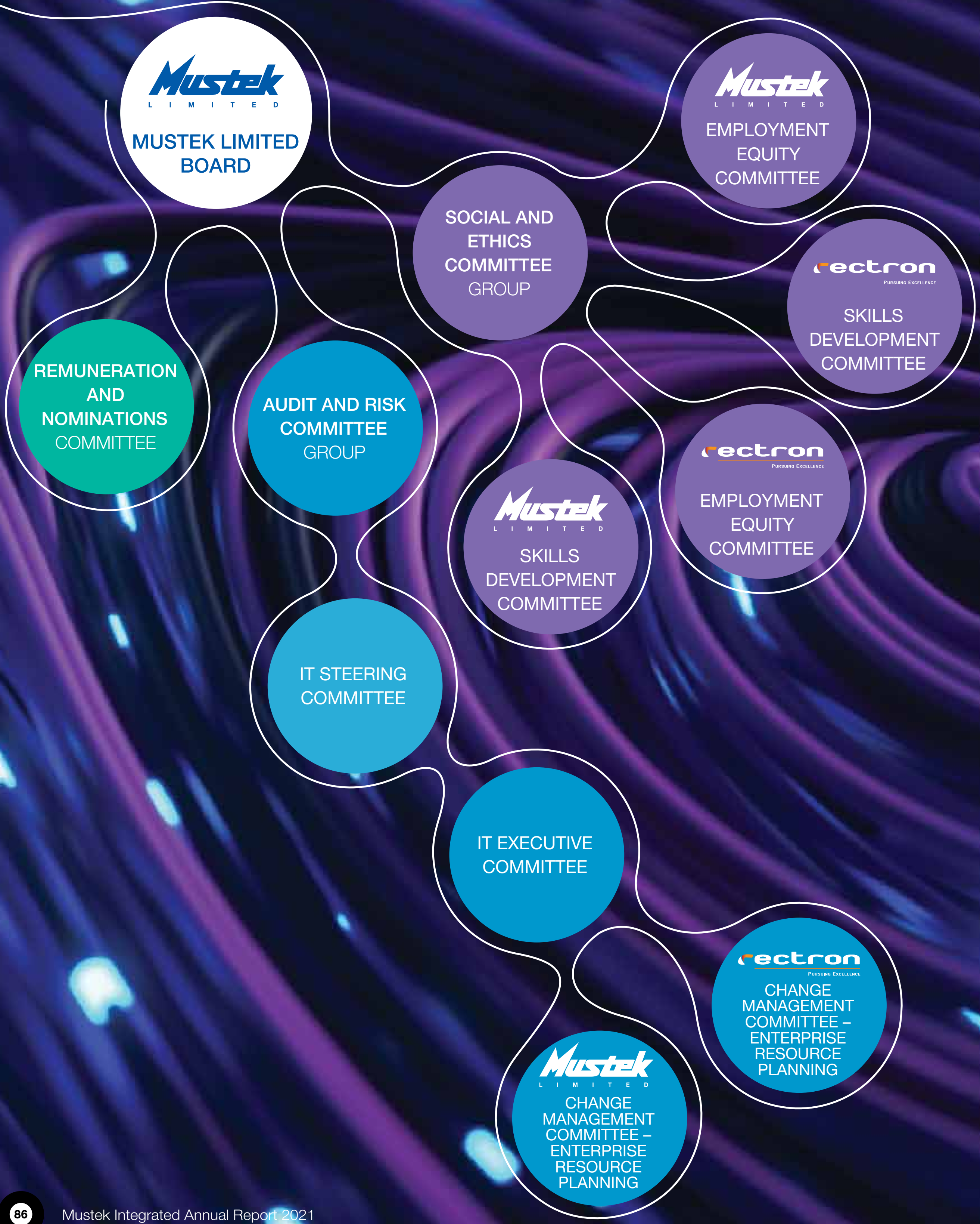
Lead independent non-executive director

Ralph Patmore 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 chief executive officer of Iliad Africa Limited from its inception in 1998 until his retirement in September 2008. He is also a non-executive director of Trellidor Holdings Limited, Calgro M3 Holdings Limited, and ARB Holdings Limited.

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** 68, Black male — Non-executive Board chairman
- **Ralph Patmore** 69, White male — Lead independent, non-executive director
- **Shelley Thomas** 54, Indian female — Independent non-executive director
- **Neels Coetzee** 46, White male — Financial director
- **Pamella Marlowe** 39, Black female — Independent non-executive director
- **David Kan** 62, Coloured male — Chief executive officer
- **Hein Engelbrecht** 52, White male — Managing director

SOCIAL AND ETHICS COMMITTEE

- **Shelley Thomas** 54, Indian female — Chairman
- **Spencer Chen** 45, Coloured male
- **Ralph Patmore** 69, White male
- **Standing invitees** — CEO, Mustek MD, Mustek FD, HR executive, Rectron FD and company secretary

IT STEERING COMMITTEE

- **David Kan** 62, Coloured male — Chairman
- **Olga-Lee Levey** 49, White female — Chief information officer
- **Dimitri Tserpes** 56, White male — Chief technical officer
- **Spencer Chen** 45, Coloured male — Rectron managing director
- **Hein Engelbrecht** 52, White male — Mustek managing director
- **Neels Coetzee** 46, White male — Group financial director
- **Alan Michas** 69, White male — Rectron Group IT manager
- **Christiaan Engelbrecht** 40, White male — Rectron Group Financial director

AUDIT AND RISK COMMITTEE

- **Pamella Marlowe** 39, Black female — Chairman
- **Ralph Patmore** 69, White male
- **Shelley Thomas** 54, Indian female
- **Standing invitees** — CEO, MD, FD, internal auditor, external auditor and company secretary

REMUNERATION AND NOMINATIONS COMMITTEE

- **Ralph Patmore** 69, White male — Chairman
- **Shelley Thomas** 54, Indian female
- **Vukile Mehana** 68, Black male
- **Standing invitees** — CEO, MD, FD, HR executive and company secretary

CEO – chief executive officer
MD = managing director
FD = financial director
HR = human resources

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 to provide 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 regularly reviewed to ensure the necessary authority is delegated 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 seven times during the 2021 financial year, two being special meetings and one being a strategy session, and the attendance is outlined 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	7/7		✓				
Independent non-executive directors	**Lindani Dhlamini**[1] *BSc, CA(SA), MBA*	Independent non-executive director	6/6	✓*					
	Mdu Gama[2] *BCom (Acc), MBA, PhD (Finance)*	Lead independent non-executive director	5/5	✓	✓	✓*	✓*	✓*	
	Ralph Patmore *BCom, MBL, Stanford Executive Programme*	Lead independent non-executive director	7/7	✓	✓*	✓			
	Shelley Thomas[3]	Independent non-executive director	1/1	✓	✓	✓*			
	Grathel Motau[4]	Independent non-executive director	1/1	✓*					
	Pamella Marlowe[5]	Independent non-executive director	0/0	✓*					
Executive directors	**David Kan** *BSc (Eng)*	Chief executive officer	6/7						✓*
	Hein Engelbrecht *BCom (Hons), CA(SA)*	Managing director	7/7				✓	✓	✓
	Neels Coetzee *BCom (Hons), CA(SA)*	Financial director	7/7						✓

** 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

1 – resigned effective 28 February 2021
2 – resigned effective 31 March 2021
3 – appointed effective 30 April 2021
4 – appointed effective 30 April 2021; resigned 13 May 2021
5 – appointed effective 16 July 2021

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.

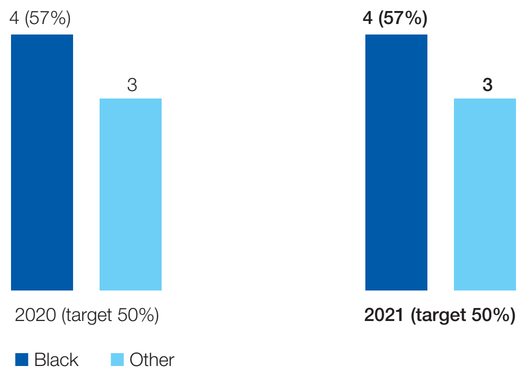
Apart from a candidate's experience, knowledge, skills, availability and likely fit, the committee also considers a candidate's integrity, as well as other directorships and commitments to ensure that the candidate will have sufficient time to discharge his/her role properly. The Remuneration and Nominations Committee also considers race and gender diversity in its assessment in line with its race and gender diversity policy. The committee reviewed and adopted the same targets of 50% of the Board to be black and 30% to be female. These targets were taken into consideration when Shelley Thomas and Pamella Marlowe were appointed. 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 himself/herself for election at the next annual general meeting. During the reporting period, Lindani Dhlamini and Mdu Gama resigned on 28 February 2021 and 31 March 2021 respectively. Shelley Thomas and Grathel Motau were appointed on 30 April 2021. Subsequently, Grathel Motau resigned on 13 May 2021. Pamella Marlowe was appointed in place of Grathel Motau on 16 July 2021. Shelley Thomas and Pamella Marlowe's appointments will be asked to be confirmed at the upcoming annual general meeting.

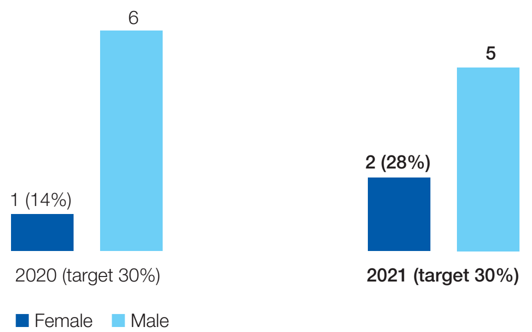
In line with the memorandum of incorporation, one-third of the directors are required to retire, and if available and eligible, stand for re-election at the company's annual general meeting. Those directors who have been in office for the longest, as calculated from the last re-election or appointment date, are required to stand for re-election. At the annual general meeting in 2021, Neels Coetzee will retire and be eligible for re-election.

The professional profiles of Shelley Thomas, Pamella Marlowe and Neels Coetzee can be found on pages 84 and 85 in the integrated annual report.

Board members



Gender



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 are maintained and enhanced, taking into account the Group's current and future needs.

CORPORATE GOVERNANCE REPORT continued

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. Following the resignation of Mdu Gama, Ralph Patmore was 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, supported by the managing director Hein Engelbrecht, 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 submitting the annual compliance certificate to the JSE Limited.

The company secretary ensures that, in accordance with the pertinent laws and regulatory framework, the proceedings and affairs of the Board and its members and the company itself are properly administered. The Board satisfied itself regarding Sirkien van Schalkwyk's work experience, performance, technical skills and overall competence 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 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 the 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 and 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 whistleblower 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.

In line with the requirements of the POPIA, the company's privacy policy is available on the website at **www.mustek.co.za**.

Independence and conflicts

During the year ended 30 June 2021, 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 28 to the annual financial statements.

During the reporting period, the declaration and conflict of interest policy was reviewed and updated. 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 on a substance-over-form basis, Ralph Patmore, Shelley Thomas and Pamella Marlowe were found to be independent. The categorisation of directors can be found on pages 84 and 85 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 the 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 was reviewed and 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 Securities Exchange News Service (SENS) in line with the JSE Listings Requirements.

Assessment of the Board

The Board was evaluated by way of questionnaires, as well as one-on-one interviews by the company secretary. The overall functioning of the Board was satisfactory. Management was commended in the way that they implemented and continuously implement the regulations around COVID-19. The ongoing strike negatively affected the operations of the Group but was well mitigated by management with limited business interruptions.

Focus areas include growth of the Group, sustainability, and the introduction of new products. It was further agreed to enhance the governance reporting structure of the Group, in light of compliance with paragraph 3.84(k) of the JSE Listings Requirements. The implementation of the Enterprise Management Programme (ERP) and full compliance with the POPIA, would be monitored 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**.

CORPORATE GOVERNANCE REPORT continued

Integrated effective control

As the custodian of governance, the Board is ultimately responsible for ensuring 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 ensure 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 company's memorandum of incorporation, the Companies Act and JSE Listings Requirements. Full compliance with the POPIA would be monitored.

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 operates 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, and 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 annually. 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 discharge their responsibilities properly. 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.

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 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.

During the reporting period, Lindani Dhlamini and Mdu Gama resigned as directors and members of the committee. Shelley Thomas and Grathel Motau were appointed in their stead effective 30 April 2021. Subsequently, Grathel Motau resigned as director and chairman of the committee. Pamella Marlowe was appointed as Audit and Risk Committee chairman effective 16 July 2021. The committee therefore comprises Pamella Marlowe (independent chairman), Ralph Patmore and Shelley Thomas.

The committee, appointed by the Board and approved by shareholders at the company's annual general meeting on 30 November 2020, 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 is adequately skilled, and all members possess the appropriate financial and related qualifications, skills, financial expertise and experience required to discharge their responsibilities. The appointment of the two new members will be confirmed by shareholders at the annual general meeting of 2021.

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.

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 the 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
- Considered the impact of COVID-19 in terms of the financial results.

During the 2021 financial year, the committee met on five occasions and meetings were scheduled in line with the Group's financial reporting cycle. A special meeting was held to review and approve the integrated annual report.

The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period, including considerations of the impact of COVID-19 on the operational and financial risks. Refer to page 126 of the annual financial statements for the Audit and Risk Committee report. The committee has also satisfied itself of the integrity of the integrated annual report and the sustainability information reported therein to be posted to shareholders.

Group IT Steering Committee

Within the Group, the Group IT Steering Committee is the committee responsible for the governance of technology and information. It 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

During the reporting period, Mdu Gama resigned as director and chairman of the committee. Shelley Thomas was appointed and took over chairmanship of the committee effect 30 April 2021. The committee therefore comprises Shelley Thomas (independent chairman), Ralph Patmore and Spencer Chen.

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 96 of the integrated annual report for the Social and Ethics Committee report.

CORPORATE GOVERNANCE REPORT continued

Employment Equity Committee and Skills Development Committee

Due to the national lockdown and the continued strike, various committee members had to resign or were dismissed. Temporary employees needed to be appointed to continue operations. For this reason, nominations commenced to replace these vacancies on the committees. No meetings were held during the reporting period due to social distancing limitations and the strike. Although Mdu Gama resigned as a director of Mustek, he agreed to continue to chair the Employment Equity Committee and Skills Development Committee for continuity.

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.

Mdu Gama resigned as director and member of the committee. Shelley Thomas was appointed on 30 April 2021 and replaced Mdu Gama as a member of the committee. The committee therefore comprises Ralph Patmore (independent chairman), Shelley Thomas and Vukile Mehana.

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 100 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	IT
Vukile Mehana *BTh, AMP, Top Management Programme Certificate on Public Enterprise, MBA*	Non-executive Board chairman		2/2		
Lindani Dhlamini[1] *BSc, CA(SA)*	Independent non-executive director	4/4*			
Mdu Gama[2] *BCom (Acc), MBA, PhD (Finance)*	Lead independent non-executive director	4/4	1/1	1/1*	
Ralph Patmore *BCom, MBL, Stanford Executive Programme*	Lead independent non-executive director	5/5	2/2*	2/2	
Shelley Thomas[3] *CA(SA)*	Independent non-executive director	1/1	1/1	1/1*	
Grathel Motau[4] *CA(SA)*	Independent non-executive director	1/1*			
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
IT – IT Steering Committee

1 – resigned 28 February 2021
2 – resigned 31 March 2021
3 – appointed 30 April 2021
4 – appointed 30 April 2021; resigned 13 May 2021

SOCIAL AND ETHICS COMMITTEE REPORT

Performance for 2021

This report is prepared in compliance with the requirements of the Companies Act. It describes how the committee discharged its responsibilities in respect of the financial year ended 30 June 2021 and will be presented to the shareholders at the annual general meeting to be held in November 2021.

Social and Ethics Committee members

During the reporting period, Mdu Gama resigned as director and chairman of the committee effective 31 March 2021. Shelley Thomas was appointed on 30 April 2021 as independent director and chairman of the committee. The composition of the committee is in line with King IV principles, namely that the majority of members are 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	1/1
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	2/2
Shelley Thomas	Independent member	CA(SA)	Over 25 years' experience in financial and risk management	1/1

Responsibilities of the committee

During the reporting period, the Social and Ethics Committee's terms of reference were reviewed. 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 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 Organisation for Economic Co-operation and Development 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 its 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 International Labour Organization 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 and found to be relevant. The Group's Code of Ethics and Business Conduct are included in 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 HR 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, and Rectron Proprietary Limited achieved a level 1.

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

Scorecard element	BEE score	Planned future focus areas
Equity ownership	25.00	Focus on increasing black ownership.
Management control (including employment equity)	14.27	Compliance to five-year employment equity plan. Increased compliance with equity aligned recruitment policies.
Skills development	24.17	One of our core focus areas, in support with the country's priority of educational focus.
Enterprise and supplier development: • Preferential procurement • Enterprise development • Supplier development.	45.08	Focus on support to small and medium-sized enterprises (SMEs) and exempted micro-enterprises. Stricter compliance to procurement policies.
Socio-economic development	12.00	Alignment with the country's focus on uplifting previously disadvantaged communities, particularly in the areas of ICT and education.

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.

Employee engagement is a particular focus area during the COVID-19 lockdown period, with employees working from home if their roles allow. The Group sends out regular email communication with information and guidance to our employees. During the lockdown, information is shared on WhatsApp groups by line managers based on formal communications shared by executives via email. This system remains in place as our employees return to work to ensure that critical information reaches everyone who may miss it on email. As our employees return to work, the Group continues to communicate safety measures via regular updates, educational posters and social distancing stickers.

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.

SOCIAL AND ETHICS COMMITTEE REPORT continued

Stakeholder group	Key issues	Our response thereto
Shareholders and investor community	Business sustainability, share liquidity, debt-to-equity ratio, ROI good governance	Operate with the optimal capital structure, review of debt facility, investor presentations and roadshows, face-to-face meetings, strategy execution, risk management The Board is committed to achieving its goals with integrity, while being a responsible corporate citizen
Customers	Legislative and regulatory landscape, Consumer Protection Act compliance, POPIA legislation, stock availability to meet increasing demand Product quality, availability and after-sales support (lifecycle management) Customer service Financial stability	Meet ever-changing ICT needs with 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	Job security during COVID-19, working conditions, benefits, employee welfare, training, mentoring, succession planning, remuneration, reward and recognition, health and safety, water saving, POPIA legislation Good governance	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, labour desks, local recruitment, employee welfare, local vendors, CSI community support, local school support, support EMEs and SMMEs, societal disparities Environmental impacts and “green” in products	Focus on youth employment, recruitment drives to source staff from local communities, trust in the recruitment process, utilisation of local service providers, effective reporting, brand support, community support through CSI initiatives Mustek reduced its impact on the environment by managing its energy consumption and waste disposal in line with best practice
Government and regulatory bodies	Compliance with industry regulation, skills development, B-BBEE, employment equity, JSE Listings Requirements, POPIA and all other legislations	Legislative and regulatory compliance, transformation and B-BBEE, risk management, POPIA and all other legislation
Suppliers	Preferential supplier listing, products and pricing, empowerment rating, enterprise supplier development Market penetration	Underwriting tender process established, product availability, preferential supplier agreements, empowered supplier status, transformation strategy, enterprise supplier development negotiations Maintaining strong relationships with suppliers is fundamental to the Group’s ongoing success Anticipate ICT trends internationally and locally
Media	Results announcements, media statements, editorials, advertisements, meetings	Investor relations, public relations, communications and marketing strategy, responsible to socio-economic issues
Unions	Ongoing strike of the Communications Workers Union	Various correspondence to the union representative

Sustainability

The Group's sustainability framework focuses on energy and emissions, waste management, economic factors and product responsibility. These matters are elaborated upon further in this integrated 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, while 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 practices. These continue to improve annually and are reported on in this integrated report.

Covid-19 compliance

The Mustek Group continued with control measures, including systems much more stringent than required by the government. The COVID-19 committee, comprising 10 employees, meets regularly to ensure that all policies and procedures are adhered to.

Testing, tracing and tracking mechanisms are in place. Should an employee show symptoms of infection, they are encouraged to stay at home and get tested. Should the results come back negative, the employee returns to work. If the test is positive, we identify the contacts so that they can be quarantined and tested.

During the reporting period, Mustek continued to implement the following:

- COVID-19 policy
- risk assessment and SOP
- medical surveillance procedure
- reporting of possible infection procedure
- drafting and roll-out of new induction presentation
- documents drafted in line with government regulations.

Evaluation of committee performance

The committee was evaluated during the reporting period by way of questionnaires and one-on-one interviews with the company secretary. The result was that the committee's performance was satisfactory. Weak areas were identified and the following focus areas agreed for monitoring in the current financial year:

- Fully implementing the POPIA;
- Enhancing report under Environmental, Social and Governance (ESG) areas; and
- Reconstitute the Employment Equity Committee and Skills Development Committee following the strike.

Shelley Thomas
Social and Ethics Committee chairman

8 September 2021

REMUNERATION AND NOMINATIONS COMMITTEE REPORT

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

PART I: REPORT FROM THE REMUNERATION AND NOMINATIONS COMMITTEE

In reviewing the committee's composition during the year, it was decided that, due to the size of the company, the Remuneration and Nominations Committee will 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.
The targets were reviewed during the reporting period and remain unchanged at 50% and 30% for race and gender respectively. One black female and one Indian female were appointed during the reporting period.

Remuneration and Nominations Committee members

During the reporting period, Mdu Gama resigned as member of the committee and was replaced by Shelley Thomas effective 30 April 2021. The committee comprises three non-executive directors, two of whom are independent. The committee therefore comprises Ralph Patmore (independent chairman), Shelley Thomas and Vukile Mehana. 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 are 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	1/1
Vukile Mehana	Non-executive member (nominations 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
Shelley Thomas	Independent member	CA(SA)	Over 25 years' experience in financial and risk management	1/1

Role of the Remuneration and Nominations Committee

The Remuneration and Nominations Committee has reviewed the terms of reference, approved by the Board, setting out its duties and responsibilities.

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
- 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
- Sets 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 the chief executive officer and senior management appointments are developed and implemented and confirmed by the Board.

Committee evaluation

The committee conducted a self-evaluation by way of questionnaires and one-on-one interviews with the company secretary. The results were that the performance of the committee was satisfactory. The following focus areas were agreed on for monitoring by the committee during the current financial period:

- Strengthen the Human Resources function; and
- Formally benchmarking the executive salaries.

Ralph Patmore
Remuneration and Nominations Committee chairman

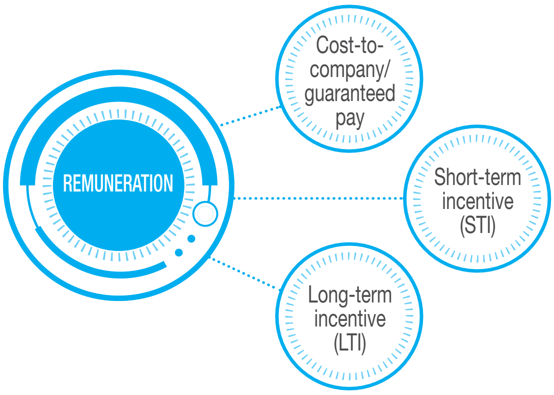
8 September 2021

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 are predominantly guided by the business strategy. During the reporting period, the remuneration policy and framework were enhanced in line with King IV in a 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:



Remuneration structure

	Cost-to-company		Variable pay	
Element	**Base pay**	**Benefits**	**STI**	**LTI**
Mustek Group	• Monthly salary • Hourly wage.	• Pension fund • Funeral benefit • Travel allowance.	• Annual incentive • Bonus scheme.	• Share appreciation 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.

Employees receive guaranteed packages which might include membership of one of the Group's medical healthcare 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 2021. An increase of average of 5.5% was implemented, subject to performance evaluations.

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 STI 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 2022 weighting for STIs 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

- ROE < 7.5% = score of 0% and only the discretionary portion of the incentive will qualify
- ROE of 7.5% = score of 50%
- ROE between 7.5% and 11.5% = score is calculated on a sliding scale ranging between 50% and 100%
- ROE > 11.5% = score of 100%.

PBT

IFRS 2 variations to the budget would be added back 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% would be 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 four 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.

Mustek's Exco 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.

REMUNERATION AND NOMINATIONS COMMITTEE REPORT
continued

Long-term incentive

The LTI plan 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 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 weighted average market price of the ordinary shares of the company on the JSE, as certified by the company secretary, for the 30 days of June each year. 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 exercising 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. The maximum payment per tranche is capped at R20 million.

Details of the benefits held by the executive directors under the existing LTI schemes are detailed in note 29 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 are recommended by the committee and will be tabled for approval by the shareholders at the annual general meeting on 29 November 2021.

Non-executive directors receive a base fee for their main Board and committee 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 fee survey for "small-cap technology" issued by PricewaterhouseCoopers annually.

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

Shareholders will be requested to approve an increase of 5% to the director fees as set out in the notice of annual general meeting on page 112 and below:

Category	Recommended remuneration
Chairman	R446 750 annual retainer
Board member	R115 200 annual retainer R17 050 per meeting attended
Audit and Risk Committee	
Chairman	R92 100 annual retainer R21 575 per meeting attended
Member	R58 275 annual retainer R14 175 per meeting attended
Remuneration and Nominations Committee	
Chairman	R68 100 annual retainer R20 000 per meeting attended
Member	R50 450 annual retainer R13 400 per meeting attended
Social and Ethics Committee	
Chairman	R60 350 annual retainer R10 975 per meeting attended
Member	R12 300 annual retainer R5 300 per meeting attended

Use of external remuneration advisers

From time to time, advice from external remuneration advisers (specified above) is obtained to ensure that the remuneration policy and our implementation 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 a 98.87% and 66.93% non-binding advisory vote in favour of its remuneration policy and implementation report respectively at the annual general meeting held on 30 November 2020. Shareholders were invited via SENS to engage with the Remuneration and Nominations Committee in any of the questions they had in terms of the remuneration policy or implementation report. No shareholders attended the meeting and the invitation was extended to 30 June 2021. No shareholders took up the extended invitation.

