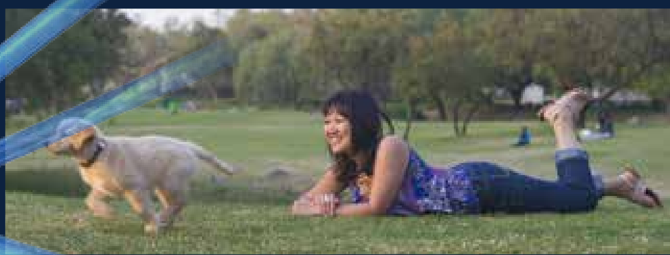
Mustek LIMITED

2014 Integrated Annual Report



Passionate People

Mustek and Rectron are proud to represent and distribute the world's best technology brands

Transcend

HUAWEI

lenovo

TOSHIBA

Canon

ASUS

intel

CORSAIR

COOLER MASTER

audiomotion™

EVERKI®
STYLE THAT WORKS

Hisense

GIGABYTE™

RICOH
imagine. change.

PNY

NVIDIA

PHILIPS

Seagate

SONY
make.believe

TOMTOM

MST
MUSTEK SECURITY TECHNOLOGIES

RCT

Brand-Rex

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The six capitals

All organisations depend on various forms of capital for their success. In the International Integrated Reporting <IR> framework, the capitals comprise financial, manufactured, human, social and relationship, natural and intellectual. For the purposes of this report, Mustek has merged its intellectual capital reporting into the human and social capitals.

Refer to these icons for further information within this report on our five capitals.

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Getting your Mustek report

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

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Feedback on report

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

Welcome

Welcome to Mustek's fourth integrated report, in which we aim to communicate to our stakeholders the collective thinking applied to material issues impacting our ability to create long-term value. Throughout the report we address the challenges faced by the Group, and opportunities and external drivers influencing the Group's strategy.

The theme of this year's report is ***'passionate people delivering IT, creating value'*** and we aim to demonstrate our abilities and achievements in both of these areas.

The compilation of this report has been aligned with the requirements of the King Code of Governance Principles for SA (King III Code), the International Integrated Reporting Framework and complies with Global Reporting Initiative (GRI) Guidelines (G4) core application level. More details regarding the report's basis of preparation and presentation are provided on page 72.

The integrated report reflects our commitment to integrating sustainability across the organisation for the benefit of all stakeholders.

This report builds on the 30 June 2013 Mustek Integrated Report and was approved by the Board on 4 November 2014. The Mustek Limited Board of directors (the Board) acknowledges its responsibility in ensuring the accuracy of this 2014 integrated annual report. The Board has applied its collective expertise to this report and, in its opinion this report addresses all material issues and presents an integrated and accurate view of Mustek's performance in the year under review.

This integrated report builds on progress, insights and stakeholder feedback received during the year and seeks to provide a detailed overview of the Group's financial and non-financial performance and how we created value for the period 1 July 2013 to 30 June 2014.

This integrated annual report is our primary report to stakeholders and includes corporate governance and financial information.

Forward-looking statements

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

Highlights for the year

Financial capital

Revenue from continuing operations	Headline earnings per share	Net asset value per share	Dividend per share
+13.4%	+38.3%	+12.7%	+40.0%
2014 R4.76 billion	2014 100.72 cents	2014 858.67 cents	2014 28 cents
2013 R4.20 billion	2013 72.85 cents	2013 762.10 cents	2013 20 cents

» Revenue growth supported by **expanded product ranges,** particularly Acer, Lenovo, Asus and security products.

» Forex losses decreased to R23.2 million (2013: R51.2 million) due to a more **conservative hedging policy.**

» **Acquired an effective 26% stake in Sizwe Africa IT Group.**

Manufactured capital

» **Expanded product ranges** generate higher revenue.

» **New brands** on board.

» Mustek and Rectron collaborating to further **leverage existing facilities and fleets.**

» **Fresh approaches** and impetus for Microsoft and Intel products.

» **Mecer dominates desktop market.**

Human capital

» Total investment in **training and development** amounted to **R5.8 million** (2013: R4.2 million).

» **Structured career mapping** introduced throughout the Group to support employee development and succession planning.

Social and relationship capital

- Mustek and Rectron **improve B-BBEE levels** (2 and 3 respectively).
- Stronger **focus on transformation.**
- Intensified **engagement with resellers.**

Natural capital

- Electricity reduction initiatives, together with a move to more efficient vehicles and employee awareness has resulted in **considerable GHG intensity improvements** since we began our journey.
- Rectron is adopting policies and procedures following our **environmental successes** at Mustek.
- Waste management (recycling), improved logistics and the introduction of electronic software delivery (ESD) results in **minimal waste to landfill.**

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

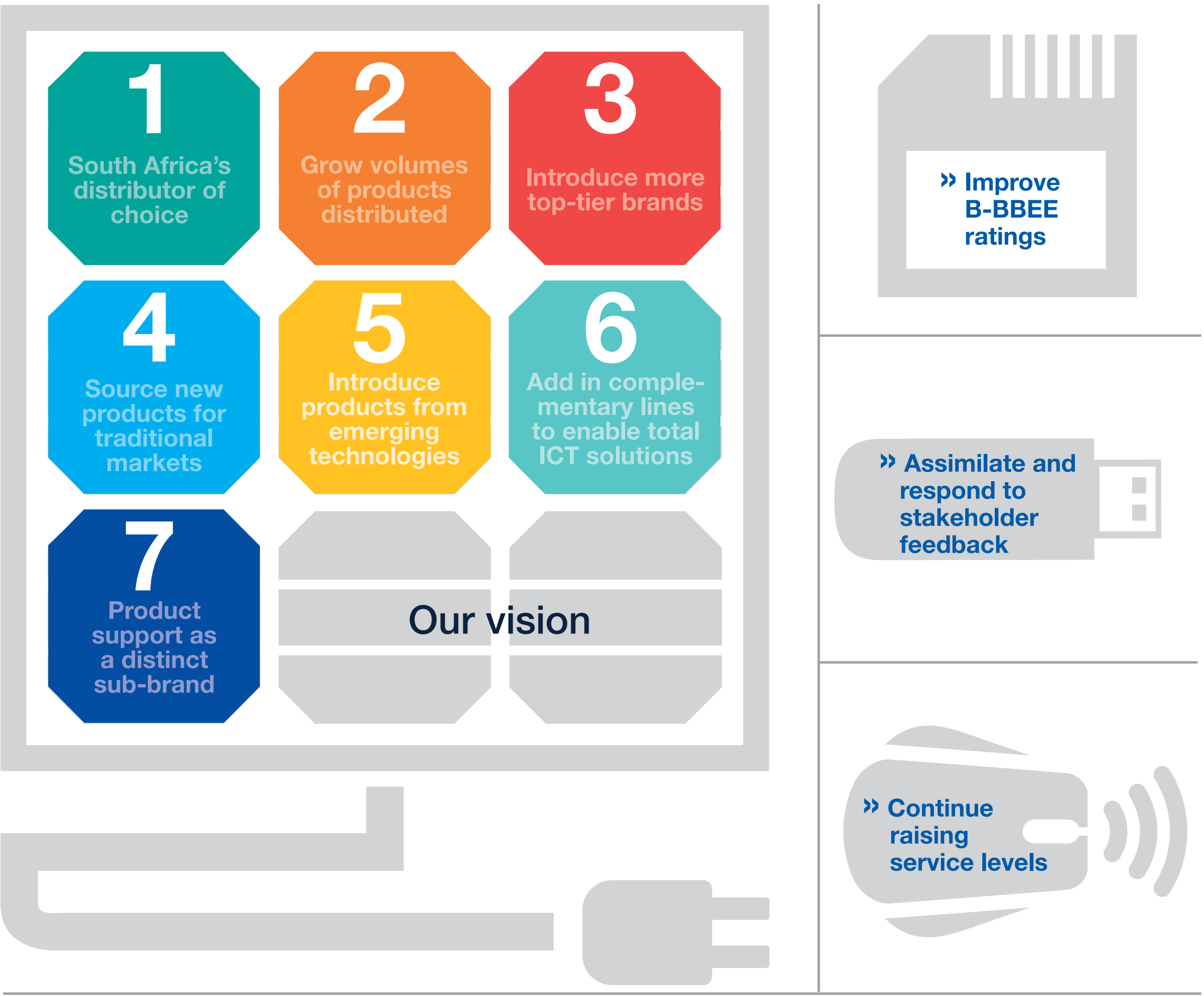
The International Integrated Reporting <IR> Framework does not require organisations to report on capitals that aren’t material to their operations, nor does it prescribe how these are to be reported. We consider the experience and talents of our management and staff under human capital and our relationships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

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

Corporate profile

Vision

Mustek aims to be South Africa's ICT distributor of choice, an objective it constantly strives for through an approachable and flexible 'can do' attitude when assisting its resellers with product specification and solution formulation, as well as superior technical expertise, evidenced by the high level of technical support and assistance afforded to resellers.



Our key focus areas

Group profile

Founded by David Kan in 1987, the Mustek Limited Group was listed on the JSE Limited in 1997, and currently comprises the active operations of Mustek and Rectron. The Mustek Group is the largest assembler and distributor of personal computers and complementary ICT products in South Africa. Overall management control of Rectron was achieved in July 2011 and efforts to align management philosophies, policies and controls across the two trading operations continue.

Headquartered in Midrand, South Africa, the Group 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.

For 27 years, the Group has met the ICT requirements of a wide range of South African end-users through its distributed sales network. It procures, assembles, distributes and services a wide range of ICT products, including: personal computers; notebooks; tablets; software; netbooks; monitors; LED screens; cables; uninterrupted power supply; servers; speakers; networking solutions; laser printers; inkjet and label printers; fax machines; biometric readers; barcode and document imaging scanners; projectors; power protection products; antennae and routers; IP surveillance systems; and a wide range of ICT consumables and related products.

The Group's primary brands include: Acer; Asus; Brother; Canon; Epson; Fujitsu; Gigabyte; Huawei; Intel; Lenovo; Mecer; Microsoft; NEC; Samsung; Seagate; Sony; TomTom; Toshiba and Transcend.

Strategy

Mustek's strategy is founded on the intellectual capital contained within its workforce and its ability to expertly apply its financial, manufactured and human capital to the creation of value for all stakeholders. Mustek combines the best of local assembly capabilities with the multinational product portfolio by affording its customers a choice of the renowned Mecer brand of computing equipment and a broad range of top-tier ICT brands which address every level of the technology stack. Mustek supplies its goods and services through four business units.

To combine the best of local assembly capabilities with a multinational product portfolio, affording our customers a choice of computing equipment and a broad range of top-tier ICT brands which address every level of the technology stack, together with a commitment to customer satisfaction.

The biggest are the Mustek division and Rectron. These two companies market and distribute their brand lines in line with the Mustek business model, but are aimed primarily at two different market segments that only have an approximate 30% client overlap.

In this period Mustek acquired a 26% shareholding in Sizwe Africa IT Group, which focuses primarily on networking, cloud storage and related services. This acquisition strengthens Mustek's growing expansion into the networking environment.

Mustek also has a 36% shareholding in Khauleza IT Solutions, which represents a strategic partnership facilitating service provision to all levels throughout South Africa. Khauleza procures technological goods and services on behalf of customers, providing a single point of contact for all ICT requirements. The company works with an expanding network of small, micro and medium enterprises (SMMEs) and provides industry leading hardware, computing accessories, technical skills and consulting services.

This strategy enables Mustek to offer its customers a perfect match for their technology needs, whether driven by configuration and customisation requirements (as with the Mecer brand), or through tried and trusted best industry practices and competitive pricing (as with the multinational brands which Mustek distributes).

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 benchmarks, 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 for South African resellers to do business with.

Core values

Mustek's company values are underpinned by its Service Excellence principles:

Knowledge and attitude

Mustek takes pride in its people, its company, its products and services, and its customers. Mustek acts professionally at all times and is proactive and passionate about what it does and how it builds the company. Mustek invests in the development of its staff to increase its knowledge base and ensure that it supplies its customers with the best technical service. Mustek ensures that all of its technical staff members are accredited in their fields.

Flexibility

In a constantly changing IT landscape, Mustek believes that business flexibility is vital to success. At Mustek, we have a 'can do' attitude that gives us the ability to make whatever operational or product changes are necessary to respond effectively to trends or opportunities. This culture of flexibility allows Mustek to quickly on-board products or re-jig the assembly line to offer new lines or quickly meet customers' changing requirements. Mustek's staff are both able and eager to seek innovative solutions to new challenges.

Efficiency

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

Responsibility and accountability

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

"I love working closely with motivated people in the team structure, getting and sharing information and playing a strategic role at work."

Case study

Clayton Jones
Assistant channel sales manager

Clayton has proved that growing up in rough and tough Westbury need not keep a talented young man down. Now he is getting other youngsters off the streets and into creating a living.

Inspired by the potential he sees in young people, Clayton remains deeply involved with the community in which he grew up. Westbury is an area notorious for street violence, gangs and drugs and Clayton's vision is to see others enjoying the same success in life that he achieved. He feels called towards this work, saying: "I know how difficult it can be to learn and achieve when your community environment is a challenge."

Clayton serves as a youth leader at his church and has started an organisation for young people from single parent families called 'One Father'. He believes that reaching out to teenagers must be practical and involve action, such as sport and drama.

Inspired by the potential he sees in young people

When they show the entrepreneurial drive to start a business, he uses his talents to help set up their financial systems. Clayton connects to where a person's passion is and encourages them to use it to drive success.

As the son of a single mother, Clayton is moved to help other children from single parent homes. With his wife, he is fostering a young girl from Westbury, who lives with them during the week and visits her mother on weekends.

As a child, Clayton's potential was recognised by teachers at his local primary school, who got him enrolled in the prestigious German International School of Johannesburg. Clayton struggled to adapt to the disciplined environment, but it prepared him well for a move to St Barnabas College, where he completed his initial schooling.

After matriculating, Clayton was accepted by the Witwatersrand University for a BCom degree, but struggled to fund his studies and found a part time job at Mustek in 2006 as a retail merchandiser.

He completed his degree and had impressed Mustek enough to be offered a permanent position.

Clayton consequently worked himself up through the ranks to be appointed as assistant channel sales manager in 2013.

Clayton radiates with enthusiasm: "I love working closely with motivated people in a team structure, getting and sharing information and playing a strategic role at work."

Defining himself as a giver, Clayton says, "I am blessed to be able to share the knowledge and experience I have gained." Being in a leadership position at Mustek is inspiring and Clayton says it is the fuel that drives his community work.

Six-year financial review

	2014 R000	2013 R000	2012 R000	2011 R000	2010 R000	2009 R000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Revenue	4 764 123	4 737 304	4 143 022	3 506 373	3 409 515	3 481 903
Cost of sales	(4 109 007)	(4 101 167)	(3 562 106)	(2 990 485)	(2 923 883)	(2 916 547)
Gross profit	655 116	636 137	580 916	515 888	485 632	565 356
Distribution, administrative and other operating expenses	(453 398)	(469 754)	(417 777)	(337 084)	(331 119)	(422 877)
EBITDA	201 718	166 383	163 139	178 804	154 513	142 479
Headline profit	108 032	78 996	76 344	97 921	63 776	53 733
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
Assets	2 701 180	2 233 319	2 117 199	1 669 539	1 723 306	1 816 489
Property, plant and equipment	160 029	120 462	122 625	128 333	143 602	158 024
Intangible assets	60 032	57 489	60 240	67 813	72 114	64 667
Investments and loans	122 483	39 250	40 470	42 177	42 373	40 032
Non-current trade and other receivables	—	—	—	—	2 619	15 652
Deferred tax asset	29 164	17 487	15 666	23 925	22 025	24 376
Current assets	2 329 472	1 934 043	1 609 534	1 407 291	1 440 573	1 513 738
Assets classified as held-for-sale	—	64 588	268 664	—	—	—
Equity and liabilities	2 701 180	2 233 319	2 117 199	1 669 539	1 723 306	1 816 489
Equity attributable to equity holders of the parent	916 052	826 365	755 732	693 734	617 199	570 302
Minority interest	18 461	12 546	18 426	18 940	24 552	18 488
Long-term borrowings	34 788	6 837	4 712	86 598	132 514	305 616
Deferred tax liability	—	2 324	2 409	5 243	3 591	2 192
Non-current deferred income	14 725	16 650	—	—	—	—
Current liabilities	1 717 154	1 341 703	1 141 689	865 024	945 450	919 891
Liabilities directly associated with assets classified as held-for-sale	—	26 894	194 231	—	—	—

	2014	2013	2012	2011	2010	2009
KEY BALANCE SHEET FIGURES						
Total assets (R000)	**2 701 180**	2 233 319	2 117 199	1 669 539	1 723 306	1 816 489
Ordinary shareholders' equity (R000)	**916 052**	826 365	755 732	693 734	617 199	570 302
Return on ordinary shareholders' equity	**12.3%**	10.8%	11.1%	14.4%	10.3%	9.8%
Net asset value per share (cents)	**859**	762	697	633	563	516
MARKET INFORMATION AT 30 JUNE						
Ordinary shares in issue	**106 682 760**	108 433 165	108 469 165	109 547 165	109 547 165	110 449 804
Weighted average number of ordinary shares	**107 255 590**	108 436 464	108 831 677	109 547 165	110 254 438	110 449 804
Headline earnings per share (cents)	**100.7**	72.9	70.2	89.4	57.8	48.7
Market price per share (cents)						
– year-end	**720**	555	595	499	410	175
– highest	**750**	648	635	540	411	399
– lowest	**450**	539	450	325	154	102
Number of transactions	**3 380**	2 729	3 645	3 351	3 102	2 590
Number of shares traded	**23 418 429**	29 750 208	36 835 543	39 048 010	53 051 163	38 982 708
Value of shares traded (R)	**138 378 220**	173 588 071	204 105 119	163 229 612	142 440 850	94 700 256
Percentage of issued shares traded	**22%**	27%	34%	36%	48%	35%
LIQUIDITY AND LEVERAGE						
Interest cover (times)	**4.6**	4.1	5.9	8.4	4.1	3.1
Net cash (used in) from operating activities (R000)	**(225 798)**	142 808	44 602	50 493	159 394	(88 507)
Current ratio (times)	**1.4**	1.4	1.4	1.6	1.5	1.6
PROFITABILITY						
Operating margin	**4.2%**	3.5%	3.9%	5.1%	4.5%	4.1%
EMPLOYEES						
Number of employees	**1 020**	949	1 122	1 097	1 120	1 272

Glossary

EBITDA – earnings before interest, taxation, depreciation and amortisation

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

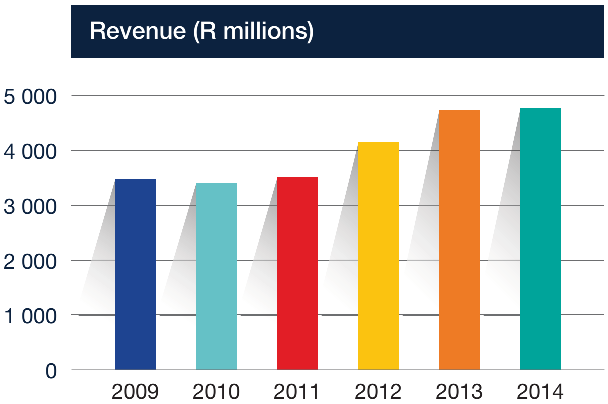
Net asset value (ordinary shareholders' equity) – total assets less total liabilities

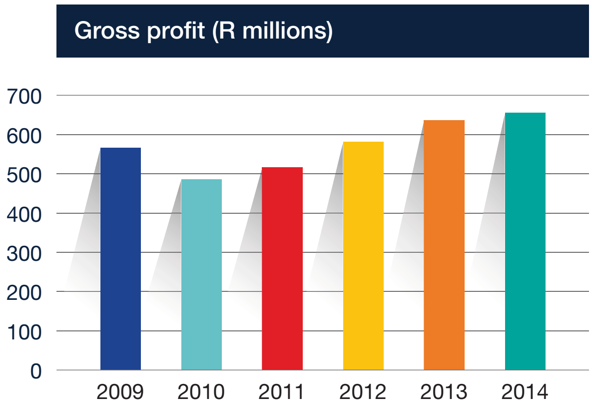
Interest cover – EBITDA divided by net interest paid

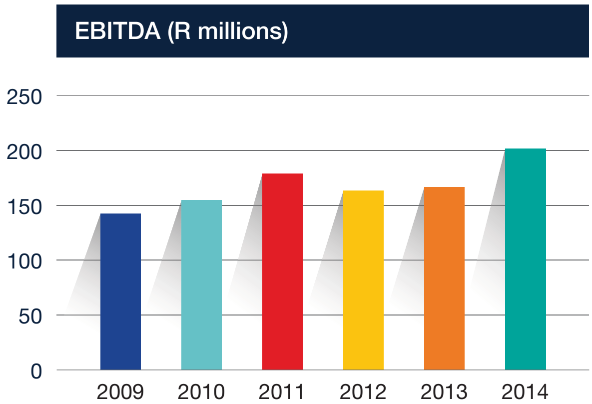
Current ratio – current assets divided by current liabilities

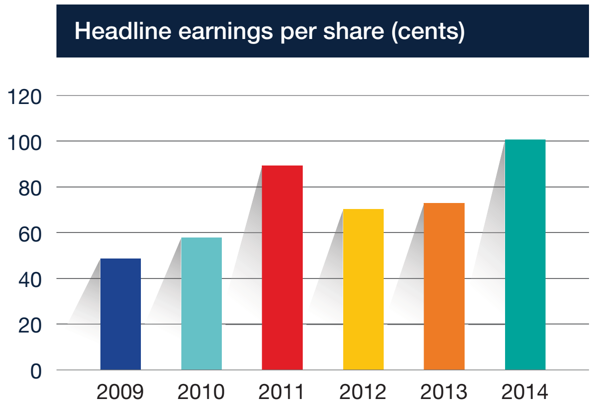
Operating margin – EBITDA as a percentage of revenue

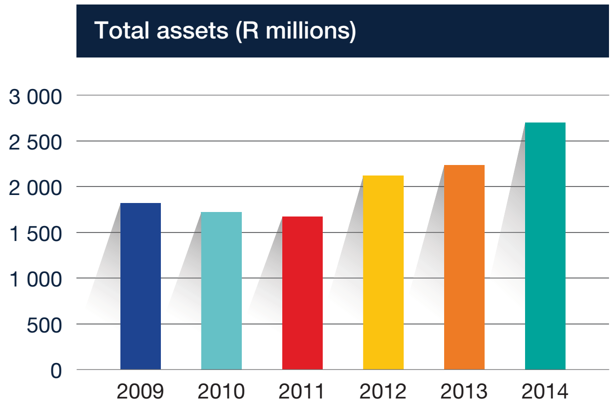
Our performance indicators over time

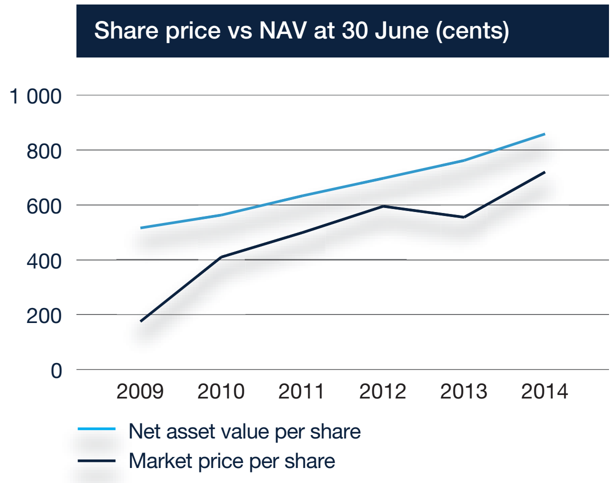


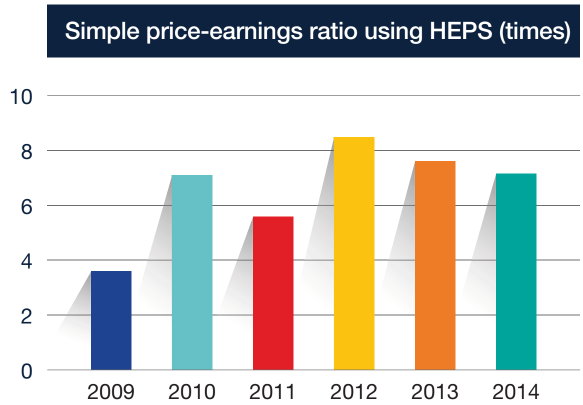







Total assets (R millions)
3 000
2 500
2 000
1 500
1 000
500
0
2009
2010
2011
2012
2013
2014


Share price vs NAV at 30 June (cents)
1 000
800
600
400
200
0
2009
2010
2011
2012
2013
2014
Net asset value per share
Market price per share


Simple price-earnings ratio using HEPS (times)
10
8
6
4
2
0
2009
2010
2011
2012
2013
2014

Our business model

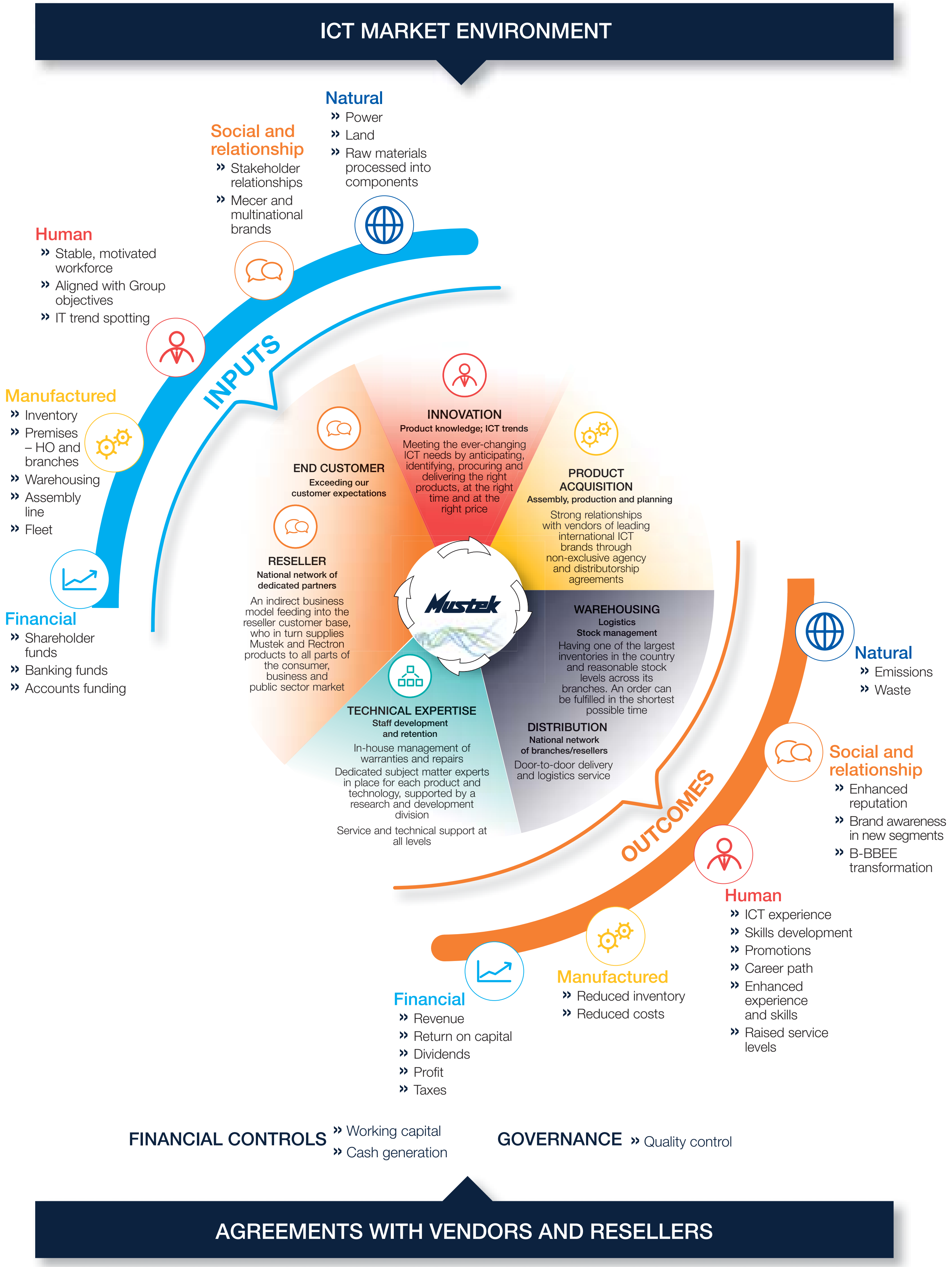
Mustek's business model is based on agile and flexible management with the in-depth industry knowledge to recognise ICT trends early and react quickly in response. This enables us to identify changing or new markets and to make timely acquisitions or enter strategic partnerships.

Mustek's ability to manoeuvre and expand is based on:

- an outstanding reputation with international vendors
- a harmonious workforce that is constantly being upskilled and promoted through definitive career paths
- a loyal and continually growing reseller base numbering in the thousands, from large to small, that competitors can't match
- a well proven and efficient distribution network
- South Africa's most reputable ICT assembly line that is well versed in customising orders on the fly
- a service department reputed as the best in South Africa's ICT sector

Our business model is based on the following key elements:

- **Innovation** – meeting the ever-changing ICT needs by anticipating, identifying, procuring and delivering the right products, at the right time and at the right price.
- **An indirect business model,** supporting a passionate customer base of resellers who in turn supply the products it assembles and distributes to all parts of the consumer, business and public sector market.
- The development and retention of a **dedicated and skilled workforce** – committed to customer service through the provision of properly formulated solutions, correct product specification, and technical expertise and support.
- A **stockholding policy** that allows it to fulfil customer orders in the shortest possible time and support the processing of warranties, returns and replacements.
- An expert **door-to-door delivery** and logistics service.
- **Strong relationships** with vendors of leading international ICT brands through agency and distribution agreements.
- **Strong financial controls** to manage working capital and realise cash.
- Adherence to **international management** system standards (ISO 9001, ISO 14001 and ISO 20000) and trusted best industry practices.
- Certified **environmental management** systems (ISO 14001) at its Midrand head office and Mustek coastal branches.

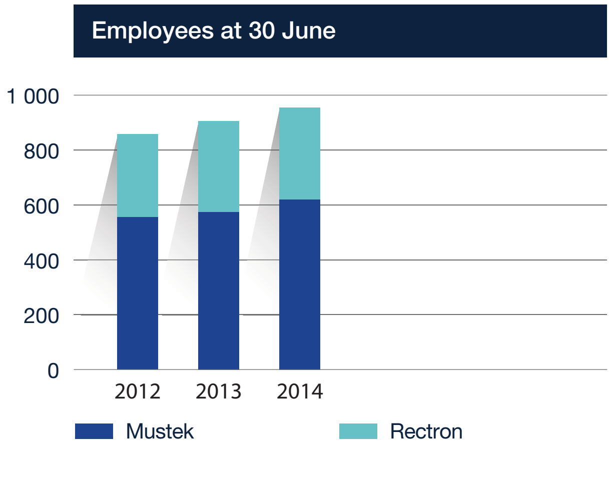

ICT MARKET ENVIRONMENT
INPUTS
Natural
» Power
» Land
» Raw materials processed into components
Social and relationship
» Stakeholder relationships
» Mecer and multinational brands
Human
» Stable, motivated workforce
» Aligned with Group objectives
» IT trend spotting
Manufactured
» Inventory
» Premises – HO and branches
» Warehousing
» Assembly line
» Fleet
Financial
» Shareholder funds
» Banking funds
» Accounts funding
INNOVATION
Product knowledge; ICT trends
Meeting the ever-changing ICT needs by anticipating, identifying, procuring and delivering the right products, at the right time and at the right price
PRODUCT ACQUISITION
Assembly, production and planning
Strong relationships with vendors of leading international ICT brands through non-exclusive agency and distributorship agreements
END CUSTOMER
Exceeding our customer expectations
RESELLER
National network of dedicated partners
An indirect business model feeding into the reseller customer base, who in turn supplies Mustek and Rectron products to all parts of the consumer, business and public sector market
Mustek
WAREHOUSING
Logistics
Stock management
Having one of the largest inventories in the country and reasonable stock levels across its branches. An order can be fulfilled in the shortest possible time
TECHNICAL EXPERTISE
Staff development and retention
In-house management of warranties and repairs
Dedicated subject matter experts in place for each product and technology, supported by a research and development division
Service and technical support at all levels
DISTRIBUTION
National network of branches/resellers
Door-to-door delivery and logistics service
OUTCOMES
Natural
» Emissions
» Waste
Social and relationship
» Enhanced reputation
» Brand awareness in new segments
» B-BBEE transformation
Human
» ICT experience
» Skills development
» Promotions
» Career path
» Enhanced experience and skills
» Raised service levels
Manufactured
» Reduced inventory
» Reduced costs
Financial
» Revenue
» Return on capital
» Dividends
» Profit
» Taxes
FINANCIAL CONTROLS
» Working capital
» Cash generation
GOVERNANCE
» Quality control
AGREEMENTS WITH VENDORS AND RESELLERS

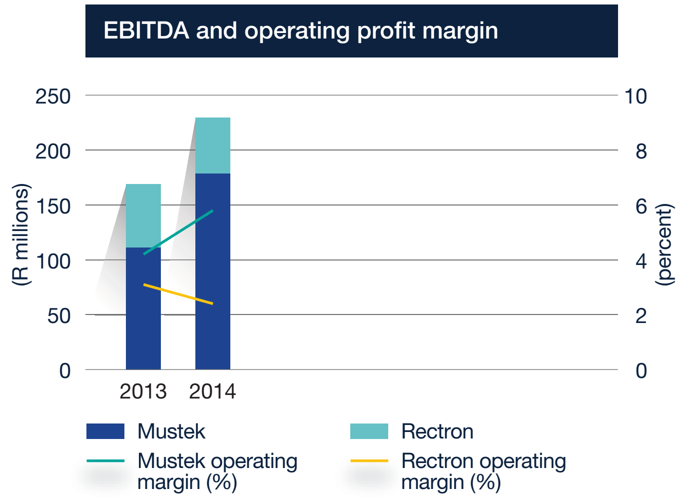
Strategic performance and goals

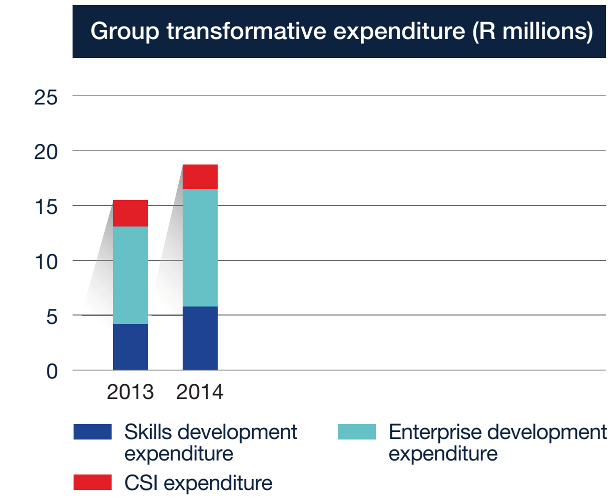
Mustek's strategic initiatives for the year under review as detailed in last year's integrated annual report were:

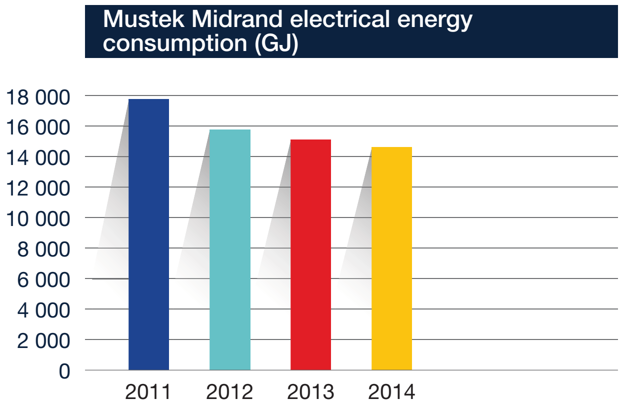
Strategic goal	Performance this year	Future initiatives
Continue to grow the Group's broad-based distribution network.	Now have centres in all nine provinces.	Goal will have been reached.
Grow the tablet business by offering a range of products to meet the needs of the aspirational, entry level and mass markets.	Added or updated entry level products (in-house Mecer and RCT brands). Broadened the range of vendor branded tablets across the mass and aspirational markets.	Intel's new Broadwell and Bay Trail-T SOC chips will enable new 2015 tablet ranges that are cheaper, have longer battery life and with enhanced graphics.
Continue to differentiate ourselves as a value added solutions provider, not merely a distributor.	Established strategic partnerships with solutions providers (Brand-Rex, m2fx) and bought into Sizwe IT, which offers networking and managed services.	Identify further partnerships in current and adjacent market segments.
Acquire further product lines in emerging technologies – fibre, networking, security and surveillance, cloud computing and volume licensing.	Volume licensing with Microsoft for Windows OS and Microsoft 365. Expanding our CCTV/security offering. Entered new strategic partnerships, as outlined above.	Continue identifying emerging technologies to assimilate into Mustek portfolio.
Promote the Group's service capabilities as a standalone brand.	Launched more aggressive marketing of service capabilities for most OEM hardware brands.	Will continue this marketing programme.
Focus on operational efficiencies and cost management.	Continuing programme. Certified for ISO 20000 in Gauteng, to be rolled out to other areas.	Continue roll-out and expand GRI G4 compliance.
Build on efficiencies within the Group, installing Rectron sales teams in Mustek branches where Rectron is not represented.	Rectron appointed sales executives at Mustek branches where Rectron is not represented.	Programme to be completed in 2015.

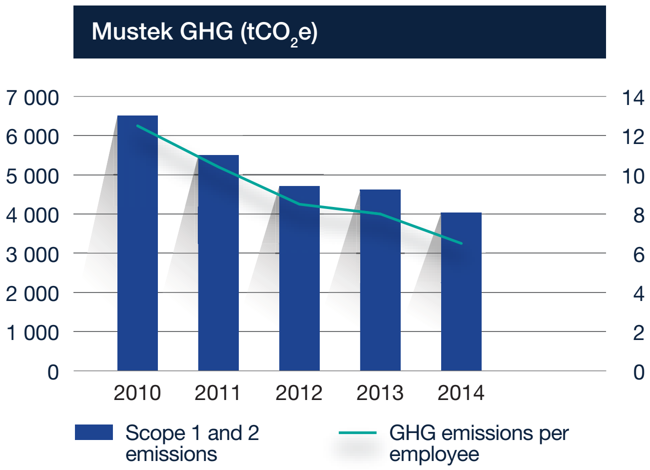
Key statistics











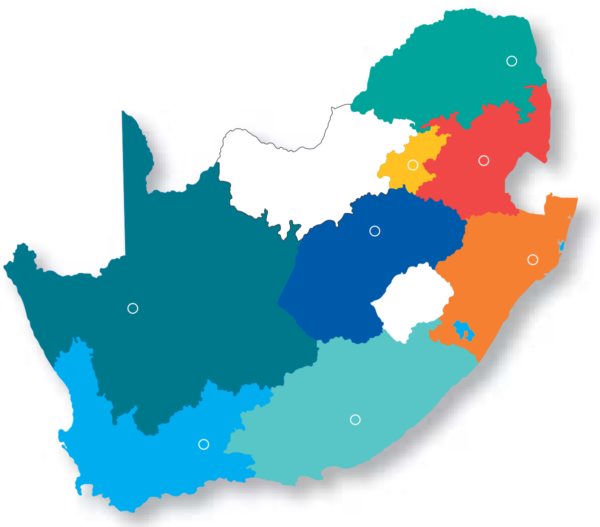
Mustek's core operations and geographical representation

The majority of Mustek Group's activities are conducted through two core operations: the operating divisions of Mustek Limited (Mustek) and Rectron Holdings Limited (Rectron), a wholly owned subsidiary of Mustek Limited[1]. The following key information reflects the similarities and differences between these two core operations:

Indicator	Mustek
GENERAL	
Major activities	Assembly, distribution and value added hardware solutions
Markets served	Resellers, government, corporate and parastatal key accounts, mass retailers
Focus	Customer service and delivery of complete hardware solutions
Primary products	Desktops, notebooks and tablets, ICT peripherals, POS systems, enterprise infrastructure, networking, Microsoft volume licences

Branches

9



Active resellers[2]

2 883

(2013: 3 516)

Standards

ISO 9001:2008 (Quality)
ISO 14001:2004 (Environment)
ISO 20000 (Service)

Note 1: Details of the Group's subsidiary and associate companies appear on pages 135 to 140.

Note 2: Based on the average number of transacting customers in the three-month period preceding 30 June.

Mustek

The Mustek division was built around the Mecer brand, which was established during the 1980s as South Africa's biggest and most recognised ICT name. Mustek has established South Africa's largest and most versatile ICT assembly line and a service department with a reputation second to none in the country.

