Mustek Annual Report 2010

Connecting people

Mustek

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GROUP PROFILE

Mustek, from its corporate headquarters in Midrand, South Africa, oversees the activities of its business units operating in its chosen markets in Africa and Australia. The Group invests heavily in its core resource – competent people – by pursuing a comprehensive programme of training and people development. The tenets of the Group's philosophy embrace transparency of operation, imaginative application of technology and accountability to all stakeholders. Mustek's ongoing success is attributable to a clear and forward-looking strategic vision, responsible management, the technical capabilities of a committed owner-workforce, superior products and service levels and a strong asset base. The Group aims at continuing sustainable headline earnings growth and creating long-term shareholder value by remaining focused on its core businesses – the manufacturing and selling of personal computers and the distribution of computer components and peripherals. These businesses are supported by companies within Mustek that provide complementary ICT services and products.

MISSION STATEMENT

Mustek assembles, markets and distributes ICT (Information Communication Technology) products and services. Mustek provides competitive, value-added services to our customers and creates wealth for shareholders. Mustek meets its objectives through strong relationships in the international ICT market, and by continually nurturing the entrepreneurial spirit of our people and business associates.

www.mustek.com

ONE COMMUNICATION

CORPORATE VISION

- Leadership of Mustek, Rectron and Comztek's brands in our chosen markets.
- Increasing market share while maintaining margins.
- Maintaining our leadership position by introducing technology advances to the marketplace ahead of other suppliers.
- Superior procurement, manufacturing and distribution capabilities, ensuring that high-quality, competitively priced products and services are delivered to our customers.
- Equity in the workplace through focused empowerment initiatives.
- Growth and value through targeted initiatives at larger, high-value customers.

Chairman's Report

CORE VALUES

Integrity and quality of technological standards.

Highest business ethics and corporate governance.

Trust from all stakeholders.

Our people are our greatest asset.

Harmonious and prosperous South African society.

Faith in the African continent.

Equity in the workplace.

Conformance to the Occupational Health and Safety Act.

Compliance with environmental requirements.

Composing this first report as the incoming Chairman of Mustek is a unique pleasure. I have long been appreciative of South Africa's foremost local ICT business, which has proved year in and year out to be a stable, consistently profitable enterprise with a settled and knowledgeable management team. I do intend, together with my colleagues on the Board, leveraging my experience on the boards of other listed operations to – at appropriate times – add value and perspectives from outside of the traditional ICT sector to Mustek.

ECONOMIC BACKGROUND AND ITS IMPACTS ON ICT

On 1 July 2009, as Mustek's 2010 financial year commenced, South Africa was still mired in the tail-end of the recession. The country's economy was, however, showing some signs of returning to an economic growth phase, although at a considerably slower pace than the boom years immediately prior to the recession.

As the year progressed, our country re-emerged from this first recession in 17 years and began recording positive growth figures. In my view, South Africa's economic recovery will be slow and fragile for some time yet, at least until the major economies of China, Europe and the USA show unmistakable signs of overcoming the dreaded talked about 'double dip' phenomenon that could lead to a second and potentially more damaging recession. As I pen this report, growth figures in the main economies encourage the view that the worst is over, but I fully endorse the Mustek Board and executive management for taking a conservative and prudent approach to doing business. The timing must be clearly right before entering again into an expansionary mode.

WORKING TOGETHER

Chairman's Report
(continued)

FINANCIAL OVERVIEW

Revenue dipped slightly this year, largely due to an unfavourable Rand-US Dollar (USD) exchange rate, but trading volumes grew by 13% and profits strengthened by 12,1% to R61,4 million (2009: R54,7 million). To an extent, this can be ascribed to the launch of the Windows 7 operating system in October 2009, which prompted a corporate and consumer hardware replacement cycle.

We are particularly impressed with the efficiency drive conducted by Mustek's executive management this year, which delivered an additional R230,5 million cash from operations, of which R215,0 million was ploughed into financing activities. The savings on interest realised over the next years will be substantial and Mustek will further benefit from income streams it is creating by transforming cost centres into profit centres.