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 at the annual general meeting to be held on 29 November 2021.

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 102 to 105 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 2021:

	2021 R000	2020 R000
Executive directors	28 069	17 889
Non-executive directors	1 612	1 669
Total	**29 681**	19 558

Executive directors' remuneration

Executive directors	Basic salary R000	Expense allowances R000	Pension fund contributions R000	Bonus and performance related R000	Share appreciation rights exercised R000	Fringe benefit on interest-free loan R000	Total R000
2021	10 209	701	–	10 474	4 672	2 013	28 069
DC Kan	3 709	335	–	3 883	1 940	1 207	11 074
H Engelbrecht	3 633	270	–	3 747	1 374	660	9 684
CJ Coetzee	2 867	96	–	2 844	1 358	146	7 311

Executive directors	Basic salary R000	Expense allowances R000	Pension fund contributions R000	Bonus and performance related R000	Share appreciation rights exercised R000	Fringe benefit on interest-free loan R000	Total R000
2020	9 439	696	457	1 241	2 877	3 179	17 889
DC Kan	3 414	330	183	460	1 128	1 902	7 417
H Engelbrecht	3 333	270	186	444	959	1 039	6 231
CJ Coetzee	2 692	96	88	337	790	238	4 241

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, 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 29 November 2021 and are stated on page 112 of the notice of annual general meeting included in this integrated annual report.

The total amount spent on non-executive directors' fees for 2021 and 2020 are as follows:

Non-executive director	2021 Fees for services R000	2020 Fees for services R000
VC Mehana	499	485
LL Dhlamini	226	335
ME Gama	317	447
RB Patmore	432	402
S Thomas	94	–
G Motau	44	–
	1 612	1 669

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.

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)

As a result of the impact of COVID-19 and the restrictions placed on public gatherings, shareholders are welcome to participate in the annual general meeting electronically by completing the form following the proxy.

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 Monday, 29 November 2021 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 2021; to transact the business set out in this notice of annual general meeting 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

	2021
Record date in order to be eligible to receive the annual general meeting notice	Friday, 22 October
Annual general meeting notice posted to shareholders	Friday, 29 October
Last date to trade in order to be eligible to vote at the annual general meeting	Tuesday, 16 November
Record date in order to be eligible to vote at the annual general meeting	Friday, 19 November
Submit forms of proxy for administration purposes for the annual general meeting (by 10:00)	Thursday, 25 November
Annual general meeting (at 10:00)	Monday, 29 November
Results of the annual general meeting released on SENS	Monday, 29 November

1. Shareholders entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy or 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 Thursday, 25 November 2021. 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 2021 as set out in the company's integrated annual report 2021 of which this annual general meeting 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 special resolution must be exercised in favour thereof.
- For ordinary resolution number 10 to be adopted, 75% or more of the voting rights exercised on such ordinary resolution must be exercised in favour thereof.

Ordinary business

1. **Ordinary resolution number 1: Confirmation of the appointment of Shelley Thomas as a director**

   "Resolved that Shelley Thomas, who was appointed as an independent non-executive director of the company effective 30 April 2021, be and is hereby re-elected as director."

   An abbreviated curriculum vitae in respect of Shelley Thomas may be viewed on page 85 of the integrated annual report of which this notice forms part.

2. **Ordinary resolution number 2: Confirmation of the appointment of Pamella Marlowe as a director**

   "Resolved that Pamella Marlowe, who was appointed as an independent non-executive director of the company effective 16 July 2021, be and is hereby re-elected as director."

   An abbreviated curriculum vitae in respect of Pamella Marlowe may be viewed on page 84 of the integrated annual report of which this notice forms part.

   ### Reason for ordinary resolutions number 1 and 2

   The reason for ordinary resolutions number 1 and 2 is that article 5.1.4 of the memorandum of incorporation of the company and, to the extent applicable, the Companies Act, requires that director appointments must be approved by shareholders at the next annual general meeting.

3. **Ordinary resolution number 3: re-election of Neels Coetzee**

   "Resolved that Neels Coetzee, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

   An abbreviated curriculum vitae in respect of Neels Coetzee may be viewed on page 84 of the integrated annual report of which this notice forms part.

   The Remuneration and Nominations Committee has considered Neels Coetzee's past performance and contribution to the company and, in accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that Neels Coetzee is re-elected as a director of the company.

   ### Reason for ordinary resolution number 3

   The reason for ordinary resolution number 3 is that article 5.1.8 of the memorandum of incorporation of the company and, to the extent applicable, the Companies Act, requires that a component of the directors rotate at the annual general meeting and, being eligible, may offer themselves for re-election as directors.

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

   "Resolved that the appointment of BDO South Africa Inc. as independent auditors of the company for the ensuing year (the designated auditor being Vanessa de Villiers) 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.

NOTICE OF ANNUAL GENERAL MEETING continued

5. **Ordinary resolution number 5: Appointment of Pamella Marlowe as a member and chairman of the Audit and Risk Committee**
   "Resolved that Pamella Marlowe 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 Pamella Marlowe may be viewed on page 84 of the integrated annual report of which this notice forms part.

6. **Ordinary resolution number 6: Appointment of Ralph Patmore as a member of 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 85 of the integrated annual report of which this notice forms part.

7. **Ordinary resolution number 7: Appointment of Shelley Thomas as a member of the Audit and Risk Committee**
   "Resolved that Shelley Thomas 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 Shelley Thomas may be viewed on page 85 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 the 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 102 to 105 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."

   Ordinary resolution 8.2

   "Resolved that the implementation report, as set out on pages 106 and 107 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."

   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. Should these resolutions be voted against by 25% or more of the voting rights exercised, the Board will enter into an engagement process to ascertain the reasons for the dissenting votes and address legitimate and reasonable objections and concerns raised.

9. **Ordinary resolution number 9: Placing unissued shares under directors' control**
   "Resolved that the unissued shares in the company, limited to 5% of the number of shares in issue at 30 June 2021, 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, save that the aforementioned 5% limitation shall not apply to any shares issued in terms of a rights offer."

Reason for ordinary resolution number 9

The reason for ordinary resolution number 9 is that the Board requires authority from shareholders in terms of article 3 of its memorandum of incorporation to issue shares in the company. This general authority, once granted, allows the Board from time to time, when it is appropriate to do so, to issue ordinary shares as may be required inter alia in terms of capital raising exercises, and to maintain a healthy capital adequacy ratio that may be required from time to time. This general authority is subject to the restriction that it is limited to 5% of the number of shares in issue at 30 June 2021 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% (3 300 000 shares) of the issued share capital at 30 June 2021, 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 that may be issued shall be based on the number of securities of that class in issue at the date of such application less any securities of the class issued during the current financial year, provided that any securities of that class to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were securities in issue at the date of application
- in determining the price at which an issue of shares will be made in terms of this authority the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over the 30 trading days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE should be consulted for a ruling if the securities have not traded in such 30 business day period
- any such issue will only be made to public shareholders as defined in paragraphs 4.25 to 4.27 of the Listings Requirements of the JSE and not to related parties
- 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."

NOTICE OF ANNUAL GENERAL MEETING continued

The reason for ordinary resolution number 11

The reason for ordinary resolution number 11 is to ensure that the resolutions voted favourably upon are 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 2021:

Category	Recommended remuneration
Board chairman	R446 750 annual retainer
Board member	R115 200 annual retainer
	R17 050 per meeting attended
Audit and Risk Committee	
Chairman	R92 100 annual retainer
	R21 575 per meeting attended
Member	R58 275 annual retainer
	R14 175 per meeting attended
Remuneration and Nominations Committee	
Chairman	R68 100 annual retainer
	R20 000 per meeting attended
Member	R50 450 annual retainer
	R13 400 per meeting attended
Social and Ethics Committee	
Chairman	R60 350 annual retainer
	R10 975 per meeting attended
Member	R12 300 annual retainer
	R5 300 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
- 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 section 5.72(g) of the Listings Requirements of the JSE."

Reason and effect of special resolution number 3

The reason for and effect of special resolution number 3 is to grant the directors a general authority in terms of its memorandum of incorporation and the Listings Requirements of the JSE for the acquisition by the company and/or its subsidiaries of shares issued by it on the basis reflected in the special resolution.

In terms of the Listings Requirements of the JSE any general repurchase by the company and/or its subsidiaries must, inter alia, be limited to a maximum of 20% of the company's issued share capital in any one financial year of that class at the time the authority is granted.

Other business

To transact such other business as may be transacted at an annual general meeting or raised by shareholders with or without advance notice to the company.

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 84 and 85)
   - Major shareholders (page 131)
   - Directors' interests in securities (page 210)
   - Share capital of the company (page 193)
   - Contingent liabilities (page 205)
   - Responsibility statement (page 114)
   - Material changes (page 114).

NOTICE OF ANNUAL GENERAL MEETING continued

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
   - 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 has 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
   - 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 annual general meeting notice.

By order of the Board

S van Schalkwyk
Company secretary

28 October 2021

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)

Note: All beneficial shareholders that have dematerialised their shares through a CSDP or broker, other than those which are in "own-name", must not complete this form.

Certificated shareholders and/or dematerialised shareholders with "own-name" registration must either provide their CSDP or broker with their voting instructions, or alternatively, should they wish to attend the annual general meeting in person, they should request the CSDP or broker to provide them with a letter of representation in terms of the custody agreement entered into between themselves and the CSDP or broker.

For use by Mustek shareholders at an annual general meeting held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand, or to participate electronically, on Monday, 29 November 2021 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 2021			
Ordinary resolution number 1: Confirmation of the appointment of Shelley Thomas as a director			
Ordinary resolution number 2: Confirmation of the appointment of Pamella Marlowe as a director			
Ordinary resolution number 3: To re-elect Neels Coetzee as director			
Ordinary resolution number 4: Confirmation of auditor's appointment			
Ordinary resolution number 5: Appointment of Pamella Marlowe to Audit and Risk Committee			
Ordinary resolution number 6: Appointment of Ralph Patmore to Audit and Risk Committee			
Ordinary resolution number 7: Appointment of Shelley Thomas to Audit and Risk Committee			
Ordinary resolution number 8:			
8.1 Endorsement of the 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 2021

Signature

Please read the notes on the reverse side hereof.

NOTES TO THE FORM OF PROXY

1. Shareholders' instructions to the proxy must be indicated in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the annual general meeting as he/she deems fit. A shareholder may instruct the proxy to vote less than the total number of shares held by inserting the relevant number of shares in the appropriate box provided. A shareholder who fails to do so will be deemed to have authorised the proxy to vote or abstain from voting, as the case may be, in respect of all the shareholders' votes exercisable at the annual general meeting.
2. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity (e.g. for a company, close corporation, trust, pension fund, deceased estate, etc.) must be attached to this form of proxy.
3. Any alteration or correction made to this form of proxy must be initialled by the signatory/(ies).
4. A minor must be assisted by the minor's parent or guardian unless the relevant documents establishing the minor's legal capacity are produced or have been registered by the share registrars of the company.
5. The chairman of the annual general meeting may accept any form of proxy which is completed other than in accordance with these notes if the chairman of the annual general meeting is satisfied as to the manner in which the shareholder wishes to vote.

Summary in term of section 58(8)(b)(i) of the Companies Act, 2008 as amended

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company for the purpose of appointing a proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, 2008, as amended, which summary is set out below:

A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder.

- A shareholder may appoint two or more persons concurrently as proxies and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder.
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person.
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation.
- A shareholder may revoke a proxy appointment in writing.
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder.
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.

ELECTRONIC PARTICIPATION APPLICATION FORM

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)

Instructions

Shareholders or their proxies have the right, as provided for in the company's memorandum of incorporation and the Companies Act, to participate in the annual general meeting by way of electronic communication.

Shareholders or their duly appointed proxies who wish to participate in the annual general meeting must complete this application form and email it (together with the relevant supporting documents referred to below) to the company's transfer secretaries at proxy@computershare.co.za and to the company at sirkien@juba.co.za as soon as possible, but in any event by no later than 10:00 on Thursday, 25 November 2021.

Upon receiving a completed electronic participation application form, the company's transfer secretaries will follow a verification process to verify each applicant's entitlement to participate in and/or vote at the annual general meeting. The company's transfer secretaries will provide the company with the email address of each verified shareholder or their duly appointed proxy (each, "a participant") to enable the company to forward the participant a Microsoft Teams meeting invitation required to access the annual general meeting.

Mustek will send each participant a Microsoft Teams meeting invitation with a link to "Join the Microsoft Teams Meeting" on 25 November 2021 to enable participants to link up and participate electronically in the annual general meeting. This link will be sent to the email address nominated by the participant in the table below.

Please note:

The electronic platform to be utilised for the annual general meeting does not provide for electronic voting during the meeting. Accordingly, shareholders are strongly encouraged to submit votes by proxy in advance of the annual general meeting, by completing the form of proxy and lodging the completed proxy form together with this electronic participation application form with the company's transfer secretaries.

Participants who indicate in this form that they wish to vote during the electronic meeting, will be contacted by the company's transfer secretaries to make the necessary arrangements.

Participants will be liable for their own network charges in relation to electronic participation in and/or voting at the annual general meeting. Any such charges will not be for the account of the company's transfer secretaries or Mustek who will also not be held accountable in the case of loss of network connectivity or other network failure due to insufficient airtime, internet connectivity, internet bandwidth and/or power outages which prevents any such participant from participating in and/or voting at the annual general meeting.

By signing this application form, the participant indemnifies and holds the company harmless against any loss, injury, damage, penalty or claim arising in any way from the use of the telecommunication lines to participate in the annual general meeting or any interruption in the ability of the participant to participate in the annual general meeting via electronic communication, whether or not the problem is caused by any act or omission on the part of the participant or anyone else, including without limitation the company and its employees.

ELECTRONIC PARTICIPATION APPLICATION FORM continued

Information required for participation by electronic communication at the annual general meeting:

Full name of shareholder: ______________________________

Identity or registration number of shareholder: ______________________________

Full name of authorised representative (if applicable): ______________________________

Identity number of authorised representative: ______________________________

Email address: ______________________________

Note: This email address will be used by the company to share the Microsoft Teams meeting invitation required to access the annual general meeting electronically.

Cell phone number: ______________________________

Telephone number, including dialling codes: ______________________________

Note: The electronic platform to be utilised for the annual general meeting does not provide for electronic voting during the meeting. Accordingly, shareholders are strongly encouraged to submit votes by proxy in advance of the annual general meeting, by completing the proxy form.

Indicate (by marking with an 'X') whether:

☐ votes will be submitted by proxy (in which case, please enclose the duly completed proxy form with this form); or

☐ the participant wishes to exercise votes during the annual general meeting. If this option is selected, the company's transfer secretaries will contact you to make the necessary arrangements.

By signing this application form, I consent to the processing of my personal information above for the purpose of participating in Mustek's annual general meeting.

Signed at ______________________ on ______________________ 2021

Signature ______________________________

Documents required to be attached to this application form

1. In order to exercise their voting rights at the annual general meeting, shareholders who choose to participate electronically may appoint a proxy, which proxy may participate in the annual general meeting, provided that a duly completed proxy form has been submitted in accordance with the instructions on that form, and as envisaged in the notice of the annual general meeting.
2. Documentary evidence establishing the authority of the named person, including any person acting in a representative capacity, who is to participate in the annual general meeting, must be attached to this application.
3. A certified copy of the valid identity document/passport of the person attending the annual general meeting by electronic participation, including any person acting in a representative capacity, must be attached to this application.

Applications to participate by electronic communication will only be considered if this application form is completed in full, signed by the shareholder, its proxy or representative, and delivered as detailed above. The company may in its sole discretion accept any incomplete application forms.

CONTENTS

ANNUAL FINANCIAL STATEMENTS

GENERAL INFORMATION

Mustek Limited

Registered office
322 15th Road, Randjespark, Midrand, 1685

Auditors
BDO South Africa Incorporated
Chartered Accountants (S.A.) Registered Auditors

Secretary
Sirkien Van Schalkwyk

Company registration number
1987/070161/01

Level of assurance
These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

Preparer
The annual financial statements were internally compiled by: Shabana Aboo Baker Ebrahim (supervised by Neels Coetzee FD) CA(SA).

DIRECTORS' RESPONSIBILITY AND APPROVAL

The directors are required in terms of the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included therein. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Group and company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards (IFRS). The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and company and all employees are required to maintain the highest ethical standards in ensuring the Group and company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group and company is on identifying, assessing, managing and monitoring all known forms of risk across the Group and company. While operating risk cannot be fully eliminated, the Group and company endeavour to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

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 external auditors are responsible for independently auditing and reporting on the Group and company's annual financial statements. The annual financial statements have been examined by the Group's external auditors and their report is presented on pages 122 to 125.

The annual financial statements set out on pages 136 to 213, which have been prepared on the going concern basis were approved by the Board on 8 September 2021 and were signed on their behalf by:

VC Mehana

DC Kan

THE CEO AND FINANCE DIRECTOR RESPONSIBILITY STATEMENT

The directors, whose names are stated below, hereby confirm that:

a) the consolidated and separate annual financial statements set out on pages 136 to 213, fairly present in all material respects the financial position, financial performance and cash flows of Mustek Limited (the issuer) in terms of IFRS;

b) no facts have been omitted or untrue statements made that would make the consolidated and separate financial statements false or misleading;

c) internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer; and

d) the internal financial controls are adequate and effective and can be relied upon in compiling the consolidated and separate financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the Audit and Risk Committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.

DC Kan
8 September 2021

CJ Coetzee
8 September 2021

COMPANY SECRETARY'S CERTIFICATION

In terms of section 88(2)(e) of the Companies Act of South Africa, as amended, I certify that for the year ended 30 June 2021 the company 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.

Sirkien Van Schalkwyk
Company secretary
8 September 2021

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2021

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 and company) set out on pages 136 to 213, which comprise the consolidated and separate statements of financial position as at 30 June 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate 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 Mustek Limited as at 30 June 2021, 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 consolidated and separate financial statements* section of our report. We are independent of the Group and company in accordance with the Independent Regulatory Board of Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards*). 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.

BDO South Africa Incorporated
Registration number: 1995/002310/21
Practice number: 905526
VAT number: 4910148685

Chief Executive Officer: ME Stewart

A full list of all company directors is available on www.bdo.co.za

The company's principal place of business is at The Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg where a list of directors' names is available for inspection. BDO South Africa Incorporated, a South African personal liability company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventory (this key audit matter relates to the consolidated and separate financial statements)	
As disclosed in note 17 of the consolidated and separate financial statements, the Group and company carried inventory of R1.4 billion (2020: R1.6 billion) and R825 million (2020: R987 million) respectively as at year-end. An allowance for inventory obsolescence amounting to R127 million (2020: R58 million) and R76 million (2020: R50 million) has been raised in the Group and company results respectively. In terms of IAS 2 *Inventories*, management assesses the net realisable value and the requirement for write-downs of inventory items at year-end. The Group and company's inventory is vulnerable to obsolescence, as it is subject to constantly evolving technology and products are continuously being replaced by newer products in the market. The allowance for obsolescence is therefore subject to high levels of judgement and estimation uncertainty.	In evaluating the allowance for inventory obsolescence, we performed various audit procedures, including the following: • assessed the design and implementation of the Group and company's relevant controls relating to the determination of the allowance; • performed year-on-year analytical procedures on obsolescence levels and write-down rates; • obtained calculations for the allowance from management and recalculated the arithmetical accuracy of the calculations; • through discussions with management, obtained an understanding of the inventory obsolescence accounting policy, including methodologies, assumptions and estimates used by management to calculate the allowance. Evaluated the reasonableness thereof through comparison with the prior year allowance for consistency and our knowledge of industry norms; • using Computer Assisted Audit Techniques, tested the accuracy of the ageing of inventory, as well as the sales rate of inventory on hand at year-end as these are the primary determinants of the need for the allowance; • obtained and assessed, through inspection of supporting documentation, management's explanations relating to a sample of inventory items for which a write-down to net realisable value was provided, and considered the reasonableness thereof; • using Computer Assisted Audit Techniques, generated a net realisable value exceptions report and assessed whether adequate allowances were raised on inventory items identified as being sold at a price less than cost; and • assessed the adequacy of the accounting policy and related disclosures for inventory against the requirements of IAS 2.

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 2021", which includes the Directors' Report, the Audit and Risk Committee's Report and the Company Secretary's Certification 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.

INDEPENDENT AUDITOR'S REPORT continued

for the year ended 30 June 2021

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, actions taken to eliminate threats or safeguards applied.

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 BDO South Africa Incorporated has been the auditor of Mustek Limited for two years.

BDO South Africa Inc.

BDO South Africa Incorporated
Registered Auditors

VR de Villiers
Director
Registered Auditor

8 September 2021

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

AUDIT AND RISK COMMITTEE REPORT

Annual financial statements for the year ended 30 June 2021

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 King IV™ 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
- 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.

1. Members of the Audit and Risk Committee and attendance of meetings

During the reporting period, Lindani Dhlamini and Mdu Gama resigned as directors and members of the committee. Grathel Motau and Shelley Thomas were appointed as chairman and member respectively effective 30 April 2021. Subsequently Grathel Motau resigned on 13 May 2021 and Pamella Marlowe was appointed in her stead as chairman effective 16 July 2021.

The Audit and Risk Committee therefore consists of Pamella Marlowe (chairman), Shelley Thomas and Ralph Patmore, all three independent non-executive directors. The chief executive officer, managing director, financial director, partner of the external auditor 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[1]	Independent chairman	BSc, CA(SA)	Over 20 years' experience as a chartered accountant	3/3
Mdu Gama[2]	Independent member	BCom (Acc), MBA, PhD (Finance)	Over 30 years' experience in financial management	3/3
Ralph Patmore	Independent member	BCom, MBL, Stanford Executive Programme	Over 30 years' experience in management, strategy, mergers and acquisitions and accounting matters	4/4
Shelley Thomas[3]	Independent member	CA(SA)	Over 25 years' experience in financial and risk management	1/1
Grathel Motau[4]	Independent chairman	CA(SA)	Over 15 years' financial management experience	1/1
Pamella Marlowe[5]	Independent chairman	CA(SA)	Over 15 years' experience as a chartered accountant	0/0

1 – Resigned 28 February 2021.
2 – Resigned 31 March 2021.
3 – Appointed 30 April 2021.
4 – Appointed 30 April 2021, resigned effective 13 May 2021.
5 – Appointed 16 July 2021.

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

2. Role of the Audit and Risk Committee

The Audit and Risk Committee reviewed its terms of reference, setting out its duties and responsibilities as prescribed in the Companies Act, King IV and incorporating additional duties delegated to it by the Board.

The committee:

- fulfils the duties that are assigned to it by the Companies 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
- monitors that an effective control environment in the Group is maintained
- provides the financial director, external auditor 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 auditor, 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 Companies 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
- conducts annual reviews of the Audit and Risk Committee's work plan and terms of reference
- assesses the performance and effectiveness of the Audit and Risk Committee and its members on a regular basis
- reviewed the proactive monitoring process in terms of the letter from the JSE dated 19 February 2021, including Annexure 3
- considered the impact of COVID-19 on the financial results.

3. Execution of functions during the year

The committee is satisfied that, for the 2021 financial year, it has performed all the functions required to be performed by an Audit and Risk Committee as set out in the Companies Act, JSE Listings Requirements, King IV 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 Companies Act during the year under review as follows:

3.1 External audit

The committee among other matters:

- nominated BDO South Africa Inc. and Vanessa de Villiers as the external auditor and designated auditor respectively to shareholders for appointment as auditor for the financial year ended 30 June 2021, 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 BDO South Africa Inc. and reviewed the formal letter of their latest inspection performed by IRBA on the firm and Vanessa de Villiers, including any findings to the firm and/or individual in line with paragraph 22.15(h) 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
- confirmed that no non-audit services were conducted by BDO South Africa Inc.
- 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
- considered any reported control weaknesses, management's response for their improvement and assessed their impact on the general control environment.

AUDIT AND RISK COMMITTEE REPORT continued

3.2 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 and compliance with its charter
- noted that 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.

3.3 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.

3.4 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, taking into consideration the impact of COVID-19
- 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
- oversaw 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.

3.5 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 the critical accounting estimates and judgements in the accounting policies 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:

- Inventory valuation in terms of obsolescence: The net realisable value of each individual inventory item is subject to high levels of judgement and estimation uncertainty.

3.6 Risk management

The committee:

- oversaw the management of risks as per the risk management register
- received quarterly updates in terms of changes in risk ratings
- monitored complaints received via the Group's whistle-blowing service
- reviewed and recommended to the Board for approval the risk management policy and plan as well as the combined assurance model.

3.7 Information technology

The committee:

- oversaw the value delivery on IT as an enabler to support the strategy
- monitored that intellectual property contained in information systems is protected
- monitored that adequate business arrangements are in place for disaster recovery
- monitored that all personal information is treated by the company as an important business asset and is identified

- reviewed and recommended to the Board for approval any policies proposed by management and relevant to the areas of responsibility of the committee.

Enterprise resource planning (ERP) system
The new ERP system was scheduled to be implemented during the financial year but due to unplanned impacts on the project, largely brought about by strained resources as a result of COVID-19 and the ongoing strike, the implementation date had to be moved out. We foresee conclusion of this project in the 2022 financial year.

3.8 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 the implementation of the Protection of Personal Information Act
- monitored the implementation of ISO 27001: *Information Security Management*
- monitored the impact of COVID-19 on the health of its employees
- considered reports provided by management, internal audit and the external auditors regarding compliance with legal and regulatory requirements.

4. Expertise and experience of financial director and the financial function

As required by section 3.84(h) of the JSE Limited Listings Requirements, the committee has satisfied itself that the financial director, CJ (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.

The Audit and Risk Committee also considered the implementation of section 3.84(k) and instructed the internal auditors to ensure that all the relevant internal audit controls are in place to sign off as per the statement of section 3.84(k).