Over the past six years Mustek has added numerous international brands in various lines to supplement and complement a growing end-to-end offering to ICT users.

Mustek anticipates ICT trends and efficiently distributes imported components and finished products through planning, bulk purchasing, consolidating shipments, assembly, warehousing and after sales service and support.

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 2 883 resellers.

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

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

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

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

B-BBEE status and human development

Mustek is a level 2 B-BBEE contributor and ongoing skills development and training is recognised as a business imperative. Its B-BBEE status and HR policies are covered in more detail in the human capital section on page 43 of this report.

Recent financial performance/overview

During 2014 the Group produced very pleasing financial results in continuing difficult economic conditions. Mustek's financial performance can comprehensively be reviewed in the financial statements provided with this report from page 96.

Future prospects and forward planning

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

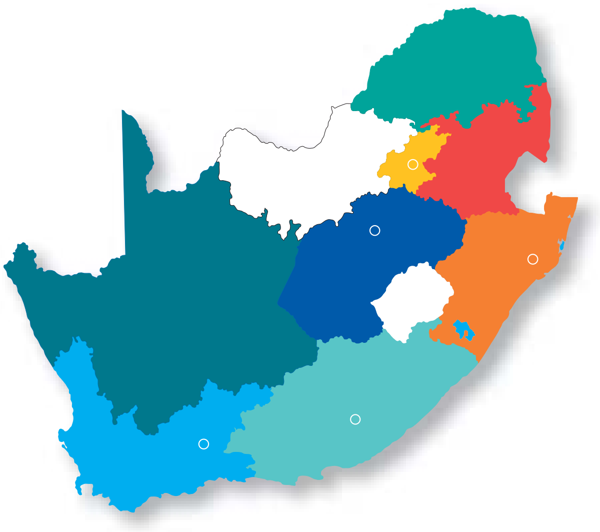
Mustek's core operations and geographical representation (continued)

Indicator	rectron
GENERAL	
Major activities	Distribution and limited assembly
Markets served	Mass retailers and SMME resellers
Focus	Ease of business, rapid response times, low overhead and component costs
Primary products	Components, mobility, laptops, peripherals and printers

Branches
6

Active resellers[2]
3 746

(2013: 3 675)



Note 1: Details of the Group's subsidiary and associate companies appear on pages 135 to 140.

Note 2: Based on the average number of transacting customers in the three-month period preceding 30 June.

Rectron

Rectron is a wholly owned subsidiary of Mustek.

Rectron is a value added ICT distributor and partner to reseller channels, offering best value technology and services. The company services the ICT consumer market by delivering components, consumer electronics, peripherals, services and repairs to 3 746 resellers.

A key aspect of the company is the Rectron culture with the core values of integrity, teamwork, business focus, an open-door policy, front-line leadership, professionalism and the belief that customers decide when a job is well done.

What Rectron does

The company's core business remains the importation and distribution of computer components and accessories for computer dealers, resellers and systems integrators. The product range has grown to become one of the most comprehensive available in South Africa.

Rectron provides technical and software support and services to dealers and their customers.

A primary asset is Rectron's automated warehouse system that sustains fast and cost efficient delivery to resellers across South Africa, by reducing the product journey time from production through to delivery point. Rectron's systems are designed to put end-users closer to stock, with technology augmenting the process to ensure efficient delivery. Excellent sales service is backed up by warranties, with the entire infrastructure built around customer experience and satisfaction.

Along with Mustek, Rectron has been appointed by Microsoft as a volume licensing and electronic software delivery (ESD) distributor. Rectron is the second Microsoft distributor in the Middle East and Africa to be appointed, and the first in South Africa to roll out ESD – a secure way of delivering a product key directly to consumers and small businesses via the retail, email and reseller channels.

B-BBEE status and human development

Rectron is a certified level 3 B-BBEE contributor and contributes to the development of many SMEs by providing services that allow them to grow their business efficiently and effectively.

Since a major management re-shuffle in 2011, ongoing efforts are being made to align management philosophies, policies and controls across the Rectron and Mustek trading operations.

An extensive process of Key Performance Indicators (KPIs) and appraisals has been initiated. The first task in this process was to ensure that each employee has a full and comprehensive job specification, hand in hand with skills development programmes. Line managers are submitting proposals for further training and education for their staff. Rectron is developing a clear career path map for all employees showing how they can systematically progress upwards as part of succession planning.

Recent financial performance/overview

Since 2011, turnover and profit have increased steadily year-on-year.

The products that currently dominate the business are low margin, but we anticipate gross profit rising as the investment made in higher value products begins to produce returns.

Future prospects and forward planning

Rectron targets small to medium size enterprises (SME) – one of the fastest growing areas for government and business leading to the indirect growth of job creation, profits, sustainability, access to IT and skills development. The company's business model is geared towards flexible and efficient service delivery.

The e-commerce category is ever growing with a regular influx of clients. This has increased Rectron's footprint of clientèle in the e-commerce space and this new segment will continue gaining traction. Our website is being revamped to provide more comprehensive reseller support.

Wearable technology and fashion electronics are also starting to gain traction in many market areas, including health and fitness. Rectron is ideally positioned to meet this growing market demand.

There has been a significant positive response from our resellers to the Rectron Rewards incentive and we plan to utilise this platform to launch new products and drive consumer behaviour in future.

Mustek's core operations and geographical representation (continued)

Sizwe IT Solutions

Indicator

GENERAL	
Major activities	Provision of comprehensive ICT service solutions
Markets served	Public and private sector clients, particularly in the networks and security markets
Focus	Managed services in partnership with local SMEs

Sizwe IT Group offers a comprehensive ICT service solution, including the provision of:

- infrastructure;
- networking;
- security;
- servers and storage;
- end-user solutions; and
- computer consumables.

Over the years, Sizwe has built up a formidable body of expertise, particularly in networks and security solutions. Our public and private sector clients benefit from highly skilled professionals and strategic partnerships.

The company is a passionate, skilled and rapidly-expanding partner of choice for many leading organisations. Sizwe's guiding ethos is that technology solutions should be dovetailed to the business strategies of its customers and be built in partnership with them.

Sizwe is expanding across South Africa and supporting communities by building strong partnerships with local SMEs. Sizwe IT Group's national footprint is founded on a wide network of localised SMEs.

What Sizwe does

As a true end-to-end solutions provider, Sizwe has extended its offering to include the latest in managed and cloud-based services. These are provided outright or as part of a 24/7 managed services contract. Sizwe's offering rests on five main pillars:

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

In building this expertise and capability, Sizwe has partnered with leading hardware and software providers including Cisco, Epson, IBM, HP, Huawei, Lexmark, Microsoft and Samsung

B-BBEE status and national economic development

The company is committed to developing partnerships with local SMEs in accordance with an established BEE methodology. Sizwe supplies processes, business and technical expertise, as well as 'on the job' skills transfer, formal certification, training and spare-parts holding. BEE entities are enabled to succeed through mentorship and upskilling their employees for job accuracy and service delivery.

Sizwe allocates as much procurement business as possible to BEE suppliers, especially SMEs.

The Group's standards of excellence were confirmed by achieving the ISO 9001:2008 QMS certification. This ISO standard outlines a process approach to implementing and supporting quality management.

Recent financial performance/overview

Sizwe IT Group announced the management buy-out of the company and its subsidiaries from the ConvergeNet Group on 1 September 2013.

A consequent major restructuring has aligned the business with current challenges facing the ICT sector and client service delivery levels and profitability is much improved.

Future prospects and forward planning

Further growth is anticipated in the Managed Services, Unified Communications and the Fibre and Facilities businesses. Sizwe's experienced management team, with the support of technology partners and vendors, is set to deliver on growth targets for 2014.

Sizwe is ideally positioned to provide innovative solutions to the public and private sector, particularly at a time when technology is a key enabler of the delivery of services in the South African socio-economic space, especially in health and education.

The South African security market is poised to grow at a forecasted annual growth rate of 7.6% over the next five years. Growing uptake of cloud, virtualisation, open networks and internet-driven business models is resulting in higher demand for enterprise network/IT security.

Mustek's core operations and geographical representation (continued)

Khauleza IT Solutions

Indicator

GENERAL	
Major activities	Procures ICT products and services on behalf of customers
Markets served	Public sector
Focus	Providing ICT-related skills and services through a single interface
Primary brands	Acer, APC, Cisco, Dell, Epsom, Fijitsu, Huawei, HP, Mustek, NEC, Posiflex, Toshiba, Eaton, D-link, Mecer
Primary products	ICT services, communications, ICT advisory and consulting

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

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

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

What Khauleza does

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

The company has developed a Plan, Deploy, Manage and Maintain (PDMM) methodology that supports all technological environments. PDMM utilises a comprehensive lifecycle approach so that strategic goals are reached while Controlled Costs in Technology Ownership (CCTO) is maintained. This approach ensures that all stages of the technology lifecycle are carefully managed and worked into a budget.

ICT services	Communications	ICT advisory and consulting
» Procurement services » Deployment services » Central support and help » Maintenance services » IMACD » Technology facility (switch centres, data centres) » Desktop » Laptop/Notebook » Server » Infrastructure » CCTV » Monitors/Projectors	» Splicing – Open Access Networks » Long-haul » Fibre floating » DIT and DCP tests » HSE	» ICT strategy » ICT management mentorship » Project recovery and project management » Governance advisory » IT service management review » Contracts review » Business process analysis

B-BBEE status and human development

Khauleza is level 3 B-BBEE certified with a black shareholding of 40%. The company has formal alliances with 18 SMMEs and welcomes proposals from any SMME that wishes to partner with it.

As Khauleza provides leading technology, it is a priority that technicians remain highly skilled and keep relevant certifications up to date.

Mustek's material matters

Materiality

In the Board and executive management's opinion, the information presented in this integrated annual report is the most relevant or 'material' to the interests of our shareholders and key stakeholders. The Board, executive management and those involved with Mustek's governance evaluated the source information with two primary questions in mind: "Who is our reporting aimed at" and "What decisions will they be able to make from our reporting"?

Paragraph 1.7 of the International Integrated Reporting Committee (IIRC) International <IR> Framework states that: "The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time."

In the Framework's paragraph 1.8, it qualifies the above by stating: "An integrated report benefits all stakeholders, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy makers."

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

We intend the result to be an accurate and complete integrated annual report, yet unburdened with the peripheral data that tends to confuse rather than enlighten.

Material matters

Through our stakeholder engagement activities we hope to identify and respond to all reasonable and legitimate expectations of shareholders, investors and stakeholders. We report on financial, commercial and sustainable development issues that we consider have the potential to impact on our ability to create value now and in the future.

Many of our potential material matters are informed by our risk management process. Risk management is an inherent part of every role and job description, and formal structures exist to ensure that risk management processes are in place. The Audit and Risk Committee meets at least once a quarter to review all risk management processes, procedures and outcomes. When necessary, external experts are retained to facilitate risk identification and suitable mitigation measures. More details of management's approach to managing risks are provided in the corporate governance section of this report.

Once identified, relevant topics are subjected to a materiality process which considers both a topic's qualitative and quantitative aspect; the influence, legitimacy and urgency of the stakeholder raising the topic; the boundary of the topic; and Mustek's ability to effect change with regard to our impact on the topic. The materiality process involves the work-shopping of identified issues with senior line management and directors in order to filter the more important issues through. Ultimately the decision to report a topic as a material matter is based on the Board and management's view of the topic.

The material matters facing Mustek and addressed in this report are:

- South Africa's economy, its growth prospects and the ZAR exchange rate;
- Anticipate ICT trends internationally and locally;
- Profitability and cash flow;
- Attract, develop and retain adequately skilled employees;
- Ethical behaviour and governance;
- Waste – abatement and disposal;
- Energy consumption and GHG emissions;
- Transformation and maintaining our social licence to operate;
- Maintaining key relationships.

South Africa's economy, its growth prospects and the ZAR exchange rate

As always, Mustek is materially affected by the broader international and local economic environments, as well as by South Africa's volatile exchange rate.

South Africa's economy has continued to deteriorate, with anticipated 2014 GDP growth now reduced to 1.4%.

The prolonged wave of strike action in the platinum mining and metals sectors has impacted South Africa's financial reputation and caused GDP to shrink in the first quarter of 2014.

The US Dollar to Rand exchange rate is a major factor in the ICT industry, as most of our products are imported and paid for in US Dollars. Exchange rate fluctuations affect prices, and the Rand's propensity for sharp movements against other major currencies is an ongoing challenge. Mustek does have a hedging policy in place.

Over this period the Rand fell against the Dollar and reached a low point of around R11.40 per Dollar in January 2014, but by our financial year-end has strengthened to around R10.60.

Anticipating ICT trends internationally and locally

Mustek remains competitive in one of the quickest evolving industries in the world by responding quickly to trends in South Africa and globally.

The world's biggest technology brands will obviously shape their offerings to fit global trends, but we must ascertain whether the African market is ready to adopt some or all of these products or platforms.

Profitability and cash flow

Growing sustainable profits year by year and ensuring that this translates into cash generation is the Group's primary objective. Meeting this objective supports our ability to create value in other areas besides shareholder returns. A wide range of risks and challenges face the Group and these are managed through various activities and initiatives. The resilience of our earnings is founded on the relationships with both vendors and resellers. Specific risk management includes foreign exchange hedging and insurance. Earnings growth is achieved through acting on opportunities created by technology and the collective skills of our workforce.

Profits, especially cash profits, allow the Group to pay dividends to its shareholders, meet its obligations and reinvest in the future of the business.

Attract, develop and retain adequately skilled employees

Relative to our resellers' base, our number of direct employees appears small. However, this invaluable asset represents the critical interface between us and the foundation of our success – our resellers and key customers. Senior employees contribute immeasurably to our profitability by identifying and matching technology trends with local demands while the departmental workforces contribute through quality assembly, efficient despatch and distribution, and targeted marketing. Other important elements of our workforce include skilled and experienced service personnel and a strong financial team.

Attracting and retaining the broad range of necessary skills within the Group is an important area of focus for management. Besides offering market related remuneration, clear career development opportunities supported by specific training interventions are the factors that contribute to our ongoing success in managing our human capital.

Ethical behaviour and governance

Over the past decade or more, corporate leaders faced ever increasing demands to operate in an ethical manner and to apply the highest level of governance to their business operations. Corporate failures, environmental and social challenges and the increasing levels of white collar crime are some of the reasons for this increased focus.

Waste – abatement and disposal

The management of waste is the Group's single largest environmental issue and one that receives significant attention. The bulk of the Group's waste comprises packing materials, including wooden pallets, cardboard, plastic and polystyrene fillers. Recycling this material reduces the amount of waste sent to landfills. Other non-recyclable waste is disposed of in a responsible manner.

Energy consumption and GHG emissions

The reduction in consumption of electricity from Eskom not only contributes to the Group's profitability, but also makes Mustek an industry leader in its efforts to mitigate its negative impacts on the environment through reducing its GHG emissions.

Mustek installed solar panels on the roof of its Midrand assembly line and offices one year ago. Rectron has followed during the current year. The underlying purpose of these initiatives is to reduce our day-to-day operating costs, as electricity supplied by Eskom is our primary source of energy and a significant expense.

Transformation and maintaining our social licence to operate

Mustek and Rectron readily accept their responsibility to address the imbalances of the past through challenging themselves to achieve ever higher B-BBEE contributor levels in terms of the ICT sector codes and complying with legislation such as the Employment Equity and Skills Development Acts. The recently released revised generic Codes of Good Practice will challenge the Group to maintain its current satisfactory levels and require a pro-active response across the business to ensure that we further our transformation journey.

The Group also prides itself on the efforts it makes both internally and externally through its employee development initiatives and its engagement with targeted beneficiaries from our local communities.

Maintaining key relationships

A breakdown in relationships with its key suppliers and resellers would negatively affect the profitability of the business. At both Mustek and Rectron we pay particular attention to maintaining the relationships at both ends of our value chain that are critical to our success. Product and brand managers are tasked with adding value and building strong relationships with Mustek and Rectron's diverse range of international and local suppliers, while key account managers are expected to deliver excellent service to resellers and corporate clients. Underpinning this is the Group's overall commitment to meeting the ever-changing ICT needs by delivering the right products, at the right time and at the right price.

Joint Chairman and Chief Executive Officer's review

David Kan
CEO

Dr Len Konar
Chairman

For this financial period under review we are pleased to report an improved performance across the Group in all material areas of our operations. These include financial results, entering new markets, furthering Group strategy, relations with stakeholders, internal governance and impact on the environment.

Consistent execution of a focused strategy continues to deliver financial results and benefits for all the Group's stakeholders. The current year's financial performance is the result of several years of relationship building, product acquisition, brand enhancement and efficiency programmes.

The launch of new notebook products from Acer, Asus and Lenovo in the previous year has been a key driver of both revenue and margins in 2014. Access to new markets through three new divisions – security surveillance, volume licences and networking – have also contributed to the Group's overall performance. Efficiency initiatives have seen us control cost increases without jeopardising our service levels to the customer.

Opportunities to improve working capital management are ever present but these must be balanced with the need to meet customer expectations relating to stock availability and credit terms. Project delays experienced by two customers are reflected in the Group's year-end inventory levels as stock had been ordered to accommodate long lead times.

The only disappointment in a very satisfying year was the poor performance of Rectron Australia. This operation's management was replaced and has begun to operate profitably again.

More insight into our financial results can be found under "Performance" under the financial capital section on page 38.

Macro-economic environment

As always, Mustek is materially affected by the broader international and local economic environments, as well as by South Africa's volatile exchange rate.

On the international front, countries and regions appear to be exiting from the consequences of the 2008 crash at varying speeds. In the Western world the USA is showing promising signs, with employment and GDP growth rising steadily. The advent of a new US Federal Reserve chair, Dr Janet Yellen, has been seamless and she has taken a conservative approach to the 'taper' of Federal Reserve lending that the emerging economies had feared.

Most of Europe remained close to zero growth, but at least remained stable, while the UK has now finally emerged from recession. In Asia, China's GDP growth has slipped consistently below the double digit figures of recent years, but remains at about 7%. Most encouragingly, China's new government appears to be taking firm steps to correct internal imbalances that appeared to be destabilising that economy, with some fearing a Chinese economic crash that would again shake the global economy.

South Africa's economy has continued to deteriorate, with anticipated 2014 GDP growth now reduced to 1.4%. The recent and prolonged wave of strike action in the platinum mining and metals sectors has impacted South Africa's reputation and caused GDP to shrink in the first quarter of 2014. Besides the considerable financial losses recorded in these sectors and by their workforces, the longer-term effects included a massive knock to investor confidence in South Africa and rating downgrades of South Africa by international rating agencies.

Mustek will remain politically neutral as always, and will keep a wary eye out for events over which we have no control – but to which we must react appropriately to keep Mustek safe and financially viable for all its stakeholders.

Corporate regulations

Besides the core purpose of remaining profitable, companies must comply with an intense regulatory environment in terms of labour relations, B-BBEE, JSE Listings Requirements, environmental regulations – and the list goes on. These consume many hours of management time and are expensive. At Mustek we go to lengths to remain compliant.

On a positive note, we are pleased to be among the first companies in South Africa to be accredited for the ISO 20000 standard for IT service management, which was achieved at the Group's main service centre in Midrand. We intend working towards reaching this accreditation at all regional branches.

Exchange rate impacts

The US Dollar to Rand exchange rate is a major factor in the ICT industry, as most of these products are imported and paid for in US Dollars. Exchange rate fluctuations will obviously affect prices, with the Rand's propensity for sharp movements against other major currencies being a major challenge. The Group's more conservative forex hedging policy appears to be working well and as a result, forex losses decreased from R51.2 million in 2013 to R23.2 million in the 2014 financial year.

Over this period, the Rand fell against the Dollar and reached a low point of around R11.40 per Dollar in January 2014, but by our financial year-end have strengthened to around R10.60. The South African Reserve Bank appears to have adopted a policy of gradually raising interest rates to support the Rand.

Placing the ICT business in perspective

Fortunately for Mustek, technology advances remorselessly and generates its own momentum, unlike other industries where users can stop spending and hold onto their current products until they fail. South Africa's business and consumer markets may not upgrade their hardware and supporting systems as frequently as many other countries, but nevertheless as long as they still do, Mustek will remain in business.

Mustek is well positioned and in the right industry as ICT is intrinsically less vulnerable to recessionary forces than most other sectors. Africa is home to a growing population that has an expanding need for technology. This factor will continually drive demand – more than the generic growth of economies. Just about every skilled or semi-skilled job in today's world is becoming linked to a form of computing device, which is being accelerated by the spread of broadband and the steadily falling price of data.

Foresight generates insight

The vast combined ICT experience of the Mustek team allows us to foresee, recognise and interpret international and local trends. With this insight, we are able to plan our procurement and marketing strategies to maximise the value of this foresight.

Mustek's business model falls neatly into the near technological future in which the brands and operating systems of devices will matter less and less. All of these will connect with each other through internet or wireless and the mobility of devices will become increasingly important. Mustek is well on track to provide devices in all categories and aspirational levels, backed by the networking and related services that will enable end-to-end communication.

Anticipate ICT trends internationally and locally

Mustek remains competitive in one of the quickest evolving industries in the world by keeping our collective ears close to the ground and picking up the trends, both in South Africa and around the world. Our forecasting of what brands we should engage in and what products and market segments we should add to the Group portfolio depends on it.

The world's biggest technology brands will obviously shape their offerings to fit global trends, yet the South African market – and that of broader Africa – will only be ready to adopt certain of these products or platforms, while in other instances will be ahead of what more advanced economies are ready to utilise.

It's no secret that worldwide sales of desktop PCs is declining steadily. Statistics portal **statistica.com** reveals that desktop sales will fall by about 21% between 2010 and 2017. Moreover, the sale of laptops will also begin to fall as tablets become more prevalent, though at a slower rate than desktops. As newer models of tablets begin enabling the productivity applications that office workers need, they are supplanting the old desktop and laptop forms. Nevertheless, many companies will still prefer desktops as these can be protected behind their firewalls and physically secured. We at Mustek are confident that we will be distributing to a healthy desktop market in South Africa for years to come.

In this financial year, our confidence in desktops proved well-placed as corporate demand continued to drive healthy desktop sales. In August 2014, research company IDC stated that global desktop sales this year will decline 3.7% as opposed to its forecasted 6%, although the longer-term outlook remains that of steady decline.

However, it is clear that the era of the tablet is upon us. **Statistica.com** shows that the number of tablets being sold rises exponentially each year and will virtually double by 2017. At Mustek we are preparing for this tablet and smartphone driven ICT future, which should be bolstered by Intel's energetic move into these markets with a class-leading range of new chips.

Putting strategy into action

Mustek is managed in accordance with a calculated short-, medium- and long-term strategy. At the end of this financial period we are pleased to report that for all intents and purposes we have fulfilled our short-term strategy of filling the gaps in our hardware ranges. Having said that, we will continue looking out for new brands and products that can further deepen and broaden these ranges.

Besides a settled and well-trained workforce, the Group has three major assets that we will be leveraging to implement Mustek's medium-term strategy of becoming an end-to-end provider of products and solutions. These are our versatile assembly

Joint Chairman and Chief Executive Officer's review (continued)

line, our industry-leading service department and the revitalised Rectron division.

The Mustek production line not only assembles Mecer products, it is accredited to upgrade, service or repair most international brands being sold in South Africa. Its capacity and flexibility make it more cost efficient for multinational vendors to send their products to Mustek than to other third parties with slower turnaround times. At the same time Mecer has continued to grow its market share, which makes our production line one of Mustek's finest long-term assets.

The Group's service department has a hard earned reputation for reliability and quick turnaround times. In hindsight, we have not yet marketed its capacity as broadly as we should have, therefore are taking steps to do so. Again, Mustek's service department can grow reputations and reduce costs for those that utilise it.

Until recent years, Rectron operated as a semi-independent division within the broader Group, marketing and distributing primarily to a different market segment than Mustek. Under the lead of a new CEO and management team, Rectron continued again this year to grow its performance in all operations. With all business units in the Mustek Group now cooperating more closely, we are in the process of identifying various areas where functions are duplicated and operational synergies should be created. These will deliver improved services and margins to our reseller base as well as to the Group.

By aligning our product and service portfolios more coherently across Mustek's target markets, we will achieve our medium-term goal of offering end-to-end products and service value.

The natural next step is Mustek's longer-term strategy of building managed services on top of this base. To that end we are acquiring shareholdings in, or establishing strategic partnerships with, providers of networking solutions and invaluable intellectual capital. The early stages of this strategy are now well under way.

While implementing this stepped approach over the next years, Mustek continues to seek out opportunities in adjacent market segments such as high-speed fibre networks and CCTV surveillance systems to continue broadening our overall portfolio as an end-to-end provider.

Human capital and a greater focus on B-BBEE

Since its founding back in 1987 Mustek's policy has been to respect and take care of our employees, which has been rewarded over all this time by an exceptionally low staff turnover, with many individuals rising from an unskilled entry level into senior management. As industry-leading service standards depend primarily on motivated people with the appropriate skills and experience at all levels, in recent years we have tackled employment equity and service level targets by comprehensively mapping out and facilitating career paths through every function in the Group. We have supported this programme by increasing our skills and development budgets. Not only does this naturally transform the Group throughout from the bottom up, it coalesces into a viable succession plan based on individual performance, while productivity and service standards continue to rise.

Although the Group scores well in B-BBEE human development and equity ownership, procurement will be an ongoing challenge, as few of our source components are manufactured in South Africa, or are likely to be in the near future.

Nevertheless, Mustek was recently awarded a B-BBEE level 2 rating. To maintain our B-BBEE rating, the Group is searching more diligently for opportunities to uplift previously disadvantaged individuals. We are actively doing this by identifying where and how the Group can support enterprise development in aspects of procurement that are not imported. These include ancillary products and services such as office supplies and distribution. This will be an ongoing and even more energetically pursued programme.

Promoting sustainability and lessening our environmental impacts

Mustek regards the all-round sustainability of our operations – financial and non-financial – as fundamental aspects of our long-term strategy.

For several years the Group has been reporting on our environmental data and impacts in terms of the ISO 14000 standard, which also includes a process for continually improving on environmental performance. We are now in a position to formalise environmental reporting at Rectron and regional centres. In this report Mustek will be among the early companies in South Africa to report environmental impacts against the GRI G4 guidelines, which is a global standard being adopted by major companies around the world.

In recent years, we installed solar panel arrays on top of the Mustek warehouse building in Midrand and later at three of Rectron's premises. The savings achieved have surpassed our targets and renewable energy is lessening our environmental impact.

ICT trends for the year ahead

Tablets and Microsoft

Under the lead of a new CEO, Microsoft appears to have learned the lessons needed to compete in the tablet market and has resolved the issues with the Windows 8 platform. In August 2014, it began global distribution of its Surface 3 tablet, which is a magnificently produced piece of hardware with serious aspirations of fulfilling both the tablet and laptop needs of consumers.

In the fiercely competitive tablet market, Microsoft and CPU manufacturing Intel have been handicapped by the relatively sophisticated and expensive hardware needed to run Microsoft products. Microsoft is now designing its products to operate with lower specification hardware, while Intel is rolling out tablet CPUs at sharply reduced prices to break into that market. Intel's Bay Trail-T SOC (system on chip), the first platform from Intel focused entirely on entry level tablets, has created a category of Windows tablets with compelling and competitive price points. Scheduled for mass market release in the last quarter of the year, we expect significant uptake from consumers.

Windows and Office 365

Microsoft has ceased all support for the Windows XP operating system and has announced a schedule for ending its support of Windows 7. This is expected to drive users of these older operating systems to adopt later versions, as these become insecure and open to hacking without third-party specialist support, which can be expensive and lacking assurance. Around 15% of South Africa's Windows users remain on XP and it's alarming that several of South Africa's financial institutions still run their ATMs on the vulnerable Windows XP platform.

Businesses and consumers intending to upgrade may look past Windows 8 to move straight onto the incoming 'Windows 9', which is expected by mid-2015.

Microsoft changed the buying model of its Office package with the launch of cloud-based Office 365, which is paid for through a monthly subscription rather than a once-off flat fee. This approach appears to be a winner all round as it lowers the price barrier to entry, generates regular cash flow for Microsoft and resellers, as well as enabling Microsoft to update the package routinely through the cloud.

In April 2014, newly appointed Microsoft CEO, Satya Nadella, announced a potential 'game changer' move in offering free Windows 8.1, Office 365, and 1 TB of OneDrive storage with new Microsoft tablets. This will likely spur on purchases of Microsoft's incoming tablets and will lock consumers into the Microsoft environment.

Electronic security

Mustek is a relatively new entrant into electronic security and surveillance systems, but this is a fast growing and potentially fruitful market segment.

Crime is best tackled through new technology. As surveillance systems become more advanced, CCTV imagery that can stand up in court as evidence may be a significant breakthrough for the justice system and for Mustek's security business. This should also increase the sales of Mustek's data servers, which record and store this imagery.

Fibre to the Home (FTTH)

Technology companies and mobile operators such as MTN, Telkom and Vodacom have recognised the opportunity for new revenues and are aggressively entering this market. Mustek is well positioned as a supplier of FTTH technology and specialist expertise.

FTTH is the only generally affordable and reliable technology with fast enough bandwidth to handle projected consumer demand over the next decade. It will allow consumers to 'bundle' communications services such as internet, telephone, video, audio, television into the home, which could open the door to a host of new products and services.

Corporate governance

In this period, the Board and executive management remained unchanged, which promises stable and experienced leadership for the forthcoming year.

The Board has worked vigorously to adopt and implement additional governance policies to bring Mustek's corporate governance structure more completely into line with current best practice and regulations. These are also being introduced into the Group's Rectron division, which until recent years had operated semi-autonomously. This is being done in conjunction with a more systematic approach to succession planning and training at all levels of the Group.

In conclusion

The healthy upswing in our results against the backdrop of a sluggish economy proves that our medium-term strategy is creating value as planned. This has been – and will continue as – a multi-faceted approach of expanding our product lines and range of brands, further leveraging the assembly line, offering world-class service more widely, upskilling our employees and deepening our relationships with vendors and resellers. We have supported these front line actions by updating corporate governance, getting to grips with transformation and working to further reduce our environmental impacts.

We thank everyone in the broader Mustek family – inside the Group and the wide and intricate network of people that we engaged with during the year – for all being part of our continued journey to mutual success.

DKonar

Len Konar
Chairman

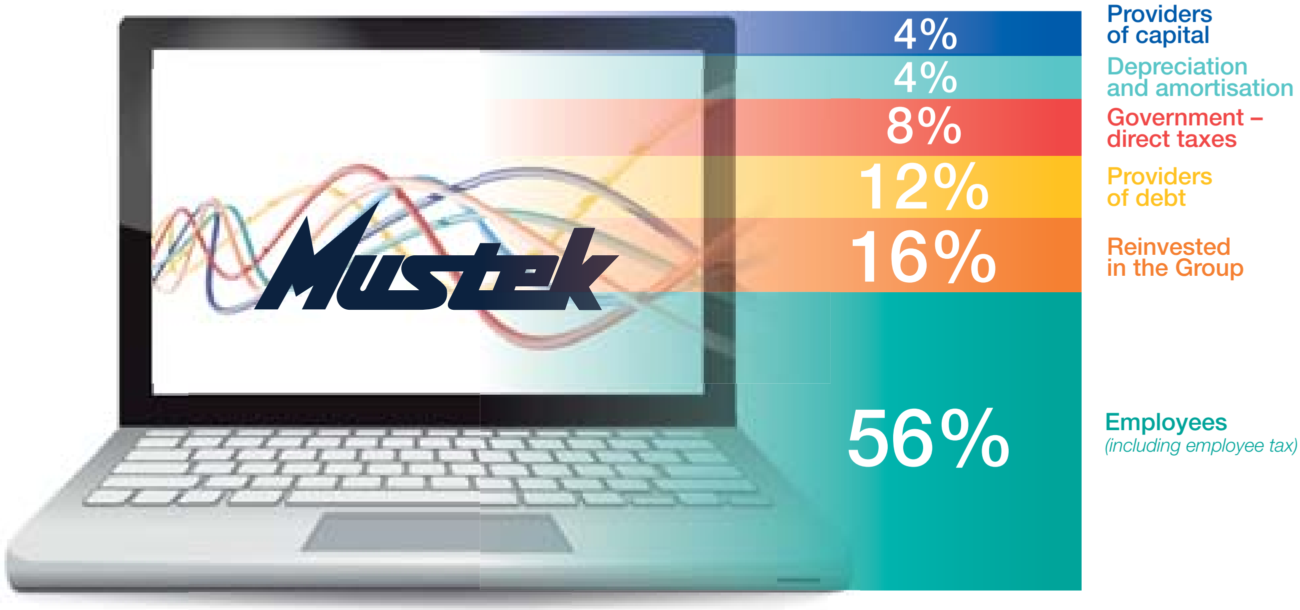
David Kan
Chief Executive Officer

Value created

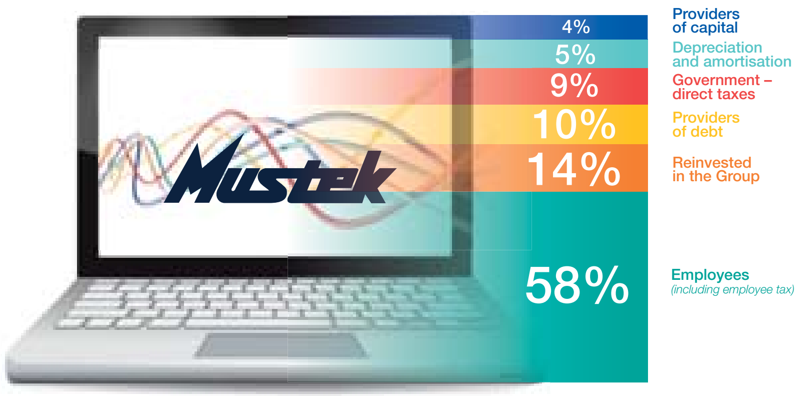
Growing with technology

We never stand still at Mustek. Over the years we have grown from an assembler of PCs with 17 employees to a major player in the ICT market, encompassing products from the original PC to international IT brands and complete ICT solutions. We embrace the opportunities that technological developments provide and position ourselves to deliver these to the African continent.

Value added 2014

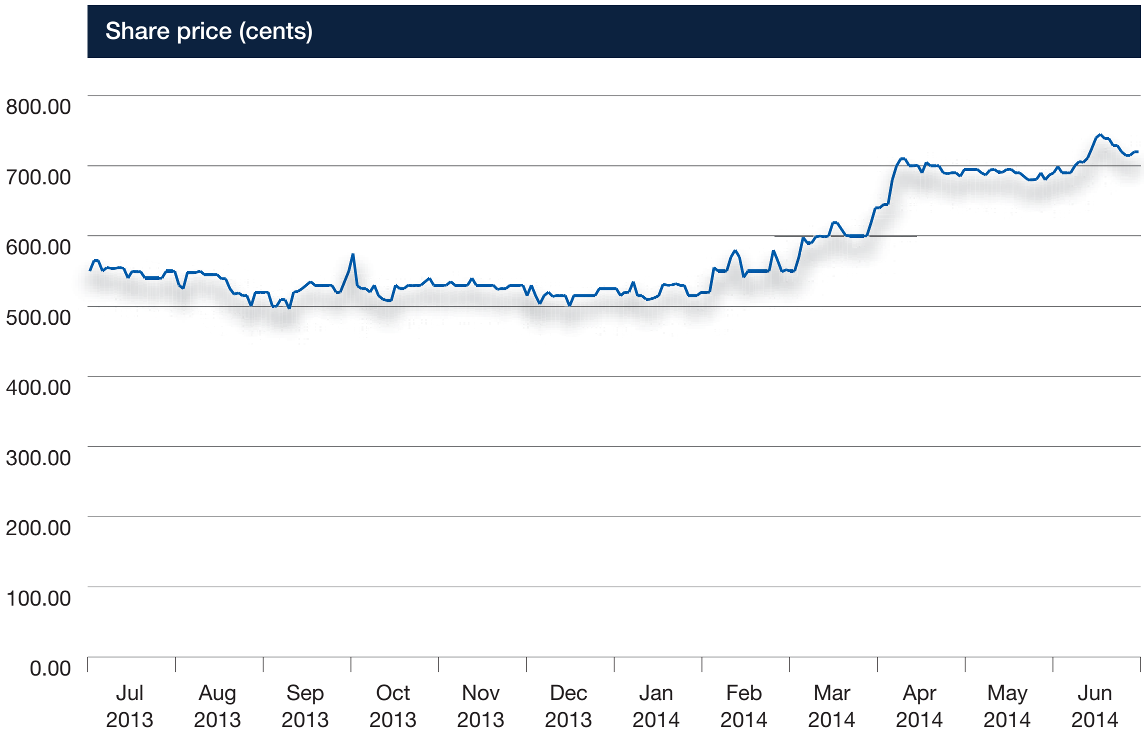


Value added 2013



Realising our potential

Over the past three years, Mustek has built on the foundation of its Mecer brand, assembly line and international brands and has grown into a world-class ICT company, offering a complete spectrum of products and services through careful procurement, development or incubation. This is reflected in the growth in its share price (below) and market capitalisation.



Mustek's leadership development programme, started on a minimal budget, has been instrumental in transforming Mustek from within.

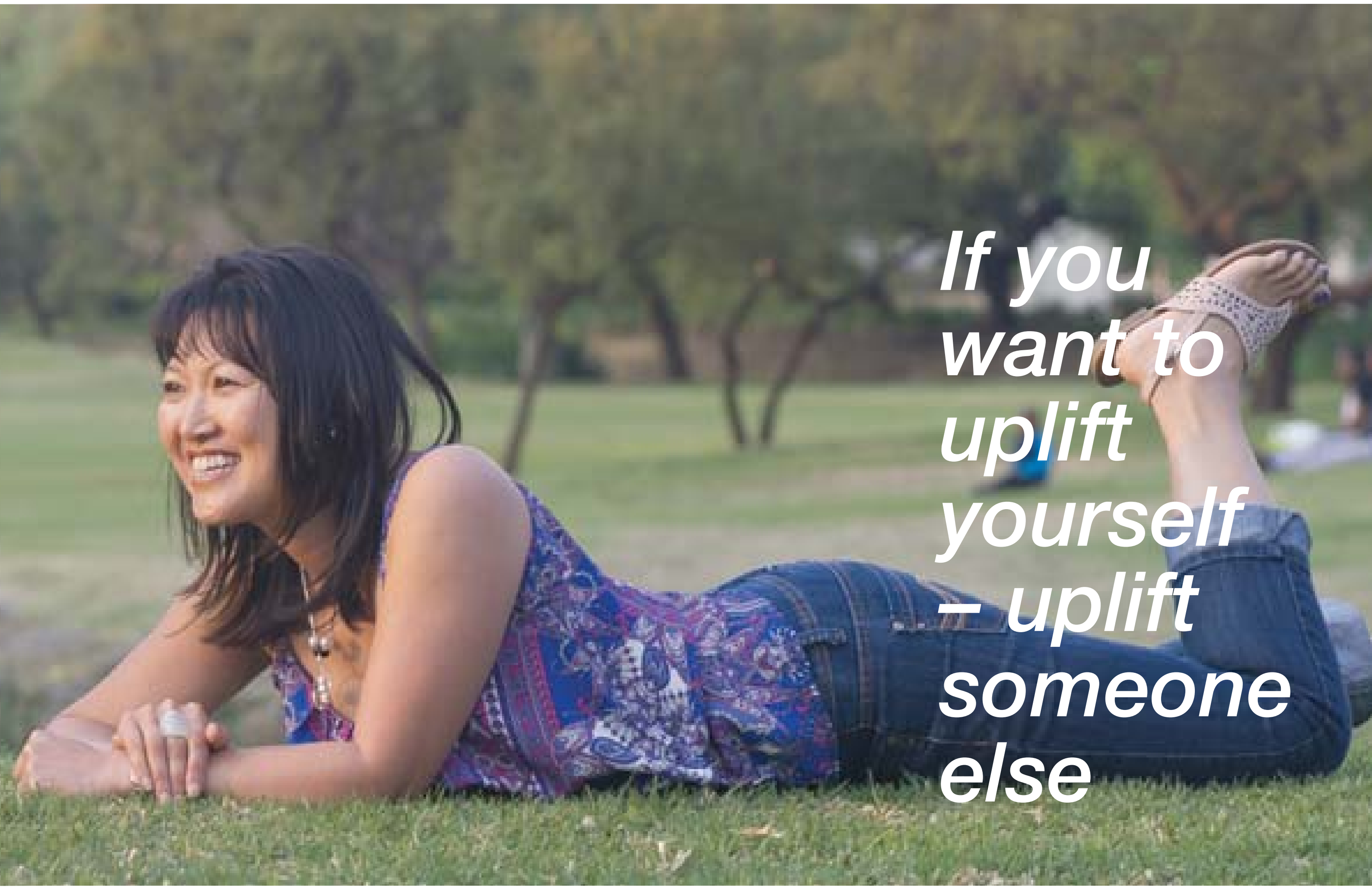
Case study

Debbie Tam
Chief Operating Officer

Debbie joined Mustek in 1991 as a 'temp' and did not expect to stay for long. Now, more than two decades later, she is a crack mentor and executive coach – and Mustek's Chief Operating Officer.