INFRASTRUCTURE DEVELOPMENT AND THE WORLD CUP

To a certain extent, South Africa was shielded against the full backlash of the global recession due to the extensive infrastructure upgrading programme embarked on in preparing for the Soccer World Cup. This hugely ambitious, but successfully completed project, resulted in 10 world-class sports stadiums being built from scratch or renovated, and, most importantly, a massive upgrading of South Africa's road, rail and bus capacity in high-density urban areas. These will remain as the major infrastructural legacy of the World Cup to South Africans.

Another legacy of the World Cup was the outstanding manner in which South Africans showed that we are capable of setting up and managing the advanced ICT infrastructure required to control, communicate and broadcast an event of this exceptional magnitude around the planet. Broadcasting teams from major international TV and radio channels were considerably impressed by, for example, the dedicated International Broadcast Centre that was established from ground up near Soccer City in Soweto. South Africa proved to all that we are ready to become a digitally advanced nation.

Possibly our finest legacy from this World Cup was how South Africans from all backgrounds can pull together so magnificently when facing a common challenge. We clearly have it within us to be a winning nation, but we need the leadership, collective purpose and the tools of education, expertise and experience to get there.

RECOVERING FROM THE OUTCOMES OF A FLAWED EDUCATION

Equal education for all – in theory – commenced when South Africa became truly democratic in 1994. Our new government consequently took the decision to amend the educational system to pursue an outcomes-based education (OBE) curriculum, which was supposed to prepare young South Africans from diverse backgrounds and cultures for tertiary study, or to enter job markets as literate and well-equipped young adults.

Sadly, the OBE curriculum failed in the South African context and was officially scrapped in the last year by our current Minister of Education.

The advent of fast, plentiful and cheap broadband across South Africa signals that the time for wide-scale e-learning and distance learning has arrived. E-learning and distance learning platforms have been utilised in South Africa for well over a decade, but cost, inadequate networks and lacking internet speeds restricted these mainly to corporate training and large tertiary institutions.

E-learning and distance learning could be astonishingly effective in South Africa, as a few skilled educators can remotely teach large numbers of learners at any one time. Given the political leadership and the financial resources, South Africa could get effective basic education up and running years before traditional schooling could begin to deliver.

With long-range wireless networks becoming available, high-quality education could be extended into every part of South Africa, including rural areas with little current access to educational infrastructure.

For a decade, Mustek has been developing innovative educational systems, which enable teachers to tutor many students simultaneously through school networks. More recently we developed an education/training system that enables teachers or facilitators to use 'interactive whiteboards' to teach learners/trainees in remote locations.

It is time for the public and private sectors to take advantage of South Africa's current broadband revolution to enable e-learning and distance learning as viable, efficient and cost-cutting means to rapidly getting South African schooling back on track.

Declaration of dividend

We are pleased to report that the Board decided to maintain its dividend distribution for 2010 on the back of stable results compared to that of last year. All shareholders will receive a final dividend of 12 cents. Our policy has been to pay an annual dividend covered at least two times by attributable earnings.

Remuneration

At Mustek, we are committed to the principle of sensible market-related remuneration, structured to align our business objectives with long-term shareholder interests. Mustek's strategic objectives focus on delivering sustainable value over time.

The Board of Directors and executive management measure Mustek's progress against these strategic objectives. Progress is then benchmarked using both financial and non-financial measures and performance is appropriately rewarded.

Sustainable development

Our commitment to be good corporate citizens remains intact. This includes our commitment to all the stakeholders that we serve, including the communities and environments in which we operate.

Risk

Over the years, we have embedded robust risk, capital management and internal controls Group-wide.
Events during the year have powerfully reinforced the need for boards to have a clear understanding of the risks their businesses face. We believe the Mustek Board and its committees have set a high standard in this regard and we continue to improve the manner in which we evaluate, formulate, communicate and manage the broad spectrum of risks our businesses are exposed to.

Our existing risk practices, frameworks and procedures proved relatively robust during the year under review and no major changes to the risk management process proved necessary.

Chairman's Report
(continued)

Transformation

In its broadest sense, transformation is a central and strategic priority at Mustek.
We are committed to empowerment and transformation across all divisions and all levels. Our 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 our future skills requirements.