5. Election of committee at the annual general meeting

Pursuant to the provisions of section 94(2) of the Companies Act, which required that a public company must elect an audit committee at each annual general meeting, it is proposed in the notice of annual general meeting to be held on 24 November 2021 that Pamella Marlowe, Shelley Thomas and Ralph Patmore be reappointed as members of the Audit and Risk Committee until the next annual general meeting in 2022.

6. Assessment of the committee

The committee conducted a self-assessment by way of questionnaires and one-on-one interviews with the company secretary. The overall conclusion was that the committee's performance was satisfactory. The following focus areas for the financial year was as follows for monitoring by the committee:

- implementation of the ERP system
- monitor the full implementation of the Protection of Personal Information Act
- enhance the IT strategy from a governance point of view, including the implementation of ISO 27001: *Information Security Management*.

7. Integrated annual report

Following the review by the committee of the consolidated annual financial statements of Mustek Limited for the year ended 30 June 2021, the committee is of the view that in all material aspects they comply with the relevant provisions of the Companies 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.

8. Recommendation of the annual financial statements for approval by the Board

Having achieved its objectives, the committee has recommended the annual financial statements for the year ended 30 June 2021 for approval to the Board.

The Board has subsequently approved the reports, which will be open for discussion at the forthcoming annual general meeting.

Pamella Marlowe
Chairman Audit and Risk Committee
8 September 2021

DIRECTORS' REPORT

for the year ended 30 June 2021

The directors have pleasure in submitting their report on the annual financial statements of Mustek Limited and the Group for the year ended 30 June 2021.

Review of financial results and activities

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 R407.3 million (2020: R115.5 million).

This report is presented during a period that is unprecedented and most extraordinary in recent memory. It has been a very unusual and challenging year, characterised by the COVID-19 pandemic and the industrial strike.

Throughout the COVID-19 pandemic, our priorities have been to ensure the safety of our colleagues and customers, to maintain sufficient inventory levels to meet the increasing demand and ensure customer service is kept at its best. At the same time, we have undertaken numerous initiatives to stabilise our operations and cash flow and to strengthen our balance sheet.

The COVID-19 task force continues to assess and monitor developments with regard to the disease and at the time of finalising this report, the Board is confident that our responses are adequate and the crisis is being continuously monitored to assess the impact on the Group and company.

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

In conjunction with strategic partners from across the ICT industry, Mustek is well positioned for the forthcoming years.

Full details of the financial position, results of operations and cash flows of the Group and company are set out in these consolidated and separate annual financial statements.

Share capital

	2021 Number of shares	2020 Number of shares
Authorised		
Ordinary shares	250 000 000	250 000 000

	2021 R000	2020 R000	2021 Number of shares	2020 Number of shares
Issued				
Ordinary shares	–	–	66 000 000	70 000 000

Refer to note 20 of the consolidated and separate annual financial statements for detail of the movement in issued share capital.

Shareholders' spread

At 30 June 2021, 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
DK Trust	9 532 442	14.4
Old Mutual Life Assurance Company SA Limited	9 370 619	14.2
Peresec Prime Brokers Proprietary Limited	4 583 934	6.9
Mustek Electronics Properties Proprietary Limited	3 685 605	5.6
	27 172 600	41.1

2021

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 867	88.6	1 110 877	1.7
5 001 – 10 000	80	3.8	642 593	1.0
10 001 – 50 000	86	4.1	2 076 850	3.1
50 001 – 100 000	19	0.9	1 501 579	2.3
100 001 – 1 000 000	40	1.9	16 167 312	24.5
Over 1 000 000	15	0.7	44 500 789	67.4
	2 107	100.0	66 000 000	100.0

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	3	0.1	4 638 046	7.0
Companies controlled by directors	1	0.0	3 685 605	5.6
Trusts with directors as trustees	1	0.0	9 532 442	14.5
Public shareholders	2 102	99.9	48 143 907	72.9
	2 107	100.0	66 000 000	100.0

DIRECTORS' REPORT continued

for the year ended 30 June 2021

At 30 June 2020, 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	9 532 442	13.6
	24 565 613	35.1

2020

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 330	86.0	1 115 829	1.6
5 001 – 10 000	68	4.4	523 217	0.7
10 001 – 50 000	72	4.6	1 703 621	2.4
50 001 – 100 000	23	1.5	1 681 951	2.4
100 001 – 1 000 000	37	2.4	13 209 511	18.9
Over 1 000 000	17	1.1	51 765 871	74.0
	1 547	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	4 638 046	6.6
Companies controlled by directors	1	0.1	3 205 605	4.6
Trusts with directors as trustees	1	0.1	9 532 442	13.6
Public shareholders	1 542	99.6	52 623 907	75.2
	1 547	100.0	70 000 000	100.0

Authority to buy back shares

Mustek acquired 4 000 000 (2020: Nil) ordinary shares of its issued share capital on the open market for a purchase consideration in aggregate of R39.3 million (2020: R Nil) (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 meeting (AGM) held on 30 November 2020. The share repurchase comprised 5.71% of the total issued ordinary shares of Mustek at the date of the 2020 AGM.

The general repurchase commenced on 4 March 2021 and continued on a day-to-day basis as market conditions allowed and in accordance with the JSE Limited (JSE) Listings Requirements until 9 June 2021. The company confirms that the repurchases were effected through the order book operated by the JSE, not during a closed period and done without any prior understanding or arrangement between the company and the counterparties. The highest, lowest and average price paid by Mustek for the ordinary shares were 1 015 cents, 900 cents and 981 cents per share, respectively.

Dividends

The company's dividend policy is to consider a final dividend in respect of each financial year in conjunction with an evaluation of current and future funding requirements and opportunities to repurchase shares. It will be adjusted to levels considered appropriate at the time of declaration. At its discretion, the Board may consider a special dividend, where appropriate. Depending on the perceived need to retain funds for expansion or operating purposes, the Board may pass on the payment of dividends.

A final dividend of 26 cents per ordinary share was declared on 7 October 2020 and paid on 12 October 2020. During the previous financial year, a final dividend of 30 cents per ordinary share was declared on 9 October 2019 and paid on 14 October 2019.

A gross dividend of 90 cents per ordinary share was declared as follows after the end of the financial year:

Last day of trade cum dividend	5 October 2021
First day to trade ex dividend	6 October 2021
Record date	8 October 2021
Payment date	11 October 2021

Directorate

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

Directors	Office	Designation
VC Mehana	Chairman	Non-executive
PM Marlowe		Non-executive Independent
RB Patmore		Non-executive Independent
S Thomas		Non-executive Independent
DC Kan	Chief executive officer	Executive
H Engelbrecht	Managing director	Executive
CJ Coetzee	Finance director	Executive

Resignations

Directors	Date
ME Gama	31 March 2021
LL Dhlamini	28 February 2021
G Motau	12 May 2021

Appointments of directors

Directors	Designation	Date
S Thomas	Non-executive Independent	30 April 2021
G Motau	Non-executive Independent	30 April 2021
PM Marlowe	Non-executive Independent	16 July 2021

Investments in associates and other loans

The following matters are highlighted with regards to the investments in and loans to subsidiaries, associates and other loans (refer to notes 14, 15 and 16 to the annual financial statements for more information):

Zaloserve Proprietary Limited

The Group owns 36.1% of Zaloserve Proprietary Limited (Zaloserve), the holding company of Sizwe Africa IT Group Proprietary Limited (Sizwe). The Group sold 3.9% of Zaloserve to Zaloserve Management Proprietary Limited, a company owned by Sizwe's management team, for a total consideration of R11.0 million on 30 June 2021. The consideration due will attract interest at the repo rate plus 1% and is repayable on or before 30 June 2026. The contribution from Sizwe was negatively impacted by a loss on the sale of an investment in a subsidiary and an impairment of property, plant and equipment. The Group's share of these losses of R3.0 million and R7.5 million respectively, are added back in the calculation of headline earnings. Sizwe had a challenging 2021, but management believes that the company will contribute profitably to the Group's bottom line during the 2022 financial year.

DIRECTORS' REPORT continued

for the year ended 30 June 2021

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 profits equity accounted in 2021 was R11.5 million (2020: R1.8 million loss). They continue to grow their revenue and management believes that the company will continue to contribute profitably to the Group's bottom line.

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 carrying amount of these loans was R50.2 million (2020: R46.7 million) and the loans have no fixed repayment terms. The carrying amount of these loans are stated after impairment in terms of IFRS 9 Financial Instruments.

Special resolutions

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

- A general authority was given to the Board to repurchase shares in the company subject to the requirements of the Companies Act of South Africa. This authority was given in terms of a special resolution passed at the AGM held on Monday, 30 November 2020.
- With effect from 30 November 2020, 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.

Events after the reporting period

During July 2021, Mustek's branch in KwaZulu-Natal has been significantly damaged as a result of being looted and then set on fire. Losses to inventory and equipment amounted to R21.8 million. The loss of profit due to business interruption will be quantified in due course. The Group and company have appropriate insurance cover and have notified their insurers accordingly. Temporary warehouse and office space has been secured and the branch was operational again from 29 July 2021.

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report that requires adjustment to or disclosure in the annual financial statements.

Legal disputes

The Group and company become involved from time to time in various claims and lawsuits incidental to the ordinary course of business.

Insurance settlement
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.

Following the above judgment, Mustek sought advice from new counsel and in January 2020 instituted action afresh (on a different legal basis) against the insurance company, the underwriting company and the individual involved in the transaction. Counsel believes there is good prospects of success in the matter. As at the date of this report, Mustek is waiting for a final court date.

COVID-19 claim

The Group has an Assets All Risks Policy in place, covering the physical assets of the Mustek Group. The policy includes loss of gross profit following business interruption triggered by specified perils. Previously, the business interruption section included a contagious disease extension limited to R10.0 million for Mustek and R10.0 million for Rectron. Mustek's claim has been paid in full and an amount of R8.7 million (ex VAT) has been included in the 2021 financial statements. Rectron's claim is still in progress and the Group has not accounted for any asset relating to this claim.

Save as recorded above, the directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened that may have a material effect on the financial position of the Group and company.

Auditors

BDO South Africa Incorporated continued in office as auditors for the company and its major subsidiaries for 2021.

At the AGM, the shareholders will be requested to reappoint BDO South Africa Incorporated as the independent external auditors of the company and to confirm Ms VR de Villiers as the designated lead audit partner for the 2022 financial year.

Secretary

The company secretary is Sirkien Van Schalkwyk.

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2021

	Notes	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 Re-presented* R000
Revenue	4	8 035 521	6 397 419	5 408 711	4 425 778
Cost of sales		(6 847 554)	(5 487 275)	(4 620 409)	(3 812 279)
Gross profit		1 187 967	910 144	788 302	613 499
Foreign currency gains (losses)	5	10 476	(56 768)	9 533	(42 051)
Impairment loss on trade receivables	18	(14 942)	(52 012)	(7 913)	(29 701)
Distribution, administrative and other operating expenses		(711 046)	(600 405)	(473 286)	(389 928)
Profit from operations	5	472 455	200 959	316 636	151 819
Investment income	6	4 968	4 536	32 274	22 865
Finance costs	7	(75 144)	(105 409)	(54 612)	(74 480)
Income from equity-accounted investments	15	5 292	17 460	–	–
Other non-operating losses	8	(314)	(2 055)	(6 085)	(8 751)
Profit before taxation		407 257	115 491	288 213	91 453
Income tax expense	9	(110 830)	(27 441)	(73 053)	(19 330)
Profit for the year		296 427	88 050	215 160	72 123
Other comprehensive (loss) income					
Items that will be reclassified to profit or loss:					
Exchange differences on translation of foreign operations		(4 569)	6 878	–	–
Other comprehensive (loss) income for the year net of taxation		(4 569)	6 878	–	–
Total comprehensive income for the year		291 858	94 928	215 160	72 123
Profit attributable to:					
Owners of the parent		293 772	86 837	215 160	72 123
Non-controlling interest	14	2 655	1 213	–	–
		296 427	88 050	215 160	72 123
Total comprehensive income attributable to:					
Owners of the parent		289 203	93 715	215 160	72 123
Non-controlling interest	14	2 655	1 213	–	–
		291 858	94 928	215 160	72 123
Earnings per share					
Basic earnings per ordinary share (cents)	20	424.54	124.05		
Diluted basic earnings per ordinary share (cents)	20	424.54	124.05		

* *The company statement of comprehensive income has been re-presented to be in line with Group presentation. Other income has been included as part of distribution, administrative and other operating expenses.*

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2021

	Notes	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 Restated* R000
ASSETS					
Non-current assets					
Property, plant and equipment	10	200 899	187 939	36 368	30 562
Right-of-use assets	11	79 274	29 956	103 021	62 057
Goodwill	12	54 627	55 627	–	–
Intangible assets	13	90 004	71 205	49 251	35 858
Investments in subsidiaries	14	–	–	286 283	304 084
Investment in associates	15	140 787	140 231	40 949	37 305
Other loans	16	61 772	55 627	52 085	50 748
Deferred tax assets	9	43 365	30 710	36 599	24 089
		670 728	571 295	604 556	544 703
Current assets					
Loan to associate	15	1 473	–	1 473	–
Inventories	17	1 439 558	1 609 086	824 930	986 962
Trade and other receivables	18	1 228 313	1 163 960	895 901	900 889
Contract assets	4	6 105	5 012	6 105	4 833
Foreign currency assets	24	7 311	5 063	6 622	4 757
Current tax receivable		5 895	9 106	1 694	6 111
Cash and cash equivalents	19	267 679	263 632	122 049	117 895
		2 956 334	3 055 859	1 858 774	2 021 447
TOTAL ASSETS		3 627 062	3 627 154	2 463 330	2 566 150
EQUITY AND LIABILITIES					
Equity					
Stated capital	20	–	–	–	–
Retained earnings		1 345 440	1 109 124	881 629	723 925
Foreign currency translation reserve		4 966	9 535	–	–
Equity attributable to equity holders of the parent		1 350 406	1 118 659	881 629	723 925
Non-controlling interest		7 174	8 012	–	–
		1 357 580	1 126 671	881 629	723 925
Liabilities					
Non-current liabilities					
Borrowings and other liabilities	21	43 479	42 264	4 810	1 769
Contract liabilities	4	23 014	17 686	23 014	17 686
Deferred tax liabilities	9	2 642	6 213	–	–
Lease liabilities	11	58 823	10 139	86 908	45 481
Loans from subsidiaries	14, 21	–	–	37 516	39 812
		127 958	76 302	152 248	104 748
Current liabilities					
Trade and other payables	23	2 040 993	2 229 395	1 293 374	1 500 979
Loans from subsidiaries	14, 21	–	–	47 669	65 197
Borrowings and other liabilities	21	2 246	–	–	–
Foreign currency liabilities	24	9 305	21 529	6 061	6 985
Lease liabilities	11	23 057	23 670	23 584	24 200
Contract liabilities	4	30 373	30 245	27 387	21 284
Current tax payable		4 172	510	–	–
Bank overdrafts	21	31 378	118 832	31 378	118 832
		2 141 524	2 424 181	1 429 453	1 737 477
Total liabilities		2 269 482	2 500 483	1 581 701	1 842 225
TOTAL EQUITY AND LIABILITIES		3 627 062	3 627 154	2 463 330	2 566 150

** Refer to note 14 for details of the restatement of the prior year company statement of financial position.*

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2021

	Ordinary stated capital R000	Retained earnings R000	Foreign currency translation reserve R000	Equity attributable to equity holders of the parent R000	Non-controlling interest R000	Total equity R000
GROUP						
Balance at 1 July 2019	–	1 043 287	2 657	1 045 944	7 448	1 053 392
Profit for the year	–	86 837	–	86 837	1 213	88 050
Other comprehensive income	–	–	6 878	6 878	–	6 878
Dividends paid	–	(21 000)	–	(21 000)	(649)	(21 649)
Balance at 30 June 2020	–	1 109 124	9 535	1 118 659	8 012	1 126 671
Profit for the year	–	293 772	–	293 772	2 655	296 427
Other comprehensive loss	–	–	(4 569)	(4 569)	–	(4 569)
Buy back of shares	–	(39 256)	–	(39 256)	–	(39 256)
Dividends paid	–	(18 200)	–	(18 200)	(3 493)	(21 693)
Balance at 30 June 2021	–	1 345 440	4 966	1 350 406	7 174	1 357 580
Note	20					

	Ordinary stated capital R000	Retained earnings R000	Total equity R000
COMPANY			
Balance at 1 July 2019	–	672 802	672 802
Profit for the year	–	72 123	72 123
Dividends paid	–	(21 000)	(21 000)
Balance at 30 June 2020	–	723 925	723 925
Profit for the year	–	215 160	215 160
Other comprehensive income	–	–	–
Buy back of shares	–	(39 256)	(39 256)
Dividends paid	–	(18 200)	(18 200)
Balance at 30 June 2021	–	881 629	881 629
Note	20		

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2021

		Group		Company	
	Notes	2021 R000	2020 R000	2021 R000	2020 R000
Cash flows from operating activities					
Cash receipts from customers		7 963 498	6 203 189	5 408 551	4 214 903
Cash paid to suppliers and employees		(7 532 188)	(5 703 207)	(5 072 723)	(3 849 933)
Cash generated from operations	19	431 310	499 982	335 828	364 970
Interest income received	6	4 455	4 536	2 214	2 705
Dividends received		–	–	5 243	20 160
Finance costs paid	7	(75 144)	(105 409)	(54 612)	(74 480)
Dividends paid		(21 693)	(21 649)	(18 200)	(21 000)
Tax paid	31	(118 166)	(37 940)	(81 146)	(26 594)
Net cash from operating activities		220 762	339 520	189 327	265 761
Cash flows from investing activities					
Disposal of property, plant and equipment	10	(32 414)	(18 663)	(15 453)	(8 157)
Sale of property, plant and equipment	10	616	148	711	148
Purchase of intangible assets	13	(24 081)	(23 377)	(15 706)	(8 558)
Loans repaid by subsidiaries	14	–	–	5 598	–
Loans advanced to subsidiaries	14	–	–	–	(2 369)
Advances of other loans	16	(10 000)	(461)	(10 000)	(191)
Receipts from other loans	16, 18	6 261	1 213	3 916	210
(Increase) decrease in investment and loans to associate	15	(5 000)	2 571	(5 000)	–
Net cash used in investing activities		(64 618)	(38 569)	(35 934)	(18 917)
Cash flows from financing activities					
Buy back of ordinary shares	20	(39 256)	–	(39 256)	–
Loans received from subsidiaries	14, 22	–	–	3 539	42 728
Proceeds from borrowings		–	40 000	–	–
Repayment of borrowings	22	(187)	–	–	–
Decrease in bank overdrafts	22	(87 454)	(274 656)	(87 454)	(274 648)
Payment on lease liabilities	22	(25 200)	(24 382)	(26 068)	(22 231)
Net cash used in financing activities		(152 097)	(259 038)	(149 239)	(254 151)
Total cash movement for the year		4 047	41 913	4 154	(7 307)
Cash and cash equivalents at the beginning of the year		263 632	221 719	117 895	125 202
Cash and cash equivalents at the end of the year	19	267 679	263 632	122 049	117 895

ACCOUNTING POLICIES

for the year ended 30 June 2021

1. Significant accounting policies

1.1 Basis of preparation

The consolidated and separate annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these annual financial statements, the Johannesburg Stock Exchange (JSE) Listings Requirements and the Companies Act of South Africa, as amended.

These annual financial statements comply with the requirements of the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The consolidated and separate annual financial statements have been prepared on the historic cost basis except for the revaluation of certain financial instruments (refer note 24). The principal accounting policies are set out in the related notes to the consolidated and separate financial statements and are presented in South African Rand which is the Group and company's functional currency.

These accounting policies are consistent with the previous period other than those amendments adopted in the current year. Refer note 2.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. 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 estimates are revised and in any future periods affected.

Key sources of estimation uncertainty

The following are the estimates, that the directors have made in the process of applying the entity's accounting policies, that have the most significant effect on the amounts recognised in financial statements.

Estimates 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:

Expected credit loss allowances for trade receivables (refer note 18)

The impairment allowances for financial assets are based on assumptions about risk of default and expected loss rates. For details of the key assumptions and inputs used refer to note 18.

Allowance for slow moving, damaged and obsolete inventory (refer note 17)

Management assesses whether inventory is impaired by comparing its cost to its estimated net realisable value. Estimation uncertainty arises in the determination of net realisable value taking into account costs to sell. Where an impairment is necessary, inventory items are written down to net realisable value. The write down is included in cost of sales.

Goodwill impairment assessment (refer note 12)

The Group annually reviews and tests the carrying value of goodwill against the recoverable amount of the cash-generating unit to which the goodwill belongs. The value-in-use calculations require the use of estimates and assumptions such as appropriate discount rates and growth rates.

Determining the lease term (refer note 11)

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects the determination of the lease term and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension options, was an increase in recognised lease liabilities and right-of-use assets of R61.6 million for the Group and R59.1 million for the company.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2021

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group and company have adopted the following standards and interpretations that are effective for the current financial year and that are relevant to the Group and company's operations:

Standard/interpretation	Effective date: years beginning on or after	Impact
• Definition of a Business – Amendments to IFRS 3	1 January 2020	The impact of the amendment is not material
• Presentation of Financial Statements: Disclosure initiative – Definition of material	1 January 2020	The impact of the amendment is not material
• Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative	1 January 2020	The impact of the amendment is not material

2.2 Standards and interpretations not yet effective

The Group and company have chosen not to early adopt the following relevant standards and interpretations, which have been published and are mandatory for the Group and company's accounting periods beginning on or after 1 July 2021 or later periods:

Standard/interpretation	Effective date: years beginning on or after	Expected impact
• Disclosure of accounting policies: Amendment to IAS 1	1 January 2023	Unlikely there will be a material impact
• Definition of accounting estimates: Amendment to IAS 8	1 January 2023	Unlikely there will be a material impact
• Deferred tax related to assets and liabilities arising from a single transaction: Amendment to IAS 12	1 January 2023	Unlikely there will be a material impact
• Classification of liabilities as current or non-current – Amendment to IAS 1	1 January 2023	Not expected to impact results but may result in additional disclosure
• Annual improvement to IFRS standards 2018 – 2020: Amendments to IFRS 9	1 January 2022	Unlikely there will be a material impact
• Property, plant and equipment: proceeds before intended use: Amendments to IAS 16	1 January 2022	Unlikely there will be a material impact
• Onerous contracts – cost of fulfilling a contract: Amendments to IAS 37	1 January 2022	Unlikely there will be a material impact

These standards are expected to be adopted by the Group and company in the financial year that they become effective.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

3. Segmental reporting

Business segments

The Group has identified reportable segments which represent the structure used by the executive management and the Board of directors to make key operating decisions and assess performance.

The Group's reportable segments are operating segments which are differentiated by the activities that each undertake, products they distribute and markets they operate in.

For management purposes, the following represents the Group's reportable segments:

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 15 and 16 for more information about their activities.

	Mustek R000	Rectron R000	Group R000	Elimination R000	Total R000
2021					
REVENUE					
External sales	5 379 334	2 656 187	–	–	8 035 521
Inter-segment sales**	125 194	144 729	–	(269 923)	–
Total revenue from continuing operations	5 504 528	2 800 916	–	(269 923)	8 035 521
SEGMENT RESULTS					
EBITDA*	416 284	134 426	(34 711)	–	515 999
Depreciation and amortisation	(33 807)	(10 268)	–	531	(43 544)
Profit (loss) from operations	382 477	124 158	(34 711)	531	472 455
Investment income	617	2 106	2 245	–	4 968
Finance costs	(51 229)	(24 291)	–	376	(75 144)
Other non-operating losses	–	–	(314)	–	(314)
Income from equity-accounted investments	–	–	5 292	–	5 292
Profit (loss) before tax	331 865	101 973	(27 488)	907	407 257
Income tax (expense) benefit	(92 044)	(27 184)	8 398	–	(110 830)
Profit (loss) for the year	239 821	74 789	(19 090)	907	296 427
Attributable to:					
Owners of the parent	239 821	72 134	(19 090)	907	293 772
Non-controlling interest	–	2 655	–	–	2 655
	239 821	74 789	(19 090)	907	296 427

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

** *Most of the inter-segment sales are at cost.*

3. Segmental reporting continued

	Mustek R000	Rectron R000	Group R000	Elimination R000	Total R000
2020					
REVENUE					
External sales	4 456 573	1 940 846	–	–	6 397 419
Inter-segment sales**	31 569	213 264	–	(244 833)	–
Total revenue from continuing operations	4 488 142	2 154 110	–	(244 833)	6 397 419
SEGMENT RESULTS					
EBITDA*	200 604	57 628	(10 995)	–	247 237
Depreciation and amortisation	(35 136)	(11 142)	–	–	(46 278)
Profit (loss) from operations	165 468	46 486	(10 995)	–	200 959
Investment income	2 332	2 486	(282)	–	4 536
Finance costs	(70 378)	(35 031)	–	–	(105 409)
Other non-operating losses	–	–	(2 055)	–	(2 055)
Income from equity-accounted investments	–	–	17 460	–	17 460
Profit before tax	97 422	13 941	4 128	–	115 491
Income tax (expense) benefit	(27 281)	(3 318)	3 158	–	(27 441)
Profit for the year	70 141	10 623	7 286	–	88 050
Attributable to:					
Owners of the parent	70 141	9 410	7 286	–	86 837
Non-controlling interest	–	1 213	–	–	1 213
	70 141	10 623	7 286	–	88 050

* *Earnings before interest, tax, depreciation and amortisation.*
** *Most of the inter-segment sales are at cost.*

	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
2021					
OTHER INFORMATION					
Capital expenditure	37 533	18 960	–	–	56 493
ASSETS					
Segment assets	2 178 969	1 183 538	116 400	–	3 478 907
Investment in associates	–	–	142 260	–	142 260
Current tax assets	3 245	2 650	–	–	5 895
Consolidated total assets	2 182 214	1 186 188	258 660	–	3 627 062
LIABILITIES					
Segment liabilities	1 481 450	783 860	–	–	2 265 310
Current tax liabilities	4 172	–	–	–	4 172
Consolidated total liabilities	1 485 622	783 860	–	–	2 269 482
Number of employees at year-end	699	369	–	–	1 068

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

3. Segmental reporting continued

	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
2020					
OTHER INFORMATION					
Capital expenditure	7 983	34 223	–	–	42 206
ASSETS					
Segment assets	2 264 644	1 106 190	111 257	(4 274)	3 477 817
Investment in associates	–	–	140 231	–	140 231
Current tax assets	7 389	1 717	–	–	9 106
Consolidated total assets	2 272 033	1 107 907	251 488	(4 274)	3 627 154
LIABILITIES					
Segment liabilities	1 750 562	773 999	–	(24 588)	2 499 973
Current tax liabilities	510	–	–	–	510
Consolidated total liabilities	1 751 072	773 999	–	(24 588)	2 500 483
Number of employees at year-end	887	335	–	–	1 222

Geographical segments

	East Africa R000	Taiwan R000	South Africa R000	Total R000
2021				
Revenue	41 290	480	7 993 751	8 035 521
Profit before tax	1 654	2 482	403 121	407 257
Income tax expense	(1 705)	(940)	(108 185)	(110 830)
(Loss) profit for the year	(51)	1 542	294 936	296 427
Attributable to:				
Owners of the parent	(51)	1 542	292 281	293 772
Non-controlling interest	–	–	2 655	2 655
	(51)	1 542	294 936	296 427
OTHER INFORMATION				
Capital expenditure	521	–	55 972	56 493
Segment assets	52 967	17 853	3 550 347	3 621 167
Current tax assets	–	–	5 895	5 895
Consolidated total assets	52 967	17 853	3 556 242	3 627 062

	East Africa R000	Taiwan R000	South Africa R000	Total R000
2020				
Revenue	37 250	1 423	6 358 746	6 397 419
(Loss) profit before tax	(1 352)	2 974	113 869	115 491
Income tax expense	(1 406)	(1 632)	(24 403)	(27 441)
(Loss) profit for the year	(2 758)	1 342	89 466	88 050
Attributable to:				
Owners of the parent	(2 758)	1 342	88 253	86 837
Non-controlling interest	–	–	1 213	1 213
	(2 758)	1 342	89 466	88 050
OTHER INFORMATION				
Capital expenditure	425	–	41 781	42 206
Segment assets	55 932	13 651	3 548 465	3 618 048
Current tax assets	836	–	8 270	9 106
Consolidated total assets	56 768	13 651	3 556 735	3 627 154

Refer to note 18 for a quantification of the Group and company's reliance on their largest customers.