Debbie is a typical 'Soccer Mom', constantly driving her two energetic teenagers around to sports and other activities. With a wry smile she says: "It's quite a logistical challenge while also being responsible for the day-to-day running of a large company." But relentlessly, well-organised Debbie still makes time to run and train the family's two new puppies as well.

Debbie Tam is a second generation South African of Chinese descent and the youngest of four children. Debbie's parents – hard working and humble factory workers – valued good education and enrolled her at the Sacred Heart College, which was one of few private schools that would accept 'non-white' learners during the apartheid



If you want to uplift yourself – uplift someone else

years. After matriculating, Debbie commenced medical technology studies, but quickly realised that she couldn't shuffle test tubes for the rest of her life. While deciding what to do, Debbie took a bookkeeping course in order to find a job – and in 1991 joined Mustek as a 'temp'.

Shortly after joining Mustek, Debbie commenced studying for a BCom (Hons) degree and completed her chartered accountancy articles with Mustek. Over the years, Debbie climbed the corporate ladder, from financial manager to head of audit and finally, Chief Operating Officer in 2008.

During the recession in 2009, Debbie started a leadership development programme in Mustek on a minimal budget. Over the years this programme has grown to be instrumental in transforming Mustek from within, with distinct career paths now mapped out for all staff members. Mustek's skills development score has improved to 15.72 out of 17. Line managers are welcome to work through professional obstacles with her assistance.

Debbie is determined to break down any organisational 'silos' hindering Mustek's evolving transformation and recently began mentoring supervisors to be in sync with all other team members. This learning is achieved through strategic group sessions that develop common goals and teamwork.

Fascinated by human psychology, Debbie is pursuing her Master's degree in coaching and behavioural change. Creating individual self-awareness gives meaning to Debbie's life and she finds it personally rewarding to help others connect their passion to their business. Debbie believes that: "Moving away from linear behaviour and limiting beliefs is key to transformation – both personal and professional".

As a dynamic woman who thrives on change and adventure, Debbie is continually surprised to find herself still stimulated by being in the same company 23 years later. Debbie says: "Mustek just keeps pushing new challenges my way".

Financial capital

The flow of funds through the organisation intended to produce profits and returns

Financial capital

» **Shareholder funds R916.1 million (2013: R826.4 million)**

» **Banking facilities R1 398.8 million, 16.3% utilised at 30 June (2013: R1 364.0 million, 15.9% utilised at 30 June)**

» **Accounts payable funding R1 400.4 million (2013: R1 095.1 million)**

22.4%
rise in profit after tax

What it is

» Access to funding and credit is a critical element of the Group's business model. In order for the Group to grow and create wealth, financial capital is fundamental to its ability to procure, assemble, warehouse and distribute products.

» The majority of the Group's financial capital is applied to its inventory holdings, customer credit and fixed assets.

» The Group invests financial capital in cash reserves in order to meet day-to-day operating expenses, financial liabilities as and when they fall due and as a contingency for unexpected events.

» The providers of financial capital include the company's shareholders, its bankers and suppliers, all of whom are considered to be important and influential stakeholders.

How we manage and allocate it

» A priority of the Group's governance structures and activities is the management and allocation of financial capital. Both the Board and management are involved in activities to manage financial capital which include:

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

» The executive management is responsible for the allocation of financial capital, which is determined on an ongoing basis depending on various factors, including:

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

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

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

Although Mustek does not have control over possible economic events, it does apply a hedging policy to minimise foreign currency exchange risk and ensures that it has a broad spread of suppliers. Suppliers may be temporarily or permanently lost in the event of a natural disaster, bankruptcy, or being found to employ dubious practices such as child labour or forced labour.

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

Material matter – profitability and cash flow

Profitability and cash flow are the two most visible indicators of the Group's financial performance and the primary indicators of management's success. Overall profitability is composed of a variety of elements, from sales volumes, gross profit percentages, operating expenses and tax rates. The importance of the Group's profitability cannot be understated and almost every Group activity is directed towards improving either profitability or cash flow.

Financial capital (continued)

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

Foreign exchange risk management

The Group imports the majority of its products from countries around the world and is denominated in US Dollar (USD). Significant and abrupt changes in the value of the South African Rand (ZAR) can impact the Group's financial results in a variety of ways.

Management believes the impact of a strengthening Rand would be greater than a weakening Rand. As such, the Group uses Participation Forward Contracts to manage its foreign currency exposure. While these Forward Exchange Contracts (FECs) are priced at slightly higher forward rates, the contracts offer protection from a weakening or strengthening Rand. This approach, although more costly, provides greater predictability to the Group's earnings.

Working capital management

The Group's business is working-capital intensive and both accounts receivable and inventories are financed. The Group largely relies 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. The Group's inventory management system provides it with a variety of indicators relating to inventory ageing and stock turnover. Also critical to inventory management is the procurement process, which is based on extensive research and development of ICT trends both internationally and in South Africa. This focus on procurement minimises the risk of an obsolete inventory.

The Group's trade receivables are ceded as security against a revolving credit facility. The pricing of this facility results in reducing the Group's overall cost of funding. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group performs ongoing credit valuations of the financial condition of customers, and where appropriate, credit guarantee insurance is purchased for 85% to 95% of the value of individual trade receivables, subject to an insurance deductible.

Monitoring and reporting on the quality of the trade receivables book are activities demanded by both the third-party insurer and the provider of funding. Details of the Group's trade receivables can be found in note 18 of the annual financial statements.

The Group's strategy is designed to increase profitability by:

- **reducing low margin business and maximising profitable business**
- **product diversification resulting in incremental growth through minimising the cannibalisation of existing products**
- **targeted market share and revenue growth to dilute overhead costs**
- **stockholding designed to balance availability and holding costs**
- **focused sales strategy to increase the Group's proportion of customers' IT expenditure**
- **marketing approach to increase customer loyalty**

Performance

» Profitability:

- EBITDA (earnings before interest, tax, depreciation and amortisation) increased 31.2% to R201.7 million. The operating margin increased to 4.23% from 3.66%.
- A key contributor to this growth was the 13.4% increase in revenue as we grew our share of the tablet market following the introduction of Acer, Asus and Lenovo tablets last year.
- New divisions, including security surveillance, networking and volume licences also contributed to revenue growth though accessing new markets.
- As our presence in the tablet market strengthened we were able to grow margins on these products as more and more of our partners looked to source tablets from us. Overall we increased our gross profit margin to 13.8% from 13.5% in 2013.
- Rectron's operating margin was impacted by losses suffered by its Australian operation. These losses were not operational but rather arose from a shareholder dispute. Subsequently, new management appointed in January 2014 has seen a return to profitability of this subsidiary. Rectron's South African operations exceeded its 2013 performance.
- A more conservative approach to hedging foreign currency exposures (it is now policy to cover between 50% and 70% of such exposures) saw the Group report a smaller foreign exchange loss in the current year of R23.2 million (2013: R51.2 million) in a very volatile market.
- Excluding the effect of the additional short-term incentive bonuses paid to Mustek and Rectron's executive teams, the increase in the provision for share-based payment expenses, the increase in the provision for bad debts, once-off repairs and maintenance to the Midrand premises, the cost of our LED

A new risk-based internal audit model was proposed that will be fully implemented in 2015.

installation and once-off legal and retrenchment costs in Rectron's Australian subsidiary, distribution, administrative and other operating expenses increased by 9.6%.

- A slight increase in rates and an increase in overdrafts saw the Group's finance costs increase to R50.5 million (2013: R40.3 million). A slight deterioration in working capital days contributed to the higher borrowings but the majority of cash resources were applied to investment activities and fixed asset additions.
- The Group's associate companies continued to perform well and contributed R7.0 million (2013: R4.3 million) to the Group's post-tax profits.
- The Group's effective tax rate increased slightly to 27.4% (2013: 26.8%).
- Profit after tax from all operations of R107.4 million represents an increase of 22.4% on 2013.

» Return on equity: 12.1% (2013: 10.9%).

» Inventory
  - Group inventory days: 92 days (2013: 69 days). Higher year-end volumes due to project delays at two customers resulted in an increase in stock days. Approximately R150 million of the year-end inventories arose from earlier than anticipated deliveries from Brother and project delays at two customers.
  - At year-end R37.5 million (2013: R63.8 million) of inventory was carried below its cost at net realisable value. This represents 3.0% (8.1%) of the Group's total inventory.
  - Current ratio 1.4 times (2013: 1.4 times).

» Group debtors' days: 64 days (2013: 59 days).

» Debt ratio: 65.4% (2013: 62.4%). The Group's slightly higher debt ratio is the result of an increased investment in working capital, higher taxes paid and further investments in associate companies (including loans) and property, plant and equity. This cash flow is considered to be of a short-term nature and has been funded from operations and the Group's overdraft facilities.

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

Strategy and prospects

» The finance function will continue to focus on the matrix of products and vendors' contribution to both revenue and gross profit.

» Supply chain management, especially foreign exchange exposure and the matching of working capital terms, will continue.

» Opportunities for efficiencies and synergies within the Group, in order to control cost increases, will continue to be investigated.

» A new risk-based internal audit model was proposed in 2013. Appointing the correct individual to head-up this function took longer than expected and while progress was made in the current year, full implementation will be achieved in the 2015 financial year.

» Appropriate restructuring of commission payments for sales and product teams was implemented in 2014 and changes in behaviour made positive contributions to the current year's results. Further opportunities to meet all stakeholder objectives will be pursued in the coming year.

» The migration of Rectron to the same IT platform was achieved in 2014. Opportunities to improve synergies between the two operations will receive considerable attention in 2015, especially in the area of logistics.

Manufactured capital

Buildings, equipment, infrastructure and inventory

Manufactured capital

- **Assembled and purchased inventory**
- **Owned/leased offices and branches**
- **Achieved ISO 20000 accreditation for IT service management at Gauteng Service Centre, among the first in South Africa. Will be rolled out to the regional centres**
- **The Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa. It also has the flexibility to assemble customised orders without delaying production**
- **Rectron's automated warehouse is rated among the most efficient in South Africa**
- **The line has a configuration management data base (CMDB) which records all date and time stamps based on the unit's serial number, detailing the picker, builder, tester and packer**
- **Warehousing**
- **Logistics fleet (owned and outsourced)**

stockholding is a differentiator

Our assets and products

- The Group's financial capital is invested in a combination of manufactured capital and financial assets (accounts receivable and cash). The Group's single largest investment in manufactured assets, and indeed all its assets, is represented by its inventory of finished goods and inventory in transit.
- At 30 June 2014, the Group's inventory amounted to R1 269.9 million (2013: R790.5 million).
- Mustek's local stockholding policy is not only a differentiator when it comes to ordering and delivering stock to customers, but also when processing warranties, returns and replacements of faulty technology. By maintaining healthy inventory levels at each of its regional head offices, Mustek is able to ensure that warranties, returns and replacements of faulty technology are dealt with quickly and efficiently.
- The Group's other manufactured capital is its investment in offices, warehouses, branches, plant and equipment, and motor vehicles. The majority of the assets are situated within South Africa, with the Midrand head offices of Mustek and Rectron representing the majority of the Group's net investment in property, plant and equipment.

How we manage them

- The governance activities applied by management and the Board to managing financial capital are similarly applied to managing the physical assets of the Group.
- In addition, the Group applies its knowledge and understanding of ICT trends to a formal procurement process which ensures that the correct products, in the right quantities, are procured at the right time, mitigating the risk of obsolescence from the start.
- Specific aspects of this procurement process include logistical planning, bulk buying and consolidation of shipments.
- Product managers focus on selling slow moving or older inventory items before the demand for the product lines declines significantly.
- Mustek and Rectron delivery and logistics teams are fully aware of the distributor, reseller and customer relationship and are able to track inventory through their integrated reseller inventory software, while adding value through the remittance of an order along with the delivery note to the customer, simplifying life for the reseller.
- The Group uses a combination of an in-house vehicle fleet and an outsourced courier service to maximise customer service and fleet utilisation while minimising costs.
- The Group's ability to customise products to meet customer demands means that much of the Group's stock is procured on a back-to-back basis for a specific customer order.
- Mustek's management and personnel are committed to providing computer-related equipment and services of the highest quality.
- Mustek's research and development 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.
- A complaints register is maintained and reviewed.
- Mustek achieved certification to ISO 9002 in 1997, and converted to ISO 9001 in 2003 to ensure that it remained at the forefront of the industry. All of Mustek's business processes are included in the scope of its Quality Management System

Manufactured capital (continued)

The Group is diversifying by introducing cloud computing, security surveillance equipment, networking and volume licensing.

(QMS), these being the import, sales, assembly, testing, distribution and servicing of computer equipment and technological standards to ensure customer satisfaction.

- Accredited in 2014 for ISO 20000 (data security) in Gauteng. The standard will be rolled out to regions.
- Physical access controls and regular stock counts.
- Necessary physical controls in terms of the OHS Act.
- Adequate insurance of assets.

Our supply chain

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

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

Assembly and inventory performance

- 98 137 units assembled (2012: 127 551)
- Average complaints percentage 0.038% (2013: 0.051%)
- ISO 9001 certification verified by SABS
- Inventory days 92 days (2013: 69 days)

2015 and beyond

- Both Mustek and Rectron pride themselves on their broad product ranges and ability to identify and procure new and developing technologies in a timely fashion to meet the ever-changing thirst for technology.
- The Ricoh printer range was recently introduced by Rectron.
- This broad range of products (multinational brands and the Mecer brand) and the Group's reseller base allows market share growth in an expanding market.
- The introduction of Huawei and Brand-Rex networking equipment allows Mustek to target this growing market.
- Both Mustek and Rectron have been awarded distribution rights for Microsoft's Office 365 product and volume licensing. A Microsoft business unit manager has been appointed to oversee this business.
- The move away from the PC market by the multinationals has provided an opportunity for Mustek in terms of its Mecer brand, which is now the prominent desktop brand in South Africa.
- The multinational push of tablets will continue and Mustek is well positioned in this market. In particular, the dominance of Apple in the tablet market is coming to an end as other multinational brands introduce Android and Windows operating software for tablets. This PC-plus market will be a key focus in the IT industry in the years ahead.
- In addition to multinational IT brands, the Group has looked to diversify its product range, introducing products such as cloud computing services, security surveillance equipment, Microsoft volume licensing and networking equipment.
- Rectron will continue to expand its national footprint by appointing sales executives at the Mustek branches.
- International expansion into the African continent is challenging at the present time due to inadequate fundamental and IT infrastructure including roads, electricity and networks.
- The Group will continue to pursue solutions for education and distance learning.
- Mustek and Rectron have added multinational IT brands such as Acer and Lenovo to their product range, enabling both product and support services to a wide-ranging market, from entry level, through the mass market, to aspirational products.

Human capital

Competencies, experience and the ability to innovate

Human capital

Our workforce

» **955 South African direct employees (2013: 949)**

» **65% of this workforce is based in Gauteng**

» **The workforce is categorised by departments, from warehousing and logistics, production and assembly, product managers to sales and support services**

» **A limited number of employees (approximately 22%) are members of unions; however, no one union's membership exceeds the 30% hurdle necessary to be formally recognised. No collective bargaining agreements are relevant to the Mustek or Rectron workforce**

Our management approach

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

R5.8 million
in staff development

- Ongoing skills development and training is recognised as a business imperative and Mustek is committed to developing skills and talent from within the ranks of its employees – striving, at the same time, to develop the industry leaders of the future.
- Employee development is performed to align the Group with national directives, prioritising skills development for previously disadvantaged individuals (PDIs), including women.
- Management focuses on aligning the Group's staff complement with South Africa's racial and cultural demographics.
- Respect, dignity and fair treatment are core values and the Group has adopted a policy of zero tolerance for any form of discrimination or unfair treatment.
- Mustek conforms to all applicable health and safety legislation and conducts its business within the parameters of a Group Safety, Health, Environmental and Quality (SHEQ) manual.

Material matter – attract, develop and retain adequately skilled employees

Mustek competes in a high-tech industry in which the correct skills and experience are always in short supply. To create an environment that attracts new recruits and encourages retention of current employees' demands that we understand the needs of employees and respond accordingly. While remuneration is important to employees, working in an empowering environment with clear policies and procedures supports a culture of learning and development.

To embed this culture within the organisation, both Mustek and Rectron seek to promote or transfer people from within their workforce before advertising to the broader job market. ***Preference is given to individuals in the Group from previously disadvantaged backgrounds. In support of this policy every employee receives quarterly performance reviews. Career development reviews are provided to all employees at least annually.***

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

The Group's workforce is varied and diverse and meeting the individual needs requires focused interventions and development.

Adult Basic Education and Training (ABET) is provided to all employees who request it and who then continue their studies to obtain a school leaving certificate. Intervention at this early stage of education allows the Group to construct a career path from this foundation, adding value to all parties.

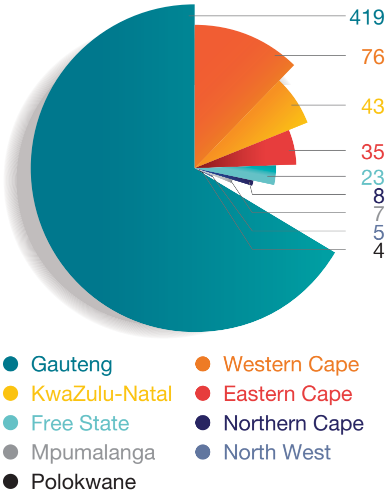
Mustek is a fully accredited member of the Media, Information and Communications Technologies Sector Education and Training Authority (MICT SETA) and reclaims its full development levies every year.

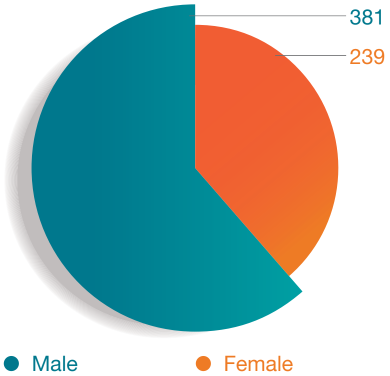
At 30 June 2014, Mustek and Rectron employed 42 Microsoft Certified Technicians.

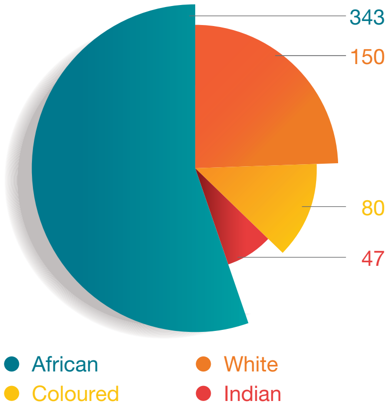
Life-skills training is a critical element of our overall development programme and contributes to the Group's financial performance through reducing risk by:

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

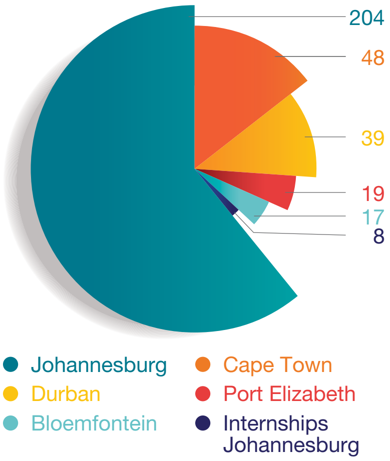
Mustek permanent workforce

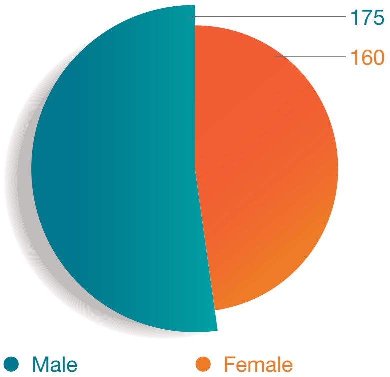


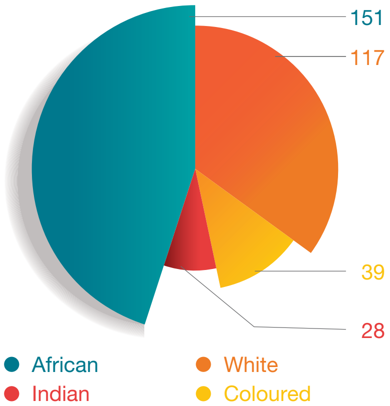




Rectron permanent workforce







Human capital (continued)

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

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

Mustek conforms to all applicable health and safety legislation and conducts its business within the parameters of a Group Safety, Health, Environmental and Quality (SHEQ) manual. The Group's focus on health and safety is driven by staff volunteers who are elected by their peers onto various health and safety committees. These committees meet quarterly to assess company performance in terms of health, safety and related issues.

The Group conducts a comprehensive HIV/Aids strategy and programme, based on the core principle that the human rights and dignity of any employee infected by the virus should, at all times, and under all circumstances, be upheld. The approach also recognises the need to educate all employees regarding HIV/Aids in order to empower them to protect themselves and their loved ones from the disease. This programme also provides antiretroviral drugs to HIV-positive staff as needed. Mustek continues to fund this programme in its entirety, with none of the costs passed on to employees.

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

'Money-fo' Sho'

Employees are provided with financial literacy training using a customised 'Monopoly' like board game.

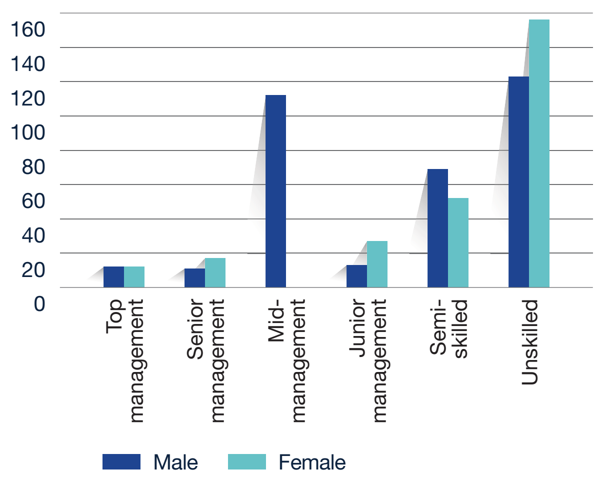
The Money-fo' Sho game allows employees to:

- **understand the value of their earnings**
- **increase their confidence regarding financial matters**
- **understand credit and bank accounts**
- **develop budgets and savings plans**

Performance

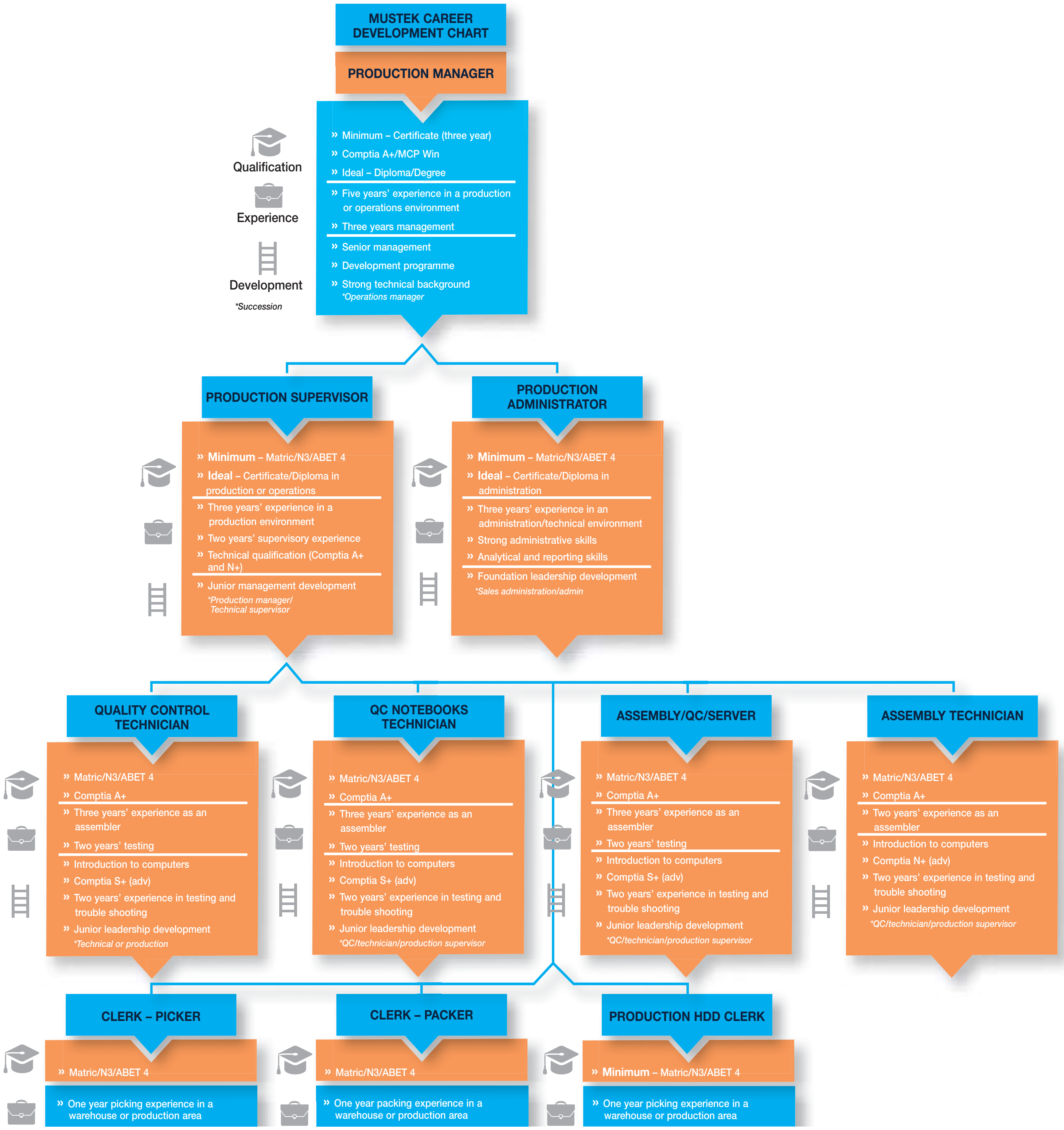
- The Group's total investment in the training and development of employees during the 2014 financial year amounted to R5.8 million (2013: R4.2 million).
- Of the above expenditure, R3.9 million was spent on the training and development of black employees.
- 286 black employees participated in category B, C and D learning programmes.
- Employee turnover for Mustek for the current year amounted to 12.6% for male employees and 13.0% for female employees. Gender comparatives are not available for 2013 when the combined employee turnover was 15.1%.
- Mustek's absentee rate was recorded as 1% for the 2014 year.
- In total, five injuries were recorded by Mustek during the year. None of these were considered to represent a lost time injury.
- Mustek was involved in six CCMA cases during the year (2013: six) and Rectron nil.

Hours of training by gender and occupational level



Career development – our response

During the 2013 Deloitte “Best company to work for survey”, the Group received feedback that its employees would like a clearer understanding of career paths within the Group and the development needs for each position. In response, we documented the various routes for progression from various generic positions within the Group and the development requirements for progression.



Social and relationship capital

Sharing information to enhance collective well-being

Social and relationship capital

Our stakeholders

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

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

Stakeholder engagement

Proactive and sincere stakeholder engagement is fundamental to the Group preserving and building on its social and relationship capital and moving it further along the road to achieving its goal of a profitable and sustainable business. Stakeholder engagement is undertaken at all levels of the enterprise following the principles of inclusiveness, materiality and responsiveness. The Group's Financial Director, Neels Coetzee, is the Group's Stakeholder Relations Officer.

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

Direct engagement is the approach used for investors through: regular presentations and roadshows, including operational visits; communication through the Securities Exchange News Service; one-on-one communication with executive management and members of the Board; the publication of interim and full year financial results and an annual integrated report; and the provision of financial information demonstrating conformance with debt covenants.

92%
weighted B-BBEE procurement spend

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

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

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

Stakeholder issues

Key stakeholder issues raised through our engagement processes include:

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

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

Material matter – transformation and maintaining our social licence to operate

Management has continued to meaningfully extend its initiatives in employment equity, skills development and corporate social investment during the period. The Group is committed to a process of further transformation and economic empowerment of its stakeholders, such that an acceptable balance between the operatives and commercial benefits can be achieved, thereby ensuring the sustainability of the Group in a competitive market sector.

Mustek achieved a level 2 contributor status based on an audit conducted by EmpowerLogic during August 2014. A similar audit conducted at Rectron resulted in this business unit achieving a level 3 contributor status.

However, the recent changes to the Codes of Good Practice and their integration into the ICT sector codes will have a significant impact on the Group's contributor status. In fact, it is predicted that despite our efforts over the past several years, Mustek will move back down the contributor level table.

Social and relationship capital (continued)

Given the nature of the Group's operations and its considerable involvement with tenders for government departments and parastatals, addressing this challenge is a strategic priority for 2015 and 2016. Management will undertake a strategic workshop in 2015 following the results of the upcoming verification audits.

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

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

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

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

The majority of the Group's procurement is represented by imports of goods and equipment not readily available in South Africa. In terms of the IT sector guidelines, these imports may be excluded from the Group's total measured procurement spend. The Group's weighted B-BBEE procurement spend constituted 92% of its total measured procurement spend (after eliminating imports).

The Group procures significant quantities of inputs from internationally recognised manufacturers in the Far East. Following a variety of events over the recent past, the Group is aware of consumers' concerns regarding the working conditions that sometimes exist in some of these countries. While the Group is focused on providing its customers with affordable quality products, it cannot ignore the possibility that certain of its inputs are produced under unsatisfactory employment conditions. In an effort to minimise this risk, the Group only procures from recognised vendors and during vendor visits pays attention to the conditions in which the workforce operates.

Material matter – maintaining key relationships

Maintaining strong relationships with both suppliers and resellers is fundamental to the Group's ongoing success and requires having the right people and processes in place. The Group ensures its employees are well equipped with the relevant business and interpersonal skills to deliver excellent service. They are, in turn, supported by processes and systems aimed at ensuring seamless transactions.

Accomplished product and brand managers oversee and nurture relationships with the Group's suppliers.

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

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

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

- keeping abreast of global ICT trends and consistently delivering innovative and fairly priced products
- expanding the Group footprint throughout South Africa and ensuring Mustek and Rectron sales teams are readily available in all regions
- actively supporting SME resellers to grow through enterprise development support
- instituting incentive and rewards programmes
- ensuring consistent quality of products by vetting all existing and incoming products in the Mustek and Rectron stables through the research and development (R&D) team

Rectron frequent buyer rewards

The Rectron rewards incentive programme encourages resellers to earn points by selling the company's products. Qualifying items are allocated at a certain amount of points, which resellers can accumulate and redeem at any time from a list of prizes available on Rectron's website. These include products from Rectron's inventory as well as unrelated items such as tents and mountain bikes. The latest rewards incentive resulted in 4 026 resellers registering for the programme and was a phenomenal success.

Rectron's rewards programme contributed noticeably to the overall revenue for the period, which shows a 13% improvement compared to the previous year.

The campaign was so well received by the dealer base that Rectron has decided to launch new loyalty campaigns on an ongoing basis. The rewards incentive is viewed as a foundation for sustainable and permanent customer loyalty.

As positive changes in consumer behaviour become increasingly evident, vendors are starting to utilise Rectron rewards as a strategic marketing vehicle. Rectron's suppliers have enjoyed participating in the incentive as it is ideal for special promotions within brands.

This programme forms part of the company's strategy for growing small businesses as well as giving Rectron the opportunity to reward their most loyal customers.

Natural capital

Renewable and
non-renewable
environmental resources

Natural capital

20%
energy reduction
target achieved

What we use

- Coal-based electricity sourced from Eskom is the Group's most significant input of natural resources.
- Direct energy in the form of petrol and diesel is used to fuel vehicles and generators.
- Our employees, freight transport and courier services contribute to Scope 3 emissions.
- Packaging and waste management is where Mustek can mitigate its impact on the natural environment the most.

Our management approach

- Despite the Group's relatively small impact on the natural environment, it is committed to mitigating its impacts in order to respond to the challenge of climate change while minimising its operating costs.
- The Group is committed to developing operating policies to address the environmental impact of business activities by integrating efficiency gains, pollution control and waste management activities into operating procedures.
- At Mustek (Rectron excluded) the management of the Group's environmental impacts accords with environmental best practice through maintaining its ISO 14001 certification since 2004.
- Rectron builds on the systems and experiences at Mustek and will seek ISO 14001 certification in future periods.
- The Mustek operation measures its significant environmental impacts, including carbon emissions, power, water and waste, to better mitigate these impacts and reduce costs.
- Measurement systems at Rectron lag those of Mustek but similar mitigation initiatives have been adopted.
- The Group's customers are encouraged to use its e-waste recycling infrastructure to responsibly dispose of obsolete computer equipment.

Material matter – waste – abatement and disposal

The management of waste is the Group's single largest environmental issue and one that receives significant attention. The majority of the Group's waste is represented by packing materials, including wooden pallets, cardboard, plastic and polystyrene fillers. Recycling this material reduces the amount of waste sent to landfill. Other non-recyclable waste is disposed of in a responsible manner.

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

A waste management and disposal company is used by Mustek to recycle and dispose of its waste. The company used is ISO 14001 certified and has an on-site team at Mustek 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.

Mustek undertakes internal legal audits to ensure that the manner in which waste is disposed of is legally compliant.

Mustek has a set target of recycling 60% of its waste. The 127 tonnes of waste recycled at the Midrand operation in 2014 represents 58% of this entire site's waste. As only total waste (not recycled waste) is measured at the branches, a Group-wide ratio of waste recycled has not been determined.

Appropriate controls and procedures are in place to manage and dispose of hazardous waste and to ensure the health and safety of employees.

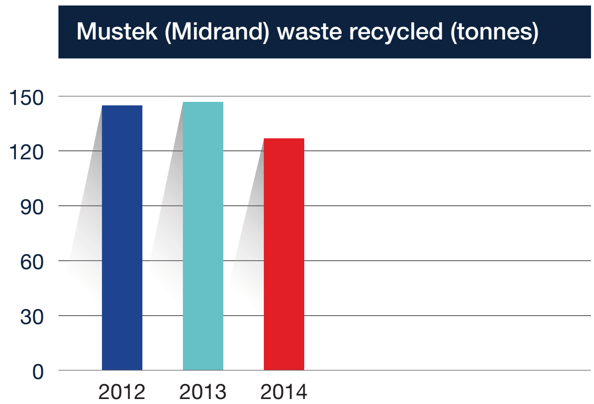
Material matter – energy consumption and GHG emissions

The reduction in consumption of electricity from Eskom not only contributes to the Group's profitability but reflects its leadership status in efforts to mitigate negative impacts on the environment through reducing GHG emissions.

The following information is for the Mustek trading division only.

In 2011, Mustek set itself a three-year energy reduction target of 20% on the 2010 base year consumption. This target was reached through ongoing staff awareness programmes, the replacement of ICT equipment with energy-efficient units, installing thousands of LED lights and the solar panel project discussed below. These installations will pay for themselves in a few short years and will significantly reduce the Group's overall electricity footprint. These initiatives also 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



Natural capital (continued)

Due to the energy saving of the Mustek solar panel installation, a similar array was installed at Rectron.

peak demand by approximately 10%, thus minimising the tariff rate. The installation has a life expectancy of 30 years with a payback period of less than five years.

Based on the success of the Mustek initiative, during 2014 Rectron installed a similar array of solar panels in order to reduce both energy costs and GHG emissions. The adoption of the ISO 14001 standard will ensure that Rectron begins the measurement of its energy consumption and savings.

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

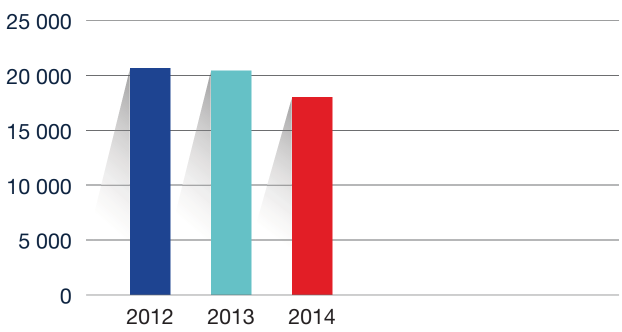
The Group acknowledges that there are considerable emissions associated with its supply chain and that in previous periods Mustek had attempted to report Scope 3 emissions. During 2014 we have endeavoured to understand the sources of our Scope 3 emissions and estimate our impact. This exercise is undertaken at considerable effort from our facilities manager but is frustrated by the unavailability of data from certain outsourced freight transport providers. The resulting Scope 3 emissions figure cannot be considered reliable and therefore we do not disclose it in this report. However, the Group continues to identify opportunities to improve logistics efficiencies, reducing costs and emissions.

Electricity reduction initiatives, together with a move to more efficient vehicles and employee awareness, has resulted in considerable GHG intensity improvements since we began our journey.

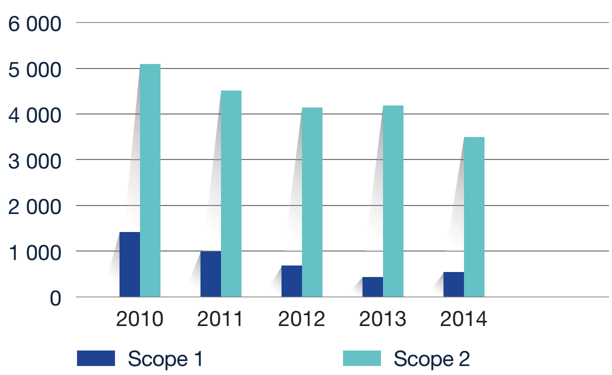
Our commitments

- The Group will extend its environmental measurement and management initiatives to Rectron's operations and consider the value to be obtained through more closely monitoring the branches and outsourced logistics functions.
- We will continue to work with suppliers to more fully appreciate the environmental impacts throughout the supply chain and seek opportunities for mitigation and cost savings.

Mustek energy consumed (GJ)



Sources of GHG emissions (tCO_2e)



King III Principles

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI Score	Evidence	Explanation/ compensating practices
Chapter 1	Principle 1.1	The Board provides effective leadership based on ethical foundations.	Applied	AAA	Code of Ethics and Business Conduct Policy	The ethical foundation on which the Board provides effective leadership is incorporated in the code of ethics and conduct as well as the Social and Ethics Committee Charter. The Group's values, on which it builds it foundation, is included in the 2014 integrated report.
Chapter 1	Principle 1.2	The Board ensures that the company is, and is seen to be, a responsible corporate citizen.	Applied	AAA	Code of Ethics and Business Conduct Policy	The Board ensures that the company is, and is seen to be, a responsible corporate citizen. This is also included in the Board charter as part of the role of the Board.
Chapter 1	Principle 1.3	The Board ensures that the company ethics are managed effectively.	Applied	AAA	Code of Ethics and Business Conduct Policy	The Board adopted the Code of Ethics and Business Conduct, thereby committing to the company's effective management of ethics. An external whistle-blowing process is in place demonstrating this.
Chapter 2	Principle 2.1	The Board acts as the focal point for and custodian of corporate governance.	Applied	AAA	Board Charter	The Board Charter sets out its responsibilities and the Board meets at least four times per year. Minutes are maintained to ensure that proper corporate governance is being implemented on an ongoing basis.
Chapter 2	Principle 2.2	The Board appreciates that the strategy, risk, performance and sustainability are inseparable.	Applied	AAA	Board Charter	The Board inform and approve the strategy and is aligned with the purpose of the company, its value drivers and the legitimate interests and expectations of its stakeholders to ensure sustainable outcomes. This principle is also included in the Board charter.
Chapter 2	Principle 2.3	The Board provides for effective leadership based on ethical foundations.	Applied	AAA	Code of Ethics and Business Conduct Policy	The Code of Ethics and Business Conduct is a fundamental policy of the Group to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards.
Chapter 2	Principle 2.4	The Board ensures that the company is, and is seen as, a responsible corporate citizen.	Applied	AAA		Through the Audit and Risk Committee, the Board identifies and monitors non-financial aspects relevant to the business, reviews appropriate non-financial information that goes beyond assessing the financial and quantitative performance of the Group, and looks at other qualitative performance factors which take into account broad stakeholder issues.