4. Revenue

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Revenue from contracts with customers				
Sale of goods	7 948 044	6 348 879	5 378 104	4 405 123
Rendering of services	87 477	48 540	30 607	20 655
	8 035 521	6 397 419	5 408 711	4 425 778
Disaggregation of revenue from contracts with customers				
The Group and company have assessed that the disaggregation of revenue by customer 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 and company derive revenue from the transfer of goods and services over time and at a point in time in the following major product lines:				
Sale of goods (revenue earned at a point in time)	7 948 044	6 348 879	5 378 104	4 405 123
Hardware sales				
Dealers	4 482 309	3 462 679	3 037 492	2 381 297
Retailers	1 402 848	1 095 084	588 189	435 596
Public sector supplies	1 534 958	1 331 861	1 534 959	1 331 861
Export	223 340	214 266	143 653	149 581
	7 643 455	6 103 890	5 304 293	4 298 335
Software sales				
Dealers	224 267	176 074	46 028	68 083
Retailers	25 711	34 087	4 064	4 330
Public sector supplies	21 260	33 102	21 260	33 102
Export	33 351	1 726	2 459	1 273
	304 589	244 989	73 811	106 788
Rendering of services (revenue earned over time)				
Maintenance and support contracts	5 615	11 520	5 566	10 947
Deferred revenue	(1 189)	(778)	(7 164)	(778)
Training courses	32 595	25 072	-	-
	37 021	35 814	(1 598)	10 169
Rendering of services (revenue earned at a point in time)				
Repair services	50 456	12 726	32 205	10 486
Total revenue from contracts with customers	8 035 521	6 397 419	5 408 711	4 425 778

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.

Revenue is a combination of goods sold, additional warranties sold and service revenue. If maintenance and support services sold relate to a period of more than 12 months, that portion is recognised as deferred revenue.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

4. Revenue continued

Sale 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.
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 long-standing discount and rebate arrangements and revenue is recognised net of these discounts and rebates. Variable consideration is determined upfront.
3. Credit terms are maximum 60 days from statement backed by an insurance element.
4. Our returns policy states 14 days from date of purchase but Consumer Protection Act dictates maximum of 30 days if all return criteria are met. A refund liability and corresponding adjustment to revenue is recognised for expected returns.
5. Warranties are included with the sale of all our goods. The warranty period will vary, dependent on the product sold.

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 and technical installation services on full solution type sales. Revenue for services are recognised at a point in time and revenue from service contracts are recognised over time.

Revenue from a contract to provide services and/or maintenance is recognised on a straight-line basis over the period of the contract. Services are provided evenly over the period of the contract.

Mecer Inter-Ed provides training solutions in the form of vendor authorised ICT training courses as well as learnerships and skills programmes as an accredited training provider for various SETAs. Revenue is recognised over the period over which the relevant training course/programme is delivered.

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Contract assets	6 105	5 012	6 105	4 833
Reconciliation of contract assets				
Opening balance	5 012	3 685	4 833	3 516
Transfers of contract assets to receivables	(5 012)	(3 685)	(4 833)	(3 516)
New contracts from hardware sales	6 105	5 012	6 105	4 833
Closing balance	6 105	5 012	6 105	4 833

Contract assets 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.

4. Revenue continued

	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Reconciliation of contract liabilities				
Opening balance	47 931	38 963	38 970	38 738
Deferred income recognised in revenue	(20 239)	(21 400)	(11 806)	(21 400)
Deferred revenue – maintenance contracts	18 970	21 691	18 970	21 691
Deferred revenue – training courses	2 458	8 961	–	–
Expected discounts and rebates	1 154	(804)	1 154	(804)
Expected refunds to customers	3 113	520	3 113	745
Closing balance	53 387	47 931	50 401	38 970
Split between non-current and current portions				
Non-current liabilities	23 014	17 686	23 014	17 686
Current liabilities	30 373	30 245	27 387	21 284
	53 387	47 931	50 401	38 970

Deferred revenue 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.
- Training courses and programmes that are offered by Mecer Inter-Ed. The courses and programmes are short term (less than 12 months).

The income is deferred and recognised as revenue on a straight-line basis over the duration of the underlying service, maintenance contract or training programme. The performance obligation is met proportionately after every month that passes.

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.

	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Deferred revenue maturity analysis				
Year 1	20 054	24 193	17 068	15 232
Year 2	12 393	9 083	12 393	9 083
Year 3	6 870	4 957	6 870	4 957
Year 4	2 851	2 613	2 851	2 613
Year 5	900	1 032	900	1 032
Onwards	–	–	–	–
	43 068	41 878	40 082	32 917

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

5. Profit from operations

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Profit from operations for the year is stated after taking the following into account, among others:				
Operating income				
Bad debts recovered	10 387	2 156	1 544	1 144
Compensation from insurance claims – COVID-19*	8 696	–	8 696	–
Auditor's remuneration				
External audit fees	5 137	6 307	3 009	3 659
Other consultation services	375	383	87	184
	5 512	6 690	3 096	3 843
Depreciation and amortisation				
Depreciation of property, plant and equipment	15 082	17 155	7 890	10 287
Depreciation of right-of-use assets	23 939	23 753	25 978	25 319
Amortisation of intangible assets	4 523	5 370	1 648	2 346
Total depreciation and amortisation	43 544	46 278	35 516	37 952
Loss on disposal of property, plant and equipment and intangible assets	1 986	811	1 711	419
Foreign exchange gains (losses)				
Realised	15 935	(58 028)	24 158	(52 745)
Unrealised	(3 465)	17 726	(15 186)	12 922
Fair value adjustment – open forward exchange contracts	(1 994)	(16 466)	561	(2 228)
Net foreign exchange gains (losses)	10 476	(56 768)	9 533	(42 051)

* *The compensation from insurance claims relates to the COVID-19 claim which compensated for loss of gross profit following business interruption due to the national lockdown implemented in March 2020.*

6. Investment income

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Dividend income				
Group entities:				
Dividends from subsidiaries and associates	–	–	28 606	20 160
Interest income				
Investments in financial assets:				
Bank balances	4 454	4 536	2 214	1 905
Loans to group companies:				
Subsidiaries	–	–	940	800
Associates and other receivables	514	–	514	–
Total interest income	4 968	4 536	3 668	2 705
Total investment income	4 968	4 536	32 274	22 865

Dividend income 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 income 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.

7. Finance costs paid

	Notes	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Interest on forward points		–	5 825	–	–
Interest paid on bank overdraft		23 083	32 521	22 883	37 516
Interest paid on borrowings		2 507	–	–	–
Interest paid on lease liabilities	11	3 517	3 988	6 024	7 523
Interest paid on letters of credit and trade finance		46 037	63 072	23 198	29 441
Interest paid on loan from group companies		–	–	2 507	–
Other interest paid		–	3	–	–
Total finance costs		75 144	105 409	54 612	74 480

8. Other non-operating losses

	Notes	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Gains (losses) on disposals and write offs					
Investments in subsidiaries	14	–	–	(1 675)	–
Investments in associates	15	2 620	–	–	–
		2 620	–	(1 675)	–
Impairment losses/expected credit loss on					
Investments in subsidiaries	14	–	–	(5 213)	–
Loans to subsidiaries	14	–	–	(1 646)	(8 711)
Investments in associates	15	–	(1 881)	–	–
Loans to associates	15	–	(39)	–	(39)
Goodwill	12	(1 000)	–	–	–
Other financial assets	16	(1 950)	(135)	(2 349)	(1)
		(2 950)	(2 055)	(9 208)	(8 751)
Reversal of impairment losses/expected credit loss on					
Loans to subsidiaries	14	–	–	4 782	–
Loans to associates	15	16	–	16	–
		16	–	4 798	–
Total other non-operating gains (losses)		(314)	(2 055)	(6 085)	(8 751)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

9. Taxation

	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Income tax expense				
South African normal tax	108 126	24 334	73 053	19 330
Foreign tax	2 644	3 038	–	–
Withholding tax	60	69	–	–
	110 830	27 441	73 053	19 330
Comprising				
Normal current tax				
– Current year	126 092	33 752	85 563	26 227
– Prior year	(1 113)	574	–	(363)
Normal deferred tax				
– Current year	(16 458)	(7 984)	(12 510)	(6 085)
– Prior year	2 249	1 030	–	(449)
Withholding tax	60	69	–	–
	110 830	27 441	73 053	19 330
The tax expense relates to the following tax jurisdictions:				
South African Revenue Service	108 185	24 403	73 053	19 330
Kenya Revenue Authority	1 705	1 406	–	–
Revenue Service Office, New Taipei City Government	940	1 632	–	–
	110 830	27 441	73 053	19 330
Reconciliation of the tax expense				
Reconciliation between applicable tax rate and average effective tax rate				
Profit before tax	407 257	115 491	288 213	91 453

	Group 2021 %	Group 2020 %	Company 2021 %	Company 2020 %
Applicable tax rate	28.0	28.0	28.0	28.0
Dividends received	–	–	(2.8)	(6.2)
Withholding tax	0.0	0.1	–	–
Current tax prior year (over) under provision	(0.3)	0.5	–	(0.4)
Deferred tax asset prior year over (under) provision	0.6	0.9	–	(0.5)
Capital gains tax	0.3	–	–	–
Profits from associates already taxed	(0.4)	(4.2)	–	–
Income from learnership agreements exempt	(1.1)	(2.4)	(0.8)	(1.0)
Disallowed expenses	0.1	0.9	1.0	1.2
	27.2	23.8	25.4	21.1

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

9. Taxation continued

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% (2020: 28%) except if otherwise indicated:

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Deferred tax liability				
Accelerated wear and tear for tax purposes	(13 390)	(12 377)	(1 376)	(1 629)
Right-of-use asset	(22 197)	(8 388)	(28 846)	(17 376)
Prepayments	(574)	(671)	(331)	(405)
Operating lease assets	–	–	(6)	(15)
Unrealised exchange gains or losses	(6 358)	(8 467)	(4 531)	(7 160)
Unrealised capital gains	–	(958)	–	–
Net contract assets	–	(4)	–	–
Total deferred tax liability	(42 519)	(30 865)	(35 090)	(26 585)
Deferred tax asset				
Allowance for expected credit losses	6 237	8 982	6 226	9 271
Amortisation of intangible assets	3	5	3	5
Minor assets	3	5	3	5
Salary-related accruals/liabilities	25 087	9 196	17 809	9 196
Lease liabilities	22 926	9 467	30 938	19 511
Commission accruals	3 465	2 682	3 465	2 132
Other accruals	7 299	7 710	842	842
Deferred revenue	13 075	11 876	11 223	9 367
Unrealised fair value capital gain on investment	–	141	–	–
Net contract liabilities	1 393	–	1 180	345
Other	764	–	–	–
Deferred tax balance from temporary differences other than unused tax losses	80 252	50 064	71 689	50 674
Tax losses available for set off against future taxable income	2 990	5 298	–	–
Total deferred tax asset	83 242	55 362	71 689	50 674
The deferred tax assets and the deferred tax liabilities that relate to income tax in the same jurisdiction, and where the law allows net settlement have been offset in the statement of financial position as follows:				
Deferred tax liability	(2 642)	(6 213)	–	–
Deferred tax asset	43 365	30 710	36 599	24 089
Total net deferred tax asset	40 723	24 497	36 599	24 089
The Group's deferred tax assets relate to the following geographical locations:				
South Africa	38 580	26 774	36 599	24 089
East Africa	2 178	3 936	–	–
Taiwan	–	–	–	–
	40 758	30 710	36 599	24 089

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

9. Taxation continued

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Reconciliation of deferred tax asset/(liability)				
At beginning of year	24 497	17 375	24 089	17 555
Differences on taxable loss	(1 740)	(2 800)	–	–
Differences on allowance for expected credit losses	(2 745)	3 499	(3 045)	5 362
Differences on amortisation of intangible assets	(2)	4 315	(2)	(2)
Differences on salary-related accruals	15 891	(1 873)	8 613	1 083
Differences on accelerated wear and tear	(1 013)	(4 559)	253	1 085
Differences on prepayments	97	41	74	(37)
Differences on minor assets	(2)	(3)	(2)	(3)
Differences on operating lease assets	–	–	9	(1 276)
Differences on right-of-use asset	(13 809)	(8 388)	(11 470)	(17 376)
Differences on lease liability	13 459	9 467	11 427	19 511
Differences on commission accrual	783	1 214	1 333	1 122
Differences on other accruals	(411)	7 165	–	(38)
Differences on unrealised exchange gains and losses	(476)	(4 202)	2 629	(2 746)
Differences on deferred revenue	1 199	2 590	1 856	81
Differences on unrealised capital gains	958	1 123	–	–
Differences on unrealised fair value capital gain on investment	(141)	–	–	–
Differences on contract assets and liabilities	1 397	(581)	835	(232)
Differences on other temporary differences	764	(54)	–	–
Movement through the statement of comprehensive income	14 209	6 954	12 510	6 534
Foreign currency translation reserve	2 017	752	–	–
Prior year adjustment	–	(584)	–	–
Movement through equity	2 017	168	–	–
	40 723	24 497	36 599	24 089

Recognition of deferred tax asset

The Group and company recognise deferred tax assets only when the future recovery of that asset is assessed to be probable.

No unrecognised deductible temporary differences, unused tax losses or unused tax credits existed in the Mustek Group in the current or prior financial year.

10. Property, plant and equipment

	2021 Cost R000	2021 Accumulated depreciation R000	2021 Carrying value R000	2020 Cost R000	2020 Accumulated depreciation R000	2020 Carrying value R000
Group						
Land and buildings	114 312	(5 409)	108 903	116 572	(5 357)	111 215
Plant and machinery	69 526	(46 116)	23 410	65 713	(44 420)	21 293
Furniture, fixtures and office equipment	51 142	(32 089)	19 053	44 773	(31 785)	12 988
Motor vehicles	17 053	(10 450)	6 603	18 272	(10 552)	7 720
Computer equipment	62 929	(38 684)	24 245	63 219	(47 134)	16 085
Leasehold improvements	57 763	(39 078)	18 685	56 611	(37 973)	18 638
Total	372 725	(171 826)	200 899	365 160	(177 221)	187 939

	2021 Cost R000	2021 Accumulated depreciation R000	2021 Carrying value R000	2020 Cost R000	2020 Accumulated depreciation R000	2020 Carrying value R000
Company						
Land and buildings	784	–	784	784	–	784
Plant and machinery	28 750	(23 007)	5 743	28 086	(21 902)	6 184
Furniture, fixtures and office equipment	21 413	(14 744)	6 669	19 084	(13 772)	5 312
Motor vehicles	15 986	(9 797)	6 189	16 773	(9 572)	7 201
Computer equipment	40 656	(24 125)	16 531	45 250	(35 006)	10 244
Leasehold improvements	18 582	(18 130)	452	18 582	(17 745)	837
Total	126 171	(89 803)	36 368	128 559	(97 997)	30 562

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

10. Property, plant and equipment continued

Reconciliation of property, plant and equipment

	Land and buildings R000	Plant and machinery R000	Furniture, fixtures and office equipment R000	Motor vehicles R000	Computer equipment R000	Leasehold improve-ments R000	Total R000
Group – 2021							
Opening balance							
Cost	116 572	65 713	44 773	18 272	63 219	56 611	365 160
Accumulated depreciation	(5 357)	(44 420)	(31 785)	(10 552)	(47 134)	(37 973)	(177 221)
Net book value at 1 July 2020	111 215	21 293	12 988	7 720	16 085	18 638	187 939
Additions	588	3 974	9 383	475	16 672	1 322	32 414
Disposals and scrappings – cost	(151)	–	(2 815)	(1 576)	(16 560)	(109)	(21 211)
Disposals and scrappings – accumulated depreciation and impairment	2	–	2 449	1 182	15 689	25	19 347
Foreign exchange movements	(2 339)	(29)	(31)	(63)	(46)	–	(2 508)
Depreciation	(412)	(1 828)	(2 921)	(1 135)	(7 595)	(1 191)	(15 082)
Net book value at 30 June 2021	108 903	23 410	19 053	6 603	24 245	18 685	200 899
Made up as follows:							
Cost	114 312	69 526	51 142	17 053	62 929	57 763	372 725
Accumulated depreciation	(5 409)	(46 116)	(32 089)	(10 450)	(38 684)	(39 078)	(171 826)
	108 903	23 410	19 053	6 603	24 245	18 685	200 899

	Land and buildings R000	Plant and machinery R000	Furniture, fixtures and office equipment R000	Motor vehicles R000	Computer equipment R000	Leasehold improve-ments R000	Total R000
Group – 2020							
Opening balance							
Cost	113 483	63 004	42 523	16 246	57 924	55 138	348 318
Accumulated depreciation	(4 658)	(42 554)	(30 593)	(7 240)	(41 916)	(36 376)	(163 337)
Net book value at 1 July 2019	108 825	20 450	11 930	9 006	16 008	18 762	184 981
Additions	759	2 578	4 025	2 454	7 483	1 364	18 663
Disposals and scrappings – cost	–	(8)	(1 946)	(520)	(2 535)	–	(5 009)
Disposals and scrappings – accumulated depreciation and impairment	–	1	1 788	413	2 014	–	4 216
Foreign exchange movements	2 110	30	30	35	38	–	2 243
Depreciation	(479)	(1 758)	(2 839)	(3 668)	(6 923)	(1 488)	(17 155)
Net book value at 30 June 2020	111 215	21 293	12 988	7 720	16 085	18 638	187 939
Made up as follows:							
Cost	116 572	65 713	44 773	18 272	63 219	56 611	365 160
Accumulated depreciation	(5 357)	(44 420)	(31 785)	(10 552)	(47 134)	(37 973)	(177 221)
	111 215	21 293	12 988	7 720	16 085	18 638	187 939

10. Property, plant and equipment continued

Reconciliation of property, plant and equipment

	Land and buildings R000	Plant and machinery R000	Furniture, fixtures and office equipment R000	Motor vehicles R000	Computer equipment R000	Leasehold improve-ments R000	Total R000
Company – 2021							
Opening balance							
Cost	784	28 086	19 084	16 773	45 250	18 582	128 559
Accumulated depreciation	–	(21 902)	(13 772)	(9 572)	(35 006)	(17 745)	(97 997)
Net book value at 1 July 2020	784	6 184	5 312	7 201	10 244	837	30 562
Additions	–	663	2 329	423	12 038	–	15 453
Disposals and scrappings – cost	–	–	–	(1 211)	(16 632)	–	(17 843)
Disposals and scrappings – accumulated depreciation and impairment	–	–	–	817	15 269	–	16 086
Depreciation	–	(1 104)	(972)	(1 041)	(4 388)	(385)	(7 890)
Net book value at 30 June 2021	784	5 743	6 669	6 189	16 531	452	36 368
Made up as follows:							
Cost	784	28 750	21 413	15 986	40 656	18 582	126 171
Accumulated depreciation	–	(23 007)	(14 744)	(9 797)	(24 125)	(18 130)	(89 803)
	784	5 743	6 669	6 189	16 531	452	36 368

	Land and buildings R000	Plant and machinery R000	Furniture, fixtures and office equipment R000	Motor vehicles R000	Computer equipment R000	Leasehold improve-ments R000	Total R000
Company – 2020							
Opening balance							
Cost	784	27 156	18 365	15 094	43 128	18 431	122 958
Accumulated depreciation	–	(20 844)	(12 799)	(6 315)	(32 740)	(17 001)	(89 699)
Net book value at 1 July 2019	784	6 312	5 566	8 779	10 388	1 430	33 259
Additions	–	930	719	2 114	4 243	151	8 157
Disposals and scrappings – cost	–	–	–	(435)	(2 121)	–	(2 556)
Disposals and scrappings – accumulated depreciation and impairment	–	–	–	297	1 692	–	1 989
Depreciation	–	(1 058)	(973)	(3 554)	(3 958)	(744)	(10 287)
Net book value at 30 June 2020	784	6 184	5 312	7 201	10 244	837	30 562
Made up as follows:							
Cost	784	28 086	19 084	16 773	45 250	18 582	128 559
Accumulated depreciation	–	(21 902)	(13 772)	(9 572)	(35 006)	(17 745)	(97 997)
	784	6 184	5 312	7 201	10 244	837	30 562

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

10. Property, plant and equipment continued

Depreciation rates

Property, plant and equipment are carried on the cost model in accordance with IAS 16.

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

Buildings	Straight-line basis – years	20 – 25
Plant and machinery	Straight-line basis – years	5 – 25
Furniture, fixtures and office equipment	Straight-line basis – years	5 – 12
Motor vehicles	Straight-line basis – years	5 – 7
Computer equipment:		
Desktops	Straight-line basis – years	5
Laptops/Notebooks	Straight-line basis – years	3 – 5
Printers/Scanners	Straight-line basis – years	5 – 6
Displays (large and small)	Straight-line basis – years	3 – 7
Network equipment	Straight-line basis – years	5
UPS	Straight-line basis – years	5 – 11
CCTV cameras	Straight-line basis – years	2 – 6
Leasehold improvements	Straight-line basis – years	over period of the initial lease

The directors reviewed the residual values, useful lives and carrying amount of property, plant and equipment at year-end to determine the appropriate level of depreciation and whether there is any indication that those assets have suffered an impairment loss. The directors applied a residual value of zero to all items of plant and equipment 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 20% of cost was determined. The residual value of buildings 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. Property, plant and equipment to the value of R64.3 million (2020: R64.4 million) has been pledged as security for a mortgage bond and property, plant and equipment to the value of R35.9 million (2020: R36.2 million) has been pledged as security for a trade finance facility.

11. Right-of-use assets and lease liabilities

The Group leases several assets, including buildings, vehicles and equipment. The lease terms range between one and 10 years (2020: one and 10 years). The Group has no short-term leases or leases of low-value assets.

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Details pertaining to leasing arrangements, where the Group and company are the lessees, are presented below:				
Net carrying amounts of right-of-use assets				
The carrying amounts of right-of-use assets are as follows:				
Land and buildings	73 832	26 974	103 021	62 057
Motor vehicles	5 326	2 768	–	–
Equipment	116	214	–	–
	79 274	29 956	103 021	62 057
Additions/modifications to right-of-use assets				
Land and buildings – additions	7 796	5 849	7 796	834
Land and buildings – modifications	61 576	–	59 146	–
Motor vehicles – additions	3 885	–	–	–
	73 257	5 849	66 942	834
The lease modifications relate to changes in the contractual lease term. These changes were not considered to be new contracts but rather modifications to the existing contracts as the modifications did not result in any increases to the scope of the lease contract by adding the right to use one or more underlying assets.				
Depreciation recognised on right-of-use assets				
Depreciation recognised on each class of right-of-use assets is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss (note 5).				
Land and buildings	22 514	22 701	25 978	25 319
Motor vehicles	1 326	953	–	–
Equipment	99	99	–	–
	23 939	23 753	25 978	25 319
Other disclosures				
Carrying amount of right-of-use assets derecognised due to lease terminations – buildings and motor vehicles	–	(1 782)	–	(34)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

11. Right-of-use assets and lease liabilities continued

	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Lease liabilities				
Lease liability reconciliation				
Opening balance	33 809	53 291	69 681	91 116
Additions	11 681	5 849	7 796	834
Modifications	61 590	–	59 083	–
Lease termination	–	(949)	–	(38)
Interest expense	3 517	3 988	6 024	7 523
Lease payments	(28 717)	(28 370)	(32 092)	(29 754)
Closing balance	81 880	33 809	110 492	69 681
The maturity analysis of lease liabilities is as follows:				
Year 1	27 672	25 731	30 752	29 587
Year 2	26 671	6 271	30 484	10 491
Year 3	26 337	2 016	30 599	7 014
Year 4	8 205	1 967	13 923	7 466
Year 5	2 758	1 013	9 275	7 946
Onwards	–	–	18 722	29 957
	91 643	36 998	133 755	92 461
Less finance charges component	(9 763)	(3 189)	(23 263)	(22 780)
	81 880	33 809	110 492	69 681
Non-current liabilities	58 823	10 139	86 908	45 481
Current liabilities	23 057	23 670	23 584	24 200
	81 880	33 809	110 492	69 681

The Group and company assess whether a contract is, or contains a lease, at the inception of the contract. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determines whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the Group/company has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

Group and company as a lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the Group and company are the lessees, except for short-term leases of 12 months or less, or leases of low-value assets. For these leases, the Group and company recognise the lease payments as an operating expense (when applicable) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However, as an exception to the preceding paragraph, the Group and company have elected not to separate the non-lease components for leases of land and buildings.

11. Right-of-use assets and lease liabilities continued

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group or company's incremental borrowing rate.

The lease liability is presented as a separate line item on the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs paid (note 7).

The Group and company remeasure the lease liability, when applicable, in accordance with the following table:

Lease liability remeasurement scenario	Lease liability remeasurement methodology
Change to the lease term	– discounting the revised lease payments using a revised discount rate
Lease contract has been modified and the lease modification is not accounted for as a separate lease	– discounting the revised payments using a revised discount rate

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are presented as a separate line item on the statement of financial position.

The right-of-use asset is initially measured at cost.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

The useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

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12. Goodwill

	2021 Cost R000	2021 Accumulated impairment R000	2021 Carrying value R000	2020 Cost R000	2020 Accumulated impairment R000	2020 Carrying value R000
Group						
Goodwill	62 344	(7 717)	54 627	62 344	(6 717)	55 627

The carrying amount of goodwill has been allocated as follows:

	Pre-tax discount	Forecasted cash flows	2021	2020
Mustek	22.75%	Five-year cash forecast, based on budgeted profits, with perpetual cash forecast thereafter	19 274	20 274
Palladium Business Solutions	23.08%	Five-year cash forecast, based on budgeted profits, with perpetual cash forecast thereafter	8 077	8 077
Rectron	25.41%	Five-year cash forecast, based on budgeted profits, with perpetual cash forecast thereafter	27 276	27 276
			54 627	55 627

Allocations between cash-generating units (CGUs) remained unchanged from the previous financial year.

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash-generating units were determined using a discounted cash flow model. A value-in-use was calculated and 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 CGUs including uncertainty risks as a result of COVID-19. 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. To be conservative, no growth has been forecasted for the short term, with 4% (2020: 4%) projected thereafter, 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, a view on expected inflation rates and uncertain economic outlook as a result of the COVID-19 pandemic.

The discount rate is calculated by using a risk-free rate and adjusted for risk factors.

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.

Based on this assessment and the poor performance of a business unit within the Mustek CGU, goodwill relating to this business unit was impaired in total (R1 million) in the current financial year (2020: Rnil).

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.

Reconciliation of goodwill

	Opening balance	Impairment loss	Total
Group – 2021			
Goodwill	55 627	(1 000)	54 627

	Opening balance	Total
Group – 2020		
Goodwill	55 627	55 627

13. Intangible assets

	2021 Cost R000	2021 Accumulated amortisation R000	2021 Carrying value R000	2020 Cost R000	2020 Accumulated amortisation R000	2020 Carrying value R000
Group						
Computer software	184 212	(94 208)	90 004	177 038	(105 833)	71 205

	2021 Cost R000	2021 Accumulated amortisation R000	2021 Carrying value R000	2020 Cost R000	2020 Accumulated amortisation R000	2020 Carrying value R000
Company						
Computer software	118 983	(69 732)	49 251	109 639	(73 781)	35 858

Reconciliation of intangible assets

	Opening balance	Additions	Disposals/ scrapping	Foreign exchange movements	Amortisation	Total
Group – 2021						
Computer software	71 205	24 081	(736)	(23)	(4 523)	90 004

	Opening balance	Additions	Disposals/ scrapping	Foreign exchange movements	Amortisation	Total
Group – 2020						
Computer software	53 167	23 543	(166)	31	(5 370)	71 205

Reconciliation of intangible assets

	Opening balance	Additions	Disposals/ scrapping	Amortisation	Total
Company – 2021					
Computer software	35 858	15 706	(665)	(1 648)	49 251

	Opening balance	Additions	Disposals/ scrapping	Amortisation	Total
Company – 2020					
Computer software	29 646	8 558	–	(2 346)	35 858

Other information

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.

Mustek and Rectron are in the process of implementing a new ERP system and the amount spent thus far is R72.4 million (2020: R51.7 million). The new ERP system was scheduled to be implemented during the financial year but due to unplanned impacts on the project, largely brought about by strained resources as a result of COVID-19 and the ongoing strike, the implementation date had to be moved out. The ERP system will be completed and available for use in the next financial year and the costs incurred in developing the software will be amortised in accordance with IAS 38 *Intangible Assets*. This software has been assessed for impairment based on the same judgements and estimates used for the goodwill impairment assessment as described in note 12.

Software is written off on a straight-line basis over their remaining useful lives of between one and three years.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

13. Intangible assets continued

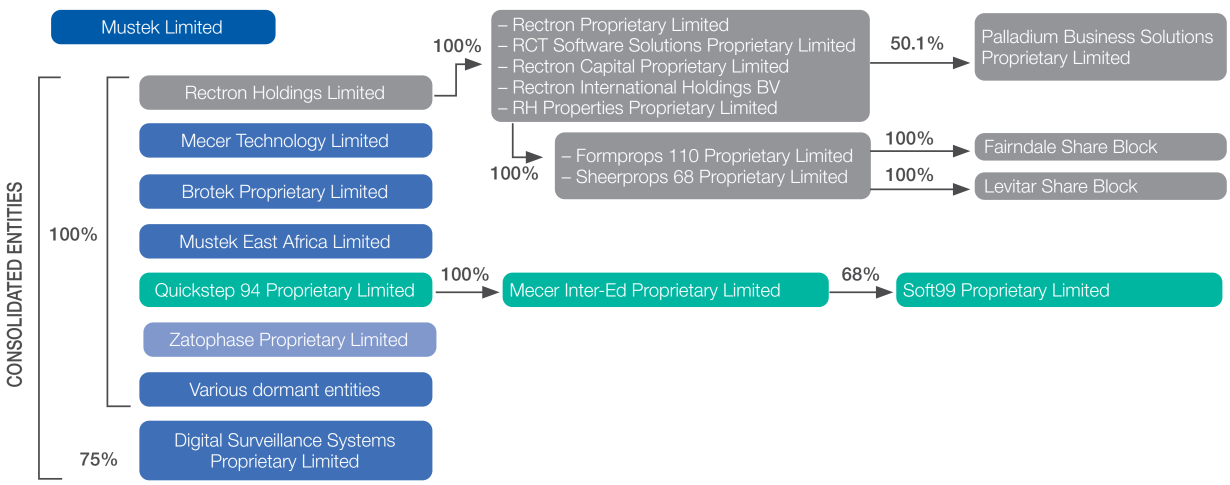
Intangible assets acquired separately

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.

14. Investment in subsidiaries

	Notes	2021 R000	2020 R000
Company			
Net investment in subsidiaries			
Shares at cost less accumulated impairment		243 391	250 279
– opening balance		250 279	250 279
– current year write offs and impairment		(6 888)	–
Loans owing by subsidiaries		116 470	130 519
Opening balance		130 519	118 341
(Decrease) increase in loans		(4 658)	2 369
Foreign exchange movement		(9 391)	9 809
Loan impairments		(73 578)	(76 714)
– opening balance		(76 714)	(68 003)
– current year impairment adjustments		3 136	(8 711)
Non-current investment in subsidiaries		286 283	304 084
Loans owing to subsidiaries	21, 22	(85 185)	(105 009)
		201 098	199 075

The following organogram indicates the entities which are controlled by the Group, either directly or indirectly through subsidiaries. There have been no changes in shareholding percentages from the prior year.



14. Investment in subsidiaries continued

The following table lists the carrying amounts of the investments in subsidiaries in the company's separate financial statements.

Company	Country of incorporation	Nature of activities	% holding 2021	% holding 2020	2021 R000	2020 R000
Name of company						
Ballena Trading 29 Proprietary Limited*	South Africa	Dormant	51	51	5 272	5 272
Brobusmac Investments Proprietary Limited	South Africa	Note 1	–	100	–	1 575
Brotek Proprietary Limited	South Africa	Property holding	100	100	71 468	71 468
CIS Thuthukani Technology Proprietary Limited	South Africa	Dormant	100	100	6 793	6 793
Digital Surveillance Systems Proprietary Limited*	South Africa	Dormant	75	75	5 896	5 896
Lithatek Investments Proprietary Limited*	South Africa	Dormant	100	100	19 448	19 448
MFS Technologies Proprietary Limited**	South Africa	Dormant	100	100	–	–
Makeshift 1000 Proprietary Limited*	South Africa	Dormant	100	100	10 698	10 698
Mecer Technology Limited	Taiwan	Trading	100	100	6 629	6 629
Mustek Capital Proprietary Limited	South Africa	Note 1	–	100	–	100
Mustek East Africa Limited (Note 3)	Kenya	Trading	100	100	12 315	12 315
Mustek Electronics (Cape Town) Proprietary Limited (Note 2)	South Africa	Dormant	100	100	3 229	3 229
Mustek Electronics (Durban) Proprietary Limited (Note 2)	South Africa	Dormant	100	100	1 658	1 658
Mustek Electronics (Port Elizabeth) Proprietary Limited (Note 2)	South Africa	Dormant	100	100	327	327
Mustek Lesotho Proprietary Limited**	South Africa	Dormant	99	99	–	–
Mustek Limited Company Limited**	South Africa	Dormant	100	100	–	–
Mustek Middle East FZCO*	South Africa	Dormant	100	100	1 392	1 392
Quickstep 94 Proprietary Limited*	South Africa	Investment holding	100	100	2 581	2 581
Rectron Holdings Limited	South Africa	Trading	100	100	115 973	115 973
Tradeselect 38 Proprietary Limited*	South Africa	Dormant	100	100	3 400	3 400
Zatophase Proprietary Limited	South Africa	Investment holding	100	100	35 944	35 944
Total cost					303 023	304 698
Accumulated impairment					(59 632)	(54 419)
Opening balance					(54 419)	(54 419)
Current year impairment					(5 213)	–
Carrying amount at year-end					243 391	250 279

* *Fully impaired in prior years.*
** *Amounts less than R1000.*

Note 1: These companies have been de-registered in the current year and the investments written off.
Note 2: During the current financial year the investments in these subsidiaries were impaired due to the investment carrying amount exceeding the net asset value of each of the companies.
Note 3: The investment in Mustek East Africa Limited was impaired by an amount of R5.7 million in previous financial years.

A list of the number of shares that is held in each subsidiary is available at the registered office of the company.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

14. Investment in subsidiaries continued

In the separate financial statements of Mustek Limited, investments in subsidiaries are carried at cost less accumulated impairments in accordance with IAS 27.

The Group and company consider an entity to be controlled, when the Group or 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.

Reporting period

The end of the reporting period of Zatophase Proprietary Limited was 28 February. The year-end has been changed to 30 June in the current financial year. This company holds the investment in Zaloserve Proprietary Limited and does not trade.

Subsidiaries with material non-controlling interests

The following information is provided for subsidiaries with non-controlling interests which are material to the reporting company. The summarised financial information is provided prior to intercompany eliminations.

	Country of incorporation	% ownership interest held by non-controlling interest	
		2021	2020
Palladium Business Solutions Proprietary Limited	South Africa	49.90	49.90

Summarised statement of financial position

	Palladium Business Solutions Proprietary Limited	
	2021 R000	2020 R000
Assets		
Non-current assets	288	624
At acquisition intangible assets recognised net of amortisation and deferred tax	8 205	9 654
Current assets	13 975	9 813
Total assets	22 468	20 091
Liabilities		
Current liabilities	6 726	2 672
Total liabilities	6 726	2 672
Total net assets	15 742	17 419
Carrying amount of non-controlling interest	7 855	8 692

14. Investment in subsidiaries continued

Summarised statement of profit or loss and other comprehensive income

	Palladium Business Solutions Proprietary Limited 2021 R000	Palladium Business Solutions Proprietary Limited 2020 R000
Revenue	44 033	33 190
Expenses	(33 462)	(26 967)
Amortisation of at acquisition intangible assets	(2 011)	(2 011)
Profit before tax	8 560	4 212
Tax expense	(3 241)	(1 782)
Profit for the year	5 319	2 430
Total comprehensive income	5 319	2 430
Profit allocated to non-controlling interest	2 655	1 213

Summarised statement of cash flows

	Palladium Business Solutions Proprietary Limited 2021 R000	Palladium Business Solutions Proprietary Limited 2020 R000
Cash generated from operating activities	4 449	1 628
Cash inflows (outflows) from investing activities	9	(252)
Cash outflows from financing activities	(547)	(64)
Net increase in cash and cash equivalents	3 911	1 312
Dividend paid to non-controlling interest	3 493	649

	Company 2021 R000	Company 2020 R000
Loans to subsidiaries		
Mustek East Africa Limited		
This loan bears interest at two percent per annum (2020: 2%) and is repayable on demand (management has no expectation to demand settlement of this loan in the foreseeable future).	42 892	46 923
Mecer Inter-Ed Proprietary Limited *Note 1*	–	5 236
Soft 99 Proprietary Limited *Note 1 and 2*	–	–
Quickstep 94 Proprietary Limited *Note 1*	–	1 596
Makeshift 1000 Proprietary Limited *Note 1*	–	50
	42 892	53 805

Note 1: These loans were interest-free and had no fixed terms of repayment (management had no expectation to demand settlement of these loans within the next 12 months). The loan to Mecer Inter-Ed was repaid in the current year. The remaining loans to Quickstep 94 and Makeshift 1000 were impaired in the current year.

Note 2: The gross amount owing by Quickstep 94 Proprietary Limited is R18.4 million. This has been impaired in full. The loan is subordinated in favour of other creditors of Quickstep 94 Proprietary Limited.

None of the loans receivable have been secured.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

14. Investment in subsidiaries continued

Exposure to credit risk

Loans receivable from Group companies inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if counterparties fail to make payments as they fall due.

Loans receivable are subject to the impairment provisions of IFRS 9 *Financial Instruments*, which requires a loss allowance to be recognised for all exposures to credit risk. 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 (ECL) would be recognised while for financial assets in Stage 2 and Stage 3, lifetime expected credit losses would be recognised.

The loss allowance for Group loans receivable is calculated based on 12-month expected losses if the credit risk has not increased significantly since initial recognition. In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses. The loss allowance is updated to either 12-month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition.

In determining the amount of expected credit losses, the Group has taken into account any historic default experience, the financial positions of the counterparties as well as the future prospects in the industries in which the counterparties operate. The type of credit loss model used is Moody's Analytics RiskCalc SA financial statement PD and LGD model. Refer to note 18 for details on conversion of ratings and historic PD and LGD into an ECL.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The maximum exposure to credit risk is the gross carrying amount of the loans as presented below. The Group does not hold collateral or other credit enhancements against Group loans receivable.

Credit rating framework

Internal credit grade	Description	Basis for recognising expected credit losses
Performing	Low risk of default and no amounts are past due	12-month ECL
In default	Either 90 days past due or there is evidence that the asset is credit impaired	Lifetime ECL (credit impaired)
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery	Lifetime ECL (credit impaired)

14. Investment in subsidiaries continued

Credit loss allowances

The following tables set out the carrying amount and the expected credit loss allowances for loans to subsidiaries:

	External credit rating	Rating agency	Internal credit rating	Basis of loss allowance	Gross carrying amount R000	Loss allowance R000	Net carrying amount R000
Company – 2021							
Loans to subsidiaries							
Lithatek Investments Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	2 479	(2 479)	–
Makeshift 1000 Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	43 192	(43 192)	–
Mustek East Africa Limited	B2	Moody's Investor Services		12-month ECL	43 914	(1 022)	42 892
Mustek Lesotho Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	952	(952)	–
Mustek Limited Company Limited		Internal rating	In default	Lifetime ECL (credit impaired)	3 511	(3 511)	–
Mustek Middle East FZCO		Internal rating	In default	Lifetime ECL (credit impaired)	1 118	(1 118)	–
Quickstep 94 Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	18 422	(18 422)	–
Soft 99 Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	2 882	(2 882)	–
					116 470	(73 578)	42 892

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

14. Investment in subsidiaries continued

Credit loss allowances continued

	External credit rating	Rating agency	Internal credit rating	Basis of loss allowance	Gross carrying amount R000	Loss allowance R000	Net carrying amount R000
Company – 2020							
Loans to subsidiaries							
Lithatek Investments Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	2 479	(2 479)	–
Makeshift 1000 Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	43 192	(43 142)	50
Mecer Inter-Ed Proprietary Limited	Ba1	Moody's Investor Services		12-month ECL	5 317	(81)	5 236
Mustek East Africa Limited	B2	Moody's Investor Services		12-month ECL	52 646	(5 723)	46 923
Mustek Lesotho Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	952	(952)	–
Mustek Limited Company Limited		Internal rating	In default	Lifetime ECL (credit impaired)	3 511	(3 511)	–
Mustek Middle East FZCO		Internal rating	In default	Lifetime ECL (credit impaired)	1 118	(1 118)	–
Quickstep 94 Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	18 422	(16 826)	1 596
Soft 99 Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	2 882	(2 882)	–
					130 519	(76 714)	53 805

Loans from subsidiaries

	Company 2021 R000	Company 2020 R000
Brobusmac Investments Proprietary Limited *Notes 1 and 3*	–	7 960
Brotek Proprietary Limited *Note 2*	73 702	70 163
CIS Thuthukani Technology Proprietary Limited *Note 1*	10 212	10 212
MFS Technologies Proprietary Limited *Note 1*	1 271	1 271
Mustek Capital Proprietary Limited *Notes 1 and 3*	–	10 520
Mustek Electronics (Cape Town) Proprietary Limited *Notes 1 and 3*	–	3 216
Mustek Electronics (Durban) Proprietary Limited *Notes 1 and 3*	–	1 433
Mustek Electronics (Port Elizabeth) Proprietary Limited *Notes 1 and 3*	–	234
	85 185	105 009

Note 1: These loans are interest-free and have no fixed terms of repayment.

Note 2: Brotek is made up of two loans with different terms:

The first loan has a balance of R33.9 million (2020: R30.2 million).This loan is interest-free and has no fixed terms of repayment.

The second loan is a back to back loan with the mortgage bond received from Nedbank (refer note 21) and advanced to Mustek during June 2020. The balance of this loan is R39.8 million (2020: R40.0 million). This loan is carried at amortised cost and carries the same terms as the mortgage bond disclosed in note 21. R2.3 million (2020: R0.2 million) is repayable in the next 12 months.

Note 3: The loans were settled in the current year by way of a dividend declared to the holding company.

14. Investment in subsidiaries continued

Prior period restatement

The terms of the loan from Brotek Proprietary Limited remained unchanged from the prior year. The prior year statement of financial position was restated due to the full amount of both loans advanced from Brotek Proprietary Limited being classified as current. The prior year loan balances have been restated and split between non-current and current as noted below.

Split between non-current and current portions

	Company	
	2021 R000	2020 R000
Non-current liabilities	37 516	39 812
Current liabilities	47 669	65 197
	85 185	105 009

Classification

Loans to related companies (notes 14 and 15) and entities outside the Group (note 16) 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 from Group companies 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.

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

Impairment

The Group recognises a loss allowance for expected credit losses on all loans receivable from Group companies 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.

Fair value of subsidiary loans

The fair value of subsidiary loans receivable and payable approximates their carrying amounts.

15. Investment in associates

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Shares at cost	85 734	88 026	40 246	40 246
– opening balance	88 026	88 026	40 246	40 246
– disposals	(2 292)	–	–	–
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	74 700	75 496	–	–
– opening balance	75 496	62 488	–	–
– current year share of post-acquisition gains	5 292	17 460	–	–
– current year impairment of post-acquisition gains	–	(1 881)	–	–
– current year dividends received from associates	–	(2 571)	–	–
– current year disposals	(6 088)	–	–	–
Loans owing by associates	13 701	8 600	6 401	1 300
– opening balance	8 600	8 600	1 300	1 300
– increase in loans	5 101	–	5 101	–
Accumulated impairment on loans	(7 336)	(7 352)	(36)	(52)
Investment in associates	142 260	140 231	42 422	37 305

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

15. Investment in associates continued

Summarised financial information of material associates

	Revenue R000	Profit (loss) before tax R000	Income tax benefit (expense) R000	Total comprehensive income attributable to owners of the parent R000	Dividend received from associate R000
2021					
Summarised statement of profit or loss and other comprehensive income					
Yangtze Optics Africa Proprietary Limited	258 004	54 306	(8 230)	46 076	–
Zaloserve Proprietary Limited	720 475	(32 423)	5 686	(27 032)	–
Khauleza IT Solutions Proprietary Limited	116 279	8 714	(3 075)	5 639	–
Continuous Power Systems Proprietary Limited	64 298	8 718	(2 441)	6 277	–
Mustek Zimbabwe Private Limited	14 329	981	(253)	728	–
Preworx Proprietary Limited	–	–	–	–	–
	1 173 385	40 296	(8 313)	31 688	–

	Non-current assets R000	Current assets R000	Non-current liabilities R000	Current liabilities R000	Total net assets R000
Summarised statement of financial position					
Yangtze Optics Africa Proprietary Limited	62 931	232 562	–	145 850	149 643
Zaloserve Proprietary Limited	94 693	428 059	81 817	254 540	186 395
Khauleza IT Solutions Proprietary Limited	2 648	55 097	661	8 271	48 813
Continuous Power Systems Proprietary Limited	37 632	29 124	29 722	9 846	27 188
Mustek Zimbabwe Private Limited	384	2 330	–	608	2 106
Preworx Proprietary Limited	963	–	8 757	–	(7 794)
	199 251	747 172	120 957	419 115	406 351

15. Investment in associates continued

Summarised financial information of material associates continued

	Revenue R000	Profit (loss) before tax R000	Income tax benefit (expense) R000	Total comprehensive income attributable to owners of the parent R000	Dividend received from associate R000
2020					
Summarised statement of profit or loss and other comprehensive income					
Yangtze Optics Africa Proprietary Limited	149 455	(7 091)	972	(6 119)	–
Zaloserve Proprietary Limited	1 455 798	50 910	(11 945)	38 965	–
Khauleza IT Solutions Proprietary Limited	115 780	13 975	(3 913)	10 062	–
Continuous Power Systems Proprietary Limited	37 681	5 377	(1 506)	3 871	2 571
Mustek Zimbabwe Private Limited	1 689	294	(76)	218	–
Preworx Proprietary Limited	–	–	–	–	–
	1 760 403	63 465	(16 468)	46 997	2 571

	Non-current assets R000	Current assets R000	Non-current liabilities R000	Current liabilities R000	Total net assets R000
Summarised statement of financial position					
Yangtze Optics Africa Proprietary Limited	67 578	159 647	–	130 556	96 669
Zaloserve Proprietary Limited	108 078	578 116	24 623	430 787	230 784
Khauleza IT Solutions Proprietary Limited	4 456	45 229	1 231	5 278	43 176
Continuous Power Systems Proprietary Limited	28 276	23 653	26 818	6 641	18 470
Mustek Zimbabwe Private Limited	8	614	–	296	326
Preworx Proprietary Limited	963	–	8 757	–	(7 794)
	209 359	807 259	61 429	573 558	381 631

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for the year ended 30 June 2021

15. Investment in associates continued

The following tables list the net investment in associates for both company and Group:

Company – Unlisted

	Note	Percentage holding 2021* %	2021 R000	Cost Additions/ (disposals) R000	Opening impairment R000	Additional impairment R000	2020 R000
Mustek Zimbabwe Private Limited	3	–	4 189	–	(4 189)	–	4 189
Khauleza IT Solutions Proprietary Limited		36.0	–	–	–	–	–
Continuous Power Systems Proprietary Limited	1	40.0	–	–	–	–	–
Yangtze Optics Africa Holdings Proprietary Limited	2	25.1	36 057	–	–	–	36 057
Total Company			40 246	–	(4 189)	–	40 246

Group – Unlisted

	Note	Percentage holding 2021* %	2021 R000	Cost Additions/ (disposals) R000	Opening impairment R000	Additional impairment R000	2020 R000
Mustek Zimbabwe Private Limited	3	–	4 189	–	(4 189)	–	4 189
Khauleza IT Solutions Proprietary Limited		36.0	–	–	–	–	–
Continuous Power Systems Proprietary Limited	1	40.0	–	–	–	–	–
Zaloserve Proprietary Limited	4	36.1	21 041	(2 292)	–	–	23 333
Yangtze Optics Africa Holdings Proprietary Limited	2	25.1	36 057	–	–	–	36 057
Preworx Proprietary Limited	5	38.0	24 447	–	(20 350)	–	24 447
Total Group			85 734	(2 292)	(24 539)	–	88 026

* *There has been no change in the percentage holding of the above associates during the current year, except for the interest in Zaloserve Proprietary Limited which was reduced from 40% to 36.1% in the current year.*

Loans to					Equity-accounted share of earnings					Net investment	
2021 R000	Advanced/ (repaid) R000	Opening impairment R000	Reversal of impairment R000	2020 R000	**2021 R000**	Current year profits R000	Current year disposal R000	Dividend received R000	2020 R000	**2021 R000**	2020 R000
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
6 401	5 101	(52)	16	1 300	–	–	–	–	–	6 365	1 248
–	–	–	–	–	–	–	–	–	–	36 057	36 057
6 401	5 101	(52)	16	1 300	–	–	–	–	–	42 422	37 305

Loans to					Equity-accounted share of earnings					Net investment	
2021 R000	Advanced/ (repaid) R000	Opening impairment R000	Reversal of impairment R000	2020 R000	**2021 R000**	Current year profits (losses) R000	Current year disposal R000	Dividend received R000	2020 R000	**2021 R000**	2020 R000
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	15 493	2 029	–	–	13 464	15 493	13 464
6 401	5 101	(52)	16	1 300	7 056	2 511	–	–	4 545	13 421	5 793
–	–	–	–	–	55 875	(10 813)	(6 088)	–	72 776	76 916	96 109
–	–	–	–	–	373	11 565	–	–	(11 192)	36 430	24 865
7 300	–	(7 300)	–	7 300	(4 097)	–	–	–	(4 097)	–	–
13 701	5 101	(7 352)	16	8 600	74 700	5 292	(6 088)	–	75 496	142 260	140 231

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

15. Investment in associates continued

1. With effect from 1 January 2011, Mustek Limited acquired a 40% share in Continuous Power Systems Proprietary Limited. The loan to Continuous Power Systems Proprietary Limited is made up of two loans:

   The first loan has a balance of R1.3 million (2020: R1.3 million). This loan is interest-free and has no fixed repayment terms (management has no expectation to demand settlement of this loan within the next 12 months).