King III Principles (continued)

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI Score	Evidence	Explanation/ compensating practices
Chapter 2	Principle 2.5	The Board ensures that the company's ethics are managed effectively.	Applied	AAA	Code of Ethics and Business Conduct Policy	All employees are required to comply with the spirit as well as the letter of the Code of Ethics and Conduct and maintain the highest standards of conduct in all dealings.
Chapter 2	Principle 2.6	The Board ensures that the company has an effective and independent Audit Committee.	Applied	AAA		The Audit and Risk Committee consists of three independent non-executive directors.
Chapter 2	Principle 2.7	The Board is responsible for the governance of risk.	Applied	AAA	Group risk register	Through the Audit and Risk Committee, the Board identifies the key risk areas and key performance indicators for the Group. The Board has a process by which these risks are updated regularly.
Chapter 2	Principle 2.8	The Board is responsible for information technology (IT) governance.	Applied	AA	Audit and Risk Committee Terms of Reference	The Board delegated this function to the Audit and Risk Committee to ensure that IT governance is properly implemented. The chief information officer is invited to Audit and Risk Committee meetings to report on the relevant IT matters.
Chapter 2	Principle 2.9	The Board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Applied	AA	Audit and Risk Committee Terms of Reference	The Audit and Risk Committee oversees this function.
Chapter 2	Principle 2.10	The Board ensures that there is an effective risk-based internal audit.	Applied	AA	Internal audit plan	Internal audit assists the Group to accomplish its objectives by bringing in a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
Chapter 2	Principle 2.11	The Board appreciates that stakeholders' perceptions affect the company's reputation.	Applied	AA		We are working hard at improving our engagement with our stakeholders. We engage and speak openly on important issues. We have also made it a priority to partner proactively with them in appropriate areas.
Chapter 2	Principle 2.12	The Board ensures the integrity of the company's integrated report.	Applied	AAA		This responsibility was delegated to the Audit and Risk Committee, that reviews the integrity of the company's integrated report prior to tabling this to the Board for final approval.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI Score	Evidence	Explanation/ compensating practices
Chapter 2	Principle 2.13	The Board reports on the effectiveness of the company's internal controls.	Applied	AAA		The internal auditor's primary mandate is to examine and evaluate the effectiveness of the systems of internal financial control, so as to bring material deficiencies, instances of non-compliance and development needs to the attention of the Board through the Audit and Risk Committee.
Chapter 2	Principle 2.14	The Board and its directors act in the best interests of the company.	Applied	AAA	Declaration and Conflict of Interest Policy	A standard Conflict of Interest agenda item allows directors to report on real or perceived conflicts. The Board and committees are free to take professional advice in the exercise of its duties. A formal policy on insider trading and dealing with shares was adopted by the Board.
Chapter 2	Principle 2.15	The Board will/has consider/ed business rescue proceedings or other turnaround mechanisms as soon as the company has been/may be financially distressed as defined in the Companies Act, 71 of 2008.	Applied	AAA	Board Charter	This was included in the Board charter and will be applied if necessary.
Chapter 2	Principle 2.16	The Board has elected a Chairman of the Board who is an independent non-executive director. The CEO of the company does not also fulfil the role of Chairman of the Board.	Applied	AAA		Dr Len Konar is an independent non-executive director and Chairman of the Board.
Chapter 2	Principle 2.17	The Board has appointed the chief executive officer and has established a framework for the delegation of authority.	Applied	AAA	Delegation of Authority Policy	A Delegation of Authority Framework was adopted and the CEO's role was formalised. His performance is evaluated against specific criteria.
Chapter 2	Principle 2.18	The Board comprises a balance of power, with a majority of non-executive directors. The majority of non-executive directors are independent.	Applied	AAA		Four of the seven directors are independent non-executive directors. The Board size, diversity and demographics was considered and the Board of seven members is efficient.
Chapter 2	Principle 2.19	Directors are appointed through a formal process.	Applied	AAA	Appointment of Directors to the Board Policy	Directors are appointed through a formal process and this is overseen by the Remuneration and Nomination Committee and confirmed by the Board.

King III Principles (continued)

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI Score	Evidence	Explanation/ compensating practices
Chapter 2	Principle 2.20	The induction of and ongoing training, as well as the development of directors are conducted through a formal process.	Applied	AA		Following the appointment of new directors, they visit the Group's businesses and meet with senior management, as appropriate and are offered the opportunity to facilitate their understanding of the Group and their fiduciary responsibilities. Directors receive training as and when required.
Chapter 2	Principle 2.21	The Board is assisted by a competent, suitably qualified and experienced Company Secretary.	Applied	AAA		Sirkien van Schalkwyk was appointed Company Secretary. She is suitably qualified and was found by the Board to have the necessary knowledge and skills. She is a consultant and remains at arms' length to the Board.
Chapter 2	Principle 2.22	The evaluation of the Board, its committees and individual directors is performed every year.	Applied	AA		A self-evaluation was conducted by the Board and its sub-committees during 2014. The results were discussed as well as plans to develop the identified improvement areas.
Chapter 2	Principle 2.23	The Board delegates certain functions to well-structured committees without abdicating from its own responsibilities.	Applied	AAA	Board Committee Terms of References	Specific responsibilities have been formally delegated to the Board committees with defined terms of reference, duration and function, clearly agreed upon reporting procedures and a written scope of authority documented in its formal charters.
Chapter 2	Principle 2.24	A governance framework has been agreed upon between the Group and its subsidiary Boards.	Applied	AA		The managing directors of the major subsidiaries attend the Board meeting by invitation and provide a written report on progress in their respective businesses. Management meetings are held in the respective subsidiary companies.
Chapter 2	Principle 2.25	The company remunerates its directors and executives fairly.	Applied	AAA		An approved Remuneration Philosophy, consisting of fixed pay, a bonus component and participation in an incentive scheme is in place.
Chapter 2	Principle 2.26	The company has disclosed the remuneration of each individual director and prescribed officer.	Applied	AAA		Director remuneration is disclosed in the 2014 integrated annual report.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI Score	Evidence	Explanation/ compensating practices
Chapter 2	Principle 2.27	The shareholders have approved the company's remuneration policy.	Partially applied	AA		The Remuneration Philosophy will be tabled for shareholder approval at the AGM to be held during 2014.
Chapter 3	Principle 3.1	The Board has ensured that the company has an effective and independent Audit Committee.	Applied	AAA		The Audit and Risk Committee comprises three independent non-executive directors.
Chapter 3	Principle 3.2	Audit committee members are suitably skilled and experienced independent non-executive directors.	Applied	AAA		The members have the required financial knowledge and experience to oversee and guide the Board and the Group in respect of the audit and corporate governance disciplines.
Chapter 3	Principle 3.3	The Audit Committee is chaired by an independent non-executive director.	Applied	AAA		The committee is chaired by Mr RB Patmore, who is an independent non-executive director.
Chapter 3	Principle 3.4	The Audit Committee oversees integrated reporting.	Applied	AA	Audit and Risk Committee Terms of Reference	This function is included in the committee's terms of reference.
Chapter 3	Principle 3.5	The Audit Committee has ensured that a combined assurance model has been applied which provides a coordinated approach to all assurance activities.	Applied	AAA		A combined assurance model is being developed.
Chapter 3	Principle 3.6	The Audit Committee is satisfied with the expertise, resources and experience of the company's finance function.	Applied	AAA		The committee satisfied itself with Mr CJ Coetzee's work experience, performance and technical skills in fulfilling his role as financial director and to provide leadership to the rest of the financial team.
Chapter 3	Principle 3.7	The Audit Committee should be responsible for overseeing internal audit.	Applied	AAA	Internal audit plan	The internal audit department continues to grow and mature and is being reviewed by the committee at each meeting. The company is considering expanding the internal audit department.
Chapter 3	Principle 3.8	The Audit Committee is an integral component of the risk management process.	Applied	AAA		The internal audit plan, approved by the Audit and Risk Committee, is based on risk assessments, which are of a continuous nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.

King III Principles (continued)

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI Score	Evidence	Explanation/ compensating practices
Chapter 3	Principle 3.9	The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	Applied	AAA		The Audit and Risk Committee approves the appointment of the external auditor as well as its engagement letter and terms, nature and scope of the audit function and the audit fee.
Chapter 3	Principle 3.10	The Audit Committee has reported to the Board and the shareholders as to how it has discharged its duties.	Applied	AAA		The Audit and Risk Committee advises the Board on issues ranging from the application of accounting standards to published financial information and feedback is provided at each Board meeting. A report from the Audit and Risk Committee Chairman is included in the 2014 integrated report.
Chapter 4	Principle 4.1	The Board is responsible for the governance of risk.	Applied	AAA		The Board has established a comprehensive control environment ensuring that risks are mitigated and the Group's objectives are attained. Oversight function in terms of risk is delegated to the Audit and Risk Committee and discussed at each meeting with feedback to the Board.
Chapter 4	Principle 4.2	The Board has determined the levels of risk tolerance.	Applied	AAA		The risk tolerance levels are discussed at each Audit and Risk Committee meeting.
Chapter 4	Principle 4.3	The Risk Committee and/or Audit Committee has assisted the Board in carrying out its risk responsibilities.	Applied	AAA		The Board's risk responsibilities are delegated to the Audit and Risk Committee. The internal audit plan is based on risk assessments, which are of a continuous nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.
Chapter 4	Principle 4.4	The Board has delegated to management the responsibility to design, implement and monitor the risk management plan.	Applied	AA		All inherent and residual risks are discussed at each Audit and Risk Committee meeting with feedback to the Board. The risk register includes the risks, ratings, internal controls and mitigating actions.
Chapter 4	Principle 4.5	The Board has ensured that risk assessments are performed on a continual basis.	Applied	AA	Group risk register	The inherent and residual risks are discussed at the quarterly Audit and Risk Committee meetings.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI Score	Evidence	Explanation/ compensating practices
Chapter 4	Principle 4.6	The Board has ensured that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	Applied	AAA	Group risk register	The risk register is continuously reviewed and discussed quarterly at the Audit and Risk Committee meetings.
Chapter 4	Principle 4.7	The Board has ensured that management has considered and has implemented appropriate risk responses.	Applied	AAA		Responses in terms of the risk register are being enhanced so as to include detailed responses from subsidiary level.
Chapter 4	Principle 4.8	The Board has ensured the continual risk monitoring by management.	Applied	AAA		The Board has established a comprehensive control environment ensuring that risks are mitigated and the Group's objectives are attained.
Chapter 4	Principle 4.9	The Board has received assurance regarding the effectiveness of the risk management process.	Applied	AAA		External consultants conduct continuous reviews in terms of internal controls and systems and attend the Audit and Risk Committee meetings to table their working report.
Chapter 4	Principle 4.10	The Board has ensured that there are processes in place which enable complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	Applied	AAA		The major risks are disclosed in the 2014 integrated report.
Chapter 5	Principle 5.1	The Board is responsible of information technology (IT) governance.	Applied	AA		The Board delegated this function to the Audit and Risk Committee and is included in its charter as well as the responsibilities of the Audit and Risk committee. An IT Steering Committee assists the Audit and Risk Committee in this regard. Feedback is provided on IT governance at each Board meeting.
Chapter 5	Principle 5.2	IT has been aligned with the performance and sustainability objectives of the company.	Applied	AAA	IT Steering Committee Terms of Reference	The IT Steering Committee has its own Terms of Reference. The Chief Information Officer is invited to Audit and Risk Committee meetings to report on IT matters.
Chapter 5	Principle 5.3	The Board has delegated to management the responsibility for the implementation of an IT governance framework.	Applied	AAA	IT Steering Committee Terms of Reference	The IT Steering Committee has its own Terms of Reference. The Chief Information Officer is invited to Audit and Risk Committee meetings to report on IT matters.
Chapter 5	Principle 5.4	The Board monitors and evaluates significant IT investments and expenditure.	Applied	AAA		IT investments and expenditure are being monitored and approved in terms of the Delegation of Authority Framework.

King III Principles (continued)

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI Score	Evidence	Explanation/ compensating practices
Chapter 5	Principle 5.5	IT is an integral part of the company's risk management plan.	Applied	AAA		Inherent and residual IT risks are included in the company's risk register and also dealt with separately on a bi-annual basis.
Chapter 5	Principle 5.6	The Board ensured that information assets are managed effectively.	Applied	AAA		
Chapter 5	Principle 5.7	A Risk Committee and Audit Committee assists the Board in carrying out its IT responsibilities.	Applied	AAA	Audit and Risk Committee Terms of Reference	The Audit and Risk Committee assists the Board in carrying out its IT responsibilities.
Chapter 6	Principle 6.1	The Board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Applied	AAA		The Audit and Risk Committee assist the Board in complying with the applicable laws, rules, codes and standards in the ambit of its terms of reference. The balance of the compliance matters is delegated to the Social and Ethics Committee.
Chapter 6	Principle 6.2	The Board and each individual director have a working understanding of the effect of applicable laws, rules, codes and standards on the company and its business.	Applied	AA		Directors have a working understanding of all applicable laws, rules, codes and standards applicable to the company.
Chapter 6	Principle 6.3	Compliance risk should form an integral part of the company's risk management process.	Applied	AAA		External assurance providers report all non-compliance areas to the Board via the relevant Board sub-committee.
Chapter 6	Principle 6.4	The Board should delegate to management the implementation of an effective compliance framework and processes.	Not applied	BB		The company is in a process of developing a compliance framework to assist the relevant sub-committee in fulfilling its responsibility in this regard.
Chapter 7	Principle 7.1	The Board should ensure that there is an effective risk based internal audit.	Applied	AAA		The internal audit plan, approved by the Audit and Risk Committee, is based on risk assessments, which are of a continuous nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management
Chapter 7	Principle 7.2	Internal audit should follow a risk based approach to its plan.	Applied	AAA		Refer to 7.1
Chapter 7	Principle 7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management.	Applied	AAA		A quarterly report from the internal auditors is submitted to the Audit and Risk Committee meetings.

Chapter	Principle	Principle description	Applied/ partially applied/ not applied	IoDSA GAI Score	Evidence	Explanation/ compensating practices
Chapter 7	Principle 7.4	The Audit Committee should be responsible for overseeing internal audit.	Applied	AAA		The internal audit function forms part of the Audit and Risk Committee's responsibility as set out in its Terms of Reference.
Chapter 7	Principle 7.5	Internal audit should be strategically positioned to achieve its objectives.	Applied	AAA		The Internal Audit Plan was adopted. This is reviewed at the quarterly Audit and Risk Committee meetings which the internal auditors attend by invitation.
Chapter 8	Principle 8.1	The Board should appreciate that stakeholders' perceptions affect a company's reputation.	Applied	AAA		Although a formal stakeholder engagement process is not yet in place, the Group interacts with its major stakeholders on an ad hoc basis in the normal course of business.
Chapter 8	Principle 8.2	The Board should delegate to management to proactively deal with stakeholder relationships.	Applied	AA		Refer to principle 8.1 above.
Chapter 8	Principle 8.3	The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	Applied	AAA		Refer to principle 8.1 above.
Chapter 8	Principle 8.4	Companies should ensure the equitable treatment of shareholders.	Applied	AAA		Shareholders are all treated equally notwithstanding their percentage of shareholding in the company.
Chapter 8	Principle 8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	Applied	AAA		The Board strives to ensure that reporting to stakeholders is relevant, transparent and accurate.
Chapter 8	Principle 8.6	The Board should ensure that disputes are resolved effectively and expeditiously as possible.	Applied	AAA		All internal dispute resolutions are in place.
Chapter 9	Principle 9.1	The Board should ensure the integrity of the company's integrated report.	Applied	AAA		This forms part of the responsibilities of the Audit and Risk Committee, prior to presenting the report to the Board and is included as such in its terms of reference .
Chapter 9	Principle 9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting.	Applied	AAA		The Group endeavours to integrate all information to stakeholders in the form of the integrated report, focusing on sustainability on all levels, including finances.
Chapter 9	Principle 9.3	Sustainability reporting and disclosure should be independently assured.	Not applied	L		Sustainability reporting is currently being self-assured; however, this is being reviewed.

Corporate governance report

The Board recognises that good corporate governance is essential to protect and balance the interests of all its stakeholders. The Group is committed to the principles of transparency, fairness, integrity and accountability in its dealings with all stakeholders.

The Board endorses the King Code of Governance Principles for South Africa 2009 (King III) and has satisfied itself that Mustek has conformed throughout the reporting period to all principles of the Code and the Listings Requirements of the JSE, except where it has applied the principle of 'apply or explain' as indicated on pages 55 to 63 of this report.

A detailed summary of the application of the King III principles are listed on the company's website **www.mustek.co.za.**

Ethical leadership and corporate citizenship

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

No material ethical leadership and corporate citizenship deficiencies were noted. The Board, through the Audit and Risk Committee as well as Social and Ethics Committee, monitors compliance with Mustek's code of ethics and business conduct through various reporting channels, including its internal audit department and the whistle-blower hotline.

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

Board and directors

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

Composition of the Board

The Board is based on a unitary structure and exercises full and effective control over the Group. It comprises seven members, being four independent non-executive directors and three executive directors. There were no changes to the Board during the reporting period and details of the directors are available on pages 70 to 71 of this report.

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

Members of the Board are appointed by the Group's shareholders, although the Board also has the authority to appoint directors to fill any vacancy that may arise from time to time. These appointments, which are a matter for the Board as a whole, are made in terms of a formal and transparent procedure within policy for the appointments to the Board and subject to ratification by shareholders at the next annual general meeting (AGM).

Members are appointed on the basis of skills, experience and their level of contribution to the activities of the Group. The Remuneration and Nominations Committee is mandated to identify and recommend candidates for the Board's consideration through a formal and transparent process. New appointments are appropriately familiarised with the Group's business through an induction programme. The composition of the Board is reviewed on a regular basis to ensure ongoing compliance with the requirements entailed in the Act and King III.

In terms of the company's Memorandum of Incorporation, one-third of the directors rotate at the annual general meeting. Mr CJ Coetzee and Mr H Engelbrecht will rotate and, being eligible, offer themselves for re-election.

The strategy of the Group is mapped by the Board in conference with the executive team. The Board and the executive team met in June 2014 to review and agree on the Group's strategic objectives and the Group's area of focus and growth.

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

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

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. Dr D Konar is an independent non-executive Chairman and his role is separate from that of the Chief Executive Officer.

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

The Chief Executive Officer

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

Non-executive directors

All members of the Board have a fiduciary responsibility to represent the best interests of the Group and all of its stakeholders. The Group's non-executive directors are individuals of 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 in areas such as strategy, performance, transformation, diversity and employment equity.

Company Secretary

The Company Secretary plays an important role in the corporate governance of the Group and is responsible for ensuring Board compliance with procedures and regulations of a statutory nature. The Company Secretary ensures compliance with the JSE Listings Requirements and is responsible for the submission of the annual compliance certificate to the JSE Limited.

The Company Secretary ensures that, in accordance with the pertinent laws and regulatory framework, the proceedings and affairs of the Board and its members, the company itself and, where appropriate, the owners of securities in the company, are properly administered. The Company Secretary is the secretary of all the Board committees.

Through a formal evaluation, the Board satisfied itself regarding Sirkien van Schalkwyk's work experience, performance and technical skills in fulfilling her role as Company Secretary. She is a consultant and maintains an arms' length relationship with the Board and individual directors in terms of section 3.84(j) of the JSE Listings Requirements.

Board processes

The directors have access to the advice and professional 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.

A Board charter is in place and outlines the responsibilities of the Board as follows:

- Act as the focal point for, and custodian of, corporate governance by managing its relationship with management, the shareholders and other stakeholders of the company along sound corporate governance principles.
- Retain full and effective control of the company.
- Give strategic direction to the company, both long and short term.
- Monitor management in implementing plans and strategies as approved by the Board.
- Create value through social, economic and environmental performance.
- Appoint and evaluate the performance of the Chief Executive Officer.
- Ensure that succession is planned.
- Identify and regularly monitor key risk areas and key performance indicators of the business.
- Ensure that the company complies with relevant laws, regulations and codes of business practice.
- Ensure that the company communicates with shareowners and relevant stakeholders openly and promptly.
- Identify and monitor relevant non-financial matters.
- Establish a formal and transparent procedure for appointment to the Board, as well as a formal orientation programme for incoming directors.
- Regularly review processes and procedures to ensure effectiveness of internal systems of control and accept responsibility for the total process of risk management.
- Assess the performance of the Board, its committees and its individual members on a regular basis.
- Ensure that the company is, and is seen to be, a responsible corporate citizen by having regard to not only the financial aspects of the business of the company but also the impact that business operations have on the environment and the society within which it operates.
- Ensure that the company's performance includes that of an economic, social and environmental perspective.
- Ensure that the company's ethics are managed effectively.
- Ensure that the company has an effective and independent Audit Committee.
- Be responsible for information technology (IT) governance.
- Appreciate that stakeholders' perceptions affect the company's reputation.
- Ensure the integrity of the company's integrated report.
- Monitor the company's compliance with the above.
- Act in the best interests of the company by ensuring that individual directors:
  - adhere to legal standards of conduct;
  - exercise the degree of care, skill and diligence that would be exercised by a reasonable individual;
  - act in good faith and in the manner that the director believes is in the best interests of the company;
  - take independent advice in connection with their duties following an agreed procedure;
  - disclose real or perceived conflicts to the Board and deal with them accordingly;
  - deal in securities only in accordance with the policy adopted by the Board; and
  - commence business rescue proceedings as soon as the company is financially distressed.

Corporate governance report (continued)

Interest in contracts

During the year ended 30 June 2014, 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 29 to the annual financial statements.

Directors are required to inform the Board timeously of conflicts or potential conflicts of interest they may have in relation to particular items of business. Directors are obliged to excuse themselves from discussions or decisions on matters in which they have a conflict of interest. A conflict of interest policy is in place.

Insider trading

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

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

Evaluation of Board performance

The Company Secretary conducted a self-evaluation exercise of the Board's performance, mix of skills and individual contributions of directors, its achievements in terms of corporate governance and the effectiveness of its Board committees. The results were reviewed by the Board, which was satisfied that the overall assessment did not diminish in any material respect or degree from the previous assignment.

Board meeting attendance

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

Director	26 Aug 2013	26 Sept 2013 (Special)	8 Oct 2013 (Special)	15 Nov 2013	14 Feb 2014	15 May 2014
D Konar	✓	✓	x	✓	✓	✓
ME Gama	✓	✓	✓	✓	✓	✓
T Dingaan	✓	x	✓	✓	✓	✓
RB Patmore	✓	✓	✓	✓	✓	✓
DC Kan (CEO)	✓	✓	✓	✓	✓	✓
H Engelbrecht (MD)	✓	✓	✓	✓	✓	✓
CJ Coetzee (FD)	✓	✓	✓	✓	✓	✓

✓ – Attended

x – Absent with apology

Board committees

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

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

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

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

The established Board committees are:

Executive Committee

The Executive Committee consists of the Chief Executive Officer, Managing Director, Financial Director and operational directors. This committee meets regularly to review current operations, identify risks and the management thereof, develop strategies and recommend policies for consideration by the Board and implement the strategy, directives and decisions of the Board.

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

Audit and Risk Committee

In reviewing the committee composition during the year, it was decided that, due to the size of the company, the Audit Committee and Risk Committee remain one committee. The agenda is divided into sections to address audit and risk management responsibilities.

The composition of the committee meets the requirements of the Act and King III, consisting of a minimum of three non-executive directors, acting independently.

The members of the committee are RB Patmore (Chairman), T Dingaan and ME Gama. The committee's composition is in line with the requirements of the Companies Act, 2008 as amended.

The Chairman of the Board, the Chief Executive Officer, the Managing Director, the Financial Director, the head of internal audit and the external auditors attend all committee meetings.

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

Member	26 Aug 2013	15 Nov 2013	14 Feb 2014	15 May 2014
RB Patmore (Chairman)	✓	✓	✓	✓
T Dingaan	✓	✓	✓	✓
ME Gama	✓	✓	✓	✓

✓ – Attended

The report of the Audit and Risk Committee on pages 88 to 89 of this report sets out its responsibilities and describes how they have been fulfilled.

IT Steering Committee

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

The committee is chaired by the Chief Executive Officer and Ms Olga-Lee Levey, a senior employee, was appointed as Chief Information Officer during the reporting period. The members represent all businesses of the Group to ensure consistency in use and application of IT systems and controls.

Management has developed a number of business continuity plans including, *inter alia*, security and back-up policies. The IT infrastructure and applications which provide support for the financial systems, are audited on an annual basis by the external auditors. The Audit and Risk Committee is supported by business system managers, while the IT management team is responsible for evaluating the security of computer systems and applications, and for devising contingency plans for processing financial information in the event of system breakdowns.

Remuneration and Nominations Committee

The committee comprises RB Patmore (Chairman) and D Konar. The Chief Executive Officer, Managing Director, Financial Director and Human Resources Executive attend by invitation.

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

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

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

Member	19 Aug 2013	25 June 2014
RB Patmore (Chairman)	✓	✓
D Konar	✓	✓

✓ – Attended

The report of the Remuneration and Nominations Committee, including the Remuneration Philosophy, on pages 83 to 85 of this report sets out its responsibilities and describes how it has been fulfilled.

Corporate governance report (continued)

Social and Ethics Committee

The members comprise D Konar (Chairman), ME Gama, H Engelbrecht and L Shortt. The Chief Executive Officer, Financial Director and Human Resources Executive, attend the meetings by invitation. L Shortt was appointed on 15 November 2013 to represent Rectron, the Group's major subsidiary.

The committee operates under formal terms of reference, in terms of which it is required to meet at least twice a year to fulfil the functions assigned to it by the Companies Act and such other functions assigned by the Board from time to time to ensure that the Group acts as a responsible corporate citizen.

During the period under review, the following meetings were held, with their attendance as follows:

Member	26 Aug 2013	15 Nov 2013	14 Feb 2014	15 May 2014
D Konar (Chairman)	✓	✓	✓	✓
ME Gama	✓	✓	✓	✓
H Engelbrecht	✓	✓	✓	✓
L Shortt	n/a	✓	✓	✓

✓ – Attended

The report of the Social and Ethics Committee on pages 86 to 87 of this report sets out its responsibilities and describes how they have been fulfilled.

Accountability and audit

Auditing and accounting

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

Risk management

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

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

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

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

Internal financial controls

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

Internal audit function

Mustek's internal audit department continues to grow and mature. It is an independent appraisal function with the primary mandate of examining and evaluating the effectiveness of the applicable operational activities and attendant business risks, including those arising subsequent to the year-end. It also examines internal financial control systems, so as to bring material deficiencies, instances of non-compliance and development needs to the attention of the Audit and Risk Committee, external auditors and operational management for resolution.

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

The internal audit provides:

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

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

The internal audit plan, approved by the Audit and Risk Committee, is based on continuous risk assessments to identify existing and residual risks, as well as emerging risks and issues highlighted by the Audit and Risk Committee and senior management.

Relations with shareholders

Mustek's investor relations programme includes communications with shareholders through interim and annual reports, meetings and presentations.

The Group's policy is to pursue dialogue with institutional investors based on constructive engagement and the mutual understanding of objectives. Due regard of statutory, regulatory and other directives regulating the dissemination of information is taken. To achieve this dialogue, presentations are made to analysts, investors and the press, with one-on-one meetings held with investors and analysts to communicate the Group's strategy and performance. The quality of this information is based on the standards of promptness, relevance and transparency.

Mustek makes every effort to ensure that information is distributed through an appropriate range of communication channels to ensure the security and integrity of the information and that critical financial information reaches all shareholders simultaneously.

The Board accepts its duty to present a balanced and understandable assessment of the Group's position in reporting to shareholders, taking into account the circumstances of the communities in which it operates and the greater demands for transparency and accountability regarding non-financial matters. The quality of the information is based on the principles of openness and substance over form. Reports address material matters of significant interest and concern to all stakeholders and present a comprehensive and objective assessment of the Group, so that all stakeholders with a legitimate interest in the Group's affairs can obtain a full, fair and honest account of its performance.

Leadership

Directorate – executive directors

David Kan
Chief Executive Officer

David Kan, aged 55, is the co-founder and a major shareholder of Mustek, and its CEO since the Group's inception in 1987. He holds a BSc (Eng) degree, with a major in mechanical engineering.

Hein Engelbrecht
Managing Director

Hein Engelbrecht, aged 45, holds a BCom (Hons) degree, is a registered chartered accountant, and joined the Group in 1997 as Group Financial Manager. He completed his articles with Grant Thornton Kessel Feinstein and spent two and a half years as financial manager of Office Directions (Pty) Limited. He was appointed to the Board on 1 September 2000.

Neels Coetzee
Financial Director

Neels Coetzee, aged 39, 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.

Non-executive directors

Dr Len Konar
Independent non-executive Chairman

Dr Len Konar, aged 60, joined the Mustek Board on 25 November 2003 and was appointed as Chairman on 16 October 2009. Len is a chartered accountant and was previously executive director of The Independent Development Trust where he was, amongst other activities, responsible for the internal audit and investments portfolios. Prior to that, he was professor and head of the Department of Accountancy at the University of Durban-Westville. He is the past patron of the Institute of Internal Auditors South Africa, and a member of the King Committee on Corporate Governance, the Corporate Governance Forum and the Institute of Directors. Dr Konar is also a non-executive director of Exxaro Resources Limited, Illovo Sugar Limited, Lonmin plc, Sappi and Steinhoff International Holdings.

Thembisa Dingaan
Independent non-executive director

Thembisa Dingaan, aged 41, holds a BProc, LLB, LLM and HDip Tax and joined the Mustek Board on 6 February 2009. She is a non-executive director of the Development Bank of Southern Africa, where she is Chairman of the investment and credit committee. She is chairman of Ukhamba Holdings, an empowerment shareholder of Imperial. She is also a non-executive director of Imperial Holdings Limited, Absa Bank Limited and Adapt IT Limited and is a member of the Council of the University of KwaZulu-Natal.

Ralph Patmore
Independent non-executive director

Ralph Patmore, aged 62, was appointed to the Board on 16 October 2009. He holds a BCom degree and an MBL from Unisa's School of Business Leadership. He was the CEO of Iliad Africa Limited since inception in 1998 to retirement in September 2008. He is also a non-executive director of Sentula Mining Limited, Calgro M3 Holdings Limited and ARB Holdings Limited.

Dr Mdu Gama
Independent non-executive director

Mdu Gama, aged 45, was appointed as a director of Mustek in 2002. He holds an MBA degree, a PhD (Finance) degree and various management qualifications from SA, US and UK universities. He is currently the CEO of Resultant Finance (Pty) Limited and a trustee of the University of Johannesburg Trust Fund.

Basis for preparation and presentation

This integrated report builds on progress, insights and stakeholder feedback received during the year and seeks to provide a detailed overview of the Group's financial and non-financial performance and how it created value for the period 1 July 2013 to 30 June 2014. The company's previous integrated report (2013) included sustainable development disclosures which are comparable and consistent with specific indicator disclosures included here.

Frameworks applied

This integrated annual report has been prepared in accordance with the International Integrated Reporting Council's <IR> Framework (the Framework) and the Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines.

The Board of directors (the Board) and management have considered the fundamental concepts, guiding principles and content elements recommended in the Framework and have endeavoured to apply these recommendations in the report.

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

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

Purpose

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

Primary audience

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

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

Scope and boundaries

This 2014 integrated annual report presents a holistic review of Mustek Limited, its subsidiaries, joint ventures and associates, financial and non-financial performance for its financial year 1 July 2013 to 30 June 2014. Details of investments in subsidiary and associate companies appear in notes 12 and 13 of the annual financial statements.

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

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

Restatements or changes from the prior period

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

Assurance

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

The company's annual financial statements were independently audited and assured by Deloitte & Touche.

The Group's B-BBEE contributor levels were verified by EmpowerLogic (Pty) Limited.

Board responsibility statement

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

GRI content index

General standard disclosures

Disclosure	Section and page number
STRATEGY AND ANALYSIS	
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ORGANISATIONAL PROFILE	
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G4-6	Page 7 and 18
G4-7	Group profile page 7
G4-8	Mustek's core operations and geographical representation page 18
G4-9	Our workforce page 44 Mustek's core operations and geographical representation page 18 Six-year financial review page 10 Manufactured capital page 40 Mustek's core operations page 18
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Material aspect: Emissions	
G4-DMA	Material matter – energy consumption and GHG emissions page 53
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Disclosure	Section and page number
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G4-EN31	No fines or other sanctions were imposed in Mustek during the year
Material aspect: Overall	
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SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK	
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G4-DMA	Our management approach page 44
G4-LA1	Performance page 46
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G4-DMA	Our management approach page 44
G4-LA4	No collective bargaining agreements are relevant to the Mustek or Rectron workforce
Material aspect: Occupational health and safety	
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G4-DMA	Material matter – attract, develop and retain adequately skilled employees page 44
G4-LA9	Hours of training by gender and occupational level page 46
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Material aspect: Freedom of association and collective bargaining	
G4-DMA	Human capital page 44
G4-HR4	No collective bargaining agreements are relevant to the Mustek or Rectron workforce
SUB-CATEGORY: SOCIETY	
G4-DMA	Social and relationship capital page 49
Material aspect: Compliance	
G4-DMA	Material matter – transformation and maintaining our social licence to operate page 49
G4-SO8	No fines or other sanctions were imposed on Mustek during the year

Glossary of terms and abbreviations

Glossary

Acid ratio	(Current assets – inventories) divided by current liabilities.
Acquisition	The purchase of one corporation by another, through either the purchase of its shares, or the purchase of its assets.
Android	An open-source operating system used for smartphones and tablet computers.
Apple	An American multinational corporation that designs, develops, and sells consumer electronics, computer software, online services and personal computers.
Assurance	A statement or indication that inspires confidence; a guarantee or pledge.
Bay-Trail processors	A line of Atom processors manufactured by Intel.
Broadband	A high-capacity transmission technique using a wide range of frequencies, which enables a large number of messages to be communicated simultaneously.
Broadwell	Intel's 14 nanometer die shrink of its Haswell microarchitecture.
Business model	A plan for the successful operation of a business, identifying sources of revenue, the intended customer base, products, and details of financing.
Cloud computing	The practice of using a network of remote servers hosted on the internet to store, manage, and process data, rather than a local server or a personal computer.
Compliance	The action or fact of complying with a wish or command.
Component	A part or element of a larger whole, especially a part of a machine.
Computing accessories	A peripheral device that connects to a computer system to add functionality. Examples are a mouse, keyboard, monitor, printer and scanner.
Current ratio	Current assets divided by current liabilities.
Desktop	A computer suitable for use at an ordinary desk.
E-commerce	Commercial transactions conducted electronically on the internet.
Employment equity	A policy or programme designed to reserve jobs for people formerly disadvantaged under apartheid.
End-user	The person who actually uses a particular product.
Fibre (optics)	Thin flexible fibres of glass or other transparent solids that transmit light signals.
Foreign exchange risk	A financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company.
Garnishee orders	A court order ordering an employer to make deductions from an employee's salary in settlement of a debt owed by the employee to a third-party creditor.
Gross profit	A company's residual profit after selling a product or service and deducting the cost associated with its production and sale.
Hacking	Gaining unauthorised access to data in a system or computer.
Hardware	The machines, wiring, and other physical components of a computer or other electronic system.

Headline earnings	A measurement of a company's earnings based solely on operational and capital investment activities.
Hedging policy	A risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies or securities.
Incentive schemes	A programme implemented by an organisation deliberately intended to induce or encourage a specific action by using incentives.
Interest cover	EBITDA divided by net interest paid.
King III	King Code of Governance Principles for South Africa.
Managed services	The proactive management of an IT asset or object, by a third party on behalf of a customer.
Microsoft	An American multinational corporation that develops, manufactures, licences, supports and sells computer software, consumer electronics and personal computers and services.
Net asset value	Ordinary shareholders' equity – total assets less total liabilities.
Networking	Two or more electronic devices, connected together to form a series of communication paths.
Notebook	A laptop computer, especially a small, slim one.
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.
Parastatal	An organisation or industry having some political authority and serving the state indirectly.
Peripherals	Any auxiliary device, such as a computer mouse or keyboard, that connects to and works with the computer.
Private sector	The economy that is not state controlled, and is run by individuals and companies for profit.
Product specification	Written statement of an item's required characteristics documented in a manner that facilitate its procurement or production and acceptance.
Public sector	The part of the economy concerned with providing various government services.
Renewable energy	Energy from a source that is not depleted when used, such as wind or solar power.
Reseller	A company or individual (merchant) that purchases goods or services with the intention of reselling them rather than consuming or using them.
Return on equity	The amount of net income returned as a percentage of shareholders' equity.
Revolving credit	Credit that is automatically renewed as debts are paid off.
Scope 3 emissions	Indirect GHG emissions from sources not owned or directly controlled by the entity but related to the entity's activities.
Shareholder	An owner of shares in a company.
Smartphone	A mobile phone that is able to perform many of the functions of a computer, typically having a relatively large screen and an operating system capable of running general-purpose applications.
Software	The programs and other operating information used by a computer.
Stakeholder	A person with an interest or concern in something, especially a business.
Statutory	Required, permitted, or enacted by statute.

Glossary of terms and abbreviations (continued)

Glossary *(continued)*

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

Abbreviations

ABET	Adult Basic Education and Training
B-BBEE	Broad-based Black Economic Empowerment
BEE	Black economic empowerment
CCMA	Commission for Conciliation, Mediation and Arbitration
CCTO	Controlled Costs in Technology Ownership
CCTV	Closed Circuit Television
CMDB	Configuration management data base
CPU	Central Processing Unit
CSI	Corporate Social Investment
DCP	Dynamic Cone Penetrometer
DIT	Duct integrity testing
EBITDA	Earnings before interest, taxation, depreciation and amortisation
ESD	Electronic software delivery
FEC	Forward Exchange Contracts

FTTH	Fibre to the Home
G4	Current iteration of Global Reporting Initiative guidelines
GDP	Gross Domestic Product
GHG	Greenhouse gas
GRI	Global Reporting Initiative
HR	Human Resources
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Committee
IMACD	Install, Move, Add, Change, Disposal
IP	Internet Protocol
ISO	International Standards Organisation
<IR>	International integrated reporting framework of the IIRC
IT	Information technology
JSE	JSE Limited
KPI	Key Performance Indicator
LED	Light Emitting Diode
MICT SETA	Media, Information and Communications Technologies Sector Education and Training Authority
OEM	Original Equipment Manufacturer
OS	Operating system
PC	Personal Computer
PDIs	Previously disadvantaged individuals
PDMM	Plan, Deploy, Manage and Maintain
POS	Point of sale
QMS	Quality Management System
R&D	Research and development
SHEQ	Safety, Health, Environmental and Quality
SMME	Small, micro and medium enterprises
SPA	Service Provider Aggregator (operating model)

Mustek is a company that inspires and fulfils the curiosity of people, using our unlimited passion for technology, services and content to deliver groundbreaking new excitement and entertainment.

Case study

Irene Nkgadima
Production line manager

Not many women in South Africa rise to the higher echelons in the IT industry, but Irene is the production line manager of Mustek's vaunted assembly line and is determined to progress further.

Irene Nkgadima is an unstoppable student and explorer. After completing a diploma in Electrical Engineering, she is now well into her BCom degree and intends going onto her honours. Irene says: "I'm proud of what I've already achieved at Mustek, but I'm not stopping now. I want to pass my knowledge and skills onto others and develop further."

She loves to travel, not only to other countries, but also in her kitchen. Irene is naturally curious about new tastes, and when the apron is on and the oven ready for pots and pans, Irene wanders through new recipes and cooking techniques.

Not only is she an adventurous cook, Irene is also a devoted mother. She is a single parent with a 10 year old son, who means the world to her. Irene is proud that at school he is continuing the family tradition of working hard to succeed. She fondly recalls her wider family and particularly an uncle encouraging her to stay at school and persevere with her studies. As the last born child in a family from Sekhukhune, Limpopo, she is grateful to her mother, who struggled to get regular work and support her young household.

It is over weekends when Irene gives back to her community by volunteering at the Banakekeleni Home in Alexandria, which cares for people suffering from HIV/Aids. Banakekeleni was founded by her aunt in 2011 and provides care and shelter for up to 20 people who have no other means of support.

"There I cook and clean for those in poor health and I try motivate them not to give up in life. The home has some support from sponsors and food retailers, but we would be grateful for more, as we then could help more people."

Keenly aware of the support that her uncle and extended family gave her to get where she is, Irene returns at least once a month to her roots in Sekhukhune. Sadly, her mother has now passed on, yet: "The humble shack that I grew up in is now a home of which she would have been so proud. This is where we all meet and rejoice together as a family."

Irene joined Mustek as an entry-level assembler in 2000 and her precision, talent and perseverance steadily led to being appointed production line manager in June 2013. Irene praises Mustek's system of mentoring young talent through the system: "Debbie Tam, Mustek's COO, is my coach and she encourages me to tackle my ambitions without fear and appreciate all the people who have been part of my development."

Annual financial statements

Remuneration and Nominations Committee report

The committee comprises two directors, being RB Patmore (Chairman) and D Konar, both of whom are independent non-executive directors.

The Chief Executive Officer, Financial Director, Company Secretary and Human Resources Executive attend the meetings by invitation.

The committee operates under formal Terms of Reference, which require it to meet at least twice a year to fulfil its functions.

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

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

Member	19 Aug 2013	25 June 2014
RB Patmore (Chairman)	✓	✓
D Konar	✓	✓

This report, which describes how the committee has discharged its responsibilities in respect of the financial year ended 30 June 2014, will be presented to the shareholders at the annual general meeting to be held on 12 December 2014.