   The second loan has a balance of R5.1 million (2020: Rnil). This loan is carried at amortised cost and carries interest at prime. The loan is repayable over a period of five years with annual instalments of R1.1 million and interest accrued to date. R1.5 million is repayable in the next 12 months and is disclosed as a separate line item under current assets on the face of the statements of financial position.

   Both loans are stated net of expected credit loss, in accordance with IFRS 9. The type of credit loss model used is Moody's Analytics RiskCalc. The estimated credit loss was determined based on a 12-month ECL using an external credit rating of Ba1 per Moody's Investor Services.

2. Mustek Limited acquired a 25.1% share in Yangtze Optics Africa Holdings Proprietary Limited with effect from 8 March 2016.

3. 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. The investment in Mustek Zimbabwe exceeded its recoverable amount and the post-acquisition gains were impaired in the prior year.

4. Mustek Limited owns 100% of Zatophase Proprietary Limited. Zatophase Proprietary Limited owns a 36.1% share in Zaloserve Proprietary Limited after selling 3.9% of the company to Zaloserve Management Proprietary Limited on 30 June 2021 for a consideration of R11 million. Furthermore, Zaloserve Proprietary Limited owns 100% of Sizwe IT Group.

5. 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.

Additional information	Nature of business	Principal place of business	Period equity accounted
Mustek Zimbabwe Private Limited	Assembly and distribution of computers and computer components	Zimbabwe	12 months (2020: 12 months)
Khauleza IT Solutions Proprietary Limited	Provider of IT support solutions	South Africa	12 months (2020: 12 months)
Continuous Power Systems Proprietary Limited	Provider of uninterrupted power supply solutions	South Africa	12 months (2020: 12 months)
Zaloserve Proprietary Limited	Group of IT support solutions provider companies	South Africa	12 months (2020: 12 months)
Yangtze Optics Africa Holdings Proprietary Limited	Fibre optics technology	South Africa	12 months (2020: 12 months)
Preworx Proprietary Limited	Remote access diagnostics technology	South Africa	12 months (2020: 12 months)
A Open Proprietary Limited	Dormant	South Africa	12 months (2020: 12 months)

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 stated after accumulated impairment charges of R31.9 million (2020: R31.9 million) for the Group and R4.2 million (2020: R4.2 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 method, net of ECL. Refer to note 14 for details on the Group's exposure to credit risk, specifically relating to loans receivable from Group companies.

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.

16. Other loans

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Other loans are presented at amortised cost, which is net of ECL, as follows:				
A Lai *This loan is secured, interest-free and has no fixed terms of repayment (management has no expectation to demand settlement of this loan within the next 12 months).*	990	990	990	990
M Cameron *This loan is unsecured, interest-free, and is repayable on demand (management has no expectation to demand settlement of this loan within the next 12 months).*	932	947	932	947
Elimu Technologies Proprietary Limited *This loan is unsecured, bears interest at prime and has no fixed repayment terms (This loan has been impaired in full. See below.)*	–	2 129	–	2 129
Mustek Executive Share Trust *Notes 1, 2 and 3*	–	(472)	50 163	46 682
DC Kan *Note 1*	26 658	26 709	–	–
H Engelbrecht *Note 1*	14 478	14 561	–	–
CJ Coetzee *Note 1*	3 205	3 294	–	–
JW Viviers *Note 2*	443	453	–	–
O Levey *Note 2*	–	64	–	–
JL Chen *Note 2*	1 142	1 141	–	–
MR de Klerk *Note 2*	–	459	–	–
IG3 Education Limited (incorporated in Australia) *This loan bears interest at 4.17% per annum and is repayable in two equal payments over the next two years.*	3 041	5 352	–	–
Zaloserve Management Proprietary Limited *This loan bears interest at repo +1% per annum and is repayable on or before 30 June 2026.*	10 883	–	–	–
	61 772	55 627	52 085	50 748

Note 1: 3.8 million Mustek Limited shares were issued to directors of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the directors in terms of the rules of the trust. The loan from the Share Trust was in turn funded by a loan from Mustek Limited to the Share Trust. Up to 31 August 2017, these loans bore interest at the South African repo rate plus one percent. From 1 September 2017, the loans are interest-free. Tax on fringe benefits is charged to the loan accounts on a monthly basis. These loans have no fixed repayment terms. Refer below for details on impairment and note 28 for related party disclosure. Settlement is not expected within the next 12 months.

Note 2: 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 one percent. From 1 September 2017, these loans were interest-free and deemed fringe benefits. The loans have no fixed repayment terms. Refer below for details on impairment and note 28 for related party disclosure. Settlement is not expected within the next 12 months.

Note 3: 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 it is 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).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

16. Other loans continued

Exposure to credit risk

Other loans provided inherently expose the Group and company to credit risk, being the risk that the Group or company will incur financial loss if counterparties fail to make payments as they fall due.

Other loans are subject to the impairment provisions of IFRS 9 *Financial Instruments*, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance for loans receivable (at amortised cost) is calculated based on 12-month expected losses. A rate of 1% was used for the expected credit loss on certain of the loans (Mustek Share Trust and director loans) as these loans are expected to have 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. In determining the amount of expected credit losses for these loans, the Group and company have taken into account any historic default experience, the financial positions of the counterparties as well as the future prospects in the industries in which the counterparties operate or are employed. This information has been obtained from the counterparties themselves, as well as from economic reports, financial analyst reports and various external sources of actual and forecast data and is applied to estimate a probability of default occurring as well as estimating the loss upon default.

In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses. The loss allowance is updated to either 12-month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition. On the other hand, if a loan is in arrears more than 90 days, then it is assumed that there has been a significant increase in credit risk since initial recognition.

In determining the amount of expected credit losses for the loan to Zaloserve Management Proprietary Limited, the Group has taken into account any historic default experience, the financial positions of the counterparty as well as the future prospects in the industries in which the counterparty operates. The type of credit loss model used is Moody's Analytics RiskCalc SA financial statement PD and LGD model. Refer to note 18 for details on conversion of ratings and historic PD and LGD into an ECL.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The maximum exposure to credit risk is the gross carrying amount of the loans as presented below.

Credit rating framework

Internal credit grade	Description	Basis for recognising expected credit losses
Performing	Low risk of default and no amounts are past due	12-month ECL
Doubtful	Either 30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL (not credit impaired)
In default	Either 90 days past due or there is evidence that the asset is credit impaired	Lifetime ECL (credit impaired)
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery	Lifetime ECL (credit impaired)

16. Other loans continued

Credit loss allowances

The following tables set out the carrying amount and loss allowance for other loans:

	External credit rating	Rating agency	Internal credit rating	Basis of loss allowance	Gross carrying amount	Loss allowance	Amortised cost
Group – 2021							
A Lai		Internal rating	Performing	12-month ECL	1 000	(10)	990
M Cameron		Internal rating	Performing	12-month ECL	941	(9)	932
Elimu Technologies Proprietary Limited		Internal rating	In default	Lifetime ECL (credit impaired)	1 940	(1 940)	–
DC Kan		Internal rating	Performing	12-month ECL	26 927	(269)	26 658
H Engelbrecht		Internal rating	Performing	12-month ECL	14 624	(146)	14 478
CJ Coetzee		Internal rating	Performing	12-month ECL	3 237	(32)	3 205
JW Viviers		Internal rating	Performing	12-month ECL	448	(5)	443
JL Chen		Internal rating	Performing	12-month ECL	1 155	(13)	1 142
IG3 Education Limited		Internal rating	Performing	12-month ECL	3 239	(198)	3 041
Zaloserve Management Proprietary Limited	Ba1	Moody's Investor Services		12-month ECL	11 000	(117)	10 883
					64 511	(2 739)	61 772

	Rating agency	Internal credit rating	Basis of loss allowance	Gross carrying amount	Loss allowance	Amortised cost
Group – 2020						
A Lai	Internal rating	Performing	12-month ECL	1 000	(10)	990
M Cameron	Internal rating	Performing	12-month ECL	957	(10)	947
Elimu Technologies Proprietary Limited	Internal rating	Performing	12-month ECL	2 151	(22)	2 129
Simple Process Engineering Solutions Proprietary Limited	Internal rating	Write off	Amount is written off	–	–	–
DC Kan	Internal rating	Performing	12-month ECL	26 979	(270)	26 709
H Engelbrecht	Internal rating	Performing	12-month ECL	14 708	(147)	14 561
CJ Coetzee	Internal rating	Performing	12-month ECL	3 327	(33)	3 294
JW Viviers	Internal rating	Performing	12-month ECL	458	(5)	453
O Levey	Internal rating	Performing	12-month ECL	65	(1)	64
JL Chen	Internal rating	Performing	12-month ECL	1 153	(12)	1 141
MR de Klerk	Internal rating	Performing	12-month ECL	464	(5)	459
Mustek Executive Share Trust	Internal rating	Performing	12-month ECL	–	(472)	(472)
IG3 Education Limited	Internal rating	Performing	12-month ECL	5 550	(198)	5 352
				56 812	(1 185)	55 627

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16. Other loans continued

Credit loss allowances continued

	Rating agency	Internal credit rating	Basis of loss allowance	Gross carrying amount	Loss allowance	Amortised cost
Company – 2021						
A Lai	Internal rating	Performing	12-month ECL	1 000	(10)	990
M Cameron	Internal rating	Performing	12-month ECL	941	(9)	932
Elimu Technologies Proprietary Limited	Internal rating	In default	Lifetime ECL (credit impaired)	1 940	(1 940)	–
Mustek Executive Share Trust	Internal rating	Performing	12-month ECL	50 670	(507)	50 163
				54 551	(2 466)	52 085

	Rating agency	Internal credit rating	Basis of loss allowance	Gross carrying amount	Loss allowance	Amortised cost
Company – 2020						
A Lai	Internal rating	Performing	12-month ECL	1 000	(10)	990
M Cameron	Internal rating	Performing	12-month ECL	957	(10)	947
Elimu Technologies Proprietary Limited	Internal rating	Performing	12-month ECL	2 151	(22)	2 129
Mustek Executive Share Trust	Internal rating	Performing	12-month ECL	47 154	(472)	46 682
Simple Process Engineering Solutions Proprietary Limited	Internal rating	Write off	Amount is written off	–	–	–
				51 262	(514)	50 748

Fair value of loans receivable

The fair value of other loans approximates their carrying amounts.

17. Inventories

	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Trading inventory	1 399 483	1 453 076	861 594	888 255
Allowance for obsolescence	(126 648)	(57 536)	(75 718)	(49 622)
Trading inventory, net of allowance for obsolescence	1 272 835	1 395 540	785 876	838 633
Inventories in transit	166 723	213 546	39 054	148 329
Total inventories	1 439 558	1 609 086	824 930	986 962
Allowance for obsolescence reconciliation				
Opening balance	(57 536)	(44 997)	(49 622)	(37 029)
Current year provision	(149 437)	(29 614)	(105 701)	(29 306)
Amount written off	80 325	17 075	79 605	16 713
	(126 648)	(57 536)	(75 718)	(49 622)

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 allowances are highly judgemental because of the very competitive nature of the business, the constant change in trends and the extremely short life cycle 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 reporting date. The effects of COVID-19, change in trends and consumer behaviour have been considered in determining the net realisable value of inventory. The Group and company provides for the amount by which the cost of inventory exceeds the net realisable value multiplied by the units of stock on hand at reporting date.

The cost of inventories recognised as an expense during the year was R6.7 billion (2020: R5.3 billion) and R4.6 billion (2020: R3.8 billion) for the Group and company respectively. Costs relating to outward freight and delivery are included in cost of sales.

The cost of inventories recognised includes R28.3 million (2020: R15.1 million) for the Group and company, in respect of write-downs to net realisable value.

Majority of the sales between Group entities are at a mark-up of 0%.

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.

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for the year ended 30 June 2021

18. Trade and other receivables

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Financial instruments				
Trade receivables	1 127 583	1 017 298	806 876	775 576
Loss allowance	(44 909)	(53 585)	(25 726)	(39 729)
Trade receivables at amortised cost	1 082 674	963 713	781 150	735 847
Other receivables	40 564	49 289	28 104	40 655
Other short-term receivables	10 363	3 325	10 366	3 325
Non-financial instruments				
VAT	23 372	90 722	19 600	66 500
Prepayments	71 340	56 911	56 681	54 562
Total trade and other receivables	1 228 313	1 163 960	895 901	900 889

Exposure to currency risk

Refer to note 24 for details of currency risk management for trade receivables.

Classification

Trade and other receivables are classified as financial assets subsequently measured at amortised cost. 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 and company recognise a loss allowance for expected credit losses (ECL) on trade receivables. The amount of expected credit losses is updated at each reporting date. The Group and company measure the loss allowance for trade 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.

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 and company'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 expected credit losses. The Group and company have no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group and company perform ongoing credit valuations of the financial condition of customers, and where appropriate, credit guarantee insurance is purchased for between 85% and 90% (2020: 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 note 21).

The average credit period on sale of goods and services is between 30 and 60 days (2020: 30 and 60 days) from date of invoice. Generally, no interest is charged on trade receivables. Of the trade receivable balance at year-end, R61.9 million (2020: R55.3 million) and R34.1 million (2020: R55.1 million) is due from the Group and the company's largest customer respectively.

It is the Group and company'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.

18. Trade and other receivables continued

Other information continued

The other classes within trade and other receivables do not contain material impaired assets except for other short-term receivables. Other short-term receivables include a short-term loan advanced to Sizwe IT Africa Proprietary Limited. This loan carries interest at prime and is repayable within the next 12 months. The loan is subject to the impairment provisions of IFRS 9 *Financial Instruments*, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance has been calculated based on 12-month expected losses and the amount stated is net of the ECL. The gross amount of the loan amounts to R10.4 million and an ECL allowance of R0.05 million recognised.

Restatement

The comparative figures for other receivables have been restated due to incorrect categorisation between financial and non-financial instruments. This resulted in an increase in other receivables – financial instruments of R27 million and R18.3 million for Group and company respectively.

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

It is the Group and company's policy to provide for impairment based on expected credit losses (collectively assessed). Individual debtors are also assessed and debtors that have defaulted in payments or the probability exists that the debtor is experiencing financial difficulties will also be provided for (individually assessed).

A combination of models derived from internal data and external models was produced on relevant data. For individually material trade receivables and inter-company accounts, we make use of ratings or Moody's Analytics RiskCalc SA financial statement Probability of Default (PD) and Loss Given Default (LGD) models, adjusted for such items as implied Group support. For the remainder of trade receivables, we perform analysis of empirical evidence of historical defaults and losses with a judgemental overlay which generally includes SA benchmark data, where possible, and measured per risk pool.

The Group and company's policy is to define a default as a credit sale that is uncollected after 90 days.

Conversion of ratings and historic PD and LGD into an ECL

Credit ratings issued by Moody's Investor Services, S&P Global, and Fitch Ratings (Ratings), measured PD and LGDs are converted from Through The Cycle (TTC) to Point in Time (PIT) measures using Moody's Analytics ImpairmentCalc product. ImpairmentCalc then converts (or "conditions") these historic or point-in-time measures into forward-looking measures that constitute the ECL. This conditioning utilises their proprietary models, their database of validated historic macroeconomic data and forecast scenarios and recommended weightings of scenarios.

This is consistent with the methodology applied in prior periods.

Moody's Analytics produces a set of macroeconomic forecasts for South Africa that considers the historical accuracy of various forecasters to identify reliable sources. These are incorporated into their GCorr macroeconomic forecast set. Based on research conducted by Moody's Analytics they recommend the use of their Baseline, Stronger Near-Term Rebound (S1), and Moderate Recession (S3) forecast sets weighted 40%, 30%, 30% respectively for a forward-looking adjustment for the purposes of IFRS 9. They consider both public and private South African company defaults in this research. The methodology does consider the industry of the asset and includes in the calculations likely volatility of that industry to the average impact of the South African economy.

The advent of COVID-19 has had a fundamental impact on the economy in general with an exaggerated impact on credit risk. Moody's Analytics updated their forecasts to reflect this risk by taking into account the possible spread of the epidemic through the country, the economic impact of the epidemic including measures taken to prevent its spread and measures taken by the government to ameliorate the economic impact. They recommend continuing to apply the Baseline, Bullish and Bearish GCorr scenarios weighted 40%, 30%, 30% (these scenarios have been adjusted to reflect the change in risk).

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18. Trade and other receivables continued

Conversion of ratings and historic PD and LGD into an ECL continued

Moody's Analytics does not disclose the specific macroeconomic variables that they have found to be best predictive of changes in credit risk in South Africa but do provide indicators of the impact of certain of their measures. The South African economy experienced a sharp decline in activity in 2020. Under all three of Moody's Analytics scenarios, South Africa will experience a recovery in 2021 starting in Q1 with their Bullish scenario forecasting economic growth to return quicker than the Baseline and Bearish scenarios. The GDP level at the end of Q4 2019 will be reattained between Q1 2022 and Q1 2024 under the three scenarios. GDP is not the only factor that determines the extent of the adjustment but is described here to illustrate the extent of impact on the general economy that was taken into account.

The recovery in market and economic measures from their levels reflecting the highest risk of the COVID-19 epidemic is causing the model derived factors converting historical loss measurements to ECLs to be neutral or sometimes even positive (ECL is lower than TTC losses). While these measures are technically correct (a good recovery followed by slow growth is associated with a benign credit environment) some degree of caution was required due to uncertainty. It is uncertain whether restrictions on economic activity will be imposed to ward off further increases in infection rates. It is also possible that vaccinations will take longer or prove to be less effective than anticipated. It is not expected that such scenarios will have the same impact as the initial wave of COVID-19 but could still delay the economic recovery.

Based on the above, the percentage change from TTC loss to ECL has been calculated to be the mid-point between the level applied in 2020 and the model indicated level of 2021.

The Group and company's trade receivables are stated after allowances for expected credit losses. 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 R000	Individually assessed R000	Total R000
Group – 2021			
Balance at the beginning of the year	31 460	22 125	53 585
Foreign exchange movements	(221)	(10)	(231)
Net amounts written off as uncollectable	(394)	(22 993)	(23 387)
Charged to profit and loss	(10 167)	25 109	14 942
Balance at the end of the year	20 678	24 231	44 909
Group – 2020			
Balance at the beginning of the year	5 951	17 156	23 107
Foreign exchange movements	157	–	157
Net amounts written off as uncollectable	(6 221)	(15 470)	(21 691)
Charged to profit and loss	31 573	20 439	52 012
Balance at the end of the year	31 460	22 125	53 585

	Collectively assessed R000	Individually assessed R000	Total R000
Company – 2021			
Balance at the beginning of the year	23 832	15 897	39 729
Net amounts written off as uncollectable	–	(21 916)	(21 916)
Charged to profit and loss	(10 313)	18 226	7 913
Balance at the end of the year	13 519	12 207	25 726
Company – 2020			
Balance at the beginning of the year	3 945	16 109	20 054
Net amounts written off as uncollectable	–	(10 026)	(10 026)
Charged to profit and loss	19 887	9 814	29 701
Balance at the end of the year	23 832	15 897	39 729

18. Trade and other receivables continued

Group – 2021

	Indicative amount at 30 June 2021 R000	Measurement approach	Sovereign rating	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2021	Indicative ECL amount R000	Indicative net balance R000
0 – 30 days									
Kenya	5 058	Sovereign rate and empirical	B2	35.0	1.04	1.39	1.39	(71)	4 987
Mozambique	33	Sovereign rate and empirical	Caa2	35.0	1.04	3.57	3.57	(1)	32
Namibia	1 169	Sovereign rate and empirical	Ba3	35.0	1.04	0.73	1.04	(12)	1 157
Eswatini	568	Sovereign rate and empirical	B3	35.0	1.04	1.88	1.88	(11)	557
Zimbabwe	3 803	Sovereign rate and empirical	Default	100.0	10 – 40	10.00	10 – 40	(1 549)	2 254
South Africa	606 281	Empirical	Ba1	5.49	1.04	1.04	1.04	(6 305)	599 976
Total	616 912							(7 949)	608 963
30 – 60 days									
Kenya	906	Sovereign rate and empirical	B2	35.0	1.68	1.39	1.68	(15)	891
Lesotho	230	Sovereign rate and empirical	B2	35.0	1.68	1.39	1.68	(4)	226
Mozambique	23	Sovereign rate and empirical	Caa2	35.0	1.68	3.57	3.57	(1)	22
Namibia	552	Sovereign rate and empirical	Ba2	35.0	1.68	0.73	1.68	(9)	543
Eswatini	715	Sovereign rate and empirical	B3	35.0	1.68	1.88	1.88	(13)	702
Zambia	26	Sovereign rate and empirical	Ca	35.0	1.68	10.00	10.00	(4)	22
Zimbabwe	2 814	Sovereign rate and empirical	Default	100.0	10 - 40	10.00	10 – 40	(294)	2 520
South Africa	257 687	Empirical	Ba1	5.49	1.68	1.68	1.68	(4 329)	253 358
Total	262 953							(4 669)	258 284

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

18. Trade and other receivables continued

Group – 2021

	Indicative amount at 30 June 2021 R000	Measurement approach	Sovereign rating	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2021	Indicative ECL amount R000	Indicative net balance R000
60 – 90 days									
Kenya	1 235	Sovereign rate and empirical	B2	35.0	4.05	1.39	4.05	(50)	1 185
Mozambique	10	Sovereign rate and empirical	Caa2	35.0	4.05	3.57	4.05	(1)	9
Namibia	58	Sovereign rate and empirical	Ba3	35.0	4.05	0.73	4.05	(2)	56
Eswatini	1	Sovereign rate and empirical	B3	35.0	4.05	1.88	4.05	–	1
Zambia	44	Sovereign rate and empirical	Ca	35.0	4.05	10.00	10.00	(4)	40
Zimbabwe	1 615	Sovereign rate and empirical	Default	100.0	10 – 40	10.00	10 – 40	(161)	1 454
South Africa	53 441	Empirical	Ba1	5.49	4.05	4.05	4.05	(2 164)	51 277
Total	56 404							(2 382)	54 022
90+ days									
Kenya	8 438	Sovereign rate and empirical	B2	35.0	6.68	1.39	6.68	(564)	7 874
Namibia	44	Sovereign rate and empirical	Ba3	35.0	6.68	0.73	6.68	(3)	41
Eswatini	52	Sovereign rate and empirical	B3	35.0	6.68	1.88	6.68	(4)	48
Zambia	2 915	Sovereign rate and empirical	Ca	35.0	6.68	10.00	10.00	(292)	2 623
Zimbabwe	5 026	Sovereign rate and empirical	Default	100.0	10 – 40	10.00	10 – 40	(933)	4 093
South Africa	58 125	Empirical	Ba1	5.49	6.68	6.68	6.68	(3 882)	54 243
Total	74 600							(5 678)	68 922
Total Group ECL								(20 678)	

18. Trade and other receivables continued

Group – 2020

	Indicative amount at 30 June 2020 R000	Measurement approach	Sovereign rating	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2020	Indicative ECL amount R000	Indicative net balance R000
0-30 days									
Angola	1 347	Sovereign rate and empirical	B3	35.0	1.92	8.64	8.64	(116)	1 231
Botswana	2 508	Sovereign rate and empirical	A2	35.0	1.92	0.16	1.92	(48)	2 460
DRC	–	Sovereign rate and empirical	Caa1	35.0	1.92	12.62	12.62	–	–
Lesotho	111	Sovereign rate and empirical	B2	35.0	1.92	5.93	5.93	(7)	104
Namibia	694	Sovereign rate and empirical	Ba2	35.0	1.92	1.94	1.94	(13)	681
Eswatini	642	Sovereign rate and empirical	B2	35.0	1.92	5.93	5.93	(38)	604
Zambia	671	Sovereign rate and empirical	Ca	35.0	1.92	22.50	22.50	(71)	600
Zimbabwe	8 273	Sovereign rate and empirical	Default	35.0	1.92	55.00	55.00	(1 962)	6 311
South Africa	517 975	Empirical		6.2	1.92	–	1.79	(9 616)	508 359
Taiwan	1 493	Empirical		6.2	1.92	–	1.92	(29)	1 464
Kenya	1 506	Empirical		6.2	1.92	5.93	1.92	(29)	1 477
Total	535 220							(11 929)	523 291
30-60 days									
Botswana	2 135	Sovereign rate and empirical	A2	35.0	3.12	0.16	3.12	(67)	2 068
Lesotho	53	Sovereign rate and empirical	B2	35.0	3.12	5.93	5.93	(3)	50
Mozambique	3	Sovereign rate and empirical	Caa2	35.0	3.12	18.19	18.19	(1)	2
Namibia	687	Sovereign rate and empirical	Ba2	35.0	3.12	1.94	3.12	(21)	666
Eswatini	330	Sovereign rate and empirical	B2	35.0	3.12	5.93	5.93	(20)	310
Zambia	4 043	Sovereign rate and empirical	Ca	35.0	3.12	22.50	22.50	(404)	3 639
Zimbabwe	1 734	Sovereign rate and empirical	Default	35.0	3.12	55.00	55.00	(190)	1 544
South Africa	180 369	Empirical		6.2	3.12	–	2.92	(5 429)	174 940
Kenya	903	Empirical		6.2	3.12	5.93	3.12	(28)	875
Total	190 257							(6 163)	184 094