Remuneration philosophy

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

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

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

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

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

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

The remuneration philosophy is based on the following key principles:

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

Remuneration mix

Mustek's remuneration structure comprises the following:

- Guaranteed packages.
- Short-term incentives.
- Long-term incentives.

Guaranteed packages

Following established best market practice, salaries are set with reference to the scope and nature of an individual's role and his or her performance and experience. These are compared with the 50th to 75th quartile pay levels of South African companies to ensure sustainable performance and market competitiveness.

Remuneration and Nominations Committee report (continued)

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

Employee fixed remuneration is reviewed and increased annually in July by the Remuneration and Nominations Committee.

Short-term incentives

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

For the year ending 30 June 2015, the weighting for short-term incentives will be as follows:

- 60% profit before tax (PBT).
- 30% working capital management.
- 10% discretionary, based on various defined components.

These components will be scored as follows:

Profit before tax

- On budget = score of 50%
- 5% above = score of 75%
- 10% above = score of 100%

Working capital

- If the improvement in net working capital, as a percentage of annualised revenue, is 20% or more compared to the average for the previous two years, a score of 100% is achieved for this component.
- If the improvement in net working capital, as a percentage of annualised revenue, is between 10% and 20% compared to the average for the previous two years, a score of 75% is achieved for this component.
- If the improvement in net working capital, as a percentage of annualised revenue, is between 0% and 10% compared to the average for the previous two years, a score of 50% is achieved for this component.

Net working capital is calculated by adding receivables and inventory and deducting accounts payable and then dividing it by annualised revenue. The calculation will be done on a quarterly basis and the average score for the year will be used to determine the score for this component.

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

Mustek's Exco's bonuses will be calculated based on Mustek's performance, whereas Rectron's executive directors' bonuses will be calculated based on Rectron Proprietary Limited's performance. The Mustek executive directors' bonus calculation will be weighed 65% in terms of Mustek's performance and 35% for Rectron Proprietary Limited's performance.

No short-term incentive will be paid by either Mustek or Rectron if the return on equity achieved for the year ending 30 June 2015 is less than the midpoint between 15% and the return on equity achieved for the year ended 30 June 2014.

Long-term incentives – Mustek Share Incentive and Share Appreciation Rights Schemes

Executive directors and a limited number of executive managers participate in the Mustek Share Incentive and Share Appreciation Rights Schemes, which are designed to retain key employees and recognise their contributions to Group performance and growth in its value. Within the limits imposed by the company's shareholders and the JSE Limited, options were allocated to executive directors and executive managers in proportion to their contributions to the business as reflected by their seniority.

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

Employee participation

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

Policy on director fees and remuneration

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

Executive directors

The current employment agreements of executive directors outline the components of their remuneration. At present, remuneration is divided into two components: a fixed component and a variable component comprising an annual performance bonus and long-term incentives in the form of the current Mustek Share Incentive and Share Appreciation Rights Schemes. These ensure that a portion of their packages are linked to achieving improved business performance.

Directors' service contracts

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

Non-executive directors

It is the Group's policy to identify, attract and retain non-executive directors who can add significant value to Mustek.

The Executive Committee and other directors at Mustek recommend fees payable to the Chairman and directors for approval by the shareholders. Fees are approved for an annual period commencing on 1 July each year. The annual fees payable to non-executive directors for the period commencing on 1 July 2014 will be recommended to shareholders at the annual general meeting of members to be held on 12 December 2014.

Nomination responsibilities

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

Committee evaluation

The Company Secretary conducted a self-evaluation exercise of the committee's performance, mix of skills, individual contributions of members and its achievements in terms of its mandate from the Board. The results were reviewed by the committee, which was satisfied that the overall assessment did not diminish in any material respect or degree from the previous assignment.

RB Patmore
Chairman

26 August 2014

Social and Ethics Committee report

Performance for 2013/2014

During the year under review, the Social and Ethics Committee met on a quarterly basis, being August and November 2013 and February and May 2014. This report describes how the committee discharged its responsibilities in respect of the financial year ended 30 June 2014 and will be presented to the shareholders at the AGM to be held on 12 December 2014.

UN Global Compact Principles

In accordance with the regulations to the Companies Act of 2008, the company's activities are to be examined against the 10 UN Global Compact Principles. This will be an ongoing practice. The committee has elected to begin the process by focusing on the following four principles: waste, human rights, child labour and the environment.

The precautionary approach to environmental challenges, required by principle 7, is dealt with under the natural capital section of this integrated report, as well as our initiatives on developing and disseminating environmentally friendly technologies.

Ethics

The code of ethics and business conduct which embodies our key principles and values, was reviewed during the year and confirmed to be relevant and effective.

The Group's Fraud Prevention Policy was approved, with an appropriate balance between encouraging the reporting of incidents, yet discouraging malicious and frivolous reporting. During the year, the outsourced service provider reporting line was changed to Deloitte's 'Tip-Offs Anonymous' and rolled out throughout the Group. The facility is working as intended. An Anti-corruption and Economic Crimes Policy was also approved during the reporting period.

Labour

Employment equity policies embody our commitment to implementing employment equity across the Group. Our Employment Equity Forums continue to provide input into the employment equity management of the Group. During the year under review, further attention was given to our compliance with the South African Broad-Based Black Economic Empowerment Act, as well as to the development and advancement of local talent in other countries in which the Group operates.

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

Health and safety

The Group endeavours to constantly improve its health and safety practices. These continue to improve annually and are more fully reported in the human capital section of this report.

Socio-economic development

In line with our strategic intent to be welcomed in the communities in which we operate, Mustek strives to support the advancement of all communities in the vicinity of our operations, which we support through our Corporate Social Investment programme. We help develop communities through much needed employment, procurement and supply chain development, as well as supporting specific community initiatives.

Sustainability

The Group's sustainability framework focuses on energy and emissions, waste, economic factors and product responsibility.

The key sustainability risks and opportunities for this year were:

- Energy and carbon management.
- Establishing a culture of continuous improvement, as an initiative to be embedded across the Group.

Consumer legislation

Mustek adheres to consumer protection laws in each country where we operate.

Empowerment and employment equity

Mustek highly values the abilities and contributions made by employees in the development and achievements of our businesses.

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

Mustek has employment policies that we believe are appropriate to the business and our markets. These are designed to attract, motivate and retain quality staff at all levels. Equal employment opportunities are offered to all employees without discrimination.

The Group is an equal opportunities employer wherever we operate. In terms of the Employment Equity Act, we strive to afford all staff members opportunities to realise their full potential and advance their careers. Mustek is committed to a working environment that is free from any discrimination and seeks to develop the skills and talent inherent in our workforce.

Environment

The underlying philosophy of Mustek's environmental policy is to adopt protective strategies to manage the impact of our operations upon the environment.

Management reporting

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

Broad-Based Black Economic Empowerment (B-BBEE)

Mustek has worked diligently on our transformation in terms of the B-BBEE codes. Mustek has been certified as a level 2 contributor, which means that our customers can claim 125 cents in every Rand procured from Mustek in terms of the codes.

Evaluation of Committee performance

An evaluation of the committee's performance was carried out and recognised that although the committee was newly formed, started off well. However, many objectives are still to be achieved as outlined in the annual workplan.

D Konar

D Konar
Chairman

26 August 2014

Audit and Risk Committee report

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

Due to the size of the company, the Board made a decision to combine the Audit and Risk Committees and attend to both audit and risk responsibilities in one committee.

Audit and Risk Committee members

The committee consists of three non-executive directors, all of whom are independent. The members of the committee are RB Patmore (Chairman), T Dingaan and ME Gama. The committee's composition is in line with the requirements of the Companies Act, 2008 as amended (the Companies Act), having three independent non-executive directors.

The Chairman of the Board, the Chief Executive Officer, the Managing Director, the Financial Director, the head of internal audit and the external auditors attend all committee meetings.

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

Member	26 Aug 2013	15 Nov 2013	14 Feb 2014	15 May 2014
RB Patmore	✓	✓	✓	✓
T Dingaan	✓	✓	✓	✓
ME Gama	✓	✓	✓	✓

Roles and responsibilities

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

External auditor

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

- Nominated Deloitte & Touche as the external auditor, with Mr Bester Greyling as the designated auditor to the shareholders for appointment as auditor for the financial year ended 30 June 2014 and ensured that the appointment complied with all legal and regulatory requirements for the appointment of an auditor.
- Confirmed that the auditor and the designated auditor are accredited by the JSE.
- Approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor.
- Reviewed the audit and evaluated the effectiveness of the auditor.
- Obtained a statement from the auditor confirming that its independence was not impaired.
- Determined the nature and extent of all non-audit services provided by the external auditor and pre-approved all non-audit services undertaken.
- Obtained assurances from the external auditor that adequate accounting records were being maintained.
- Confirmed that no reportable irregularities had been identified or reported by the auditors under the Auditing Profession Act.
- Nominated the external auditor and the designated independent auditor for each of the subsidiary companies for the financial year ended 30 June 2014.

Internal control and internal audit

During the year, the committee:

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

Financial statements

During the year, the committee:

- confirmed, based on management's review, that the interim and annual financial statements were drawn up on the going-concern basis;
- examined the published interim and annual financial statements and other financial information, prior to the Board's approval;
- considered the accounting treatment of significant or unusual transactions and accounting judgements by management;
- considered the appropriateness of accounting policies and any changes made;
- reviewed the audit report on the annual financial statements;
- reviewed the representation letter relating to the annual financial statements signed by management;
- considered any problems identified as well as any legal and tax matters that could materially affect the financial statements;

- met separately with management, the external auditor and internal auditor; and
- concluded that the annual financial statements fairly present the financial position of the Group and company at the end of the financial year and the results of operations and cash flow for the financial year.

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

Financial Director and finance function

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

- considered the experience and expertise of the Financial Director, CJ Coetzee, and concluded that these were satisfactory; and
- considered the expertise, resources and experience of the finance function and concluded that these were satisfactory.

Legal, regulatory and corporate governance requirements

During the year under review, the committee:

- reviewed with management all legal matters that could have a material impact on the Group;
- monitored complaints received via the Group's ethics line or otherwise; and
- considered reports provided by management, internal audit and the external auditor regarding compliance with legal and regulatory requirements.

Risk management and information technology

During the year under review, the committee:

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

Sustainability

During the year under review, the committee:

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

Self-evaluation

The Company Secretary conducted a self-evaluation exercise of the committee's performance, mix of skills, individual contributions of members and its achievements in terms of its mandate from the Board. The results were reviewed by the committee, which was satisfied that the overall assessment did not diminish in any material respect or degree from the previous assignment.

Subsequent events

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

Election of committee at AGM

Pursuant to the provisions of section 94(2) of the Companies Act, which requires that a public company must elect an audit committee at each annual general meeting, it is proposed in the notice of AGM to be held on 12 December 2014 that RB Patmore, ME Gama and T Dingaan be reappointed as members of the Audit and Risk Committee until the next annual general meeting in 2015.

Recommendation of the integrated report for approval by the Board

The Committee recommended the integrated annual report for approval by the Board.

RB Patmore
Chairman

26 August 2014

Directors' responsibility for financial reporting

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The financial statements are based on appropriate accounting policies supported by reasonable and prudent judgements, with estimates that have been consistently applied and have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. The Group's independent external auditors, Deloitte & Touche, have audited the financial statements and their unmodified report appears on page 91.

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

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

The annual financial statements set out on pages 96 to 179 were approved by the Board of directors on 26 August 2014 and are signed on its behalf by:

D Konar
Chairman

DC Kan
CEO

26 August 2014

Certification by Company Secretary

In terms of section 88(2)(e) of the Companies Act (Act 71 of 2008), as amended (the Act), I certify that for the year ended 30 June 2014, Mustek Limited has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

S van Schalkwyk
Company Secretary

26 August 2014

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

Independent auditors' report

for the year ended 30 June 2014

To the shareholders of Mustek Limited

We have audited the consolidated and separate financial statements of Mustek Limited, set out on pages 96 to 179, which comprise the consolidated and separate statement of financial position as at 30 June 2014, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity, the consolidated and separate cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory statements of information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Mustek Limited as at 30 June 2014, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 June 2014, we have read the directors' report, Audit and Risk Committee report and Certification by Company Secretary report for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements.

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

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per Bester Greyling
Partner
Pretoria, South Africa

26 August 2014

Report of the directors

for the year ended 30 June 2014

Introduction

The directors have pleasure in presenting their report on the activities of the company and the Group for the year ended 30 June 2014.

General review

Mustek Limited is a company incorporated in South Africa and listed on the JSE Limited and the Group's major activities comprise the procurement, assembly, distribution and servicing of computers, computer components and allied products. The Group's profit before taxation from these activities was R143.6 million (2013: R121.3 million).

Share capital

The authorised and issued share capital of the company is detailed in note 20 to the annual financial statements.

Mustek acquired 5 550 405 ordinary shares of its issued share capital on the open market for a purchase consideration in aggregate of R36 326 714 (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 a special resolution passed by the members at Mustek's annual general meeting (AGM) held on 13 December 2013 and comprises 5.12% of the total issued ordinary shares of Mustek at the date of the AGM.

The general repurchase commenced on 28 February 2014 and continued on a day-to-day basis as market conditions allowed and in accordance with the JSE Limited (JSE) Listings Requirements until 6 June 2014. The company confirms that the repurchases were effected through the order book operated by the JSE and done without any prior understanding or arrangement between the company and the counterparties. The highest and lowest prices paid by Mustek for the ordinary shares were 700 cents and 580 cents per share respectively.

3 800 000 ordinary shares were issued to directors in terms of the Mustek Executive Share Scheme at a price of 1 001 cents per share. Mustek advanced a loan to the value of R38 038 000 to the Mustek Executive Share Trust, that advanced loans to the directors for the purpose of providing financial assistance in order to acquire the shares. Interest is calculated at the repo rate plus 100 basis points and is repayable on demand. All the rights, title and interest in the shares have been ceded and pledged as security to the lender.

During the previous financial year, 36 000 depository receipts representing 36 000 ordinary shares, were bought back on the Taiwan Stock Exchange. There were no more depository receipts listed on the Taiwan Stock Exchange as at 30 June 2013, nor as at 30 June 2014.

Directors

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

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

[1] *Independent.*

[2] *Audit and Risk Committee member.*

[3] *Remuneration and Nominations Committee member.*

[4] *Social and Ethics Committee member.*

[5] *These directors are retiring in terms of the company's Memorandum of Incorporation. In terms of the statutes of the company D Konar, ME Gama and DC Kan are available for re-election at the next annual general meeting. Biographical details of all the directors are set out on pages 71 and 72.*

Company Secretary

S van Schalkwyk

Dividends

A final dividend of 20 cents per ordinary share was declared on 27 September 2013 and paid on 7 October 2013. During the previous financial year, a final dividend of 17 cents per ordinary share was declared on 28 September 2012 and paid on 8 October 2012.

Shareholders' spread

At 30 June 2014, 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	20 130 458	18.9
DK Trust	8 032 442	7.5
Nedgroup Growth Fund	5 399 491	5.1
	33 562 391	31.5

2014 Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	827	71.5	1 071 363	1.0
5 001 – 10 000	107	9.3	852 671	0.8
10 001 – 50 000	114	9.9	2 547 183	2.4
50 001 – 100 000	276	2.2	1 944 984	1.8
100 001 – 1 000 000	59	5.1	20 771 432	19.5
Over 1 000 000	23	2.0	79 495 127	74.5
	1 156	100.0	106 682 760	100.0

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	4	0.3	4 798 349	4.5
Companies controlled by directors	1	0.1	2 460 083	2.3
Trusts with directors as trustees	2	0.2	9 282 442	8.7
Public shareholders	1 149	99.4	90 141 886	84.5
	1 156	100.0	106 682 760	100.0

At 30 June 2013, 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	20 305 399	18.7
DK Trust	8 032 442	7.4
	28 337 841	26.1

2013 Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	885	73.0	1 215 272	1.1
5 001 – 10 000	97	8.0	760 686	0.7
10 001 – 50 000	115	9.5	2 679 761	2.5
50 001 – 100 000	27	2.2	1 986 890	1.8
100 001 – 1 000 000	63	5.2	20 058 998	18.5
Over 1 000 000	26	2.1	81 731 558	75.4
	1 213	100.0	108 433 165	100.0

Report of the directors (continued)

for the year ended 30 June 2014

Shareholders' spread *(continued)*

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	4	0.3	833 049	0.8
Companies controlled by directors	1	0.1	2 460 083	2.3
Trusts with directors as trustees	2	0.2	9 282 442	8.5
Public shareholders	1 206	99.4	95 857 591	88.4
	1 213	100.0	108 433 165	100.0

Fair value adjustments to and impairments of goodwill, other intangible assets, investments in and loans to subsidiaries, associates and other investments

The directors considered the fair value of Mustek's goodwill, investments in and loans to subsidiaries, associates and other investments. Refer notes 11, 12, 13 and 15 to the annual financial statements for more information. The following matters are highlighted with regards to the aforementioned consideration:

Zinox Technologies Limited

Zinox Technologies Limited is a company incorporated in Nigeria. On 13 March 2008, Zinox Technologies Limited issued additional shares as part of a merging transaction. The Group's investment diluted from 30% to 12% as a result of the transaction and the investment was reclassified from an associate to an available-for-sale investment in the 2008 financial year. Due to the restrictive nature of cross-border investment, the investment in Zinox Technologies Limited has been valued at net asset value. Based on the latest financial information available for Zinox Technologies Limited, the net asset value was found to approximate the carrying value of the investment and therefore no fair valuation adjustments or impairments have been recognised for this investment.

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

Acquisition and disposal of subsidiaries and associates

Sizwe Africa IT Group Proprietary Limited (Sizwe)

The acquisition of an effective 26% interest in Sizwe, announced on SENS on 13 December 2013, was completed on 10 March 2014. Mustek acquired a 26% stake in Sizwe, a provider of information and communications technology products, network products and solutions and information technology maintenance and support services for a total cash consideration of R15.2 million. Mustek also advanced a loan of R6.7 million to Zaloserve Proprietary Limited (Zaloserve), the ultimate holding company of Sizwe, and a loan of R8.0 million to Omni Capital Proprietary Limited (Omni), a 100% black-owned company, as part of its enterprise development initiatives. Interest is charged at prime and the loan is repayable five years from the effective date. In turn, Omni subscribed for 35% of the share capital of Zatophase Proprietary Limited (Zatophase) for a total consideration of R8.2 million and Mustek subscribed for 65% in Zatophase for a total consideration of R15.2 million. Zatophase subscribed for 40% of the share capital of Zaloserve, Sizwe's ultimate holding company, for a total consideration of R23.3 million.

Mecer Technology Limited

Mustek Limited acquired 100% of the share capital in Mecer Technology Limited, a company incorporated in Taiwan that manages the Group's procurement function in China and Taiwan by investing R5.5 million and R1.1 million on 28 January 2014 and 23 April 2014 respectively.

Discontinued operations and net assets classified as held-for-sale

At the end of the 2013 financial year, management was of the intention to dispose of the Group's share in Rectron Australia BV within the 12 months following the end of that financial year. The aforementioned company was treated as a discontinued operation and its assets and liabilities classified as available-for-sale, as management was committed to a plan to sell the company and an active programme to locate buyers and complete the plan have been initiated.

Rectron Australia BV was classified as a discontinued operation at 30 June 2013. During the year, management took a decision not to dispose of the company after it incurred significant losses. New management was appointed effective January 2014 and the Board is confident that the company will return to profitability during the 2015 financial year. As a result, the comparative numbers have been represented to include the results of Rectron Australia BV as part of continuing operations.

Acquisition of land

On 31 July 2013, the Group acquired vacant land in Midrand for an amount of R9.6 million.

Special resolutions

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

- The company and its subsidiaries are authorised, by way of a general authority, to acquire ordinary shares issued by the company, subject to the provisions of the Companies Act (Act 71 of 2008), as amended, the Listings Requirements of the JSE and the Memorandum of Incorporation of the company.
- With effect from 1 July 2013, 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.
- The existing memorandum and articles of association of the company were amended to provide that one-third of the directors must retire at the company's annual general meeting on an annual basis.

Post statement of financial position events

A gross dividend of 28 cents per ordinary share was declared as follows:

Last day to trade *cum* dividend	Friday. 26 September 2014
First day to trade *ex* dividend	Monday, 29 September 2014
Record date	Friday, 3 October 2014
Payment date	Monday, 6 October 2014

There have been no other significant events subsequent to year-end up until the date of this report that require adjustment to or disclosure in these annual financial statements.

Consolidated statement of comprehensive income

for the year ended 30 June 2014

	Notes	2014 R000	2013 (Re-presented) R000
Continuing operations			
Revenue	2	4 764 123	4 202 881
Cost of sales		(4 109 007)	(3 633 537)
Gross profit		655 116	569 344
Other income		10 006	4 488
Foreign currency losses		(23 162)	(51 159)
Distribution, administrative and other operating expenses		(460 501)	(387 272)
Profit from operations	3	181 459	135 401
Investment revenues	4	6 388	4 660
Finance costs	5	(50 513)	(40 316)
Other (losses) gains	6	(739)	12 012
Share of profit of associates	13	6 988	4 290
Profit before tax		143 583	116 047
Income tax expense	7	(39 400)	(37 941)
Profit for the year from continuing operations		104 183	78 106
Discontinued operations			
Profit for the year from discontinued operations	8	–	3 125
Profit for the year		104 183	81 231
Other comprehensive income			
Exchange differences on translation of foreign operations		3 228	6 553
Other comprehensive income for the year, net of tax		3 228	6 553
Total comprehensive income for the year		107 411	87 784
Profit attributable to:			
Equity holders of the parent		107 334	85 049
Non-controlling interest		(3 151)	(3 818)
		104 183	81 231
Total comprehensive income attributable to:			
Equity holders of the parent		109 663	90 255
Non-controlling interest		(2 252)	(2 471)
		107 411	87 784
Earnings and dividend per share (cents)	9		
From continuing and discontinuing operations			
Basic earnings per ordinary share		100.07	78.43
Diluted basic earnings per ordinary share		100.07	78.43
Dividend per ordinary share – paid		20.00	17.00
Dividend per ordinary share – proposed		28.00	20.00
From continuing operations			
Basic earnings per ordinary share		100.07	75.30
Diluted basic earnings per ordinary share		100.07	75.30

Consolidated statement of financial position

as at 30 June 2014

	Notes	2014 R000	2013 R000
ASSETS			
Non-current assets			
Property, plant and equipment	10	160 029	120 462
Intangible assets	11	60 032	57 489
Investments in associates	13	51 589	7 795
Investment in joint venture	14	—	—
Other investments and loans	15	70 894	31 455
Deferred tax assets	16	29 164	17 487
		371 708	234 688
Current assets			
Inventories	17	1 036 984	688 851
Inventories in transit	17	232 895	101 681
Trade and other receivables	18	839 036	679 114
Foreign currency assets	23	839	8 825
Tax assets		16 555	—
Bank balances and cash	19	203 163	455 572
		2 329 472	1 934 043
Assets classified as held-for-sale	30	—	64 588
TOTAL ASSETS		2 701 180	2 233 319
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	20	119 627	117 916
Ordinary share premium	20	—	—
Retained earnings		791 787	706 140
Non-distributable reserve		809	809
Foreign currency translation reserve		3 829	1 500
Equity attributable to equity holders of the parent		916 052	826 365
Non-controlling interest		18 461	12 546
Total equity		934 513	838 911
Non-current liabilities			
Long-term borrowings	21	34 788	6 837
Deferred tax liability	16	—	2 324
Deferred income	33	14 725	16 650
		49 513	25 811
Current liabilities			
Short-term borrowings	21	1 474	181
Trade and other payables	22	1 400 445	1 095 091
Foreign currency liabilities	23	2 452	3 223
Deferred income	33	35 470	17 966
Tax liabilities		7	8 653
Bank overdrafts	21	277 306	216 589
		1 717 154	1 341 703
Liabilities directly associated with assets classified as held-for-sale	30	—	26 894
Total liabilities		1 766 667	1 394 408
TOTAL EQUITY AND LIABILITIES		2 701 180	2 233 319

Consolidated statement of changes in equity

for the year ended 30 June 2014

	Ordinary share capital R000	Ordinary share premium R000	Retained earnings R000	Non-distributable reserve* R000	Foreign currency translation reserve R000	Attributable to equity holders of the parent R000	Non-controlling interest R000	Total R000
Balance at 30 June 2012	868	117 257	639 655	809	(2 857)	755 732	18 426	774 158
Net profit for the year	—	—	85 049	—	—	85 049	(3 818)	81 231
Other comprehensive income	—	—	—	—	5 206	5 206	1 347	6 553
Disposal of joint venture (refer note 25)	—	—	(130)	—	(849)	(979)	(3 409)	(4 388)
Dividends paid	—	—	(18 434)	—	—	(18 434)	—	(18 434)
Buy back of shares	—	(209)	—	—	—	(209)	—	(209)
Transfer to no par value share capital	117 048	(117 048)	—	—	—	—	—	—
Balance at 30 June 2013	**117 916**	**—**	**706 140**	**809**	**1 500**	**826 365**	**12 546**	**838 911**
Net profit for the year	—	—	107 334	—	—	107 334	(3 151)	104 183
Other comprehensive income	—	—	—	—	2 329	2 329	899	3 228
Dividends paid	—	—	(21 687)	—	—	(21 687)	—	(21 687)
Acquisition of new subsidiary (refer to note 12)	—	—	—	—	—	—	8 167	8 167
Buy back of shares	(36 327)	—	—	—	—	(36 327)	—	(36 327)
Shares issued	38 038	—	—	—	—	38 038	—	38 038
Balance at 30 June 2014	**119 627**	**—**	**791 787**	**809**	**3 829**	**916 052**	**18 461**	**934 513**

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

Consolidated statement of cash flows

for the year ended 30 June 2014

	Notes	2014 R000	2013 R000
OPERATING ACTIVITIES			
Cash receipts from customers		4 616 623	4 642 832
Cash paid to suppliers and employees		(4 700 380)	(4 408 093)
Net cash (used in) from operations	24	(83 757)	234 739
Investment revenues received	4	6 388	5 529
Finance costs paid	5	(50 513)	(46 072)
Dividends paid		(21 687)	(18 434)
Income taxes paid		(76 229)	(32 954)
Net cash (used in) from operating activities		(225 798)	142 808
INVESTING ACTIVITIES			
Additions to property, plant and equipment	10	(27 908)	(13 531)
Proceeds from sale of property, plant and equipment		803	13 099
Proceeds on disposal of joint venture	25	—	1 772
(Increase) decrease in investments in and loans to associates	13	(28 639)	5 232
(Increase) decrease in investments and loans	15	(40 178)	587
Additions to intangible asset	11	(8 699)	(6 264)
Net cash (used in) from investing activities		(104 621)	895
FINANCING ACTIVITIES			
Issue of ordinary shares	20	38 038	—
Buy back of ordinary shares	20	(36 327)	(209)
Increase (decrease) in long-term borrowings	21	4 591	(176)
Decrease in short-term borrowings	21	(37)	(141 649)
Increase in bank overdrafts	21	60 717	196 534
Net cash from financing activities		66 982	54 500
Net (decrease) increase in cash and cash equivalents		(263 437)	198 203
Cash and cash equivalents at the beginning of the year		466 600	268 397
Cash and cash equivalents at the end of the year	19	203 163	466 600

Company statement of comprehensive income

for the year ended 30 June 2014

	Notes	2014 R000	2013 R000
Revenue	2	3 033 745	2 573 828
Cost of sales		(2 578 883)	(2 194 449)
Gross profit		454 862	379 379
Other income		3 072	3 761
Foreign currency losses		(18 414)	(32 051)
Distribution, administrative and other operating expenses		(304 880)	(264 403)
Profit from operations	3	134 640	86 686
Investment revenues	4	11 501	7 105
Finance costs	5	(29 206)	(22 496)
Other gains	6	3 180	37 218
Profit before tax		120 115	108 513
Income tax expense	7	(32 161)	(25 587)
Profit for the year		87 954	82 926
Other comprehensive income, net of tax		—	—
Total comprehensive income for the year		87 954	82 926

Company statement of financial position

as at 30 June 2014

	Notes	2014 R000	2013 R000
ASSETS			
Non-current assets			
Property, plant and equipment	10	27 801	25 213
Intangible assets	11	9 478	8 156
Investments in subsidiaries	12	258 341	235 002
Investments in associates	13	15 029	1 556
Other investments and loans	15	61 153	16 843
Deferred tax asset	16	21 729	14 899
		393 531	301 669
Current assets			
Inventories	17	698 032	451 887
Inventories in transit	17	89 085	51 009
Trade and other receivables	18	440 786	371 913
Foreign currency assets	23	655	5 895
Tax asset		15 743	—
Bank balances and cash	19	120 368	328 296
		1 364 669	1 209 000
TOTAL ASSETS		1 758 200	1 510 669
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	20	119 627	117 916
Ordinary share premium	20	—	—
Retained earnings		475 698	409 431
Total equity		595 325	527 347
Non-current liabilities			
Long-term borrowings	21	10 937	6 516
Deferred income	33	14 725	16 650
		25 662	23 166
Current liabilities			
Short-term borrowings	21	17	181
Trade and other payables	22	721 884	598 920
Foreign currency liabilities	23	1 552	2 675
Loans owing to subsidiaries	12	122 895	132 619
Deferred income	33	35 468	17 965
Tax liabilities		—	2 554
Bank overdrafts	21	255 397	205 242
		1 137 213	960 156
Total liabilities		1 162 875	983 322
TOTAL EQUITY AND LIABILITIES		1 758 200	1 510 669

Company statement of changes in equity

for the year ended 30 June 2014

	Ordinary stated capital R000	Ordinary share premium R000	Retained earnings R000	Total R000
Balance at 30 June 2012	868	117 257	344 939	463 064
Net profit for the year	—	—	82 926	82 926
Other comprehensive income	—	—	—	—
Dividends paid	—	—	(18 434)	(18 434)
Buy back of ordinary shares	—	(209)	—	(209)
Transfer to no par value share capital	117 048	(117 048)	—	—
Balance at 30 June 2013	**117 916**	**—**	**409 431**	**527 347**
Net profit for the year	—	—	87 954	87 954
Other comprehensive income	—	—	—	—
Dividends paid	—	—	(21 687)	(21 687)
Buy back of shares	(36 327)	—	—	(36 327)
Shares issued	38 038	—	—	38 038
Balance at 30 June 2014	**119 627**	**—**	**475 698**	**595 325**

Company statement of cash flows

for the year ended 30 June 2014

	Notes	2014 R000	2013 R000
OPERATING ACTIVITIES			
Cash receipts from customers		2 964 872	2 581 479
Cash paid to suppliers and employees		(3 025 720)	(2 355 471)
Net cash (used in) from operations	24	(60 848)	226 008
Interest received	4	4 598	7 105
Finance costs paid	5	(29 206)	(22 496)
Dividends received	4	6 903	—
Dividends paid		(21 687)	(18 434)
Income taxes paid		(57 288)	(24 087)
Net cash (used in) from operating activities		(157 528)	168 096
INVESTING ACTIVITIES			
Additions to property, plant and equipment	10	(10 240)	(11 424)
Proceeds from sale of property, plant and equipment		416	2 866
Proceeds on disposal of joint venture	25	—	39 116
Increase in investments in subsidiaries	12	(21 796)	—
Increase in loans to subsidiaries	12	(12 219)	(6 005)
(Increase) decrease in loans to associates	13	(13 473)	5 232
Additions to intangible asset	11	(7 108)	(5 476)
(Increase) decrease in investments and loans	15	(40 178)	278
Net cash (used in) from investing activities		(104 598)	24 587
FINANCING ACTIVITIES			
Issue of ordinary shares	20	38 038	—
Buy back of ordinary shares	20	(36 327)	(209)
Increase in long-term borrowings	21	2 496	4 541
Decrease in short-term borrowings	21	(164)	(142 980)
Increase in bank overdrafts	21	50 155	189 146
Net cash from financing activities		54 198	50 498
Net (decrease) increase in cash and cash equivalents		(207 928)	243 181
Cash and cash equivalents at the beginning of the year		328 296	85 115
Cash and cash equivalents at the end of the year	19	120 368	328 296

Accounting policies

for the year ended 30 June 2014

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the manner required by the Companies Act of South Africa.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below, and are presented in South African Rand. These are consistent with the policies applied in the preparation of the annual financial statements for the financial year ended 30 June 2013.

Adoption of new and revised International Financial Reporting Standards and Interpretations

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

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

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

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

IFRS 13 Fair Value Measurement – Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. Applicable to annual reporting periods beginning on or after 1 January 2013.

IAS 19 Employee Benefits (2011) – An amended version of IAS 19 – Employee Benefits with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes. Applicable to annual reporting periods beginning on or after 1 January 2013.

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

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

IAS 1 Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) – Amends IAS 1 – Presentation of Financial Statements to revise the way other comprehensive income is presented. Applicable to annual reporting periods beginning on or after 1 July 2012.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – Amends the disclosure requirements in IFRS 7 – Financial Instruments: Disclosures to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 – Financial Instruments: Presentation. Applicable to annual periods beginning on or after 1 January 2013 and interim periods within those periods.

IFRS1 Government Loans (Amendments to IFRS 1) – Amends IFRS 1 – First-time Adoption of International Financial Reporting Standards to address how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. Applicable to annual periods beginning on or after 1 January 2013.

IFRS 1 Annual Improvements 2009 – 2011 Cycle – Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets. Applicable to annual periods beginning on or after 1 January 2013.

IAS 1 Annual Improvements 2009 – 2011 Cycle – Clarification of the requirements for comparative information. Applicable to annual periods beginning on or after 1 January 2013.

IAS 16 Annual Improvements 2009 – 2011 Cycle – Classification of servicing equipment. Applicable to annual periods beginning on or after 1 January 2013.

IAS 32 Annual Improvements 2009 – 2011 Cycle – Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 – Income Taxes. Applicable to annual periods beginning on or after 1 January 2013.

IAS 34 Annual Improvements 2009 – 2011 Cycle – Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 – Operating Segments. Applicable to annual periods beginning on or after 1 January 2013.

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

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

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers – IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. Applicable to an entity’s first annual IFRS financial statements for a period beginning on or after 1 January 2017.

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

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

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

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

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) – Amends IAS 36 – Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment

Accounting policies (continued)

for the year ended 30 June 2014

(or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. Applicable to annual periods beginning on or after 1 January 2014.

IAS 39	Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) – Amends IAS 39 – Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. Applicable to annual periods beginning on or after 1 January 2014.
IAS 19	Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) – Amends IAS 19 – Employee Benefits to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. Applicable to annual periods beginning on or after 1 July 2014.
IFRS 2	Annual Improvements 2010 – 2012 Cycle – Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'. Applicable to annual periods beginning on or after 1 July 2014.
IFRS 3	Annual Improvements 2010 – 2012 Cycle – Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date. Applicable to annual periods beginning on or after 1 July 2014.
IFRS 8	Annual Improvements 2010 – 2012 Cycle – Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly. Applicable to annual periods beginning on or after 1 July 2014.
IFRS 13	Annual Improvements 2010 – 2012 Cycle – Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only). Applicable to annual periods beginning on or after 1 July 2014.
IAS 16	Annual Improvements 2010 – 2012 Cycle – Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount. Applicable to annual periods beginning on or after 1 July 2014.
IAS 38	Annual Improvements 2010 – 2012 Cycle – Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount. Applicable to annual periods beginning on or after 1 July 2014.
IAS 24	Annual Improvements 2010 – 2012 Cycle – Clarify how payments to entities providing management services are to be disclosed. Applicable to annual periods beginning on or after 1 July 2014.
IFRS 1	Annual Improvements 2011 – 2013 Cycle – Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only). Applicable to annual periods beginning on or after 1 July 2014.
IFRS 3	Annual Improvements 2011 – 2013 Cycle – Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. Applicable to annual periods beginning on or after 1 July 2014.
IFRS 13	Annual Improvements 2011 – 2013 Cycle – Clarify the scope of the portfolio exception in paragraph 52. Applicable to annual periods beginning on or after 1 July 2014.
IAS 40	Annual Improvements 2011 – 2013 Cycle – Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. Applicable to annual periods beginning on or after 1 July 2014.
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) – Applicable to annual periods beginning on or after 1 January 2016.
IAS 16	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) – Applicable to annual periods beginning on or after 1 January 2016.
IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) – Applicable to annual periods beginning on or after 1 January 2016.
IAS 16	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) – Applicable to annual periods beginning on or after 1 January 2016.
IAS 41	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) – Applicable to annual periods beginning on or after 1 January 2016.
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine – Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when

production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement. Applies to annual periods beginning on or after 1 January 2013.

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

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Group and company's financial statements for the periods commencing after 1 July 2014 and that the adoption of those Interpretations will have no material impact on the financial statements of the Group and company in the period of initial application.

Basis of consolidation

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

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

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling shareholder's share of changes in equity since the date of the combination. Losses applicable to the non-controlling shareholder in excess of the non-controlling shareholder's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling shareholder has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

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

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

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

Investments in associates

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

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

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

Accounting policies (continued)

for the year ended 30 June 2014

excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Interests in joint ventures

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary (see below).

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Goodwill

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

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

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

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

Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

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

Sales of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue for services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at statement of financial position date;
- Servicing fees included in the price of the products sold are recognised by reference to the proportion of the total cost of providing the service for the product, taking into account historical trends in the number of services actually provided on past goods sold; and

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

Deferred revenue represents amounts received for services not yet rendered.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholders' rights to receive payment have been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

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

The Group as lessee

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

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

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

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

Foreign currencies

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

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

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

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

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

Accounting policies (continued)

for the year ended 30 June 2014

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is deferred in equity and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognised as an expense as they fall due. Contributions made to state-managed retirement benefit schemes are dealt with as contributions to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Share-based payments

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

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

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

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

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each statement of financial position date.

Taxation

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the

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

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

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

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

Current and deferred tax for the period

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

Property, plant and equipment

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

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

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

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally generated intangible assets – research and development expenditure

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

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

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

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair

Accounting policies (continued)

for the year ended 30 June 2014

values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

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

Impairment of intangible and tangible assets, excluding goodwill

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

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

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

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

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

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Provisions

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

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

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

Onerous contracts

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

Restructurings

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

Warranties

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

Contingent liabilities acquired in a business combination

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

Financial assets

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

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

Effective interest method

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

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

Financial assets at FVTPL

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

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

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

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

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

Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 23.

Held-to-maturity investments

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

AFS financial assets

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 23. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in

Accounting policies (continued)

for the year ended 30 June 2014

profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

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

Loans and receivables

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

Impairment of financial assets

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

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

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

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

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

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

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

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

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

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

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

Recognition and measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 23.

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

Accounting policies (continued)

for the year ended 30 June 2014

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

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

Embedded derivatives

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

Interest rate swaps

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

Redeemable preference shares

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

Segments

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

Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

- Revenue recognition (refer note 2 and 33).

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Residual values and useful lives of property, plant and equipment (refer note 10);
- Impairment of goodwill (refer note 11);
- Valuation of investments (refer notes 15 and 23);
- Inventory provisions (refer note 17);
- Recoverability of accounts receivable (refer note 18);
- Fair value of derivatives and other financial instruments (refer note 23);
- Valuation of assets classified as held-for-sale, as well as liabilities directly associated with assets classified as held-for-sale (refer note 30).

Notes to the annual financial statements

for the year ended 30 June 2014

1. SEGMENTAL REPORTING

BUSINESS SEGMENTS

The Group determines operating segments based on the manner in which information is provided internally to the key decision-makers, being executive management and the Board of directors.

For management purposes, the Group is currently organised into the following segments and these segments are the basis on which the Group reports its primary segment information:

Mustek	Assembly and distribution of computer products and peripherals, including Mecer-branded products and related services.
Rectron	Distribution of computer components and peripherals.
Comztek	Distribution of networking equipment and related software licences. This company was disposed of with effect from 31 May 2013 (refer note 14).
Group	Includes investments in associates and other investments and loans. Refer to notes 13 and 15 for more information about their activities.