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18. Trade and other receivables continued

Group – 2020

	Indicative amount at 30 June 2020 R000	Measurement approach	Sovereign rating	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2020	Indicative ECL amount R000	Indicative net balance R000
60-90 days									
Lesotho	1	Sovereign rate and empirical	B2	35.0	7.52	5.93	7.52	–	1
Eswatini	3	Sovereign rate and empirical	B2	35.0	7.52	5.93	7.52	–	3
Zimbabwe	22	Sovereign rate and empirical	Default	35.0	7.52	55.00	55.00	(2)	20
South Africa	26 660	Empirical			7.52	–	7.03	(1 973)	24 687
Taiwan	1 130	Empirical		6.2	7.52	–	7.52	(85)	1 045
Kenya	1 066	Empirical		6.2	7.52	5.93	7.52	(80)	986
Total	28 882							(2 140)	26 742
90+ days									
Angola	232	Sovereign rate and empirical	B3	35.0	9.96	8.64	9.96	(23)	209
Botswana	442	Sovereign rate and empirical	A2	35.0	9.96	0.16	9.96	(44)	398
Lesotho	85	Sovereign rate and empirical	B2	35.0	9.96	5.93	9.96	(8)	77
Namibia	11	Sovereign rate and empirical	Ba2	35.0	9.96	1.94	9.96	(1)	10
Zambia	3 560	Sovereign rate and empirical	Ca	35.0	9.96	22.50	22.50	(356)	3 204
Zimbabwe	914	Sovereign rate and empirical	Default	35.0	9.96	55.00	55.00	(201)	713
South Africa	96 319	Empirical		6.2	9.96	–	9.31	(9 399)	86 920
Kenya	12 005	Empirical		6.2	9.96	5.93	9.96	(1 196)	10 809
Total	113 568							(11 228)	102 340
Total Group ECL								(31 460)	

18. Trade and other receivables continued

Company – 2021

	Indicative amount at 30 June 2021 R000	Measurement approach	Sovereign rating	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2021 R000	Indicative ECL amount R000	Indicative net balance R000
0-30 days									
Mozambique	12	Sovereign rate and empirical	Caa2	35.0	1.04	3.57	3.57	(1)	11
Namibia	471	Sovereign rate and empirical	Ba3	35.0	1.04	0.73	1.04	(5)	466
Eswatini	271	Sovereign rate and empirical	B3	35.0	1.04	1.88	1.88	(5)	266
Zimbabwe	2 505	Sovereign rate and empirical	Default	100.0	1.04	10.00	10.00	(250)	2 255
South Africa	402 600	Empirical	Ba1	5.49	1.04	1.04	1.04	(4 187)	398 413
Total	405 859							(4 448)	401 411
30-60 days									
Mozambique	12	Sovereign rate and empirical	Caa2	35.0	1.68	3.57	3.57	(1)	11
Namibia	551	Sovereign rate and empirical	Ba3	35.0	1.68	0.73	1.68	(9)	542
Eswatini	418	Sovereign rate and empirical	B3	35.0	1.68	1.88	1.88	(8)	410
Zambia	21	Sovereign rate and empirical	Ca	35.0	1.68	10.00	10.00	(2)	19
Zimbabwe	2 800	Sovereign rate and empirical	Default	100.0	1.68	10.00	10.00	(280)	2 520
South Africa	167 478	Empirical	Ba1	5.49	1.68	1.68	1.68	(2 814)	164 664
Total	171 280							(3 114)	168 166

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

18. Trade and other receivables continued

Company – 2021

	Indicative amount at 30 June 2021 R000	Measurement approach	Sovereign rating	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2021	Indicative ECL amount R000	Indicative net balance R000
60-90 days									
Mozambique	10	Sovereign rate and empirical	Caa2	35.0	4.05	3.57	4.05	–	10
Namibia	57	Sovereign rate and empirical	Ba3	35.0	4.05	0.73	4.05	(2)	55
Zambia	44	Sovereign rate and empirical	Ca	35.0	4.05	10.00	10.00	(5)	39
Zimbabwe	1 615	Sovereign rate and empirical	Default	100.0	4.05	10.00	10.00	(161)	1 454
South Africa	38 023	Empirical	Ba1	5.49	4.05	4.05	4.05	(1 540)	36 483
Total	39 749							(1 708)	38 041
90+ days									
Zambia	2 915	Sovereign rate and empirical	Ca	35.0	6.68	10.00	10.00	(291)	2 624
Zimbabwe	4 547	Sovereign rate and empirical	Default	100.0	6.68	10.00	10.00	(455)	4 092
South Africa	49 732	Empirical	Ba1	5.49	6.68	6.68	6.68	(3 322)	46 410
Total	57 194							(4 068)	53 126

	Indicative amount at 30 June 2021 R000	Measurement approach	Probability of default or rating %	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2021	Indicative ECL amount R000	Indicative net balance R000
Intercompany balances									
Rectron	22 117	PD and LGD – risk calc	0.76	56.4	0.79	–	0.79	(175)	21 942
Mustek East Africa	200	PD and LGD – risk calc	2.81	56.7	2.99	1.95	2.99	(6)	194
Total	22 317							(181)	22 136
Total Company ECL								(13 519)	

18. Trade and other receivables continued

Company – 2020

	Indicative amount at 30 June 2020 R000	Measurement approach	Sovereign rating	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2020	Indicative ECL amount R000	Indicative net balance R000
0-30 days									
Angola	1 347	Sovereign rate and empirical	B3	35.0	1.92	8.64	8.64	(116)	1 231
Botswana	1 124	Sovereign rate and empirical	A2	35.0	1.92	0.16	1.92	(22)	1 102
Lesotho	100	Sovereign rate and empirical	B2	35.0	1.92	5.93	5.93	(6)	94
Namibia	141	Sovereign rate and empirical	Ba2	35.0	1.92	1.94	1.94	(3)	138
Zambia	655	Sovereign rate and empirical	Ca	35.0	1.92	10.00	10.00	(66)	589
Zimbabwe	7 013	Sovereign rate and empirical	Default	35.0	1.92	10.00	10.00	(701)	6 312
South Africa	386 274	Empirical		6.2	1.92	–	1.92	(7 416)	378 858
Total	396 654							(8 330)	388 324
30-60 days									
Botswana	1 213	Sovereign rate and empirical	A2	35.0	3.12	0.16	3.12	(38)	1 175
Namibia	17	Sovereign rate and empirical	Ba2	35.0	3.12	1.94	3.12	(1)	16
Zambia	4 043	Sovereign rate and empirical	Ca	35.0	3.12	10.00	10.00	(404)	3 639
Zimbabwe	1 715	Sovereign rate and empirical	Default	35.0	3.12	10.00	10.00	(172)	1 543
South Africa	131 619	Empirical		6.2	3.12	–	3.12	(4 107)	127 512
Total	138 607							(4 722)	133 885
60-90 days									
Zimbabwe	22	Sovereign rate and empirical	Default	35.0	7.52	10.00	10.00	(2)	20
South Africa	23 447	Empirical		6.2	7.52	–	7.52	(1 763)	21 684
Total	23 469							(1 765)	21 704

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18. Trade and other receivables continued

Company – 2020

	Indicative amount at 30 June 2020 R000	Measurement approach	Sovereign rating	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2020 R000	Indicative ECL amount R000	Indicative net balance R000
90+ days									
Angola	232			35.0	9.96	8.64	9.96	(23)	209
Botswana	368			35.0	9.96	0.16	9.96	(37)	331
Namibia	5	Sovereign rate and empirical	Ba2	35.0	9.96	1.94	9.96	–	5
Zambia	3 560	Sovereign rate and empirical	Ca	35.0	9.96	10.00	10.00	(356)	3 204
Zimbabwe	793	Sovereign rate and empirical	Default	35.0	9.96	10.00	10.00	(79)	714
South Africa	81 350	Empirical		6.2	9.96	–	9.96	(8 102)	73 248
Total	86 308							(8 597)	77 711

	Indicative amount at 30 June 2020	Measurement approach	Probability of default or rating %	Loss given default %	% ECL prior to adjustment for sovereign risk	% ECL on sovereign	% ECL at 30 June 2020	Indicative ECL amount (ZAR)	Indicative net balance (ZAR)
Intercompany balances									
Rectron	3 718	Moody's risk calc	5.84	58.4	–	–	11.24	(418)	3 300
Total Company ECL								(23 832)	

Individually assessed debtors

The Group and company have identified specific debtors (debtors which have been handed over for legal action) that are included in the tables above (90+days), for which an ECL of 6.68% (2020: 9.96%) has been provided. The Group provided a further ECL % for these debtors based on the risk profile associated with each category as tabled below:

		Group		Company	
	ECL %	Indicative amount at 30 June 2021 R000	Indicative ECL amount R000	Indicative amount at 30 June 2021 R000	Indicative ECL amount R000
2021					
Category 1	15%	5 401	778	5 401	778
Category 2	Between 15% and 100%	15 434	12 320	2 301	1 573
Category 3	100%	11 133	11 133	9 856	9 856
		31 968	24 231	17 558	12 207

18. Trade and other receivables continued

Individually assessed debtors continued

	ECL %	Group: Indicative amount at 30 June 2020 R000	Group: Indicative ECL amount R000	Company: Indicative amount at 30 June 2020 R000	Company: Indicative ECL amount R000
2020					
Category 1	15%	17 998	1 718	9 860	497
Category 2	Between 15% and 100%	17 239	7 104	17 239	7 104
Category 3	100%	14 222	13 303	9 214	8 296
		49 459	22 125	36 313	15 897

Category 1 – debtors included in this category are impaired at 15% as a result of credit insurance being held for the remaining 85% of the debt.

Category 2 – debtors included in this category relate to debtors with varying levels of security such as personal suretyships, cessions and guarantees. The assessment of recoverability results in an ECL of between 15% and 100%.

Category 3 – debtors impaired at 100% are based on the probability that the debtor will be fully delinquent and low or no recoverability exists for this debt.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group limits its counterparty exposure arising from money market and derivative instruments by only dealing with well-established financial institutions of high credit standing. The Group's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded is spread among approved counterparties.

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of cash and cash equivalents, forward exchange contracts, loans and receivables, investments and trade and other receivables. Financial guarantees granted also subject the Group to credit risk.

With respect to the forward exchange contracts, the Group's exposure is on the full amount of the foreign currency due on settlement. The Group minimises credit risk relating to forward exchange contracts by limiting the counterparties to major local and international banks, and does not expect to incur any losses as a result of non-performance by these counterparties.

Financial assets recorded in the financial statements, which are net of impairment losses, represent the company and Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit exposure of forward exchange contracts is represented by the fair value of these contracts.

The maximum credit exposure of financial guarantee contracts granted is the maximum amount the Group could be required to pay, or fund, without consideration of the probability of the actual outcome.

The company 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 by the Group and company amounted to R143 million (2020: R162 million).

19. Cash and cash equivalents

Bank balances and cash comprise cash, funds on call and short-term deposits. The carrying amount of these assets approximates their fair value. These financial assets are recognised initially at fair value and subsequently measured at amortised cost. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

	Group: 2021 R000	Group: 2020 R000	Company: 2021 R000	Company: 2020 R000
Bank balances and cash	267 679	263 632	122 049	117 895

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

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19. Cash and cash equivalents continued

	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Cash generated from operations				
Profit before taxation	407 257	115 491	288 213	91 453
Adjustments for:				
Depreciation and amortisation	43 544	46 277	35 516	37 952
Losses on disposals and scrappings of property, plant and equipment	1 986	645	1 711	419
Fair value adjustments of FECs	1 994	16 466	(561)	2 228
Unrealised foreign exchange (gains) losses	3 465	(17 726)	15 186	(12 922)
Income from equity-accounted investments	(5 292)	(17 460)	–	–
Dividends received	–	–	(28 606)	(20 160)
Interest income	(4 968)	(4 536)	(3 668)	(2 705)
Finance costs paid	75 144	105 409	54 612	74 480
Allowance for obsolescence and inventory written off	69 108	12 539	26 096	12 593
Impairment losses on trade receivables and bad debts	14 942	52 012	7 913	29 701
Prescription of liability	–	–	(578)	–
Write off/impairment of investment in subsidiaries	–	–	6 888	–
Impairment of subsidiary loans	–	–	(3 136)	8 711
Impairment of investment in associate	–	1 881	–	–
Profit on part sale of associate	(2 620)	–	–	–
Impairment of associate loans	30	39	30	39
Impairment of other loans	1 904	135	2 304	1
Impairment of goodwill	1 000	–	–	–
Share-based payment expense	12 350	4 132	9 859	3 393
Changes in working capital				
Inventories	100 420	(228 233)	135 936	(64 502)
Trade and other receivables	(72 023)	(246 242)	(109)	(240 576)
Trade and other payables	(221 294)	651 512	(221 937)	445 950
Contract assets	(1 093)	(1 327)	(1 272)	(1 317)
Contract liabilities	5 456	8 968	11 431	232
	431 310	499 982	335 828	364 970

The prior year cash generated from operations note for both Group and company have been re-presented to exclude the impact of the movement in the impairment on trade receivables and the inventory obsolescence allowances from changes in working capital for better disclosure.

20. Stated capital and earnings per share

	Group 2021	Group 2020	Company 2021	Company 2020
Authorised				
Ordinary shares (000)	250 000	250 000	250 000	250 000
Reconciliation of number of shares issued (000)				
Opening balance	70 000	70 000	70 000	70 000
Shares bought back and cancelled – funded by retained income	(4 000)	–	(4 000)	–
	66 000	70 000	66 000	70 000

	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Issued				
Opening balance	–	–	–	–
Shares bought back	(39 256)	–	(39 256)	–
Share buy backs funded by retained income	39 256	–	39 256	–
Closing balance	–	–	–	–

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 21, 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 debt-to-equity ratio of 60% : 40% (2020: 66% : 34%). The change in targeted structure is to ensure maximisation of stakeholder returns. The current debt-to-equity ratio is 63% : 37%.

	Number of shares 000	Repurchase price R000	Average repurchase price per share (R)
Share repurchases			
Ordinary shares			
Total shares repurchased	4 000	39 256	9.81

Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing profit (loss) attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Basic earnings per share was based on earnings of R293.8 million (2020: R86.8 million) and a weighted average number of ordinary shares of 69.2 million (2020: 70 million).

Diluted earnings per share is equal to earnings per share because there are no dilutive potential ordinary shares in issue.

	Group 2021 R000	Group 2020 R000
Basic earnings per share		
From continuing operations (cents per share)	424.54	124.05
Diluted basic earnings per share		
From continuing operations (cents per share)	424.54	124.05

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20. Stated capital and earnings per share continued

Earnings per share continued

Headline earnings per share

Headline earnings per share is determined by dividing headline earnings by the weighted average number of ordinary shares outstanding during a period.

Headline earnings is determined by adjusting basic earnings by excluding separately identifiable re-measurement items. Headline earnings is presented after tax and non-controlling interest.

	Group	
	2021 R000	2020 R000
Headline earnings per share (cents)	441.81	127.13
Diluted headline earnings per share (cents)	441.81	127.13
Weighted average number of ordinary shares	69 197 929	70 000 000

	Gross 2021 R000	Net 2021 R000	Gross 2020 R000	Net 2020 R000
Reconciliation between profit attributable to equity holders of the parent and headline earnings – Group				
Profit for the year attributable to equity holders of the parent		293 772		86 837
Basic earnings		293 772		86 837
Adjusted for:				
Group's share of loss on disposal of property, plant and equipment and intangible assets	1 986	1 430	419	274
Impairment of goodwill	1 000	1 000	–	–
Group's share of profit on part sale of associate	(2 620)	(673)	–	–
Group's share on impairment of associate	–	–	1 881	1 881
Non-headline items within associate equity accounted earnings				
Group's share on loss on sale of investment in subsidiary	2 503	2 965	–	–
Group's share of impairment of property, plant and equipment	10 463	7 533	–	–
Group's share of profit on sale of property, plant and equipment	(418)	(301)	–	–
Headline earnings		305 726		88 992

At year-end, no share options were outstanding (2020: no share options were outstanding). The weighted average market price for the current financial year was R8.53 per share (2020: R6.83 per share).

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Dividends per share				
Final (cents)	26.00	30.00	26.00	30.00

A final dividend of 90 cents per share was declared and authorised after the end of the reporting period. The dividend has therefore not been recognised as a liability in the reporting period. It has been disclosed for information purposes only.

21. Borrowings and other liabilities

	Notes	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Held at amortised cost					
Secured					
Mortgage bond		39 617	40 000	–	–
Bank overdrafts		31 330	37 412	31 330	37 412
Unsecured					
Bank overdrafts		48	81 420	48	81 420
Loan from subsidiary	14	–	–	39 812	40 000
Total interest-bearing borrowings		70 995	158 832	71 190	158 832
Interest – free					
Unsecured					
Share-based payment liabilities – non-financial liability	28	12 929	10 432	10 202	8 528
Loans from subsidiaries – financial liability	14	–	–	45 373	65 009
Total interest-free borrowings		12 929	10 432	55 575	73 537
Split between non-current and current portions					
Non-current liabilities		43 479	42 264	42 326	41 581
Current liabilities		40 445	127 000	84 439	190 788
Bank overdrafts		31 378	118 832	31 378	118 832
Short-term portion of long-term borrowings		2 246	–	–	–
Short-term portion of share-based payment liability	23	6 821	8 168	5 392	6 759
Loans from subsidiaries	14	–	–	47 669	65 197
Total borrowings		83 924	169 264	126 765	232 369
The borrowings are repayable as follows:					
On demand or within one year		42 919	129 871	87 039	193 453
Year 2		7 998	6 604	7 299	6 207
Year 3		7 550	5 100	6 970	5 020
Year 4		34 277	4 720	34 277	4 720
Year 5		–	34 277	–	34 277
		92 744	180 572	135 585	243 677
Less finance charges component		(8 820)	(11 308)	(8 820)	(11 308)
		83 924	169 264	126 765	232 369

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21. Borrowings and other liabilities continued

Included in borrowings are the following:

Accounts receivable securitisation loans

Included in bank overdrafts is an amount of R31.3 million (2020: R37.4 million), which represents a general banking facility from the Bank of China Limited, bearing interest at JIBAR plus 2% (2020: JIBAR plus 2%) and is repayable by 15 January 2022 (2020: 15 January 2021). 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 1.2, as well as a net debt to equity ratio not exceeding 150%, is required to be maintained by Mustek Limited. Furthermore, the total facility of R580 million (2020: R480 million) is limited to 90% of the trade receivables less than 120 days of age, in Mustek Limited. All facility covenants were met in the current and previous financial year.

During the previous financial year, Brotek Proprietary Limited, a company within the Group, obtained a mortgage bond of R40 million. The variable interest rate is set at the prime rate less 0.75% and the loan term is five years. Repayments for the first 12 months consisted of interest only. Repayments from June 2021 consist of part capital and interest over the remainder of the loan term.

The mortgage bond is secured by property, with a carrying amount of R64.3 million (2020: R64.4 million).

The mortgage bond, loans from subsidiaries and bank overdrafts are classified as financial liabilities measured at amortised cost. Interest is calculated using the effective interest method, and interest expense is recognised in the statement of comprehensive income.

Refer to note 22 for details of the movement in the borrowings during the reporting period.

Exposure to liquidity risk

Liquidity risk is the risk that the Group or company will not be able to meet their financial obligations as they fall due. In terms of their borrowing requirements, the Group and company ensure that adequate funds are available to meet their 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 this note 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 their 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 2021			
Non-interest-bearing	987 407	–	987 407
Variable interest rate instruments	1 039 395	79 815	1 119 210
	2 026 802	79 815	2 106 617

	Trade and other payables R000	Borrowings R000	Total R000
Group 2020			
Non-interest-bearing	1 015 259	–	1 015 259
Variable interest rate instruments	1 204 719	170 140	1 374 859
	2 219 978	170 140	2 390 118

21. Borrowings and other liabilities continued

	Trade and other payables R000	Borrowings R000	Loan from subsidiaries R000	Total R000
Company 2021				
Non-interest-bearing	672 165	–	45 373	717 538
Variable interest rate instruments	615 817	31 378	48 437	695 632
	1 287 982	31 378	93 810	1 413 170

	Trade and other payables R000	Borrowings R000	Loan from subsidiaries R000	Total R000
Company 2020 – restated*				
Non-interest-bearing	728 783	–	65 009	793 792
Variable interest rate instruments	765 439	118 832	51 308	935 579
	1 494 222	118 832	116 317	1 729 371

* *The prior year company note has been restated to include the interest-bearing loan from subsidiary. Refer note 14.*

Borrowing powers, borrowing capacity and banking facilities

In terms of the memorandum of incorporation, the company's borrowing powers are unlimited. The Group and company have the following banking facilities amounting to R2.4 billion (2020: R2.6 billion) and R1.7 billion (2020: R1.8 billion) respectively:

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
General overdraft and similar facilities	1 914 068	1 997 058	1 364 560	1 426 957
Letters of credit facilities	520 431	614 872	314 160	363 760
Total facilities	2 434 499	2 611 930	1 678 720	1 790 717
Utilised facilities	(1 110 585)	(1 214 651)	(647 195)	(922 879)
Unutilised facilities	1 323 914	1 397 279	1 031 525	867 838

Exposure to currency risk

Refer to note 24 Financial instruments and financial risk management for details of currency risk management for borrowings.

Exposure to interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow and lend 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 instruments. There have been no significant changes in the interest rate risk management policies and processes since the prior reporting period.

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21. Borrowings and other liabilities continued

Exposure to interest rate risk

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	
	2021 R000	2020 R000	2021 R000	2020 R000
Financial liabilities				
Loans received and bank borrowings linked to LIBOR	707 666	1 204 719	515 817	765 439
Loans received and bank borrowings linked to JIBAR	263 059	118 832	131 329	118 832
Loans received and bank borrowings linked to South African prime rates	139 665	40 000	39 861	40 000
	1 110 390	1 363 551	687 007	924 271
Financial assets				
Loans granted at fixed rates of interest	3 041	6 497	43 914	53 593
Bank balances and loans linked to South African prime rates	105 939	185 754	79 752	54 529
Bank deposits linked to LIBOR	47 532	47 597	43 729	44 870
Bank deposits linked to money market rates	136 983	22 572	13 999	20 626
Bank deposits linked to other foreign prime rates	3 538	11 086	–	–
	297 033	273 506	181 394	173 618

Interest rate sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments and includes only investments held at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

Group

At 30 June 2021, if the interest rate had been 1.000% per annum (2020: 1.000%) higher or lower during the period, with all other variables held constant, the Group's profit before tax for the year would decrease/increase by R8.2 million (2020: R11 million).

Company

At 30 June 2021, if the interest rate had been 1.000% per annum (2020: 1.000%) higher or lower during the period, with all other variables held constant, the company profit before tax for the year would decrease/increase by R5.5 million (2020: R7.6 million).

22. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities

	Opening balance R000	New leases/ modifications R000	Other non-cash movements R000	Total non-cash movements R000	Cash flows R000	Closing balance R000
Group – 2021						
Mortgage bond	40 000	–	(196)	(196)	(187)	39 617
Lease liabilities	33 809	73 271	–	73 271	(25 200)	81 880
Bank overdrafts	118 832	–	–	–	(87 454)	31 378
Total liabilities from financing activities	192 641	73 271	(196)	73 075	(112 841)	152 875

	Opening balance R000	New leases R000	Other non-cash movements R000	Total non-cash movements R000	Cash flows R000	Closing balance R000
Group – 2020						
Mortgage bond	–	–	–	–	40 000	40 000
Lease liabilities	–	53 291	4 900	58 191	(24 382)	33 809
Bank overdrafts	393 488	–	–	–	(274 656)	118 832
Total liabilities from financing activities	393 488	53 291	4 900	58 191	(259 038)	192 641

	Opening balance R000	New leases/ modifications R000	Other non-cash movements R000	Total non-cash movements R000	Cash flows R000	Closing balance R000
Company – 2021						
Lease liabilities	69 681	66 879	–	66 879	(26 068)	110 492
Loans from subsidiaries	105 009	–	(23 363)	(23 363)	3 539	85 185
Bank overdraft	118 832	–	–	–	(87 454)	31 378
Total liabilities from financing activities	293 522	66 879	(23 363)	43 516	(109 983)	227 055

	Opening balance R000	New leases R000	Other non-cash movements R000	Total non-cash movements R000	Cash flows R000	Closing balance R000
Company – 2020						
Lease liabilities	–	91 116	796	91 912	(22 231)	69 681
Loans from subsidiaries	62 281	–	–	–	42 728	105 009
Bank overdraft	393 480	–	–	–	(274 648)	118 832
Total liabilities from financing activities	455 761	91 116	796	91 912	(254 151)	293 522

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23. Trade and other payables

	Note	Group 2021 R000	Group 2020 R000	Company 2021 R000	Company 2020 R000
Financial instruments					
Trade payables		783 486	896 853	614 786	697 190
Letters of credit and trade finance payables		1 039 395	1 204 719	615 817	765 437
Other payables		116 170	79 134	968	4 320
Accruals		87 751	39 272	56 411	27 273
Non-financial instruments					
Short-term share-based payment liability	21	6 821	8 168	5 392	6 759
VAT payable		7 370	1 249	–	–
		2 040 993	2 229 395	1 293 374	1 500 979

The letters of credit supply a 120-day trade payment term to the Group. The maximum facility available is R1.5 billion (2020: R1.4 billion) and R948.7 million (2020: R1.1 billion) for the Group and company respectively. For majority of the available facilities interest is calculated at LIBOR plus 3.0% (2020: LIBOR plus 2%). These facilities are carried at amortised cost, as the interest rate is market-related and fair value therefore approximates amortised cost.

Trade payables, letters of credit and trade finance payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases stated is 110 days (2020: 146 days).

Included in accruals above are the following:

- Leave pay accrual: 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 reporting date.
- Bonus accrual: The bonus accrual relates to the annual 13th cheque payable to employees of the Group and the company.

Exposure to currency risk

Refer to note 24 Financial instruments and financial risk management for details of currency risk management for trade payables.

24. Financial instruments and risk management

Financial risk management

Overview

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports quarterly to the Board on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit and Risk Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

The Group seeks to minimise the effects of operational risks by using derivative financial instruments to hedge 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 foreign currency exchange rates.

24. Financial instruments and risk management continued

Foreign currency risk

The Group is exposed to foreign currency risk as a result of certain transactions and borrowings which are denominated in foreign currencies. It is the Group's policy to enter into foreign exchange forward contracts and options 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. The foreign currencies in which the Group deals primarily are US Dollars and Euros.

There have been no significant changes in the foreign currency risk management policies and processes since the prior reporting period.

Exposure in Rand

The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date:

		Group		Company	
	Note	2021 R000	2020 R000	2021 R000	2020 R000
US Dollar exposure					
Non-current assets					
Loans to subsidiaries	14	–	–	43 914	52 646
Current assets					
Trade and other receivables	18	42 472	16 481	28 058	14 988
Cash and cash equivalents	19	47 525	47 597	43 729	44 870
Current liabilities					
Trade and other payables	23	(928 931)	(1 322 887)	(627 926)	(957 207)
Net US Dollar exposure		(838 934)	(1 258 809)	(512 225)	(844 703)
Euro exposure					
Current assets					
Cash and cash equivalents	19	7 001	2	–	–
Current liabilities					
Trade and other payables	23	(127 113)	(132 027)	(127 113)	(132 027)
Net Euro exposure		(120 112)	(132 025)	(127 113)	(132 027)
Other currency exposure*					
Loans receivable		3 040	5 550	–	–
Current assets					
Trade and other receivables	18	14 672	3 097	–	–
Cash and cash equivalents	19	3 009	11 084	–	–
Current liabilities					
Trade and other payables	23	–	–	(2 924)	–
Other currency exposure		20 721	19 731	(2 924)	–
Net exposure to foreign currency in Rand		(938 325)	(1 371 103)	(642 262)	(976 730)

* *Other currencies include Australian Dollar, British Pound, United Arab Emirates Dirham, Namibian Dollar, Lesotho Maluti and Zambian Kwacha.*

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24. Financial instruments and risk management continued

Forward exchange contracts

Certain forward exchange contracts have been entered into for the purposes of managing foreign currency risk. The net market value of all forward exchange contracts at reporting date is calculated by comparing the forward exchange contracted rates to the equivalent market foreign exchange rates at reporting date and are detailed below:

	Contract rate	Contract foreign currency amount 000	Contract Rand amount R000	Fair value of contract R000
Group – 2021				
BUY				
US Dollars – less than three months	14.265	52 566	749 861	708
US Dollars – three to six months	14.495	989	14 330	(14)
Euro – less than three months	17.187	12 100	207 957	(2 688)
			972 148	(1 994)
Foreign currency assets				7 311
Foreign currency liabilities				(9 305)
				(1 994)

	Contract rate	Contract foreign currency amount 000	Contract Rand amount R000	Fair value of contract R000
Group – 2020				
BUY				
US Dollars – less than three months	17.700	48 269	854 361	(15 678)
US Dollars – three to six months	17.910	4 689	83 980	(1 619)
Euro – less than three months	19.260	5 340	102 848	831
			1 041 189	(16 466)
Foreign currency assets				5 063
Foreign currency liabilities				(21 529)
				(16 466)

24. Financial instruments and risk management continued

	Contract rate	Contract foreign currency amount 000	Contract Rand amount R000	Fair value of contract R000
Company – 2021				
BUY				
US Dollars – less than three months	14.185	37 316	529 322	3 263
US Dollars – three to six months	14.495	989	14 330	(14)
Euro – less than three months	17.187	12 100	207 957	(2 688)
			751 609	561
Foreign currency assets				6 622
Foreign currency liabilities				(6 061)
				561

	Contract rate	Contract foreign currency amount 000	Contract Rand amount R000	Fair value of contract R000
Company – 2020				
BUY				
US Dollars – less than three months	17.440	31 786	554 348	(2 900)
US Dollars – three to six months	17.690	2 754	48 718	(159)
Euro – less than three months	19.260	5 340	102 848	831
			705 914	(2 228)
Foreign currency assets				4 757
Foreign currency liabilities				(6 985)
				(2 228)

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

	Average spot rate		Closing spot rate	
	2021	2020	2021	2020
US Dollar	15.44	15.66	14.26	17.36
Euro	18.39	17.31	16.91	19.47

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24. Financial instruments and risk management continued

Foreign currency sensitivity analysis

The following information presents the sensitivity of the Group (South African Rand) to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts, such as cash balances, trade receivables, trade payables and loans and adjusts their translation at the reporting date. The increase and decrease impact of the change are equal 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. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

Increase or decrease in rate	2021 Increase R000	2021 Decrease R000	2020 Increase R000	2020 Decrease R000
Group				
Impact on profit before tax				
US Dollar 10% (2020: 10%)	(83 893)	83 893	(125 881)	125 881
Euro 10% (2020: 10%)	(12 711)	12 711	(13 203)	13 203
	(96 604)	96 604	(139 084)	139 084
Company				
Impact on profit before tax				
US Dollar 10% (2020: 10%)	(51 222)	51 222	(84 470)	84 470
Euro 10% (2020: 10%)	(12 711)	12 711	(13 203)	13 203
	(63 933)	63 933	(97 673)	97 673

25. Fair value information

Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the Group can access at measurement date.
Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

The Group and company only have financial instruments that are measured using level 2.

	Group		Company	
Levels of fair value measurements	**2021 R000**	2020 R000	**2021 R000**	2020 R000
Level 2				
Recurring fair value measurements				
Assets				
Fair value through profit and loss				
Foreign currency assets	7 311	5 063	6 622	4 757
Liabilities				
Fair value through profit and loss				
Foreign currency liabilities	9 305	21 529	6 061	6 985
Total	(1 994)	(16 466)	561	(2 228)

Level 2 financial assets and liabilities consist of assets and liabilities arising from open forward exchange contracts.

Forward exchange contracts are measured at fair value through profit or loss in accordance with IFRS 9.

Valuation techniques used to derive level 2 fair values

Foreign currency forward contracts

The fair value of these assets and liabilities are based on 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.

No changes have been made to the valuation technique.

26. Employee costs and retirement benefit plans

As at 30 June 2021 the Group had 1 068 permanent employees (2020: 1 222) and the company 616 (2020: 811). Employee benefits expense is made up of the following for all employees, including executive directors:

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Employee costs				
Employee salaries and wages	451 584	375 327	278 333	235 177
Pension contributions (defined contribution plan)	3 751	19 411	–	15 902
Learnerships	22 399	6 061	16 899	4 114
Temporary staff	11 474	5 864	11 474	5 864
	489 208	406 663	306 706	261 057

Contributions to defined contribution retirement benefit plans are recognised as an expense as they fall due.

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. The company changed its salary structure during the previous financial year. Pension contributions are now made by employees, hence the marked decrease in pension contributions as detailed above.

27. Guarantees and contingent liabilities

Limited guarantees

- Standby letter of credit for Intel International BV, Microsoft Corporation and Vivotek Inc. for US$1.75 million.
- R0.4 million guarantee of payment in favour of Growthpoint Properties Limited.
- R5.8 million guarantee of payment in favour of Department of Customs & Excise, South African Revenue Service.

Legal disputes

Insurance settlement

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.

Following the above judgment, Mustek sought advice from new counsel and in January 2020 instituted action afresh (on a different legal basis) against the insurance company, the underwriting company and the individual involved in the transaction. Counsel believes there is good prospects of success in the matter. As at the date of this report, Mustek is waiting for a final court date.

COVID-19 claim

The Group has an Assets All Risks Policy in place, covering the physical assets of the Mustek Group. The policy includes loss of gross profit following business interruption triggered by specified perils. Previously, the business interruption section included a contagious disease extension limited to R10.0 million for Mustek and R10.0 million for Rectron. Mustek's claim has been paid in full and an amount of R8.7 million (ex VAT) has been included in the 2021 financial statements. Rectron's claim is still in progress and the Group has not accounted for any asset relating to this claim.

Apart from the aforementioned matters, the Group has no significant legal matters pending.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

28. Related parties

The company had the following related parties and transactions:

Subsidiaries	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R 000
2021			
Related party			
Brotek Proprietary Limited	Loan	(2 507)	(73 702)
	Rental	(6 168)	(125)
	Intercompany charges	(431)	–
Mecer Inter-Ed Proprietary Limited	Sales	4 480	199
	Rental	1 479	–
	Purchases	(15 120)	–
	Intercompany charges	524	–
Mecer Technology Limited	Dividends	843	–
	Management fees	(7 373)	(579)
Mustek East Africa Limited	Loan	940	43 914
	Sales	1 063	154
Rectron Holdings Limited (Note 1)	Dividends	4 400	–
	Sales	104 405	26 216
	Purchases	(144 479)	(9 167)
	Other	134	–
	Cost recoveries	9 311	–

Note: Refer to note 14 for a list of subsidiaries, their related loans and impairment and further details about these entities.

Note 1: Amounts receivable or payable are unsecured and no guarantees have been given or received. Refer to note 18 for details on estimated credit loss allowance on amounts receivable. No amount has been recognised in respect of bad or doubtful debts due from the related party.

Associates	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R 000
2021			
Related party			
Continuous Power Systems Proprietary Limited (Note 1)	Loan	100	6 401
	Sales	288	36
	Purchases	(22 632)	(4 905)
	Other	460	–
Sizwe Africa IT Group Proprietary Limited (Note 2)	Loan	414	10 414
	Sales	10 925	1 649
Khauleza IT Solutions Proprietary Limited	Sales	11 589	4 508
	Purchases	(919)	(216)
	Rental	133	(13)
	Cost recoveries	53	–
Yangtze Optics Africa Holdings Proprietary Limited	Sales	90	6
	Purchases	(332)	–
	Rent	138	–

Note 1: Refer to note 15 for details of the loan owing by Continuous Power Systems Proprietary Limited.

Note 2: Sizwe Africa IT Group Proprietary Limited is 100% held by Zaloserve Proprietary Limited. Mustek indirectly owns a 36.1% interest in Zaloserve Proprietary Limited. This loan carries interest at prime and is repayable within the next 12 months. The loan is subject to the impairment provisions of IFRS 9 Financial Instruments, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance has been calculated based on 12-month expected losses.

28. Related parties continued

Other related parties	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R 000
2021				
Related party				
Mustek Electronics Properties Proprietary Limited	Controlled by director	Rental	(20 918)	(57)

Subsidiaries	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R 000
2020			
Related party			
Brotek Proprietary Limited	Loan	42 728	(70 163)
	Rental	(5 850)	–
	Intercompany charges	(242)	(51)
Mecer Inter-Ed Proprietary Limited	Loan	(2 596)	5 317
	Sales	1 750	40
	Sundry income	2 210	-
	Purchases	(12 616)	(15)
	Management fees	120	–
Mecer Technology Limited	Purchases	(12 578)	–
	Management fees	(7 591)	–
Mustek East Africa Limited (Note 2)	Loan	(9 582)	52 646
	Sales	609	449
Quickstep 94 Proprietary Limited and Soft 99 Proprietary Limited (Note 2)	Loan	–	21 304
Rectron Holdings Limited (Note 1)	Sales	31 569	4 274
	Purchases	(210 647)	(20 315)
	Consulting fees	(520)	(92)

Note 1: Amounts receivable or payable are unsecured and no guarantees have been given or received. Refer to note 18 for details on estimated credit loss provision on amount receivable. No amount has been recognised in respect of bad or doubtful debts due from the related party.

Note 2: Refer to note 14 on details of impairment on loans receivable from subsidiaries.

Associates	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R 000
2020			
Related party			
Continuous Power Systems Proprietary Limited	Loan	–	1 300
	Purchases	(12 565)	(3 350)
Sizwe Africa IT Group Proprietary Limited	Sales	33 385	26 891
Khauleza IT Solutions Proprietary Limited	Sales	17 096	1 655
	Purchases	(816)	(160)
	Rental	150	–
Yangtze Optics Africa Holdings Proprietary Limited	Sales	89	20
	Purchases	(1 816)	(110)
	Rental	187	–

Note: Refer to note 15 for a complete list of associates and details of loans.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

28. Related parties continued

Other related parties	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
2020				
Related party				
Mustek Electronics Properties Proprietary Limited	Controlled by director	Rental	(18 297)	–

Interest of directors in contracts

Mustek Limited has entered into two lease agreements with Mustek Electronics Properties Proprietary Limited. The original lease agreements were effective from 1 September 2011 and were renewed during the current financial year. The renewed lease agreements terminate on 31 August 2024. 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 R20.9 million (2020: R18.3 million) was paid with regards to the lease agreement.

The aforementioned transaction is 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.

	Group		Company	
	2021 R000	2020 R000	**2021 R000**	2020 R000
Key management personnel compensation				
Short-term employee benefits	23 397	16 224	23 397	16 224
Post-employment benefits – Pension – Defined contribution plan	–	457	–	457
Share appreciation rights expense	5 646	1 906	5 646	1 906
	29 043	18 587	29 043	18 587

29. Directors' emoluments

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

	2021 R000	2020 R000
Total directors' emoluments		
Executive	28 069	17 889
Non-executive	1 612	1 669
	29 681	19 558

Executive
2021

Directors' emoluments	Basic salary R000	Bonuses and performance-related payments R000	Expense allowances R000	Fringe benefits on interest-free loan R000	Share appreciation rights exercised R000	Total R000
Services as director						
DC Kan	3 709	3 883	335	1 207	1 940	11 074
H Engelbrecht	3 633	3 747	270	660	1 374	9 684
CJ Coetzee	2 867	2 844	96	146	1 358	7 311
	10 209	10 474	701	2 013	4 672	28 069

Executive
2020

Directors' emoluments	Basic salary	Bonuses and performance-related payments	Expense allowances	Fringe benefits on interest-free loan	Contributions paid under pension scheme	Share appreciation rights exercised	Total
Services as director							
DC Kan	3 414	460	330	1 902	183	1 128	7 417
H Engelbrecht	3 333	444	270	1 039	186	959	6 231
CJ Coetzee	2 692	337	96	238	88	790	4 241
	9 439	1 241	696	3 179	457	2 877	17 889

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

29. Directors' emoluments continued

Non-executive

2021

Directors' emoluments	Fees for services as director R000	Total R000
VC Mehana	499	499
LL Dhlamini	226	226
ME Gama	317	317
RB Patmore	432	432
S Thomas	94	94
G Motau	44	44
	1 612	1 612

2020

Directors' emoluments	Fees for services as director R000	Total R000
VC Mehana	485	485
LL Dhlamini	335	335
ME Gama	447	447
RB Patmore	402	402
	1 669	1 669

Outstanding non-executive director fees of R0.5 million (2020: R0.7 million) are included in trade and other payables.

Directors' shareholding

At 30 June 2021, the directors collectively held the following direct and indirect interests in shares in the company, which represents 27.1% (2020: 24.82%) of the issued share capital of the company. (No change occurred between 30 June 2021 and 8 September 2021):

	Beneficial			
	Direct		Indirect	
	2021	2020	2021	2020
DC Kan	2 288 046	2 288 046	13 218 047	12 738 047
H Engelbrecht	1 750 000	1 750 000	–	–
CJ Coetzee (Note 1)	600 000	600 000	–	–
	4 638 046	4 638 046	13 218 047	12 738 047

These shareholdings exclude phantom share options held. The remainder of the directors do not hold any shares.

Note 1: Includes 207 923 shares held through contracts for difference (2020: 207 923 shares held through contracts for difference).

29. Directors' emoluments continued

Share-based payments

Share appreciation rights scheme

The object and purpose of the scheme is to incentivise certain selected senior employees by granting phantom share 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 phantom share option. All SARS granted will remain in force for a period of six months after the vesting period of three years.

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 phantom share 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.

	Weighted average price (Rand)		Number of options	
	2021	2020	2021	2020
Phantom shares outstanding at the beginning of the year	5.98	5.24	7 029 586	7 449 579
Phantom shares granted during the year	6.77	8.18	2 455 587	1 889 813
Phantom shares exercised during the year	4.38	5.38	(3 330 082)	(2 309 806)
Phantom shares that lapsed during the year	5.85	–	(122 620)	–
Phantom shares outstanding at year-end	7.19	5.98	6 032 471	7 029 586

A total of 2 455 587 phantom shares were granted to a number of employees during the current financial year. 2 997 088 phantom shares with a grant price of R4.12 and 332 994 phantom shares with a grant price of R6.71 were exercised during the year. Shares lapsed related to employees that left the company during the current year.

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 2021	30 June 2020
Share price	R10.70	R7.04
Grant price	R6.71/R8.18/R6.77	R4.12/R6.71/R8.18
Fair value	R3.99/R3.63/R4.61	R3.02/R1.86/R1.41
Expected volatility	35.00%/50.00%/45.00%	65.00%/55.00%/43.00%
Expected life	0 years/1 year/2 years	0 years/1 year/2 years
Risk-free rate	3.86%/4.40%/4.96%	3.53%/3.80%/4.12%
Expected dividend yield	3.00%/3.00%/3.40%	3.50%/3.50%/3.20%

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 R12.35 million and R9.86 million respectively (2020: R4.1 million and R3.3 million, respectively) related to cash-settled share appreciation rights during the current year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2021

29. Directors' emoluments continued

Outstanding phantom shares are exercisable at the following values and in the following periods ending 30 June:

	2022	2023	Number of undelivered phantom shares	Total Rand value
Option price				
R6.71	1 717 552	–	1 717 552	11 524 774
R8.18	1 859 332	–	1 859 332	15 209 336
R6.77	–	2 455 587	2 455 587	16 624 324
	3 576 884	2 455 587	6 032 471	43 358 434

The directors have the following phantom share options outstanding:

Undelivered phantom shares at 30 June 2021

Grant date	Grant price	DC Kan	H Engelbrecht	CJ Coetzee	Total
19 February 2019	R6.71	350 522	297 943	245 365	893 830
20 February 2020	R8.18	304 808	259 087	213 366	777 261
2 September 2020	R6.77	386 706	328 700	270 694	986 100
		1 042 036	885 730	729 425	2 657 191

Undelivered phantom shares at 30 June 2020

Grant date	Grant price	DC Kan	H Engelbrecht	CJ Coetzee	Total
16 February 2018	R4.12	570 874	485 243	399 612	1 455 729
19 February 2019	R6.71	350 522	297 943	245 365	893 830
20 February 2020	R8.18	304 808	259 087	213 366	777 261
		1 226 204	1 042 273	858 343	3 126 820

30. Going concern

The 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.

The Group has prepared financial forecasts for the next financial year taking into consideration the estimation of the continued impacts of COVID-19. The directors have concluded that it is appropriate to prepare the financial statements on a going concern basis after considering the forecasts and the following:

- The Group continues to have the ongoing support of its banking group and access to undrawn facilities of R1.3 billion (refer note 21) as well as R267.7 million in cash and cash equivalents as at 30 June 2021;
- As at 30 June 2021, the Group had R863.2 million in net working capital, no significant capital commitments and lease commitments of R27.7 million due within one year; and
- The Group was in compliance with its financial covenants at 30 June 2021 and is forecasting covenant compliance at 31 December 2021 and 30 June 2022.

31. Tax paid

	Group		Company	
	2021 R000	2020 R000	2021 R000	2020 R000
Balance at the beginning of the year	8 596	5 051	6 111	5 381
Current tax for the year recognised in profit or loss	(125 039)	(34 395)	(85 563)	(25 864)
Balance at the end of the year	(1 723)	(8 596)	(1 694)	(6 111)
	(118 166)	(37 940)	(81 146)	(26 594)

32. Events after the reporting period

During July 2021, Mustek's branch in KwaZulu-Natal has been significantly damaged as a result of being looted and then set on fire. Losses to inventory and equipment amounted to R21.8 million. The loss of profit due to business interruption will be quantified in due course. The Group and company has appropriate insurance cover and has notified its insurers accordingly. Temporary warehouse and office space have been secured and the branch was operational again from 29 July 2021.

GLOSSARY

Terms and abbreviations

Assurance	A statement or indication that inspires confidence; a guarantee or pledge.
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.
Companies Act	South Africa's Companies Act, 71 of 2008, as amended
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.
E-commerce	Commercial transactions conducted electronically on the internet.
E-tailors	Online retailers.
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.
FY21	Mustek's 2021 financial year: 1 July 2020 to 30 June 2021
Gross profit	A company's residual profit after selling a product or service and deducting the cost associated with its production and sale.
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.
ICT Charter	A sector code on broad-based black economic empowerment for the ICT sector.
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 Report on Corporate Governance for South Africa™.
Kyoto gases	The six greenhouse gases covered by the UNFCCC/Kyoto Protocol.
Lockdown	A state of restricted movement and activity announced by South Africa's national government in response to the COVID-19 pandemic.
Managed services	The proactive management of an IT asset or object, by a third party on behalf of a customer.
Materiality	A matter is material if it could substantively affect Mustek's ability to create and sustain value in the short, medium or long term.
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.
New normal	The current situation, following COVID-19, that is significantly different from what was experienced before but is expected to become the norm.
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.
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.
Public sector	The part of the economy concerned with providing various government services.
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.
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.
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.
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.
Vendor	The party in the supply chain that makes goods and services available to companies or consumers.
Verticals	Vertical markets – business niches where companies and customers are interconnected around specialised needs.
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.

Acronyms

AGM	Annual general meeting
AI	Artificial intelligence
AP	Access point
ARC	Audit and Risk Committee
B-BBEE	Broad-based black economic empowerment
B2B	Business-to-business
B2C	Business-to-consumer
BEE	Black economic empowerment
bps	Basis points
BSI	British Standards Institution
CSDP	Central securities depository participant
CCMA	Commission for Conciliation, Mediation and Arbitration
CCTV	Closed circuit television
CGU	Cash-generating units
CMDB	Configuration management data base
CompTIA	The Computing Technology Industry Association
COVID-19	Coronavirus disease 2019
CSI	Corporate social investment
CTC	Cost-to-company
DVR	Digital video recorder
EAP	Economically active population
EBITDA	Earnings before interest, taxation, depreciation and amortisation
ECL	Expected credit losses

EME	Exempted micro-enterprise
EnMS	Energy management system
ERP	Enterprise resource planning
ESG	Environmental, social, governance
EWSETA	Energy and Water Sector Education Training Authority
Exco	Executive Committee
Forex	Foreign exchange
G4	Current iteration of Global Reporting Initiative Guidelines
GDP	Gross domestic product
GHG	Greenhouse gas
GPS	Global positioning system
GRI	Global Reporting Initiative
HR	Human resources
HVAC	Heating, ventilation, air handling and cooling
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
IoDSA	Institute of Directors in South Africa
IMF	International Monetary Fund
ISO	International Standards Organisation
<IR>	International Integrated Reporting Framework of the Value Reporting Foundation
IoT	Internet of Things

GLOSSARY continued

Acronyms continued

IMACD	Install, move, add, change, disposal
IT	Information technology
JIBAR	Johannesburg Interbank Average Rate
JSE	Johannesburg Stock Exchange
KPI	Key performance indicator
LAN	Local area network
LED	Light emitting diode
LGD	Loss given default
LIBOR	London Inter-Bank Offered Rate
LTI	Long-term incentive
MCITP	Microsoft Certified IT Professional
MICT SETA	Media, Information and Communications Technologies Sector Education and Training Authority
MIE	Mecer Inter-Ed
MST	Mustek security division
NAV	Net asset value
NPAT	Net profits after tax
OEM	Original equipment manufacturer
OS	Operating system
PBT	Profit before tax
PC	Personal computer
PD	Probability of default
PMBok	Project management body of knowledge
POPIA	Protection of Personal Information Act
PoS	Point of sale
PPE	Personal protective equipment
PV	Photovoltaic
QCTO	Quality Council for Trades and Occupations
QMS	Quality management system
QSE	Qualifying small enterprises
R&D	Research and development

ROE	Return on equity
ROI	Return on investment
RPA	Robotic process automation
SAAS	Software as a service
SAICA	South African Institute for Chartered Accountants
SAR	Share appreciation right
SAS SETA	Safety and Security Sector Education and Training Authority
SCI	Sustainable Community Investment
SENS	Securities Exchange News Service
SETA	Sector Education and Training Authority
SHE	Safety, health and environment
SHEQ	Safety, health, environmental and quality
SME	Small and medium enterprise
SMME	Small, medium and micro-enterprises
SMS	Student management system
SOP	Standard operating procedure
STDI	Sustainability Data Transparency Index
STI	Short-term incentive
TCO	Total cost of ownership
TNAV	Tangible net asset value
UIF	Unemployment Insurance Fund
UNS	Unified network solutions
UPS	Uninterrupted power supply
USD	United States Dollar
VAT	Value added tax
VILT	Virtual instructor-led training
WAN	Wide area network
WMS	Warehouse management system
YOAC	Yangtze Optics Africa Cable
ZAR	South African Rand

COMPANY INFORMATION

Mustek Limited
Incorporated in the Republic of South Africa
Registration number: 1987/070161/06
JSE share code: MST
ISIN: ZAE000012373
(Mustek or the Group)

www.mustek.co.za

Company secretary
Sirkien van Schalkwyk
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Transfer secretaries
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Sponsor
Deloitte & Touche Sponsor Services Proprietary Limited