2014	Mustek R000	Rectron R000	Group R000	Elimination R000	Total R000
REVENUE					
External sales	2 947 080	1 817 043	—	—	4 764 123
Inter-segment sales	144 324	284 149	—	(428 473)	—
Total revenue from continuing operations	3 091 404	2 101 192	—	(428 473)	4 764 123
SEGMENT RESULTS					
EBITDA*	178 372	51 403	(28 057)	—	201 718
Depreciation and amortisation	(13 286)	(6 973)	—	—	(20 259)
Profit (loss) from operations	165 086	44 430	(28 057)	—	181 459
Investment revenues	8 364	2 300	1 579	(5 855)	6 388
Finance costs	(29 687)	(20 826)	(5 855)	5 855	(50 513)
Other gains (refer note 6)	—	—	(739)	—	(739)
Share of associates' net profit (refer note 13)	—	—	6 988	—	6 988
Profit (loss) before tax	143 763	25 904	(26 084)	—	143 583
Income tax (expense) benefit	(41 719)	(6 734)	9 053	—	(39 400)
Profit (loss) for the year	102 044	19 170	(17 031)	—	104 183

2013 (Re-presented)	Mustek R000	Rectron R000	Comztek R000	Group R000	Elimination R000	Total R000
REVENUE						
External sales	2 578 954	1 623 927	—	—	—	4 202 881
Inter-segment sales	53 352	261 496	—	—	(314 848)	—
Total revenue from continuing operations	2 632 306	1 885 423	—	—	(314 848)	4 202 881
SEGMENT RESULTS						
EBITDA*	111 214	57 723	—	(15 173)	—	153 764
Depreciation and amortisation	(11 463)	(6 900)	—	—	—	(18 363)
Profit (loss) from operations	99 751	50 823	—	(15 173)	—	135 401
Investment revenues	6 808	2 882	—	705	(5 735)	4 660
Finance costs	(22 738)	(17 578)	—	(5 735)	5 735	(40 316)
Other losses (refer note 6)	—	—	—	12 012	—	12 012
Share of associates' net profit (refer note 13)	—	—	—	4 290	—	4 290

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

1. SEGMENTAL REPORTING *(continued)*

BUSINESS SEGMENTS *(continued)*

2013 (Re-presented)	Mustek R000	Rectron R000	Comztek R000	Group R000	Eliminations R000	Total R000
Profit (loss) before tax	83 821	36 127	—	(3 901)	—	116 047
Income tax expense	(24 393)	(11 995)	—	(1 553)	—	(37 941)
Profit (loss) for the year from continuing operations	59 428	24 132	—	(5 454)	—	78 106
Discontinued operations						
Loss for the year from discontinued operations (refer note 8)	—	—	3 125	—	—	3 125
Profit (loss) for the year	59 428	24 132	3 125	(5 454)	—	81 231

2014	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
OTHER					
Capital expenditure	27 326	9 282	—	—	36 608
ASSETS					
Segment assets*	1 538 634	975 748	118 912	(258)	2 633 036
Investment in associates	—	—	51 589	—	51 589
Consolidated total assets	1 538 634	975 748	170 501	(258)	2 684 625
LIABILITIES					
Segment liabilities**	1 092 894	651 050	—	22 716	1 766 660
Number of employees at year-end	674	346	—	—	1 020

2013 (Re-presented)	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
OTHER					
Capital expenditure	17 428	2 411	—	—	19 839
ASSETS					
Segment assets*	1 314 180	849 434	79 473	(17 563)	2 225 524
Investment in associates	—	—	7 795	—	7 795
Consolidated total assets	1 314 180	849 434	87 268	(17 563)	2 233 319
LIABILITIES					
Segment liabilities**	829 528	538 664	—	17 563	1 385 755
Number of employees at year-end	621	328	—	—	949

* *Excludes tax assets.*
** *Excludes tax liabilities.*

1. SEGMENTAL REPORTING *(continued)*

GEOGRAPHICAL SEGMENTS

2014	Mecer East Africa R000	Rectron Australia R000	Comztek Africa R000	South Africa R000	Total R000
Continuing operations					
Revenue	60 881	141 660	—	4 561 582	4 764 123
Profit (loss) for the year	684	(11 208)	—	114 707	104 183
OTHER INFORMATION					
Capital expenditure	348	1 288	—	34 972	36 608
Segment assets*	61 905	122 677	—	2 500 043	2 684 625

2013 (Re-presented)	Mecer East Africa R000	Rectron Australia R000	Comztek Africa R000	South Africa R000	Total R000
Continuing operations					
Revenue	52 913	130 607	—	4 019 361	4 202 881
Profit (loss) for the year from continuing operations	1 075	(3 786)	—	80 817	78 106
Discontinued operations					
Profit (loss) for the year from discontinued operations	—	—	3 847	(722)	3 125
Profit loss for the year	1 075	(3 786)	3 847	80 095	81 231
OTHER INFORMATION					
Capital expenditure	116	—	173	19 550	19 839
Segment assets*	53 644	—	—	2 179 675	2 233 319

* *Excludes tax assets.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

2. REVENUE

An analysis of the Group and company's revenue for the year is as follows:

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2014 R000	(Re-presented) 2013 R000	2014 R000	(Re-presented) 2013 R000	2014 R000	2013 R000	2014 R000	2013 R000
Sales of goods	4 756 322	4 196 540	–	519 671	–	4 716 211	3 025 944	2 567 487
Rendering of services	7 801	6 341	–	14 753	–	21 094	7 801	6 341
	4 764 123	4 202 881	–	534 424	–	4 737 305	3 033 745	2 573 828

The directors are satisfied that the recognition of the revenue in the current year is appropriate, taking into account the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 – Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods.

3. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after taking the following items into account:

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2014 R000	(Re-presented) 2013 R000	2014 R000	(Re-presented) 2013 R000	2014 R000	2013 R000	2014 R000	2013 R000
Auditors' remuneration:								
Audit fees	5 532	4 837	–	–	5 532	4 837	3 111	2 773
Fees for other services	482	641	–	–	482	641	222	387
Expenses	10	–	–	–	10	–	–	–
	6 024	5 478	–	–	6 024	5 478	3 333	3 160
Staff costs	263 566	218 980	–	35 587	263 566	254 567	188 054	156 157
Refer note 31 for details with regards to directors' emoluments.								
Depreciation of property, plant and equipment:								
Land and buildings	683	660	–	–	683	660	–	–
Improvements to leased premises	3 709	3 419	–	365	3 709	3 784	1 534	1 276
Plant and machinery	2 191	1 792	–	–	2 191	1 792	778	390
Furniture, fixtures and office equipment	2 358	2 513	–	195	2 358	2 708	620	590
Computer equipment	4 205	3 482	–	491	4 205	3 973	3 144	2 542
Motor vehicles	982	1 037	–	15	982	1 052	809	854
	14 128	12 903	–	1 066	14 128	13 969	6 885	5 652

3. PROFIT FROM OPERATIONS *(continued)*

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2014 R000	(Re-presented) 2013 R000	2014 R000	(Re-presented) 2013 R000	2014 R000	2013 R000	2014 R000	2013 R000
Amortisation of intangible assets	6 131	5 460	—	1 419	6 131	6 879	5 760	5 225
Net profit (loss) on disposal of property, plant and equipment:								
Furniture, fixtures and office equipment	268	8	—	—	268	8	3	10
Computer equipment	6	25	—	—	6	25	3	1
Motor vehicles	(102)	(338)	—	—	(102)	(338)	(84)	(355)
	172	(305)	—	—	172	(305)	(78)	(344)
Operating lease expenses:								
Land and buildings	23 369	26 599	—	—	23 369	26 599	21 212	23 179
Furniture, fixtures, office and computer equipment	2	155	—	—	2	155	—	—
Motor vehicles	1 753	2 058	—	—	1 753	2 058	—	—
	25 124	28 812	—	—	25 124	28 812	21 212	23 179
Pension contributions (defined contribution plan)	9 769	8 652	—	2 505	9 769	11 157	7 046	6 427
Foreign exchange (losses) gains:								
Realised	(23 661)	(21 493)	—	1 224	(23 661)	(20 269)	(20 811)	(8 305)
Unrealised	2 113	(35 268)	—	(6 588)	2 113	(41 856)	3 294	(26 965)
	(21 548)	(56 761)	—	(5 364)	(21 548)	(62 125)	(17 517)	(35 270)
Fair value adjustments:								
Open foreign exchange contracts (losses) gains	(1 614)	5 602	—	4 422	(1 614)	10 024	(897)	3 219
	(1 614)	5 602	—	4 422	(1 614)	10 024	(897)	3 219

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

4. INVESTMENT REVENUES

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2014 R000	(Re-presented) 2013 R000	2014 R000	(Re-presented) 2013 R000	2014 R000	2013 R000	2014 R000	2013 R000
Investment revenue on financial instruments not at fair value through profit or loss:								
Interest received on bank balances and cash	6 388	4 660	–	869	6 388	5 529	4 158	1 778
Interest received from subsidiaries and joint venture	–	–	–	–	–	–	440	306
Dividends from subsidiaries and joint venture	–	–	–	–	–	–	6 903	5 021
	6 388	4 660	–	869	6 388	5 529	11 501	7 105

5. FINANCE COSTS

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2014 R000	(Re-presented) 2013 R000	2014 R000	(Re-presented) 2013 R000	2014 R000	2013 R000	2014 R000	2013 R000
Finance costs on financial instruments not at fair value through profit or loss:								
Interest paid on bank overdrafts	24 975	15 748	–	312	24 975	16 060	23 134	13 760
Interest paid on loans	2 086	2 167	–	5 444	2 086	7 611	169	–
Interest paid on letters of credit and trade finance	16 033	11 724	–	–	16 033	11 724	5 903	5 288
Other interest paid	251	2 483	–	–	251	2 483	–	–
Interest on forward points	7 168	8 192	–	–	7 168	8 192	–	3 448
Interest paid to taxation authorities	–	2	–	–	–	2	–	–
	50 513	40 316	–	5 756	50 513	46 072	29 206	22 496

6. OTHER GAINS (LOSSES)

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Impairment of distribution right (refer note 11)	—	(3 445)	—	—
Impairment of subsidiary investments (refer note 12)	—	—	—	(1 757)
Impairment of subsidiary loan receivable (refer note 12)	—	—	(952)	(141)
Profit on sale of shares in joint venture (refer note 14)	—	15 457	—	39 116
(Loss) profit from disposal of investment (refer note 15)	(739)	—	4 132	—
	(739)	12 012	3 180	37 218

7. INCOME TAX EXPENSE

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2014 R000	(Re-presented) 2013 R000	2014 R000	(Re-presented) 2013 R000	2014 R000	2013 R000	2014 R000	2013 R000
South African normal tax	(43 586)	(30 359)	—	(546)	(43 586)	(30 905)	(32 161)	(18 377)
Foreign tax	4 221	(359)	—	(1 576)	4 221	(1 935)	—	—
Capital gains tax	—	(7 210)	—	—	—	(7 210)	—	(7 210)
Dividends tax	(35)	(14)	—	—	(35)	(14)	—	—
	(39 400)	(37 942)	—	(2 122)	(39 400)	(40 064)	(32 161)	(25 587)
Comprising:								
Normal current tax								
– Current year	(51 830)	(32 948)	—	(2 373)	(51 830)	(35 322)	(39 008)	(20 637)
– Prior year	640	451	—	—	640	451	17	540
Normal deferred tax								
– Current year	12 301	2 138	—	1 315	12 301	3 453	6 843	2 219
– Prior year	(476)	(358)	—	(1 064)	(476)	(1 422)	(13)	(499)
Dividends tax	(35)	(14)	—	—	(35)	(14)	—	—
Capital gains tax								
– Current tax	—	(7 210)	—	—	—	(7 210)	—	(7 210)
Income tax expense for the year	(39 400)	(37 941)	—	(2 122)	(39 400)	(40 064)	(32 161)	(25 587)
Tax rate reconciliation								
Profit before tax					143 583	121 294	120 115	108 513
South African statutory rate of tax					28.0%	28.0%	28.0%	28.0%
Dividends received					0.0%	0.0%	(1.6%)	(1.3%)
Dividends tax					0.0%	0.0%	0.0%	0.0%
Current tax prior year under-provision					(0.4%)	(0.4%)	0.0%	(0.5%)
Deferred tax prior year over-provision					0.3%	1.2%	0.0%	0.5%
Capital gains tax					0.0%	5.9%	0.0%	6.6%
Disallowed expenses (non-taxable profit)					(0.5%)	(1.7%)	0.4%	(9.7%)
Effective tax rate					27.4%	33.0%	26.8%	23.6%

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

8. DISCONTINUED OPERATIONS

At the end of the 2013 financial year, management was of the intention to dispose of the Group's share in Rectron Australia BV within the 12 months following the end of that financial year. The aforementioned company was treated as discontinued operation and its assets and liabilities classified as held-for-sale, as management was committed to a plan to sell the company and an active programme to locate buyers and complete the plan have been initiated.

Rectron Australia BV was classified as a discontinued operation at 30 June 2013. During the year, management took a decision not to dispose of the company after it incurred significant losses. New management was appointed effective January 2014 and the Board is confident that the company will return to profitability during the 2015 financial year. As a result, the comparative numbers have been re-presented to include the results of Rectron Australia BV as part of continuing operations.

The assets and liabilities of Rectron Australia BV was also transferred from assets classified as held-for-sale to their respective categories of assets and liabilities with effect from 1 July 2013 for purposes of this set of financial statements (refer note 30).

The results from discontinued operations for the previous financial year consisted of the results of Comztek Holdings Proprietary Limited. The Group has subsequently disposed of its share in Comztek Holdings Proprietary Limited with effect from 31 May 2013.

The results of the discontinued operations were as follows:

	GROUP	
	2014 R000	2013 R000
Revenue	–	534 424
Cost of sales	–	(467 631)
Gross profit	–	66 793
Other income	–	46
Foreign currency losses	–	(942)
Distribution, administrative and other operating expenses	–	(55 763)
Profit from operations	–	10 134
Investment revenues	–	869
Finance costs	–	(5 756)
Profit before tax	–	5 247
Income tax expense	–	(2 122)
Profit for the year	–	3 125
Loss attributable to outside shareholders	–	269
Group's share of profit for the year from discontinued operations	–	3 394

9. EARNINGS PER SHARE

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

	GROUP 2014 R000	GROUP (Re-presented) 2013 R000
From continuing and discontinued operations		
Basic earnings (profit for the year attributable to equity holders of the parent)	107 334	85 049
Group's share of after tax profit on sale of shares in joint venture (refer note 14)	–	(8 247)
Group's share of after tax loss on disposal of property, plant and equipment	(41)	437
Impairment of distribution right (refer note 11)	–	3 445
Non-controlling interest in impairment of distribution right	–	(1 688)
Group's share of loss from disposal of shares in subsidiary (refer note 12)	739	–
Headline earnings	108 032	78 996
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	107 256	108 436
Effect of dilutive potential ordinary shares – share options	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	107 256	108 436
From continuing operations		
Basic earnings (profit for the year attributable to equity holders of the parent)	107 334	85 049
Group's share of (profit) loss for the year from discontinued operations (refer note 8)	–	(3 394)
Basic earnings from continuing operations	107 334	81 655
Group's share of after tax profit on sale of shares in joint venture (refer note 14)	–	(8 247)
Group's share of after tax loss on disposal of property, plant and equipment	(41)	437
Impairment of distribution right (refer note 11)	–	3 445
Non-controlling interest in impairment of distribution right	–	(1 688)
Group's share of loss from disposal of shares in subsidiary (refer note 12)	739	–
Headline earnings	108 032	75 602

At year-end, no share options were outstanding (2013: no share options were outstanding). The weighted average market price for the current financial year was R5.94 per share (2013: R5.83 per share).

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

9. EARNINGS PER SHARE *(continued)*

	GROUP	
	2014 Cents	2013 Cents
Earnings per share		
From continuing and discontinued operations		
– Headline earnings per ordinary share	**100.72**	72.85
– Basic earnings per ordinary share	**100.07**	78.43
– Diluted headline earnings per ordinary share	**100.72**	72.85
– Diluted basic earnings per ordinary share	**100.07**	78.43
From continuing operations		
– Headline earnings per ordinary share	**100.72**	69.72
– Basic earnings per ordinary share	**100.07**	75.30
– Diluted headline earnings per ordinary share	**100.72**	69.72
– Diluted basic earnings per ordinary share	**100.07**	75.30
From discontinued operations		
– Headline earnings per ordinary share	**–**	3.13
– Basic earnings per ordinary share	**–**	3.13
– Diluted headline earnings per ordinary share	**–**	3.13
– Diluted basic earnings per ordinary share	**–**	3.13

10. PROPERTY, PLANT AND EQUIPMENT

GROUP – 2014 Cost	Opening balance R000	Amounts transferred from assets classified as held-for-sale (refer note 30) R000	Additions R000	Disposals R000	Transfers to inventories R000	Exchange differences R000	Closing balance R000
Land and buildings	48 453	26 078	9 276	—	—	2 882	86 689
Improvements to leased premises	49 088	—	1 887	—	—	1	50 976
Plant and machinery	45 049	—	4 265	-	—	33	49 347
Furniture, fixtures and office equipment	32 356	3 123	3 875	(1 611)	—	358	38 101
Computer equipment	30 358	—	6 311	(1 782)	(273)	49	34 663
Motor vehicles	12 186	2 163	2 294	(2 884)	-	254	14 013
	217 490	31 364	27 908	(6 277)	(273)	3 577	273 789

Accumulated depreciation	Opening balance R000	Amounts transferred from assets classified as held-for-sale (refer note 30) R000	Current year R000	Disposals R000	Transfers to inventories R000	Exchange differences R000	Closing balance R000
Land and buildings	2 255	2 467	683	—	—	334	5 739
Improvements to leased premises	19 826	—	3 709	—	—	—	23 535
Plant and machinery	23 166	—	2 191	—	—	18	25 375
Furniture, fixtures and office equipment	23 862	2 737	2 358	(1 502)	—	282	27 737
Computer equipment	23 990	—	4 205	(1 769)	—	73	26 499
Motor vehicles	3 929	2 163	982	(2 375)	—	176	4 875
	97 028	7 367	14 128	(5 646)	—	883	113 760

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

10. PROPERTY, PLANT AND EQUIPMENT *(continued)*

COMPANY – 2014 Cost	Opening balance R000	Additions R000	Disposals R000	Transfers to inventories R000	Closing balance R000
Land	784	—	—	—	784
Improvements to leased premises	13 808	1 525	—	—	15 333
Plant and machinery	14 701	830	—	—	15 531
Furniture, fixtures and office equipment	11 779	854	(7)	—	12 626
Computer equipment	22 695	5 179	—	(273)	27 601
Motor vehicles	10 982	1 852	(843)	—	11 991
	74 749	10 240	(850)	(273)	83 866

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Transfers to inventories R000	Closing balance R000
Improvements to leased premises	10 235	1 534	—	—	11 769
Plant and machinery	9 749	778	—	—	10 527
Furniture, fixtures and office equipment	8 373	620	(3)	—	8 990
Computer equipment	18 064	3 144	—	—	21 208
Motor vehicles	3 115	809	(353)	—	3 571
	49 536	6 885	(356)	—	56 065

10. PROPERTY, PLANT AND EQUIPMENT *(continued)*

GROUP – 2013 **Cost/valuation**	Opening balance R000	Additions R000	Disposals R000	Transfers to inventories R000	Exchange differences R000	Closing balance R000
Land and buildings	48 284	258	(1 820)	—	1 731	48 453
Improvements to leased premises	48 176	912	—	—	—	49 088
Plant and machinery	43 302	3 331	—	(1 674)	90	45 049
Furniture, fixtures and office equipment	30 802	1 452	(10)	—	112	32 356
Computer equipment	26 176	4 155	(100)	—	127	30 358
Motor vehicles	11 574	3 423	(2 879)	—	68	12 186
	208 314	13 531	(4 809)	(1 674)	2 128	217 490

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Transfers to inventories R000	Exchange differences R000	Closing balance R000
Land and buildings	1 677	338	—	—	240	2 255
Improvements to leased premises	16 407	3 419	—	—	—	19 826
Plant and machinery	21 329	1 791	—	—	46	23 166
Furniture, fixtures and office equipment	21 397	2 421	(9)	—	53	23 862
Computer equipment	20 499	3 481	(86)	—	96	23 990
Motor vehicles	4 380	966	(1 449)	—	32	3 929
	85 689	12 416	(1 544)	—	467	97 028

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

10. PROPERTY, PLANT AND EQUIPMENT *(continued)*

COMPANY – 2013 **Cost**	Opening balance R000	Additions R000	Disposals R000	Transfers to inventories R000	Closing balance R000
Land	2 604	—	(1 820)	—	784
Improvements to leased premises	12 895	913	—	—	13 808
Plant and machinery	13 044	3 331	—	(1 674)	14 701
Furniture, fixtures and office equipment	11 118	665	(4)	—	11 779
Computer equipment	19 603	3 092	—	—	22 695
Motor vehicles	10 237	3 423	(2 678)	—	10 982
	69 501	11 424	(4 502)	(1 674)	74 749

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Transfers to inventories R000	Closing balance R000
Improvements to leased premises	8 959	1 276	—	—	10 235
Plant and machinery	9 359	390	—	—	9 749
Furniture, fixtures and office equipment	7 787	590	(4)	—	8 373
Computer equipment	15 522	2 542	—	—	18 064
Motor vehicles	3 549	854	(1 288)	—	3 115
	45 176	5 652	(1 292)	—	49 536

10. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Net book value				
Land and buildings*	80 950	46 198	784	784
Improvements to leased premises	27 441	29 262	3 564	3 573
Plant and machinery	23 972	21 883	5 004	4 952
Furniture, fixtures and office equipment	10 364	8 494	3 636	3 406
Computer equipment	8 164	6 368	6 393	4 631
Motor vehicles	9 138	8 257	8 420	7 867
	160 029	120 462	27 801	25 213

** Includes land and buildings with a book value of R25.3 million (2013: R26.1 million) encumbered as security for a liability of R24.7 million (2013: R22.8 million) (refer note 21).*

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

Buildings	20 years
Improvements to leased premises	over period of the initial lease
Plant and machinery	5 years
Furniture, fixtures and office equipment	5 to 10 years
Computer equipment	3 years
Motor vehicles	5 years

The directors reviewed the residual values, useful lives and carrying amount of its property, plant and equipment to determine the appropriate level of depreciation and whether there is any indication that those assets have suffered an impairment loss. The directors judged a residual value of zero as a result of the fact that plant and equipment are not held-for-trading and are normally scrapped. The residual value of land and buildings normally exceeds the original costs. Land is not depreciated.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

11. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Goodwill				
Cost	**54 267**	54 267	**—**	—
At the beginning of the year	**54 267**	54 267	**—**	—
Accumulated impairments	**(6 249)**	(6 249)	**—**	—
At the beginning of the year	**(6 249)**	(6 249)	**—**	—
Carrying amount	**48 018**	48 018	**—**	—
Software				
Cost	**69 127**	60 451	**46 967**	39 885
At the beginning of the year	**60 451**	54 292	**39 885**	34 409
Additions	**8 699**	6 153	**7 108**	5 476
Transfers to inventories	**(26)**	—	**(26)**	—
Exchange differences	**3**	6	**—**	—
Accumulated amortisation*	**(57 113)**	(50 980)	**(37 489)**	(31 729)
At the beginning of the year	**(50 980)**	(45 515)	**(31 729)**	(26 504)
Amortisation	**(6 131)**	(5 460)	**(5 760)**	(5 225)
Exchange differences	**(2)**	(5)	**—**	—
Carrying amount	**12 014**	9 471	**9 478**	8 156
Total	**60 032**	57 489	**9 478**	8 156

** Software is written off on a straight-line basis over three years.*

11. INTANGIBLE ASSETS *(continued)*

	GROUP 2014 R000	GROUP 2013 R000	COMPANY 2014 R000	COMPANY 2013 R000
Distribution rights and development cost*				
Cost	10 336	10 336	–	–
At the beginning of the year	10 336	10 336	–	–
Accumulated amortisation and impairments*	(10 336)	(10 336)	–	–
At the beginning of the year	(10 336)	(6 891)	–	–
Impairments	–	(3 445)	–	–
Carrying amount	–	–	–	–
Total intangible assets	60 032	57 489	9 478	8 156

** Distribution rights and development cost are amortised on a straight-line basis over three years.*

The Group acquired 51% of Ballena Trading 29 Proprietary Limited on 9 May 2009 from the developers of Blubox software, who retained the remaining 49% shareholding. Ballena Trading 29 Proprietary Limited obtained the sole right to distribute Blubox software in South Africa. Blubox software uses state-of-the-art image compression algorithms to compress and store photos and images, with image compression support for over 60 popular image formats. The total distribution right was recognised at the purchase price and counterparty contributions of R10.34 million.

This distribution right was not yet in the condition necessary for it to be capable of operating in the manner intended by management and has therefore not been amortised as at 30 June 2013, nor as at 30 June 2014. Taking into account the nature of the software industry and the risk of software obsolescence, the book value of the asset was impaired over a three year period, with the last remaining book value of the distribution right to the amount of R3.4 million being impaired in the previous financial year.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

11. INTANGIBLE ASSETS *(continued)*

	GROUP	
	2014 R000	2013 R000
The carrying amount of goodwill had been allocated as follows:		
Mustek Free State	**3 205**	3 205
Brotek	**16 069**	16 069
Mustek East Africa	**468**	468
Rectron	**27 276**	27 276
Digital Surveillance Systems	**1 000**	1 000
	48 018	48 018

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

Management prepared a five-year cash flow forecast and a perpetual cash flow forecast, based on the Group's share of 2014 financial year net contributions generated by the cash-generating units to which goodwill can be attributed and applying a long-term growth rate of 5% per annum (2013: 5%) and discounted at a rate of 9% (2013: 8.5%). The net present value of these cash flows was found to exceed the carrying amount of goodwill and therefore the goodwill is not expected to be impaired.

12. INVESTMENTS IN SUBSIDIARIES

	COMPANY 2014 R000	COMPANY 2013 R000
Shares at cost	283 921	262 125
– opening balance	262 125	262 125
– additions	21 796	—
Impairment charges	(119 022)	(118 070)
Opening carrying value adjustments	(118 070)	(116 172)
Current year impairment of investments and loans	(952)	(1 898)
Loans owing by subsidiaries	93 442	90 947
Non-current investments in subsidiaries	258 341	235 002
Loans owing to subsidiaries	(122 895)	(132 619)
	135 446	102 383

	Ownership interest 2014 %	Ownership interest 2013 %	Shares at cost 2014 R000	Shares at cost 2013 R000	Loans to (from) 2014 R000	Loans to (from) 2013 R000	Net investment 2014 R000	Net investment 2013 R000
DIRECT – Unlisted								
Ballena Trading 29 (Pty) Limited[9]	51	51	5 272	5 272	—	—	—	—
Brobusmac Investments (Pty) Limited[2, 4]	100	100	1 575	1 575	(7 960)	(7 960)	(6 385)	(6 385)
Brotek (Pty) Limited[2]	100	100	71 468	71 468	(74 935)	(84 659)	(3 467)	(13 191)
CIS Thuthukani Technology (Pty) Limited[2, 4]	100	100	6 793	6 793	(10 212)	(10 212)	(3 419)	(3 419)
Digital Surveillance Systems (Pty) Limited[4, 12]	75	75	5 896	5 896	—	—	—	—
Lithatek Investments (Pty) Limited[1, 2, 4]	100	100	19 448	19 448	2 479	2 479	—	—
Makeshift 1000 (Pty) Limited[1, 2, 3, 9]	100	100	10 698	10 698	43 192	43 192	50	50
Mecer Finance (Pty) Limited[4]	100	100	*	*	—	—	—	—
Mecer Technology Limited[8, 22]	100	—	6 629	—	—	—	6 629	—
Mustek Capital (Pty) Limited[4, 13, 14]	100	100	100	100	(10 520)	(10 520)	(10 420)	(10 420)
Mustek Limited Company Limited[2, 8]	100	100	*	*	3 511	3 511	—	-
Mandarin Trading House (Pty) Limited[2, 4]	100	100	*	*	(1 115)	(1 115)	(1 115)	(1 115)
Mustek East Africa Limited[5, 17, 19]	100	100	12 315	12 315	22 375	20 541	28 958	27 124
Mecer (Pty) Limited[4]	100	100	*	*	—	—	—	—
MFS Technologies (Pty) Limited[2, 4]	100	100	*	*	(1 323)	(1 323)	(1 323)	(1 323)
Mustek Electronics (Cape Town) (Pty) Limited[2, 4]	100	100	3 229	3 229	(3 216)	(3 216)	13	13
Mustek Electronics (Durban) (Pty) Limited[2, 4]	100	100	1 658	1 658	(1 433)	(1 433)	225	225
Mustek Electronics (Port Elizabeth) (Pty) Limited[2, 4]	100	100	327	327	(270)	(270)	57	57
Mustek Investments (Pty) Limited[4]	100	100	*	*	—	—	—	—
Mustek International (Pty) Limited[4]	100	100	*	*	—	—	—	—

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

12. INVESTMENTS IN SUBSIDIARIES *(continued)*

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2014 %	2013 %	2014 R000	2013 R000	2014 R000	2013 R000	2014 R000	2013 R000
DIRECT — Unlisted *(continued)*								
Mustek Management (Pty) Limited[4]	100	100	*	*	—	—	—	—
Mustek Middle East FZCO[2, 15]	100	100	1 392	1 392	1 118	1 118	—	—
Mustek Lesotho (Pty) Limited[2, 18]	99	99	*	*	952	1 291	—	1 291
Planet Internet (Pty) Limited[4]	100	100	*	*	—	—	—	—
Quickstep 51 (Pty) Limited[4, 23]	100	100	*	*	—	—	—	—
Quickstep 94 (Pty) Limited[1, 2, 9]	100	100	2 581	2 581	18 442	18 315	1 641	1 514
Quickstep 95 (Pty) Limited[4]	100	100	*	*	—	—	—	—
Rectron Holdings Limited[7]	100	100	115 973	115 973	—	—	115 973	115 973
Tradeselect 38 (Pty) Limited[2, 4]	100	100	3 400	3 400	(11 911)	(11 911)	(8 511)	(8 511)
Zatophase (Pty) Limited[21]	65	—	15 167	—	—	—	15 167	—
INDIRECT – Unlisted								
Datazone Limited[10, 16]	100	100	—	—	—	—	—	—
First Campus (Pty) Limited[4]	100	100	—	—	—	—	—	—
Formprops 110 (Pty) Limited[4]	100	100	—	—	—	—	—	—
Inter-Ed (Pty) Limited[4]	100	100	—	—	—	—	—	—
Mecer Inter-Ed (Pty) Limited[7, 11]	100	100	—	—	—	—	—	—
PWS Investments (Pty) Limited[4]	100	100	—	—	—	—	—	—
Rectron Electronics (Pty) Limited[6]	50	50	—	—	—	—	—	—
Secure Electronic Commerce (Pty) Limited[4]	100	100	*	*	—	—	—	—
Sheerprops 68 (Pty) Limited[4]	100	100	—	—	—	—	—	—
Soft 99 (Pty) Limited[7, 11, 20]	68	68	—	—	1 373	500	1 373	500
			283 921	262 125	(29 453)	(41 672)	135 446	102 383

The net investment is after impairment charges against the investments and loans of R119.0 million (2013: R118.1 million).

Mecer Inter-Ed supplies educational software and hardware solutions to its customers. The other trading subsidiaries' activities comprise the procurement, assembly, distribution and servicing of computers and printers, related components and allied products. A list of the number of shares that is held in each subsidiary is available at the registered office of the company. None of the loans receivables have been secured.

12. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

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

[3]The loan receivable by Makeshift 1000 (Pty) Limited from Preworx (Pty) Limited, an associate of Makeshift 1000 (Pty) Limited, was impaired by an amount of R1.4 million during the previous financial year. This impairment was based on the present value of the expected repayments on this loan.

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

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

[6]Active trading company registered and incorporated in Australia.

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

[8]Active company registered and incorporated in Taiwan.

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

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

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

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

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

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

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

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

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

[18]Mustek Lesotho (Pty) Limited was incorporated during the previous financial year with the main aim of providing on-site service to Standard Bank in Lesotho in terms of a service contract with Standard Bank.

[19]This loan bears interest at two percent per annum and is repayable on demand.

[20]The first R0.5 million of this loan is interest-free and the remaining portion bears interest at prime. The loan has no fixed repayment terms.

[21]Mustek Limited acquired a 65% share in Zatophase (Pty) Limited on 10 March 2014.

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

[23]This entity has a 28 February financial year-end which is different to the 30 June year-end of other Group entities (unless stated otherwise). There are no specific reasons determining why the year-end of this entity is different to that of other Group entities.

** Original cost less than R500.*

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

	2014 R000	2013 R000
Net aggregate profits	28 997	32 174
Net aggregate losses	(3 402)	(2 284)

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

13. INVESTMENTS IN ASSOCIATES

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Shares at cost	51 969	28 636	4 189	4 189
– opening balance	51 969	28 636	4 189	4 189
Impairments	(24 539)	(24 539)	(4 189)	(4 189)
– opening balance	(24 539)	(24 539)	(4 189)	(4 189)
Share of post-acquisition gains (losses)	9 130	2 142	–	–
– opening balance	2 142	(2 148)	–	–
– current year share of post-acquisition gains	6 988	4 290	–	–
Loans owing by associates	22 329	8 856	15 029	1 556
Opening balance	8 856	14 088	1 556	6 788
increase (decrease) in loans	13 473	(5 232)	13 473	(5 232)
Fair valuation adjustments to loans	(7 300)	(7 300)	–	–
Investments in associates	51 589	7 795	15 029	1 556
The aggregate assets, liabilities and results of operations of associates at year-end are summarised as follows:				
Total assets	310 216	52 957	68 966	51 994
Total liabilities	240 491	41 062	37 072	32 305
Revenue	546 870	276 763	316 504	276 763
Profit before tax	29 595	17 222	15 837	17 222
Income tax expense	(6 915)	(4 786)	(4 406)	(4 786)
Net profit for the year	22 680	12 436	11 431	12 436

13. INVESTMENTS IN ASSOCIATES *(continued)*

	Percentage holding		Cost		Loans to		Equity accounted share of earnings		Net investment	
	2014 %	2013 %	2014 R000	2013 R000	2014 R000	2013 R000	2014 R000	2013 R000	2014 R000	2013 R000
COMPANY										
Unlisted										
Mustek Zimbabwe Private Limited[2]	–	–	4 189	4 189	–	–	–	–	–	–
Khauleza IT Solutions (Pty) Limited[1]	36	36	–	–	–	–	–	–	–	–
Continuous Power Systems (Pty) Limited[5]	40	40	–	–	8 180	1 556	–	–	8 180	1 556
Zaloserve (Pty) Limited[6]	40	–	–	–	6 849	–	–	–	6 849	–
			4 189	4 189	15 029	1 556	–	–	15 029	1 556
GROUP										
Unlisted										
Mustek Zimbabwe Private Limited[2]	–	–	–	–	–	–	1 226	976	1 226	976
A Open (Pty) Limited[3]	43	43	–	–	–	–	–	–	–	–
Preworx (Pty) Limited[4]	38	38	24 447	24 447	7 300	7 300	(4 097)	(4 097)	–	–
Khauleza IT Solutions (Pty) Limited[1]	36	26	–	–	–	–	6 555	3 645	6 555	3 645
Continuous Power Systems (Pty) Limited[5]	40	40	–	–	–	–	2 225	1 618	2 225	1 618
Zaloserve (Pty) Limited[6]	40	–	23 333	–	–	–	3 221	–	26 554	–
			51 969	28 636	22 329	8 856	9 130	2 142	51 589	7 795

The net investment is after impairment charges against and fair value adjustments of the investments and loans of R31.8 million (2013: R31.8 million) for the Group and R4.2 million (2013: R4.2 million) for the company.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

13. INVESTMENTS IN ASSOCIATES *(continued)*

Additional information	Nature of business	Country of incorporation	Period equity accounted
Mustek Zimbabwe Private Limited	Assembly and distribution of computers and computer components	Zimbabwe	12 months (2013: 12 months)
Khauleza IT Solutions (Pty) Limited	Provider of IT support solutions	South Africa	12 months (2013: 12 months)
Continuous Power Systems (Pty) Limited	Provider of uninterrupted power supply solutions	South Africa	12 months (2013: 12 months)
Zaloserve (Pty) Limited	Group of IT support provider companies	South Africa	4 months (2013: 0 months)
A Open (Pty) Limited	Dormant	South Africa	12 months (2013: 12 months)
Preworx (Pty) Limited	Remote access diagnostics technology	South Africa	12 months (2013: 12 months)

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

[2] *On 1 July 2002, Mustek disposed of Mustek Zimbabwe. The purchaser irrevocably granted Mustek an option to purchase, at any time, 40% of the entire issued share capital of Mustek Zimbabwe for a nominal value and, as a result, the option investment is treated as an equity investment in an associate company.*

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

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

[5] *With effect from 1 January 2011, Mustek Limited acquired a 40% share in Continuous Power Systems (Pty) Limited.*

[6] *Mustek Limited acquired a 65% share in Zatophase (Pty) Limited on 13 March 2014 (refer note 12). Zatophase (Pty) Limited acquired a 40% share in Zaloserve (Pty) Limited on 13 March 2014. Furthermore Mustek Limited advanced a loan of R6.7 million to Zaloserve (Pty) Limited on 13 March 2014. This loan bears interest at prime.*

14. INVESTMENT IN JOINT VENTURE

The Group jointly controlled Comztek (Pty) Limited and the results of the joint venture were proportionately consolidated during previous financial years. However, during the previous financial year, the net assets and results from operations of Comztek (Pty) Limited have been classified as a held-for-sale and discontinued operations respectively (refer notes 8 and 30). The Group has subsequently sold its shareholding in Comztek (Pty) Limited during the current financial year with effect from 31 May 2013 (refer note 25).

15. OTHER INVESTMENTS AND LOANS

	GROUP 2014 R000	GROUP 2013 R000	COMPANY 2014 R000	COMPANY 2013 R000
Shares at cost	24 506	33 877	9 251	13 751
– opening balance	33 877	33 877	13 751	13 751
– disposals	(9 371)	—	(4 500)	—
Loans	52 806	3 996	52 806	3 996
Fair value adjustments	(6 418)	(6 418)	(904)	(904)
– opening balance	(6 418)	(6 418)	(904)	(904)
	70 894	31 455	61 153	16 843

	Ownership interest 2014 %	Ownership interest 2013 %	Shares at cost 2014 R000	Shares at cost 2013 R000	Loans to 2014 R000	Loans to 2013 R000	Net investment 2014 R000	Net investment 2013 R000
COMPANY								
Unlisted								
A Lai[2]	—	—	—	—	1 000	1 000	1 000	1 000
Columbus Technologies (Pty) Limited[1]	—	—	—	—	1 817	1 673	1 817	1 673
M Cameron[3]	—	—	—	—	741	669	741	669
Option – Mecer Capital (Pty) Limited[5]	—	—	250	250	—	—	—	—
Simple Process Engineering Solutions (Pty) Limited[6]	—	—	—	—	654	654	—	—
Zinox Technologies Limited[7]	12	12	9 001	13 501	—	—	9 001	13 501
Elimu Technologies (Pty) Limited[8]	—	—	—	—	2 112	—	2 112	—
Omni Capital (Pty) Limited[10]	—	—	—	—	8 390	—	8 390	—
Mustek Executive Share Trust[9,11]	—	—	—	—	38 092	—	38 092	—
			9 251	13 751	52 806	3 996	61 153	16 843

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

15. OTHER INVESTMENTS AND LOANS (continued)

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2014 %	2013 %	2014 R000	2013 R000	2014 R000	2013 R000	2014 R000	2013 R000
GROUP								
Unlisted								
Casetek International Co Limited[4]	8	8	5 514	5 514	—	—	—	—
Zinox Technologies Limited[7]	20	12	9 741	14 612	—	—	9 741	14 612
DC Kan[9]	—	—	—	—	22 555	—	22 555	—
H Engelbrecht[9]	—	—	—	—	12 530	—	12 530	—
CJ Coetzee[9]	—	—	—	—	3 007	—	3 007	—
Mustek Executive Share Trust[9,11]	—	—	—	—	(38 092)	—	(38 092)	—
			24 506	33 877	52 806	3 996	70 894	31 455

All companies, trusts and individuals are registered or resident in South Africa, except for Casetek International Co Limited and Zinox Technologies Limited, which are registered in Taiwan and Nigeria respectively.

All these loans are carried at amortised cost. The fair values of these loans approximate the carrying amounts thereof.

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

[2] *This loan is secured, interest-free and has no fixed terms of repayment.*

[3] *This loan is unsecured, bears interest at 10% per annum and is repayable on demand.*

[4] *The investment has been fully impaired in previous financial years.*

[5] *This investment represents an amount paid in order to secure an option to purchase the share capital of Mustek Capital (Pty) Limited. On 1 June 2010, Mustek Limited exercised this option and acquired 100% of the issued share capital of Mustek Capital (Pty) Limited (refer note 12).*

[6] *This loan is unsecured, bears interest at the South African prime bank overdraft rate and was payable on 1 December 2010. The full amount of the loan was, however, impaired during previous financial years.*

[7] *On 13 March 2008, Zinox Technologies Limited issued additional shares as part of a merging transaction. The Group's investment diluted from 30% to 12% as a result of the transaction and the investment was reclassified from an associate to an available-for-sale investment. The equity accounted profit share at date of dilution was R14.6 million and the loan was capitalised as cost of the investment. During the current financial year, the merging transaction was reversed and the Group's shareholding in Zinox Technologies Limited increased to 30%. The Group sold 10% of its 30% shareholding effective 9 July 2013 for a total consideration of R8.6 million.*

Due to the restrictive nature of cross-border investment, the investment in Zinox Technologies Limited has been valued at net asset value. Based on the latest financial information available for Zinox Technologies Limited, the net asset value was found to approximate the carrying value of the investment and therefore no fair valuation adjustments or impairments have been recognised for this investment.

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

[9] *3.8 million Mustek Limited shares were issued to directors of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the directors in terms of the rules of the trust. The loan from the Share Trust was in turn funded by a loan from Mustek Limited to the Share Trust. All of these loans bear interest at the South African repo rate plus one percent and have no fixed repayment terms.*

[10] *This was loan was granted on 13 March 2014 and bears interest at prime.*

[11] *This entity has a 28 February financial year-end which is different to the 30 June year-end of other Group entities (unless stated otherwise). There are no specific reasons determining why the year-end of this entity is different to that of other Group entities.*

16. DEFERRED TAX ASSETS AND LIABILITIES

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
The tax effects of temporary differences of the company and subsidiary companies resulted in deferred tax assets and liabilities. The directors have assessed 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% (2013: 28%) except if otherwise indicated:				
Tax loss	8 808	3 233	—	—
Provision for doubtful debts	(2 516)	990	(2 325)	1 148
Amortisation of intangible assets	19	22	19	22
Salary-related provisions	11 212	4 590	11 212	4 590
Accelerated wear and tear for tax purposes	(4 663)	(3 253)	(1 481)	(742)
Prepayments	(619)	(501)	(365)	(403)
Minor assets	3	10	2	9
Operating lease liabilities	682	1 365	552	1 274
Other provisions	6 931	3 241	2 053	991
Unrealised exchange gains and losses	(2 769)	(2 247)	(1 993)	(1 682)
Deferred revenue	14 055	9 692	14 055	9 692
Unrealised capital gains	(2 120)	(2 120)	—	—
Unrealised fair value capital gain on investment	141	141	—	—
	29 164	15 163	21 729	14 899
Deferred tax assets	29 164	17 487	21 729	14 899
Deferred tax liabilities	—	(2 324)	—	—
	29 164	15 163	21 729	14 899

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

16. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

	GROUP				COMPANY	
	Total 2014 R000	Amounts resulting from temporary differences 2014 R000	Amounts transferred from assets classified as held-for-sale (refer to note 30) 2014 R000	2013 R000	2014 R000	2013 R000
Reconciliation between opening and closing balances:						
Deferred tax asset at the beginning of the year	15 163	15 163	—	13 257	14 899	13 179
Differences on taxable loss	5 575	4 938	637	41	—	—
Differences on provision for doubtful debts	(3 506)	(3 979)	473	(756)	(3 473)	(858)
Differences on amortisation of intangible assets	(3)	(3)	—	(2)	(3)	(2)
Differences on salary-related provisions	6 622	6 622	—	1 059	6 622	1 059
Differences on accelerated wear and tear	(1 410)	(1 410)	—	302	(739)	108
Differences on prepayments	(118)	(118)	—	(101)	38	(86)
Differences on minor assets	(7)	(7)	—	(6)	(7)	(6)
Differences on lease liability	(683)	(683)	—	517	(722)	435
Differences on other provisions	3 690	3 029	661	652	1 062	217
Differences on unrealised exchange gains and losses	(522)	(522)	—	(1 492)	(311)	(977)
Differences on deferred revenue	4 363	4 363	—	1 830	4 363	1 830
Differences on unrealised capital gains	—	—	—	(138)	—	—
Foreign currency translation reserve	(405)	(405)	—	(126)	(1)	—
	13 596	11 825	1 771	1 780	6 829	1 720
Deferred tax movement through the statement of comprehensive income – continuing operations	13 596	11 825	—	1 780	6 829	1 720
Deferred tax movement through the statement of financial position	405	405	—	126	—	—
Foreign currency translation reserve	405	405	—	126	—	—
	29 164	27 393	1 771	15 163	21 728	14 899

17. INVENTORIES

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Gross finished goods	1 081 035	721 292	731 232	467 321
Provision for obsolescence	(44 051)	(32 441)	(33 200)	(15 434)
Finished goods, net of provision for obsolescence	1 036 984	688 851	698 032	451 887
Inventories in transit	232 895	101 681	89 085	51 009
Total inventories	1 269 879	790 532	787 117	502 896

Service stock and trading stock obsolescence provisions are highly judgemental because of the very competitive nature of the business and the extremely short lifecycle of the product. Service stock is impaired depending on its age. The net realisable values of inventories are used to manage their cost. The net realisable value of inventory represents the estimated selling price in the current market at statement of financial position date. The Group provides for the amount which the cost of inventory is higher than the net realisable value multiplied by the units of stock on hand at statement of financial position date. Included above are the carrying amounts of inventory stated at net realisable value for the Group and company of R37.5 million (2013: R63.8 million) and R23.6 million (2013: R45.0 million) respectively.

The cost of inventory recognised as expense included in cost of sales during the current financial year was R4 425.7 million (2013: R3 891.9 million).

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.

18. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Trade receivables	790 103	643 157	410 240	347 569
Other receivables	48 933	35 957	30 546	24 344
Total current trade and other receivables	839 036	679 114	440 786	371 913

Included in trade and other receivables for the current year is an amount of R9.7 million (2013: R9.7 million) relating to disposed subsidiary Mecer Digital Do Brazil Limited. The Chief Executive Officer of Mustek Limited, DC Kan, provided a personal guarantee of USD2.8 million if this amount is not paid by 30 August 2010. As at 30 June 2014, this guarantee was not yet called on by the Board of directors, but an amount of R6 million has been repaid by DC Kan during the previous financial year.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

18. TRADE AND OTHER RECEIVABLES *(continued)*

Other information

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment. The provision for doubtful debts was based on a combination of specifically identified doubtful debtors and providing for older debtors. The directors believe that the provision appears to be appropriate and not excessive. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group performs ongoing credit valuations of the financial condition of customers, and where appropriate, credit guarantee insurance is purchased for 85% (2013: 85%) of the value of individual trade receivables subject to an insurance deductible. Note that the majority of trade receivables are encumbered (see above and note 21).

The average credit period on sale of goods and services are between 30 and 60 days (2013: 30 and 60 days) from date of invoice. Generally, no interest is charged on trade receivables. Of the trade receivable balance at year-end, R188.6 million (2013: R202.1 million) and R23.6 million (2013: R36.8 million) is due from the Group and the company's largest customers, respectively. Trade receivables are stated at amortised cost, which normally approximate their fair value due to short-term maturity.

It is the Group's policy to provide credit terms with deferred payment terms to approved dealers, government departments and parastatals, and to allow an account to exceed its credit limit by a maximum of 50% of the original credit limit for temporary periods, subject to the necessary approval. Limits are revised regularly according to the customer's requirements and payment history. When an insured limit is exceeded temporarily, an application is immediately sent to the insurer requesting an extension of the insured limit.

Doubtful debt allowance

The Group and company's trade receivables are stated after allowances for doubtful debts based on management's assessment of creditworthiness, an analysis of which is as follows:

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Balance at the beginning of the year	7 900	10 963	5 465	7 253
Amounts transferred from assets classified as held-for-sale (refer note 30)	1 447	—	—	—
Net amounts written off as uncollectable	(4 145)	(3 509)	(2 457)	—
Charged to profit and loss	9 538	446	8 535	(1 788)
Balance at the end of the year	14 740	7 900	11 543	5 465

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash, funds on call and short-term deposits. The carrying amount of these assets approximates their fair value. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

20. STATED CAPITAL AND SHARE PREMIUM

	GROUP AND COMPANY	
	2014 R000	2013 R000
Authorised share capital:		
250 000 000 ordinary shares (2013: 250 000 000 ordinary shares)	n/a	n/a
Issued share capital/ordinary stated capital:		
Opening balance: 108 433 165 ordinary shares (2013: 108 433 165 ordinary shares)	117 916	868
Shares bought back: 5 550 405 ordinary shares (2013: 36 000 ordinary shares of R0.008 each)	(36 327)	—
Ordinary share premium converted to ordinary stated capital	—	117 048
Shares issued: 3 800 000 ordinary shares	38 038	—
Closing balance: 106 682 760 ordinary shares (2013: 108 433 165 ordinary shares)	119 627	117 916
Ordinary share premium		
Opening balance	—	117 257
Shares bought back	—	(209)
Ordinary share premium converted to ordinary stated capital	—	(117 048)
Closing balance	—	—

	Number of shares 000	Number of shares 000
Ordinary shares		
Balance at the beginning of the year	108 433	108 469
Shares bought back	(5 550)	(36)
Shares issued	3 800	—
Balance at the end of the year	106 683	108 433

During the previous financial year, the company combined its par value share capital and share premium as no par value share capital in terms of the Companies Act (Act 71 of 2008).

These shares exclude the 1 940 000 (2013: 5 740 000) share options granted and exercised but not yet delivered to participants in terms of the Mustek executive share scheme.

Taiwan Depository Receipts (TDRs) are listed on the Taiwan Securities Exchange. At 30 June 2014, no TDRs were in issue (2013: nil). Each TDR is linked to one Mustek Limited share.

During the previous financial year, 36 000 TDRs listed on the Taiwan Securities Exchange and representing 36 000 ordinary shares were bought back at an average price of R5.81 per share.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

21. BORROWINGS

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Interest-bearing				
Unsecured – at amortised cost				
Bank overdrafts	277 306	216 589	255 397	205 242
Secured – at amortised cost				
Mortgage and term loans	24 724	—	—	—
Total interest-bearing borrowings	302 030	216 589	255 397	205 242
Interest-free				
Unsecured – financial liabilities				
Cash-settled share-based payment liability	9 101	2 145	8 984	2 145
Interest-free				
Unsecured – non-financial liabilities				
Operating lease liabilities	2 437	4 873	1 970	4 552
Total interest-free borrowings	11 538	7 018	10 954	6 697
Total borrowings	313 568	223 607	266 351	211 939
The borrowings are repayable as follows:				
On demand or within one year	278 780	216 770	255 414	205 423
In the second year	11 896	1 396	10 269	1 371
In the third to fifth years inclusive	22 892	5 441	668	5 145
Total borrowings	313 568	223 607	266 351	211 939
Bank overdrafts	(277 306)	(216 589)	(255 397)	(205 242)
Amounts due for settlement within 12 months	(1 474)	(181)	(17)	(181)
Long-term borrowings	34 788	6 837	10 937	6 516
Consisting of:				
Interest-bearing borrowings	302 030	216 589	255 397	205 242
Interest-free borrowings	11 538	7 018	10 954	6 697
	313 568	223 607	266 351	211 939

21. BORROWINGS *(continued)*

Additional information

Included in borrowings are the following:

Accounts receivable securitisation loans

Included in bank overdrafts, is an amount of R255.1 million (2013: R205.2 million), which represents general banking facility from the Bank of China Limited, bearing interest at JIBAR plus 2.2% (2013: 2.2%) and is repayable by 31 January 2015 (2013: 31 January 2014). This loan is classified as held-to-maturity and carried at amortised cost. The facility is secured over accounts receivable in Mustek Limited and a working capital ratio of more than one needs to be maintained by Mustek Limited. Furthermore, the total facility of R360 million (2013: R360 million) is limited to 90% of the trade receivables less than 90 days of age, in Mustek Limited.

Mortgage and term loans

Included in mortgage and term loans, is a loan of R24.7 million (2013: R22.8 million), denominated in Australian Dollar, bearing interest at a fixed interest rate of 8.3%, secured over land and buildings with a net book value of R25.3 million (2013: R26.1 million) and with interest and capital payments commencing on 1 March 2006 and payable until 31 March 2026.

Operating lease liabilities

Operating lease liabilities occur in the earlier years of long-term operating lease contracts with fixed escalation clauses. An equal amount is expensed every year whilst the cash flows normally escalate. These liabilities are not financial instruments, are not secured and do not have an interest component attached to them.

All obligations are denominated in Rand, except as noted above.

Borrowing powers, borrowing capacity and banking facilities

In terms of the Memorandum of Incorporation, the company's borrowing powers are unlimited. The Group has the following banking facilities amounting to R1 398.8 million (2013: R1 364.0 million):

	GROUP	
	2014 R000	2013 R000
General overdraft and similar facilities	**833 494**	793 442
Letters of credit facilities	**565 316**	570 558
	1 398 810	1 364 000

22. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2014 R000	2013 R000	**2014 R000**	2013 R000
Letters of credit and trade finance payables	**448 420**	378 807	**204 763**	192 456
Trade payables	**890 116**	683 257	**482 391**	388 699
Other payables	**21 405**	14 892	**3 670**	4 991
Accruals	**40 504**	18 135	**31 060**	12 774
Total trade and other payables	**1 400 445**	1 095 091	**721 884**	598 920

The Group obtained import letters of credit facilities to replace the trade finance facility of the previous years. The letters of credit supply a 120 day trade payment term to the company. The maximum facility available to the company is R597.6 million (2013: R570.6) and interest is calculated at LIBOR plus 2.2% (2013: 2.2%). These facilities are carried at amortised cost.

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases stated is 121 days (2013: 108 days).

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

22. TRADE AND OTHER PAYABLES AND PROVISIONS *(continued)*

The following movements occurred in accruals:

GROUP 2014	Leave pay accrual R000	Bonus accrual R000	Total R000
Opening carrying amount	9 177	8 958	18 135
Amounts transferred to assets classified as held-for-sale (refer note 30)	1 634	—	1 634
Additional accrual	11 890	39 291	51 181
Amounts used	(13 343)	(17 074)	(30 417)
Amounts unused reversed	(29)	—	(29)
Closing carrying amount	9 329	31 175	40 504
COMPANY 2014			
Opening carrying amount	8 365	4 409	12 774
Additional accrual	10 984	30 466	41 450
Amounts used	(11 864)	(11 300)	(23 164)
Closing carrying amount	7 485	23 575	31 060

GROUP 2013	Leave pay accrual R000	Bonus accrual R000	Total R000
Opening carrying amount	8 296	5 297	13 593
Additional accrual	5 066	27 877	32 943
Amounts used	(3 581)	(24 820)	(28 401)
Amounts reclassified	(604)	604	—
Closing carrying amount	9 177	8 958	18 135
COMPANY 2013			
Opening carrying amount	6 865	4 062	10 927
Additional accrual	4 503	22 642	27 145
Amounts used	(3 003)	(22 295)	(25 298)
Closing carrying amount	8 365	4 409	12 774

Employee entitlements to annual leave are recognised as services are rendered. An accrual, based on total employment cost, is raised for the estimated liabilities as a result of services rendered by employees up to statement of financial position date.

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

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

23.1 Categories of financial instruments

GROUP 2014	Notes	Total R000	Held-for-trading* R000	Loans and receivables R000	Available-for-sale R000	Financial liabilities at amortised cost R000	Finance lease receivables and payables R000	Equity and non-financial assets and liabilities R000
ASSETS								
Non-current assets								
Property, plant and equipment	10	160 029	–	–	–	–	–	160 029
Intangible assets	11	60 032	–	–	–	–	–	60 032
Investments in associates	13	51 589	–	51 589	–	–	–	–
Other investments and loans	15	70 894	–	52 152	18 742	–	–	–
Deferred tax asset	16	29 164	–	–	–	–	–	29 164
Current assets								
Inventories	17	1 269 879	–	–	–	–	–	1 269 879
Trade and other receivables	18	839 036	–	810 615	–	–	–	28 421
Foreign currency assets	23	839	839	–	–	–	–	–
Tax assets		16 555	–	–	–	–	–	16 555
Bank balances and cash	19	203 163	–	203 163	–	–	–	–
TOTAL ASSETS		2 701 180	839	1 117 519	18 742	–	–	1 564 080
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	119 627	–	–	–	–	–	119 627
Ordinary share premium		–	–	–	–	–	–	–
Retained earnings		791 787	–	–	–	–	–	791 787
Non-distributable reserve		809	–	–	–	–	–	809
Foreign currency translation reserve		3 829	–	–	–	–	–	3 829
Equity attributable to equity holders of the parent		916 052	–	–	–	–	–	916 052
Non-controlling interest		18 461	–	–	–	–	–	18 461
Total equity		934 513	–	–	–	–	–	934 513
Non-current liabilities								
Long-term borrowings	21	34 788	–	–	–	34 788	–	–
Deferred tax liability	16	–	–	–	–	–	–	–
Deferred income	33	14 725	–	–	–	–	–	14 725
Current liabilities								
Short-term borrowings	21	1 474	–	–	–	1 474	–	–
Trade and other payables	22	1 400 445	–	–	–	1 400 136	–	309
Foreign currency liabilities	23	2 452	2 452	–	–	–	–	–
Deferred income	33	35 470	–	–	–	–	–	35 470
Tax liabilities		7	–	–	–	–	–	7
Bank overdrafts	21	277 306	–	–	–	277 306	–	–
Total liabilities		1 766 667	2 452	–	–	1 713 704	–	50 511
TOTAL EQUITY AND LIABILITIES		2 701 180	2 452	–	–	1 713 704	–	985 024

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.1 Categories of financial instruments *(continued)*

GROUP 2013	Notes	Total R000	Held-for-trading* R000	Loans and receivables R000	Available-for-sale R000	Financial liabilities at amortised cost R000	Finance lease receivables and payables R000	Equity and non-financial assets and liabilities R000
ASSETS								
Non-current assets								
Property, plant and equipment	10	120 462	—	—	—	—	—	120 462
Intangible assets	11	57 489	—	—	—	—	—	57 489
Investments in associates	13	7 795	—	7 795	—	—	—	—
Other investments and loans	15	31 455	—	3 342	28 113	—	—	—
Deferred tax asset	16	17 487	—	—	—	—	—	17 487
Current assets								
Inventories	17	790 532	—	—	—	—	—	790 532
Trade and other receivables	18	679 114	—	636 084	—	—	—	43 030
Foreign currency assets	23	8 825	8 825	—	—	—	—	—
Tax assets		—	—	—	—	—	—	—
Bank balances and cash	19	455 572	—	455 572	—	—	—	—
Assets classified as held-for-sale	30	64 588	—	—	64 588	—	—	—
TOTAL ASSETS		2 233 319	8 825	1 102 793	92 701	—	—	1 029 000
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	117 257	—	—	—	—	—	117 257
Retained earnings		639 655	—	—	—	—	—	639 655
Non-distributable reserve		809	—	—	—	—	—	809
Foreign currency translation reserve		1 500		—	—	—	—	1 500
Equity attributable to equity holders of the parent		826 365	—	—	—	—	—	826 365
Non-controlling interest		12 546	—	—	—	—	—	12 546
Total equity		838 911	—	—	—	—	—	838 911
Non-current liabilities								
Long-term borrowings	21	6 837	—	—	—	6 837	—	—
Deferred tax liability	16	2 324	—	—	—	—	—	2 324
Deferred income	33	16 650	—	—	—	—	—	16 650
Current liabilities								
Short-term borrowings	21	181	—	—	—	181	—	—
Trade and other payables	22	1 095 091	—	—	—	1 089 588	—	5 503
Foreign currency liabilities	23	3 223	3 223	—	—	—	—	—
Deferred income	33	17 966	—	—	—	—	—	17 966
Tax liabilities		8 653	—	—	—	—	—	8 653
Bank overdrafts	21	216 589	—	—	—	216 589	—	—
Liabilities directly associated with assets classified as held-for-sale	30	26 894	—	—	26 894	—	—	—
Total liabilities		1 394 408	3 223	—	26 894	1 313 195	—	51 096
TOTAL EQUITY AND LIABILITIES		2 233 319	3 223	—	26 894	1 313 195	—	890 007

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

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.1 Categories of financial instruments *(continued)*

COMPANY 2014	Notes	Total R000	Held-for-trading* R000	Loans and receivables R000	Available-for-sale R000	Financial liabilities at amortised cost R000	Finance lease receivables and payables R000	Equity and non-financial assets and liabilities R000
ASSETS								
Non-current assets								
Property, plant and equipment	10	27 801	–	–	–	–	–	27 801
Intangible assets	11	9 478	–	–	–	–	–	9 478
Investments in subsidiaries	12	258 341	–	–	–	–	–	258 341
Investments in associates	13	15 029	–	15 029	–	–	–	–
Other investments and loans	15	61 153	–	52 152	9 001	–	–	–
Deferred tax asset	16	21 729	–	–	–	–	–	21 729
Current assets								
Inventories	17	787 117	–	–	–	–	–	787 117
Trade and other receivables	18	440 786	–	436 081	–	–	–	4 705
Foreign currency assets	23	655	655	–	–	–	–	–
Tax assets		15 743	–	–	–	–	–	15 743
Bank balances and cash	19	120 368	–	120 368	–	–	–	–
TOTAL ASSETS		1 758 200	655	623 630	9 001	–	–	1 124 914
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	119 627	–	–	–	–	–	119 627
Ordinary share premium		–	–	–	–	–	–	–
Retained earnings		475 698	–	–	–	–	–	475 698
Total equity		595 325	–	–	–	–	–	595 325
Non-current liabilities								
Long-term borrowings	21	10 937	–	–	–	10 937	–	–
Deferred income	33	14 725	–	–	–	–	–	14 725
Current liabilities								
Short-term borrowings	21	17	–	–	–	17	–	–
Trade and other payables	22	721 884	–	–	–	721 884	–	–
Foreign currency liabilities	23	1 552	1 552	–	–	–	–	–
Loans owing to subsidiaries	12	122 895	–	–	–	122 895	–	–
Deferred income	33	35 468	–	–	–	–	–	35 468
Tax liabilities		–	–	–	–	–	–	–
Bank overdrafts	21	255 397	–	–	–	255 397	–	–
Total liabilities		1 162 875	1 552	–	–	1 111 130	–	50 193
TOTAL EQUITY AND LIABILITIES		1 758 200	1 552	–	–	1 111 130	–	645 518

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.1 Categories of financial instruments *(continued)*

COMPANY 2013	Notes	Total R000	Held-for-trading* R000	Loans and receivables R000	Available-for-sale R000	Financial liabilities at amortised cost R000	Finance lease receivables and payables R000	Equity and non-financial assets and liabilities R000
ASSETS								
Non-current assets								
Property, plant and equipment	10	25 213	–	–	–	–	–	25 213
Intangible assets	11	8 156	–	–	–	–	–	8 156
Investments in subsidiaries	12	235 002	–	–	–	–	–	235 002
Investments in associates	13	1 556	–	1 556	–	–	–	–
Other investments and loans	15	16 843	–	3 342	13 501	–	–	–
Deferred tax asset	16	14 899	–	–	–	–	–	14 899
Current assets								
Inventories	17	502 896	–	–	–	–	–	502 896
Trade and other receivables	18	371 913	–	337 756	–	–	–	34 157
Foreign currency assets	23	5 895	5 895	–	–	–	–	–
Bank balances and cash	19	328 296	–	328 296	–	–	–	–
TOTAL ASSETS		1 510 669	5 895	670 950	13 501	–	–	820 323
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	117 916	–	–	–	–	–	117 916
Retained earnings		409 431	–	–	–	–	–	409 431
Total equity		527 347	–	–	–	–	–	527 347
Non-current liabilities								
Long-term borrowings	21	6 516	–	–	–	6 516	–	–
Deferred income	33	16 650	–	–	–	–	–	16 650
Current liabilities								
Short-term borrowings	21	181	–	–	–	181	–	–
Trade and other payables	22	598 920	–	–	–	598 920	–	–
Foreign currency liabilities	23	2 675	2 675	–	–	–	–	–
Loans owing to subsidiaries	12	132 619	–	–	–	132 619	–	–
Deferred income	33	17 965	–	–	–	–	–	17 965
Tax liabilities		2 554	–	–	–	–	–	2 554
Bank overdrafts	21	205 242	–	–	–	205 242	–	–
Total liabilities		983 322	2 675	–	–	943 478	–	37 169
TOTAL EQUITY AND LIABILITIES		1 510 669	2 675	–	–	943 478	–	564 516

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

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.2 Risk management

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

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives and exposure levels are governed by the Group's policies approved by the Board of directors. The Group does not use derivative financial instruments for speculative purposes. The Group enters into financial instruments to manage and reduce the possible adverse impact on earnings of changes in interest rates and foreign currency exchange rates.

23.2.1 Market risk

The Group's activities expose it primarily to the risks of fluctuations in foreign currency exchange rates, interest rates and equity price risks.

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk.

The Group enters into various derivative financial instruments to manage its exposure to foreign currency risk, including foreign exchange forward contracts and call and put options to manage the exchange rate risk arising on foreign denominated transactions.

Market risk exposures are measured using sensitivity analysis. A sensitivity analysis shows how profit before taxation and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

23.2.1.1 Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

It is the Group's policy to enter into foreign exchange forward contracts to buy/sell specified amounts of foreign currencies in the future at a predetermined exchange rate for approximately 50% of the Group's foreign currency commitments. The Group uses contracts with terms of up to 120 days. The contracts are entered into to manage the Group's exposure to fluctuations in foreign currency exchange rates.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.2 Risk management *(continued)*

23.2.1 Market risk *(continued)*

23.2.1.1 Foreign currency risk management *(continued)*

At statement of financial position date, the company and Group had contracted to buy/sell the following amounts under forward exchange contracts:

	Rate		Foreign currency		Contract value		Fair value assets (liabilities)	
GROUP	**2014 R/US$**	2013 R/US$	**2014 R000**	2013 R000	**2014 R000**	2013 R000	**2014 R000**	2013 R000
BUY:								
US Dollars								
Less than three months	**10.67**	9.85	**37 958**	39 149	**404 846**	385 764	**(1 262)**	5 665
Three to six months	**10.76**	10.15	**3 173**	1 314	**34 134**	13 342	**(351)**	(63)
							(1 613)	5 602
Foreign currency assets							**839**	8 825
Foreign currency liabilities							**(2 452)**	(3 223)
							(1 613)	5 602
COMPANY								
BUY:								
US Dollars								
Less than three months	**10.66**	9.88	**28 674**	28 639	**305 771**	282 864	**(896)**	6 798
							(896)	6 798
Foreign currency assets							**655**	5 895
Foreign currency liabilities							**(1 552)**	(2 675)
							(897)	3 220

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

	Average spot rate		Closing spot rate	
	2014 R	2013 R	**2014 R**	2013 R
US Dollars	**10.39**	8.85	**10.58**	9.96
Euro	**14.11**	11.46	**14.44**	13.13

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.2 Risk management *(continued)*

23.2.1 Market risk *(continued)*

23.2.1.1 Foreign currency risk management *(continued)*

The Group and company have various monetary assets and liabilities in currencies other than their functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group and company according to the different functional currencies of each entity within the Group.

Functional currency (liabilities) assets	2014 United States Dollar R000	2014 Euro R000	2014 Other* R000	2013 United States Dollar R000	2013 Euro R000	2013 Other* R000
GROUP						
South African Rand	(720 897)	(46 601)	16 587	(457 854)	1	11 236
Kenyan Shilling	(20 380)	—	11 001	(7 158)	—	2 347
	(741 277)	(46 601)	27 588	(465 012)	1	13 583
COMPANY						
South African Rand	(388 391)	(46 602)	—	(178 464)	(1 225)	4 434
	(388 391)	(46 602)	—	(178 464)	(1 225)	4 434

* *Other currencies include Kenyan Shilling, British Pound, United Arab Emirates Dirham, Namibia Dollar, Lesotho Maluti and Zambian Kwacha.*

Foreign currency sensitivity analysis

The Group is mainly exposed to United States Dollar and the Euro. The following table details the Group's sensitivity to a 10% increase and decrease in the United States Dollar against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items such as cash balances, trade receivables, trade payables and loans and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number represents a gain whilst a negative number represents a loss. A 10% decrease in the United States Dollar against each foreign currency exchange rate would have an equal but opposite effect, on the basis that all other variables remain constant. It ignores the effect of any foreign exchange forward contracts that would have mitigated the risk. There were no changes in the methods and assumptions used in preparing the foreign currency sensitivity analysis.

	2014 R000	2013 R000
GROUP		
Profit before tax	72 226	47 860
COMPANY		
Profit before tax	34 179	18 167

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.2 Risk management *(continued)*

23.2.1 Market risk *(continued)*

23.2.1.2 Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group and company's interest rate profile consists of fixed and floating rate loans and bank balances which exposes the Group and company to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Financial liabilities				
Loans received at fixed rates of interest	24 724	22 766	—	—
Loans received and bank borrowings linked to LIBOR	470 329	390 153	204 763	192 456
Loans received and bank borrowings linked to JIBAR	255 397	205 242	255 397	205 242
	750 450	618 161	460 160	397 698
Financial assets				
Loans granted at fixed rates of interest	2 558	3 343	2 558	3 343
Loans granted and bank deposits linked to South African prime rates	171 437	226 515	56 419	102 609
Bank deposits linked to LIBOR	58 844	227 297	50 647	227 167
Bank deposits linked to money market rates	13 302	76	13 302	76
Bank deposits linked to Australian prime rates	9 115	11 028	—	—
Bank deposits linked to Kenyan prime rates	2 149	3 100	—	—
Bank deposits linked to other foreign prime rates	137	140	—	—
	257 542	471 499	122 926	333 195

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the statement of financial position date. The analysis is prepared assuming the amount of the instrument outstanding at the statement of financial position date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel. If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group and company's profit before tax for the year ended 30 June 2014 would decrease/increase by R4.7 million (2013: R1.3 million) and R3.4 million (2013: R2.2 million), respectively.

23.2.1.3 Price risk

The Group is exposed to equity price risk arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. If equity had been 5% higher/lower:

- profit before tax for the years ended 30 June 2014 and 30 June 2013 would have been unaffected as the equity investments are classified as available-for-sale with all fair value adjustments recognised directly in equity.
- investment revaluation reserve for the year ended 30 June 2014 would decrease/increase by R nil (2013: R nil).

The Group's sensitivity to equity prices has not changed significantly from the prior year.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.2 Risk management *(continued)*

23.2.2 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group limits its counterparty exposure arising from money market and derivative instruments by only dealing with well-established financial institutions of high credit standing. The Group's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded are spread amongst approved counterparties.

Financial assets, which potentially subject the Group to concentrations of credit risk, consists principally of cash and cash equivalents, foreign exchange forward contracts, loans and receivables, investments and trade and other receivables. Financial guarantees granted also subject the Group to credit risk.

With respect to the foreign exchange forward contracts, the Group's exposure is on the full amount of the foreign currency payable on settlement. The Group minimises credit risk relating to foreign exchange forward contracts by limiting the counterparties to major local and international banks, and does not expect to incur any losses as a result of non-performance by these counterparties.

Financial assets recorded in the financial statements, which are net of impairment losses, represent the company and Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Refer to notes 18 and 19 for additional information relating to credit risk.

The maximum credit exposure of forward exchange contracts is represented by the fair value of these contracts.

The maximum credit exposure of financial guarantee contracts granted is the maximum amount the Group could be required to pay, or fund, without consideration of the probability of the actual outcome.

The Group holds collateral over certain trade and other receivables. The collateral is made up of demand guarantees from financial institutions and can be exercised on liquidation of the debtor. The collateral held amounted to R540.7 million (2013: R456.8 million) and R218.4 million (2013: R174.0 million) for the Group and company, respectively.

There has been no significant change during the financial year, or since the end of the financial year, to the Group or company's exposure to credit risk, the approach to the measurement or the objectives, policies and processes for managing this risk.

The following represents information on the credit quality of trade receivables that are neither past due nor impaired:

	GROUP		COMPANY	
	2014 %	2013 %	2014 %	2013 %
High	–	–	–	–
Medium	–	–	–	–
Low	100	100	100	100
	100	100	100	100

Definitions

High: The probability exists that the debtor has defaulted in payments and entered into a delinquency scenario.

Medium: The probability exists that the debtor is experiencing financial difficulties and is in arrears. The debtor is being managed closely to collect all overdue accounts.

Low: No default in payment has occurred or is anticipated for the debtor.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.2 Risk management *(continued)*

23.2.2 Credit risk *(continued)*

The following represents an analysis of the age of financial assets that are past due but not impaired:

	Total R000	1 – 30 days past due R000	31– 60 days past due R000	61– 90 days past due R000	91–120 days past due R000
GROUP 2014					
Trade and other receivables – South Africa	56 065	24 303	12 801	6 873	12 088
Trade and other receivables – non-South African	15 178	2 416	1 634	1 681	9 447
	71 243	26 719	14 435	8 554	21 535
GROUP 2013					
Trade and other receivables – South Africa	59 609	27 520	28 235	2 223	1 631
Trade and other receivables – non-South African	4 064	2 202	1 776	3	83
	63 673	29 722	30 011	2 226	1 714
COMPANY 2014					
Trade and other receivables – South Africa	55 524	23 881	12 755	6 849	12 039
Trade and other receivables – non-South African	15 178	2 416	1 634	1 681	9 447
	70 702	26 297	14 389	8 530	21 486
COMPANY 2013					
Trade and other receivables – South Africa	46 333	19 718	24 323	671	1 621
Trade and other receivables – non-South African	4 064	2 202	1 776	3	83
	50 397	21 920	26 099	674	1 704

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.2 Risk management *(continued)*

23.2.3 Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

In terms of its borrowing requirements, the Group ensures that adequate funds are available to meet its expected and unexpected financial commitments by maintaining adequate reserves, banking facilities, reserve borrowing facilities and matching the maturity profiles of financial assets and liabilities. Included in note 21 is a listing of the Group and company's borrowing powers, borrowing capacity and banking facilities.

The following table details the Group and company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and company can be required to pay.

	Total R000	0 – 1 year R000	2 years R000	3 – 5 years R000	5 years + R000
GROUP 2014					
Non-interest-bearing	**952 025**	**952 025**	**—**	**—**	**—**
Variable interest rate instruments	**725 726**	**725 726**	**—**	**—**	**—**
Fixed interest rate instruments	**24 723**	**1 445**	**1 445**	**4 335**	**17 498**
	1 702 474	**1 679 196**	**1 445**	**4 335**	**17 498**
GROUP 2013					
Non-interest-bearing	716 284	716 284	—	—	—
Variable interest rate instruments	595 395	595 395	—	—	—
Fixed interest rate instruments	22 766	1 331	1 331	3 992	16 112
	1 334 445	1 313 010	1 331	3 992	16 112
COMPANY 2014					
Non-interest-bearing	**517 121**	**517 121**	**—**	**—**	**—**
Variable interest rate instruments	**460 159**	**460 159**	**—**	**—**	**—**
	977 280	**977 280**	**—**	**—**	**—**
COMPANY 2013					
Non-interest-bearing	406 464	406 464	—	—	—
Variable interest rate instruments	397 698	397 698	—	—	—
	804 162	804 162	—	—	—

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.2 Risk management *(continued)*

23.2.4 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 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 net debt-to-equity ratio of 30% to 40%.

Group equity comprises equity attributable to equity holders of the parent.

The gearing ratio at year-end was as follows:

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Total interest-bearing debt	750 450	618 161	460 160	397 698
Bank balances and cash	(203 163)	(455 572)	(120 368)	(328 296)
Net interest-bearing debt	547 287	162 589	339 792	69 402
Equity	916 052	826 365	595 325	527 347
Net debt-to-equity ratio (%)	59.7	19.7	57.1	13.2
Total debt-to-equity ratio (%)	81.9	74.8	77.3	75.4

23.3 Net gains (losses) on financial instruments

Net gains (losses) on financial instruments analysed by category are as follows:

	GROUP 2014 R000	GROUP 2013 R000	COMPANY 2014 R000	COMPANY 2013 R000
Financial assets and financial liabilities at fair value through profit or loss, classified as held-for-trading	(1 614)	10 024	3 235	3 219
Loans and receivables (including bank and cash)	6 388	4 384	10 549	6 964
Financial liabilities held at amortised cost	(72 061)	(100 319)	(46 723)	(57 767)
Net losses attributable to financial instruments	(67 287)	(85 911)	(32 939)	(47 584)

23.3.1 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- The fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.3 Net gains (losses) on financial instruments *(continued)*

23.3.2 Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position

Fair value measurements of financial assets and liabilities are analysed as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

GROUP 2014	Level 1 R000	Level 2 R000	Level 3 R000
Held-for-trading			
Foreign currency assets	–	839	–
Foreign currency liabilities	–	(2 452)	–
Total – held-for-trading	–	(1 613)	–
Available-for-sale			
Other investments and loans	–	–	18 741
Total – available-for-sale	–	–	18 741
Total financial assets and (liabilities) at fair value	–	(1 613)	18 741

COMPANY 2014	Level 1 R000	Level 2 R000	Level 3 R000
Held-for-trading			
Foreign currency assets	–	655	–
Foreign currency liabilities	–	(1 552)	–
Total – held-for-trading	–	(897)	–
Available-for-sale			
Other investments and loans	–	–	9 001
Total – available-for-sale	–	–	9 001
Total financial assets and (liabilities) at fair value	–	(897)	9 001

Reconciliation of Level 3 fair value measurements of financial assets and (liabilities):

	Short-term borrowings R000	Long-term borrowings R000	Other investments and loans R000
GROUP 2014	–	–	18 741
COMPANY 2014	–	–	9 001

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.3 Net gains (losses) on financial instruments *(continued)*

23.3.2 Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position *(continued)*

Fair value measurements of financial assets and liabilities are analysed as follows:

GROUP 2013	Level 1 R000	Level 2 R000	Level 3 R000
Held-for-trading			
Foreign currency assets	—	839	—
Foreign currency liabilities	—	(2 452)	—
Total – held-for-trading	—	(1 613)	—
Available-for-sale			
Other investments and loans	—	—	28 112
Total – available-for-sale	—	—	28 112
Total financial assets and (liabilities) at fair value	—	(1 613)	28 112

COMPANY 2013	Level 1 R000	Level 2 R000	Level 3 R000
Held-for-trading			
Foreign currency assets	—	655	—
Foreign currency liabilities	—	(1 552)	—
Total – held-for-trading	—	(897)	—
Available-for-sale			
Other investments and loans	—	—	13 501
Total – available-for-sale	—	—	13 501
Total financial assets and (liabilities) at fair value	—	(897)	13 501

Reconciliation of Level 3 fair value measurements of financial assets and (liabilities):

	Short-term borrowings R000	Long-term borrowings R000	Other investments and loans R000
GROUP 2013	—	—	28 112
COMPANY 2013	—	—	13 501

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.3 Net gains (losses) on financial instruments *(continued)*

23.3.2 Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position *(continued)*

The fair values of the abovementioned financial assets and liabilities are determined as follows:

Other investments and loans

Due to the restrictive nature of cross-border investment, the investment in Zinox Technologies Limited has been valued at net asset value. Based on the latest financial information available for Zinox Technologies Limited, the net asset value was found to approximate the carrying value of the investment and therefore no fair valuation adjustments or impairments have been recognised for this investment (refer note 15).

23.3.3 Fair value disclosure

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	2014		2013	
	Carrying amount R000	Fair value R000	Carrying amount R000	Fair value R000
GROUP				
Financial assets				
Loans and receivables:				
Non-current trade and other receivables	–	–	–	–
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	24 724	12 973	22 766	12 127
COMPANY				
Financial assets				
Loans and receivables:				
Non-current trade and other receivables	–	–	–	–
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	–	–	–	–

23.3.4 Assumptions used in determining fair value of financial assets and liabilities

Non-current trade and other receivables

The interest rate used to discount the cash flows of the non-current trade and other receivables is the South African prime rate of 9.0% (2013: 8.5%) and holding the credit risk margin constant.

Borrowings

The fair value of the fixed rate loans is determined based on interest rates applicable on similar loans on 30 June 2014 and 30 June 2013 respectively. All other variables remained constant.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

24. NET CASH FROM OPERATIONS

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Profit for the year	**104 183**	81 231	**87 954**	82 926
Adjustments for:				
Income tax expense	**39 400**	40 064	**32 161**	25 587
Interest income	**(6 388)**	(5 529)	**(4 598)**	(7 105)
Finance costs	**50 513**	46 072	**29 206**	22 496
Dividend income	**—**	—	**(6 903)**	—
Depreciation of property, plant and equipment	**14 128**	12 416	**6 885**	5 652
Net loss (profit) on disposal of plant and equipment	**(172)**	305	**78**	344
Unrealised foreign exchange losses	**(2 113)**	41 856	**(3 294)**	26 965
Fair value adjustments of derivative instruments	**1 614**	(10 024)	**897**	(3 219)
Share-based payment	**6 956**	—	**6 839**	—
Amortisation of intangible assets	**6 131**	6 879	**5 760**	5 225
Impairment of distribution right	**—**	3 445	**—**	—
Loss (profit) on disposal of associate	**739**	—	**(4 132)**	—
Profit on disposal of joint venture	**—**	(15 457)	**—**	(39 116)
Share of profit of associates	**(6 988)**	(4 290)	**—**	—
Impairment of investment in subsidiary	**—**	—	**952**	1 898
Operating cash flows before movements in working capital	**208 003**	196 968	**151 805**	121 653
Working capital movements	**(291 760)**	37 771	**(212 653)**	104 355
(Increase) decrease in inventories	**(463 875)**	(13 700)	**(283 922)**	59 510
(Increase) decrease in trade and other receivables	**(147 500)**	(94 472)	**(68 873)**	7 651
Increase in deferred income	**17 504**	3 775	**17 503**	3 832
Increase in trade and other payables	**302 111**	142 168	**122 639**	33 362
Net cash (used in) from operations	**(83 757)**	234 739	**(60 848)**	226 008

25. PROCEEDS ON DISPOSAL OF JOINT VENTURE

On 31 May 2013, the Group disposed of Comztek Holdings Proprietary Limited. The aggregate value of assets and liabilities were as follows:

	GROUP	
	2014 R000	2013 R000
Property, plant and equipment	–	2 214
Goodwill	–	2 193
Development costs	–	850
Other investments and loans	–	19
Inventories	–	38 843
Trade and other receivables	–	118 361
Bank balances and cash	–	37 344
Deferred tax asset	–	6 401
Foreign currency liability	–	4 422
Trade and other payables	–	(128 836)
Long-term borrowings	–	(53 500)
Deferred income	–	(234)
Tax asset	–	(1 009)
Net asset value disposed	–	27 068
Non-controlling interest	–	(3 409)
Profit on disposal	–	15 457
Total consideration	–	39 116
Cash and cash equivalents disposed	–	(37 344)
Net cash inflow	–	1 772

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

26. OPERATING LEASE ARRANGEMENTS

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:				
Cash due:				
During the ensuing year	23 423	26 376	20 106	23 034
In the second year	21 939	24 052	19 144	21 203
In the third to fifth year inclusive	8 275	28 022	6 002	23 356
Thereafter	1 620	—	1 620	—
	55 257	78 450	46 872	67 593
Operating lease liability	2 437	4 873	1 970	4 552
To be expensed:				
During the ensuing year	23 393	26 339	20 089	22 853
In the second year	20 473	22 669	17 859	19 832
In the third to fifth year inclusive	7 628	24 569	5 628	20 356
Thereafter	1 326	—	1 326	—
	55 257	78 450	46 872	67 593

Operating leases payments represent rentals payable by the Group for the use of the properties from which it operates. The duration of these leases vary between one and seven years. None of these leases have any renewal or purchase options, nor are any of these leases subject to any restrictive terms.

27. GUARANTEES AND CONTINGENT LIABILITIES

Limited guarantees

- Standby letter of credit for Intel International BV for US$0.5 million.
- R26.9 million guarantee of payment in favour of the South African Police Service.
- US$1.7 million guarantee of payment in favour of Lombard Insurance Company Limited, reducing in proportion to the stage of completion of related contracts for the supply of goods.
- US$3.0 million guarantee of payment in favour of Bank of China Limited on behalf of Mustek East Africa (Pty) Limited.
- US$1.0 million guarantee of payment in favour of HSBC Bank PLC on behalf of Mustek East Africa (Pty) Limited.
- US$0.5 million guarantee of payment in favour of Lenovo PC HK Limited on behalf of Mustek East Africa (Pty) Limited.
- R4.5 million guarantee of payment in favour of Department of Customs and Excise, South African Revenue Service.

Legal dispute

- The Group has no significant legal matters pending.

28. RETIREMENT BENEFIT PLANS

The Mustek Group Retirement Fund, a defined contribution fund, was established with effect from 1 January 1998. The fund has been registered by the Registrar of Pension Funds and is governed by the Pension Funds Act No 24 of 1956 as amended. The majority of the Group's employees belong to this fund.

29. INTERESTS OF DIRECTORS IN CONTRACTS

Mustek Limited has entered into a lease agreement with Mustek Electronics Properties Proprietary Limited, with effect from 1 September 2011 and terminating on 31 August 2016. David Kan, Chief Executive Officer of Mustek Limited, is both a director and the majority shareholder of Mustek Electronics Properties Proprietary Limited. Lease payments to the amount of R15.6 million (2013: R14.4 million) was paid with regards to the lease agreement (refer note 31).

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.

30. ASSETS CLASSIFIED AS HELD-FOR-SALE

At the end of the 2013 financial year, management was of the intention to dispose of the Group's share in Rectron Australia BV within the 12 months following the end of that financial year. The aforementioned company was treated as discontinued operation (refer note 8) and its assets and liabilities classified as held-for-sale, as management was committed to a plan to sell the companies and an active programme to locate buyers and complete the plan have been initiated.

Rectron Australia BV was classified as a discontinued operation at 30 June 2013. During the year, management took a decision not to dispose of the company after it incurred significant losses. New management was appointed effective January 2014 and the Board is confident that the company will return to profitability during the 2015 financial year. As a result, the comparative numbers have been represented to include the results of Rectron Australia BV as part of continuing operations.

The assets and liabilities of Rectron Australia BV was also transferred from assets classified as held-for-sale to their respective categories of assets and liabilities with effect from 1 July 2013 for purposes of this set of financial statements.

The major classes of assets and liabilities of Rectron Australia BV transferred to their respective categories of assets and liabilities are as follows:

	Rectron Australia 2013 R000
ASSETS	
Non-current assets	
Property, plant and equipment	23 997
Deferred tax assets	1 771
Current assets	
Inventories	15 173
Trade and other receivables	12 422
Tax assets	197
Bank balances and cash	11 028
TOTAL ASSETS	64 588
LIABILITIES	
Non-current liabilities	
Long-term borrowings	21 435
Current liabilities	
Trade and other payables	1 330
Short-term borrowings	4 129
TOTAL LIABILITIES	26 894
TOTAL NET ASSET VALUE	37 694

Notes to the annual financial statements (continued)

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31. RELATED-PARTY TRANSACTIONS

During the 2014 financial year the company had the following related parties:

SUBSIDIARIES

2014 Related party	Type of transaction R000	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Brobusmac Investments (Pty) Limited	Loan	—	(7 960)
Mecer Technology Limited	Investment	(6 629)	—
	Management fees	(1 687)	—
	Purchases	(3 138)	(900)
Makeshift 1000 (Pty) Limited[4]	Loan	—	43 192
Mustek Capital (Pty) Limited[1]	Loan	—	(10 520)
Mustek East Africa Limited[1]	Sales	3 221	(1 081)
	Loan	(1 834)	22 375
Mustek Lesotho (Pty) Limited[6]	Sales	—	—
	Loan	339	952
Mustek Limited Company Limited[2]	Loan	—	3 511
Mustek Middle East FZCO[1,5]	Loan	—	1 118
Quickstep 94 (Pty) Limited[3]	Purchases	(9)	—
	Management fees	120	—
	Loan	(1 000)	19 815
Rectron Holdings Limited[1]	Sales	144 324	258
	Purchases	(284 149)	(22 458)
Tradeselect 38 (Pty) Limited	Loan	—	(11 912)

Note: Refer to note 12 for a complete list of subsidiaries and further details about these entities.

[1] *Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

[2] *R3.5 million of the amount outstanding has been impaired to date.*

[3] *R16.8 million of the amount outstanding has been impaired to date.*

[4] *R43.1 million of the amount outstanding has been impaired to date.*

[5] *R1.1 million of the amount outstanding has been impaired to date.*

[6] *R10 million of the amount outstanding has been impaired to date.*

31. RELATED-PARTY TRANSACTIONS *(continued)*

ASSOCIATES

2014 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Khauleza IT Solutions (Pty) Limited[1]	Loan	–	–
Continuous Power Systems (Pty) Limited[1]	Loan	(6 624)	8 180

Note: Refer to note 13 for a complete list of associates.

[1] *Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

JOINT VENTURE

2014 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Comztek (Pty) Limited[1]	Purchases	–	–
	Sales	–	–

[1] *Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

OTHER RELATED PARTIES

2014 Related party	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Columbus Technologies (Pty) Limited[1]	Previous associate	Loan	(144)	1 817
Mustek Electronics Properties (Pty) Limited[2]	Common directorship	Current account	442	–
	Common directorship	Operating lease	(15 604)	–

[1] *Columbus Technologies (Pty) Limited is no longer a related party but the loan amount above was made to Columbus Technologies (Pty) Limited while it was an associate of the company.*

[2] *Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

31. RELATED-PARTY TRANSACTIONS *(continued)*

During the 2013 financial year the company had the following related parties:

SUBSIDIARIES

2013 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Brobusmac Investments (Pty) Limited	Loan	—	(7 960)
Makeshift 1000 (Pty) Limited[4]	Loan	(50)	43 192
Mustek Capital (Pty) Limited[1]	Loan	—	(10 520)
Mustek East Africa Limited[1]	Sales	7 270	4 434
	Loan	(3 795)	20 541
Mustek Limited Company Limited[2]	Loan	(129)	3 511
Mustek Lesotho (Pty) Limited	Sales	253	14
	Loan	(469)	1 291
Mustek Middle East FZCO[1,5]	Loan	—	1 118
Quickstep 94 (Pty) Limited[3]	Purchases	(116)	—
	Management fees	120	—
	Loan	(669)	18 815
Rectron Holdings Limited[1]	Sales	53 352	2 172
	Purchases	(261 496)	(15 391)
Tradeselect 38 (Pty) Limited	Loan	2	(11 912)

Note: Refer to note 12 for a complete list of subsidiaries and further details about these entities.

[1] *Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

[2] *R3.5 million of the amount outstanding has been impaired to date.*

[3] *R16.8 million of the amount outstanding has been impaired to date.*

[4] *R43.1 million of the amount outstanding has been impaired to date.*

[5] *R1.1 million of the amount outstanding has been impaired to date.*

ASSOCIATES

2013 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Khauleza IT Solutions (Pty) Limited[1]	Loan	5 053	—
Continuous Power Systems (Pty) Limited[1]	Loan	179	1 556

Note: Refer to note 13 for a complete list of associates.

[1] *Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

31. RELATED-PARTY TRANSACTIONS *(continued)*

JOINT VENTURE

2013 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Comztek (Pty) Limited[1]	Purchases	(1 234)	—
	Sales	6 454	—

[1] *Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

OTHER RELATED PARTIES

2013 Related party	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Columbus Technologies (Pty) Limited[1]	Previous associate	Loan	340	1 673
Mustek Electronics Properties (Pty) Limited[2]	Common directorship	Current account	(199)	442
	Common directorship	Operating lease	(14 419)	—

[1] *Columbus Technologies (Pty) Limited is no longer a related party but the loan amount above was made to Columbus Technologies (Pty) Limited while it was an associate of the company.*

[2] *Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

Key management personnel compensation

The remuneration of directors and other members of key management during the year were as follows:

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Short-term benefits	24 035	12 721	14 763	9 526
Share-based payments	6 956	3 972	6 839	462
	30 991	16 693	21 602	9 988

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

31. RELATED-PARTY TRANSACTIONS *(continued)*

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

2014	Fees for services R000	Basic salary R000	Expense allowances R000	Pension contri-butions R000	Bonus and perfor-mance-related R000	Total R000
Executive directors	—	6 112	789	422	6 306	13 629
DC Kan	—	2 168	423	190	2 378	5 159
H Engelbrecht	—	2 329	270	150	2 378	5 127
CJ Coetzee	—	1 615	96	82	1 550	3 343
Non-executive directors	1 134	—	—	—	—	1 134
T Dingaan	189	—	—	—	—	189
ME Gama	228	—	—	—	—	228
D Konar	397	—	—	—	—	397
RB Patmore	320	—	—	—	—	320
	1 134	6 112	789	422	6 306	14 763

2013	Fees for services R000	Basic salary R000	Expense allowances R000	Pension contri-butions R000	Bonus and perfor-mance-related R000	Total R000
Executive directors	—	5 653	776	394	1 474	8 297
DC Kan	—	1 984	410	178	—	2 572
H Engelbrecht	—	2 163	270	140	892	3 465
CJ Coetzee	—	1 506	96	76	582	2 260
Non-executive directors	1 229	—	—	—	—	1 229
T Dingaan	177	—	—	—	—	177
ME Gama	379	—	—	—	—	379
D Konar	373	—	—	—	—	373
RB Patmore	300	—	—	—	—	300
	1 229	5 653	776	394	1 474	9 526

31. RELATED-PARTY TRANSACTIONS *(continued)*

Directors' shareholding

At 30 June 2014, the directors collectively held the following direct and indirect interests in shares in the company, which represents 15.5% (2013: 11.6%) of the issued share capital of the company. (No change occurred between 30 June 2014 and 26 August 2014):

	Beneficial				Non-beneficial	
	Direct		Indirect		Indirect	
	2014	2013	2014	2013	2014	2013
DC Kan[1]	2 288 046	46	2 460 083	2 460 083	9 282 442	9 282 442
H Engelbrecht	1 750 000	500 000	–	–	–	–
CJ Coetzee[2]	735 000	307 700	–	–	–	–
D Konar	25 303	25 303	–	–	–	–
	4 798 349	833 049	2 460 083	2 460 083	9 282 442	9 282 442

These shareholdings exclude options held. The remainder of the directors do not hold any shares.

[1] *The 2014 holding includes 1 000 000 shares held through 10 000 single stock future contracts (2013: 1 000 000 shares held through 10 000 single stock future contracts).*

[2] *The 2014 holding includes 300 000 shares held through contracts for difference (2013: 172 700 shares held through 1 727 single stock future contracts).*

Share-based payments

Share appreciation rights scheme

The object and purpose of the scheme is to incentivise certain selected senior employees by granting options to such employees to enable them to benefit from an improvement in the price of the company's shares as listed on the JSE, in the manner and on the terms and conditions set out in the scheme.

The directors may, on an annual basis or from time to time, grant options to employees selected by the Remuneration and Nominations Committee. The Remuneration and Nominations Committee shall determine the number of phantom shares which are to be the subject of each option. The price at which an option may be granted will be, in respect of each phantom share which is the subject of that option, the average market price of the ordinary shares of the company on the JSE, as certified by the Company Secretary, for the 30 trading days immediately preceding that on which the employee is granted the option. Each option granted will remain in force for a period of seven years after the date of the granting of the option.

Each option may only be exercised by an employee or retired employee subject to the achievement of certain performance hurdles that may be determined by the directors from time to time.

The price at which an option may be exercised will be, in respect of each phantom share which is the subject of that option, the closing market price of the ordinary shares of the company on the JSE, as certified by the Company Secretary, on the trading day immediately preceding that on which the employee or retired employee so exercises the option. Upon the exercising of an option, the employee will be paid an amount determined as the difference between the exercise price and the grant price multiplied by the number of phantom shares, less any tax that may at that time be applicable to such a cash bonus.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

31. RELATED-PARTY TRANSACTIONS *(continued)*

Share-based payments *(continued)*

Share appreciation rights scheme *(continued)*

	Weighted average price		Number of options	
	2014	2013	**2014**	2013
Phantom shares outstanding at the beginning of the year	**R4.71**	R 4.71	**3 300 000**	3 300 000
Phantom shares granted during the year	**R6.16**	—	**750 000**	—
Phantom shares outstanding at year-end	**R4.98**	R 4.71	**—**	—
			4 050 000	3 300 000

750 000 phantom shares were granted to an employee during the current financial year. 3 300 000 phantom shares were granted to employees in the 2012 financial year. The fair values were calculated using a trinomial tree that adheres to all the Black-Scholes option pricing model principles. All these share options are cash settled. The inputs into the model were as follows:

	30 June 2014	30 June 2013
Share price	**R7.20**	R5.55
Grant price	**R4.71 / R6.16**	R4.71
Expected volatility	**24% / 26%**	24%
Expected life	**1 year / 3 years**	2 years
Risk-free rate	**6.52% / 7.34%**	6.03%
Expected dividend yield	**2.7% / 3.0%**	2.9%

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 total expenses of R6 956 365 and R6 839 250 respectively (2013: R462 000 and R462 000 respectively) related to cash-settled share appreciation rights during the current year. A similar amount has been included as part of long-term liabilities.

Outstanding phantom shares are exercisable at the following values and in the following periods ending 30 June:

Option price	2015	2016	2017	2018	Number of undelivered phantom shares	Total Rand value
R4.71	2 200 000	1 350 000	250 000	250 000	4 050 000	20 163 000

	Grant price	Grant date	**Undelivered phantom shares at 30 June 2014**	Undelivered phantom shares at 30 June 2013
DC Kan	R4.71	1 July 2011	**1 500 000**	1 500 000
H Engelbrecht	R4.71	1 July 2011	**1 050 000**	1 050 000
CJ Coetzee	R4.71	1 July 2011	**750 000**	750 000
			3 300 000	3 300 000

31. RELATED-PARTY TRANSACTIONS *(continued)*

Executive share trust

No new options have been granted under this scheme after 1 December 2006. The scheme consists of both a share option scheme where options can be awarded by either the company or the trust and a share purchase scheme where shares are purchased through the trust. In terms of the option scheme, participants are granted options to acquire shares in the company. In terms of the share purchase scheme, shares are offered to employees for purchase. There are no share purchase offers outstanding as at 30 June 2014. Options accepted and/or exercised may lapse and shares may be early-delivered to participants under certain circumstances.

Share options or purchase offers must be accepted within 14 days of grant date and must be exercised within one calendar year. Options or purchase offers accepted and exercised lapse on resignation. Participants have eight years to take delivery of the shares. These shares will therefore not be deemed issued until actually issued and delivered and are not included in issued share capital in notes 9 and 20. Payment is only due on delivery.

Shares acquired in terms of either scheme will only be delivered to the participants after expiry of the following periods from date of acceptance:

Year 1	5%
Year 2	15%
Year 3	30%
Year 4	50%
Year 5	70%
Year 6	100%

The directors may amend these delivery periods and percentages and have done so before.

Until 30 June 2003, the trust did not own any shares. On 1 July 2003 the trust was offered 2 895 358 options at R5.00 each to be delivered equally over a five year period. The trust accepted and exercised the full option and was issued 2 316 286 shares until 30 June 2014 (2013: 2 316 286). In turn, the trust allocated the shares for transfer to participants at R5.00 each after obtaining the necessary permission from the JSE Issuer Regulations division.

	Weighted average price		Number of options	
	2014	2013	2014	2013
Options undelivered at the beginning of the year	R9.45	R9.40	5 740 000	6 025 000
Options delivered during the year	R10.01	—	(3 800 000)	—
Options lapsed during the year	—	R8.36	—	(285 000)
Options undelivered at year-end	R8.36	R9.45	1 940 000	5 740 000

No share options were granted to employees in the current financial year (2013: nil). The fair values were calculated using a binomial tree that adheres to all the Black-Scholes option pricing model principles. All these share options are equity-settled and therefore only valued upon granting.

The Group and company recognised total expenses of R nil (2013: R nil) related to equity-settled share options during the current and previous years respectively. All expenses relating to the outstanding share options have been expensed.

Notes to the annual financial statements (continued)

for the year ended 30 June 2014

31. RELATED-PARTY TRANSACTIONS *(continued)*

Executive share trust *(continued)*

	2014	2013
Number of options held by:		
Executive directors	–	3 800 000
Executives and employees	1 940 000	1 940 000
	1 940 000	5 740 000

Share options exercised are due for delivery and payment at the following values and in the following periods ended 30 June:

2014 Option price	2014 R000	Number of undelivered shares	Total Rand
R8.36	1 940 000	1 940 000	16 218 400
	1 940 000	1 940 000	16 218 400

2013 Option price	2013 R000	Number of undelivered shares R000	Total Rand R000
R8.36	1 940 000	1 940 000	16 218 400
R10.01	3 800 000	3 800 000	38 038 000
	5 740 000	5 740 000	54 256 400

The directors may amend the delivery periods or percentages. 1 940 000 options due for delivery before 30 June 2014 (2013: 5 740 000) were not delivered. The weighted average price of the options outstanding at year-end is R8.36 per option (2013: R9.45).

31. RELATED-PARTY TRANSACTIONS *(continued)*

Executive share trust *(continued)*

The directors have the following share options outstanding or delivered to them after being accepted at the following dates:

2014 Director	Offer price	Acceptance date	Undelivered shares at 30 June 2013	Due for delivery during the year	Delivery date	Undelivered shares at 30 June 2014
DC Kan	R10.01	29 June 2006	2 250 000	2 250 000	23 June 2014	–
H Engelbrecht	R10.01	29 June 2006	1 250 000	1 250 000	23 June 2014	–
CJ Coetzee	R10.01	29 June 2006	300 000	300 000	23 June 2014	–
			3 800 000	3 800 000		–

2013 Director	Offer price	Acceptance date	Undelivered shares at 30 June 2013	Due for delivery during the year	Delivery date	Underlivered shares at 30 June 2014
DC Kan	R10.01	29 June 2006	2 250 000	2 250 000	Available at any time	2 250 000
H Engelbrecht	R10.01	29 June 2006	1 250 000	1 250 000	Available at any time	1 250 000
CJ Coetzee	R10.01	29 June 2006	300 000	300 000	Available at any time	300 000
			3 800 000	3 800 000		3 800 000

32. CAPITAL EXPENDITURE

On 31 July 2013, the Group acquired vacant land in Midrand for an amount of R9.6 million.

Apart from the capital expenditure mentioned above, the Group and company do not have any significant planned capital expenditure in the near future.

33. DEFERRED INCOME

	GROUP		COMPANY	
	2014 R000	2013 R000	2014 R000	2013 R000
Deferred income realising in the next 12 months	35 470	17 966	14 725	16 650
Deferred income reclassified to long-term liabilities	14 725	16 650	35 468	17 965
Total deferred income	50 195	34 616	50 193	34 615

Deferred income arises as a result of various on-site service and maintenance contracts which are sold to customers together with certain products. The duration of these service and maintenance contracts vary between three and five years depending on the option the customer selected or the terms of the packages sold.

The income is deferred and recognised as revenue on a straight line basis over the duration of the underlying service or maintenance contract.

In the previous financial year, deferred income was disclosed as short-term liabilities. However, due to the fact that the duration of these contracts may be for a period longer than 12 months, the long-term portion of deferred income was reclassified as long-term liabilities for both the current and previous financial years.

Notice of annual general meeting

MUSTEK LIMITED

(Incorporated in the Republic of South Africa)

(Registration number: 1987/070161/06)

Share code: MST ISIN: ZAE000012373

("Mustek" or "the company" or "the Group")

Notice is hereby given that the annual general meeting of the company's shareholders will be held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand on Friday, 12 December 2014 at 10:00 (the annual general meeting).

Purpose

The purpose of the meeting is to transact the business set out in this notice of annual general meeting (AGM notice) by considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions hereunder.

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 2014 as set out in the company's integrated annual report 2014 of which this AGM notice forms part of.
2. To consider and, if deemed fit, approve, with or without modification, the following special and ordinary resolutions:

   Note:

   For any of the ordinary resolutions numbers 1 to 10 and 12 to be adopted, more than 50% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

   For any of the special resolutions numbers 1 to 3 to be adopted, more than 75% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

   For ordinary resolution number 11 to be adopted, more than 75% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

1. Ordinary business

1.1 Re-election of directors

1.1.1 Ordinary resolution number 1: Re-election of Dr D Konar

"Resolved that Dr D Konar, 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 Dr D Konar may be viewed on page 71 of the integrated annual report of which this notice forms part.

1.1.2 Ordinary resolution number 2: Re-election of Dr ME Gama

"Resolved that Dr ME Gama, who retires by rotation in terms of the Memorandum of Incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

An abbreviated *curriculum vitae* in respect of Dr ME Gama may be viewed on page 71 of the integrated annual report of which this notice forms part.

1.1.3 Ordinary resolution number 3: Re-election of Mr D Kan

"Resolved that Mr D Kan, who retires by rotation in terms of the Memorandum of Incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

An abbreviated *curriculum vitae* in respect of Mr D Kan may be viewed on page 70 of the integrated annual report of which this notice forms part.

Reason for ordinary resolutions numbers 1, 2 and 3

The reason for ordinary resolutions numbers 1 to 3 is that article 5.1.8 of the Memorandum of Incorporation of the company and, to the extent applicable, the Companies Act, requires that a component of the directors rotate at the annual general meeting and, being eligible, may offer themselves for re-election as directors.

1.2 Reappointment of auditors

1.2.1 Ordinary resolution number 4: Confirmation of the reappointment of the auditors

"Resolved that the reappointment of Deloitte & Touche as independent auditors of the company for the ensuing year (the designated auditor being Mr BE Greyling) 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.

1.3 Auditors' remuneration

1.3.1 *Ordinary resolution number 5: Confirmation of the auditors' remuneration*

"Resolved that the auditors' remuneration for the year ended 30 June 2014 as determined by the Audit and Risk Committee of the company be and is hereby confirmed."

Reason for ordinary resolution number 5

The reason for ordinary resolution number 5 is that the Memorandum of Incorporation of the company requires that the remuneration of the auditor be considered at the annual general meeting.

1.4 Election of members to the Audit and Risk Committee

1.4.1 *Ordinary resolution number 6: Appointment of Mr RB Patmore as a member to the Audit and Risk Committee*

"Resolved that Mr RB 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 Mr RB Patmore may be viewed on page 71 of the integrated annual report of which this notice forms part.

1.4.2 *Ordinary resolution number 7: Appointment of Ms T Dingaan as a member to the Audit and Risk Committee*

"Resolved that Ms T Dingaan 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 Ms T Dingaan may be viewed on page 71 of the integrated annual report of which this notice forms part.

1.4.3 *Ordinary resolution number 8: Appointment of Dr ME Gama as a member to the Audit and Risk Committee*

"Resolved that Dr ME Gama be elected a member of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

An abbreviated *curriculum vitae* in respect of Dr ME Gama may be viewed on page 71 of the integrated annual report of which this notice forms part.

Reason for ordinary resolutions numbers 6 to 8

The reason for ordinary resolution numbers 6 to 8 (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.

1.5 Ordinary resolution number 9: Endorsement of remuneration philosophy

To endorse the company's remuneration philosophy, as set out in the remuneration report on pages 83 to 85 of the integrated annual report, by way of a non-binding advisory note.

Reason for ordinary resolution number 9

The reason for ordinary resolution number 9 is that King III recommends that the remuneration policy of the company be endorsed through a non-binding advisory vote by shareholders at the annual general meeting of a company.

1.6 Unissued shares placed under control of the directors

1.6.1 *Ordinary resolution number 10: 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 12 December 2014, be and are hereby placed under the control of the directors until the next annual general meeting and that they be and are hereby authorised to issue any such shares as they may deem fit, subject to the Companies Act, the Memorandum of Incorporation of the company, and the provisions of the Listings Requirements of the JSE Limited (JSE), save that the aforementioned 5% limitation shall not apply to any shares issued in terms of a rights offer."

Reason for ordinary resolution number 10

The reason for ordinary resolution number 10 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

Notice of annual general meeting (continued)

general authority is subject to the restriction that it is limited to 5% of the number of shares in issue at 12 December 2014 on the terms more fully set out in ordinary resolution number 10 and subject to the further restrictions set out in ordinary resolution number 12 below.

1.6.2 Ordinary resolution number 11: Placing a specific number of unissued shares under the directors' control in terms of the Mustek Executive Share Trust

"Resolved that 1 940 000 ordinary shares in the authorised but unissued share capital of the company be and are hereby placed under the control of the directors of the company as a specific authority for the allotment and issue of shares in terms of the Mustek Executive Share Trust."

Reason for ordinary resolution number 11

The reason for ordinary resolution number 11 is that the Board requires authority from shareholders in terms of the rules of the Mustek Executive Share Trust to execute the share options, previously issued in terms of this Trust.

1.7 General authority to issue shares for cash

1.7.1 Ordinary resolution number 12: General authority to issue shares for cash

"Resolved that the directors of the company be and are hereby authorised by way of a general authority, to allot and issue any of its unissued shares for cash placed under their control as they in their discretion may deem fit, without restriction, subject to the provisions of the Listings Requirements of the JSE, and subject to the provision that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution, shall be limited to 5% of the issued share capital at 4 November 2014, 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 (5 334 138 shares) of that class. For purposes of determining whether the aforementioned 5% has been or will be reached, the securities of a particular class will be aggregated with the securities that are compulsorily convertible into securities of that class and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible. The number of securities of a class which may be issued shall be based on the number of securities of that class in issue at the date of such application less any securities of the class issued during the current financial year, provided that any securities of that class to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were securities in issue at the date of application;
- in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over the 30 trading days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE should be consulted for a ruling if the securities have not traded in such 30 business day period;
- any such issue will only be made to public shareholders as defined in paragraphs 4.25 to 4.27 of the Listings Requirements of the JSE and not to related parties; and
- any such issue will only be securities of a class already in issue or, if this is not the case, will be limited to such securities or rights that are convertible into a class already in issue."

The reason for ordinary resolution number 12

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 12 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 resolution number 10 must accordingly be read together with authority granted in terms of ordinary resolution number 12 above and any exercise thereof will be subject to the conditions contained in ordinary resolution number 12.

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.

1.8 Authorised directors and/or the Company Secretary

1.8.1 Ordinary resolution number 13: Authority to action

"Resolved that any one director of the company and/or the Company Secretary is hereby authorised to do all such things and sign all such documents as deemed necessary to implement the ordinary and special resolutions as set out in this notice convening the annual general meeting at which these resolutions will be considered."

The reason for ordinary resolution number 13

The reason for ordinary resolution number 13 is to ensure that the resolutions voted favourably upon is duly implemented through the delegation of powers provided for in terms of clause 5.3 of the company's Memorandum of Incorporation.

2. 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 2015:

Category	Recommended remuneration
Chairman (note 1)	R300 000 annual retainer
Board member	R79 500 annual retainer R12 000 per meeting attended
Audit and Risk Committee	
Chairman	R64 000 annual retainer R15 000 per meeting attended
Member	R35 000 annual retainer R9 500 per meeting attended
Remuneration and Nominations Committee	
Chairman	R56 000 annual retainer R16 000 per meeting attended
Member	R43 000 annual retainer R12 500 per meeting attended
Employment Equity Committee	
Chairman	R25 000 annual retainer
Member	R15 000 annual retainer
Social and Ethics Committee	
Chairman	R22 000 annual retainer R8 000 per meeting attended
Member	R9 000 annual retainer R4 000 per meeting attended

Note 1:

The Chairman's retainer includes fees payable for attending and chairing all Board meetings, as well as attending all Audit and Risk Committee meetings.

Notice of annual general meeting (continued)

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 AGM.

2.2 Special resolution number 2: Financial assistance to related and inter-related companies

"Resolved that the Board of directors of the Group be and is hereby authorised in terms of section 45(3)(a)(ii) of the Companies Act, as a general approval (which approval will be in place for a period of two years from the date of adoption of this special resolution number 4), to authorise the Group to provide any direct or indirect financial assistance ('financial assistance' will herein have the meaning attributed to such term in section 45(1) of the Companies Act) that the Board may deem fit to any related or inter-related company of the Group ('related' and 'inter-related' will herein have the meanings attributed to those terms in section 2 of the Companies Act), on the terms and conditions and for the amounts that the Board of directors may determine."

Reason for and effect of special resolution number 2

The reason for and the effect of special resolution number 2 is to provide a general authority to the Board of directors of the Group for the Group to grant direct or indirect financial assistance to any company forming part of the Group, including in the form of loans or the guaranteeing of their debts.

2.3 Special resolution number 3: Authority to repurchase shares by the company

"Resolved that as a special resolution that the company and its subsidiaries be and 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 Act, the Memorandum of Incorporation of the company, the Listings Requirements of the JSE and the requirements of any other stock exchange on which the shares of the company may be quoted or listed, namely that:

- the general repurchase of the shares may only be implemented on the open market of the JSE and done without any prior understanding or arrangement between the company and the counterparty;
- this general authority shall only be valid until the next annual general meeting of the company, provided that it shall not extend beyond 15 months from the date of this resolution;
- an announcement must be published as soon as the company has acquired shares constituting, on a cumulative basis, 3% of the number of shares in issue prior to the acquisition, pursuant to which the aforesaid 3% threshold is reached, containing full details thereof, as well as for each 3% in aggregate of the initial number of shares acquired thereafter;
- the general authority to repurchase is limited to a maximum of 20% in the aggregate in any one financial year of the company's issued share capital at the time the authority is granted;
- a resolution has been passed by the Board of directors approving the purchase, that the company has satisfied the solvency and liquidity test as defined in the Companies Act and that since the solvency and liquidity test was applied there have been no material changes to the financial position or required shareholder spread of the Group;
- the general repurchase is authorised by the company's Memorandum of Incorporation;
- repurchases must not be made at a price more than 10% above the weighted average of the market value of the shares for five business days immediately preceding the date that the transaction is affected. The JSE should be consulted for a ruling if the applicant's securities have not traded in such five business day period;
- the company may at any point in time only appoint one agent to effect any repurchase(s) on the company's behalf; and
- the company and its subsidiaries may not effect a repurchase during any prohibited period as defined in terms of the Listings Requirements of the JSE unless there is a repurchase programme in place as contemplated in terms of 5.72(g) of the Listings Requirements of the JSE.

Reason and effect of special resolution number 3

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

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

3. 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 numbers 3 and 4 to the extent that the directors, after considering the maximum shares to be purchased, are of the opinion that the Group position would not be compromised as to the following:
   - The Group's ability in the ordinary course of business to pay its debts for a period of 12 months after the date of this annual general meeting and for a period of 12 months after the purchase;
   - The consolidated assets of the Group will at the time of the annual general meeting and at the time of making such determination be in excess of the consolidated liabilities of the Group. The assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements of the Group;
   - The ordinary capital and reserves of the Group after the purchase will remain adequate for the purpose of the business of the Group for a period of 12 months after the annual general meeting and after the date of the share purchase; and
   - The working capital available to the Group after the purchase will be sufficient for the Group's requirements for a period of 12 months after the date of the share repurchases,

   and the directors have passed a resolution authorising the repurchase, resolving that the company has satisfied the solvency and liquidity test as defined in the 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 (page 70 to 71);
   - Major shareholders (page 93);
   - Directors' interests in securities (page 175);
   - Share capital of the company (page 147);
   - Contingent liabilities (page 168);
   - Responsibility statement (page 185);
   - Litigation statement (page 185); and
   - Material changes (page 186).
3. For purposes of special resolution number 2, the Board of directors of the company will only utilise the general authority bestowed upon it to provide direct or indirect financial assistance related to inter-related companies to the extent that the directors, after considering the amount of financial assistance to be granted, are of the opinion that:
   - immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test (as defined in the Companies Act, 2008);
   - the terms under which the financial assistance is proposed to be given are fair and reasonable to the company; and
   - all conditions or restrictions regarding the granting of financial assistance as set out in the company's Memorandum of Incorporation have been satisfied and that the Board of directors has passed a resolution authorising the grant of the said financial assistance (the Board resolution) under their general authority so granted, the company which will then provide written notice of the Board resolution to all shareholders;
     - within 10 days after adoption of the Board resolution, if the total value of all loans, debts, obligations or assistance contemplated in that resolution, together with any previous such resolution(s) during the financial year, exceeds one-tenth of 1% of the company's net worth at the time of the Board resolution; or
     - within 30 business days after the end of the financial year, in any other case.
4. The company is not involved in any legal or arbitration proceedings, nor are any proceedings pending or threatened of which the company is aware that may have or have had in the previous 12 months, a material effect on the company's financial position.
5. The directors, whose names are reflected in this integrated annual report of which this notice forms part, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts that have been made and that the notice contains all information required by the Listings Requirements of the JSE.

Notice of annual general meeting (continued)

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 notice.

Record date, attendance and voting

1. The date on which shareholders must be recorded as such in the share register maintained by the transfer secretaries of the company (the share register) for purposes of being entitled to receive this notice is Friday, 31 October 2014.
2. The date on which shareholders must be recorded in the share register for purposes of being entitled to attend and vote at this meeting is Friday, 5 December 2014 with the last day to trade being Friday, 28 November 2014.
3. Meeting participants will be required to provide proof of identification to the reasonable satisfaction of the Chairman of the annual general meeting and must accordingly bring a copy of their identity document, passport or driver's licence. If in doubt as to whether any document will be regarded as satisfactory proof of identification, meeting participants should contact the transfer secretaries for guidance.
4. Shareholders entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the company. A form of proxy, in which are set out the relevant instructions for its completion, is enclosed for the use of a certificated shareholder or own-name registered dematerialised shareholder who wishes to be represented at the annual general meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the annual general meeting.
5. The instrument appointing a proxy and the authority (if any) under which it is signed must reach the transfer secretaries of the company at the address given below by not later than 10:00 on Thursday, 11 December 2014.
6. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who wish to attend the annual general meeting in person, will need to request their participant (previously known as the Central Securities Depository Participant and now called a participant in terms of the Financial Markets Act, 2012) or broker to provide them with the necessary authority in terms of the custody agreement entered into between such shareholders and the participant or broker.
7. 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 participant or broker with their voting instructions in terms of the custody agreement entered into between them and the participant or broker in the manner and time stipulated therein.
8. 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.
9. 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. An identification document issued by the South African Department of Home Affairs, a driver's licence or a valid passport will be accepted at the annual general meeting as sufficient identification.

By order of the Board

S van Schalkwyk
Company Secretary

4 November 2014

Form of proxy

MUSTEK LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1987/070161/06)
Share code: MST ISIN: ZAE000012373
("Mustek" or "the company" or "the Group")

FORM OF PROXY – for use by certificated and "own-name" dematerialised shareholders only at the annual general meeting (AGM) of shareholders to be held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand on Friday, 12 December 2014 at 10:00 (the annual general meeting).

I/We (please print name in full) ______________________________

of (address) ______________________________

being a shareholder/s of Mustek Limited, holding ____________ shares in the company hereby appoint:

1. ______________________________ or, failing him/her,

2. ______________________________ or, failing him/her,

3. ______________________________ or failing him/her,

4. the Chairman of the annual general meeting,

as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting and at any adjournment thereof and to speak and act for me/us and, on a poll, vote on my/our behalf.

My/our proxy shall vote as follows:

	Number of shares		
	In favour of	Against	Abstain
To consider the presentation of the annual financial statements for the year ended 30 June 2014			
Ordinary resolution number 1: To re-elect Dr D Konar as director			
Ordinary resolution number 2: To re-elect Dr ME Gama as director			
Ordinary resolution number 3: To re-elect Mr DC Kan as director			
Ordinary resolution number 4: Confirmation of auditors' reappointment			
Ordinary resolution number 5: Confirmation of auditors' remuneration			
Ordinary resolution number 6: Appointment of Mr RB Patmore to the Audit and Risk Committee			
Ordinary resolution number 7: Appointment of Ms T Dingaan to the Audit and Risk Committee			
Ordinary resolution number 8: Appointment of Mr ME Gama to the Audit and Risk Committee			
Ordinary resolution number 9: Endorsement of remuneration philosophy			
Ordinary resolution number 10: Placing of unissued shares under the directors' control			
Ordinary resolution number 11: Placing unissued shares under the directors' control in terms of the Mustek Executive Share Trust			
Ordinary resolution number 12: General authority to issue shares for cash			
Ordinary resolution number 13: 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 ____________ 2014

Signature ______________________________

Please read the notes on the reverse side hereof.

Form of proxy (continued)

Form of proxy *(continued)*

Notes

1. This form or proxy should only be used by certificated shareholders or shareholders who have dematerialised their shares with own-name registration.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the Chairman of the meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to those whose names follow.
3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the meeting as he/she deemed fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
4. Dematerialised shareholders who wish to attend the meeting or to vote by way of proxy must contact their participant or broker who will furnish them with the necessary authority to attend the meeting or to be represented thereat by proxy. This must be done in terms of the agreement between the member and his/her participant or broker.
5. Forms of proxy must be lodged at the company's transfer secretaries, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) so as to be received by not later than 10:00 on Thursday, 11 December 2014.
6. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
7. Documentary evidence establishing the authority of the person signing this form of proxy in a representative or other legal capacity must be attached to this form of proxy unless previously recorded by the transfer secretaries of the company or waived by the Chairman of the meeting.
8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
9. The Chairman shall be entitled to reject the authority of a person signing the form of proxy:
   - under a power of attorney, or
   - on behalf of a company,

   unless that person's power of attorney or authority is deposited at the registered office of the transfer secretaries not less than 24 hours before the meeting.
10. Where shares are held jointly, all joint holders are required to sign the form of proxy.
11. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
12. On a show of hands, every shareholder present in person or represented by proxy shall have only one vote, irrespective of the number of shares he/she holds or represents.
13. On a poll, every shareholder present in person or represented by proxy shall have one vote for every share held by such shareholder.
14. A resolution put to the vote shall be decided by a show of hands, unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the annual general meeting.
15. The directors have not made any provision for electronic participation at the AGM.

Corporate information

Company Secretary

Sirkien van Schalkwyk

Transfer secretaries

Computershare Investor Services Proprietary Limited

70 Marshall Street

Johannesburg, 2001

PO Box 61051

Marshalltown, 2107

South Africa

Telephone: +27 (0) 11 370 5000

Sponsor

Deloitte & Touche Sponsor Services Proprietary Limited

Registered office

322 15th Road

Randjespark

Midrand, 1685

Postal address

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Parklands, 2121

Contact numbers

Telephone: +27 (0) 11 237 1000

Facsimile: +27 (0) 11 314 5039

Email: ltd@mustek.co.za

BASTION GRAPHICS

Mustek Limited 2014 Integrated Annual Report

www.mustek.co.za