Employees

We thank our employees for the part they have played in sustaining Mustek's performance. Mustek is committed to providing support for employees which includes learning and development, diversity and inclusion, and providing an environment in which achievement and performance are respected and rewarded.

Less complexity means we can now clearly identify top performers – both businesses and individuals – and reward them appropriately. We believe in developing and retaining market-tested leaders with the skills and experience needed to perform in a broad range of economic conditions. We invest substantial time and resources in training at all levels of the Group. We see the greatest return on this investment in tough economic times like these. We have a core team of leaders that is prepared to handle the difficult conditions we face – and to protect and grow value over the long term.

Corporate governance

Mustek and its directors are fully committed to sound corporate governance and to the principles of fairness, transparency, accountability, responsibility and integrity in dealing with shareholders and all other stakeholders. We endorse the Code of Corporate Practices and Conduct recommended in the King Report on Corporate Governance in South Africa 2002 (King II Report). We are positioned to adopt the King III Report on Corporate Governance that was released on 1 September 2009.

Good governance is the foundation of our ongoing ethical approach to business. The Board continued its focus on promoting the high standards of conduct we expect of our employees, customers and suppliers around the world, recognising that our leadership and actions speak louder than words.

A comprehensive governance report is published on pages 27 to 33 of this report. The tone at the top and within the Board has fostered an environment in which we are committed to high ethical standards, full compliance with legal requirements and resistance to market pressures for short-term results.

Our vision, our values and our commitment to accountability will keep us focused on our pursuit of excellence, regardless of how challenging the road ahead is.

We believe in the importance of culture and ethics in business. Mustek's long-standing traditions of financial strength, long-term customer relationships and entrepreneurial yet responsible management are as important today as ever.

Appreciation

We also express our gratitude to our executives, managers and staff who have shown tremendous dedication and skill in challenging circumstances. We are grateful, too, to our stakeholders, to our business partners and to you, our shareholders, for your support during the year.

LOOKING AHEAD TO THE 2010/2011 FINANCIAL YEAR

South Africa's and the world's economic prospects over the next year remain yet too clouded, therefore we will continue to chart the prudent course that has characterised the past two years. While doing that, we will continue to test our operational processes to uncover more efficiencies and potential income streams.

BOARD OF DIRECTORS

Ralph Patmore joined the Board as a non-executive director following the resignations of Vuli Cuba and Mike Hennessy with effect from 16 October 2009. Total remuneration paid to directors for the year under review amounted to R6,1 million (2009: R5,2 million), while share-based payments of R900 000 (2009: R1,6 million) were expensed relating to directors.

My first year as Mustek's chairman is done and I applaud the Board and executive team for their performance. In my opinion, they have handled these recent years of challenge with character and a diligent focus on turning a severe economic crisis into concrete results, and a leaner, more effective Mustek that can tackle its future with even more confidence than before.

To the Board, the executive and the ever-willing Mustek workforce – hats off to a job well done!

Dr Len Konar

Independent Chairman

Chief Executive Officer's Report

R159 million
cash generated from **operating activities**

Net asset value of **594** cents per share

Dividend of **12** cents per share

OVERVIEW AND FINANCIAL HIGHLIGHTS

In this financial year of review, being 1 July 2009 to 30 June 2010, Mustek delivered a solid performance as South Africa moved sluggishly out of the economic recession that had beleaguered most national economies in the previous reporting period.

I am pleased to report that Mustek weathered the financial storms comfortably, as two years back we had recognised the early warning signs and had already entered a process of consolidating our operations and focusing on improving cost efficiencies.

We also reaped the benefits of the strategic decision to bring quality ITC brands from around the world into the Mustek stable to complement our own Mecer brand. Although proven over decades to compare in quality with any in the world, it has never been economically viable for Mustek to produce an end-to-end Mecer range across the full ITC spectrum of desktop computers, notebooks, printers, scanners and other ITC peripherals. Our repositioning as South Africa's interface between quality international manufacturers and the local market enables us to bring in brands that measure up to Mustek's and Mecer's exacting standards.

We will continue to seek ITC brands that will further extend Mustek's offering as an end-to-end provider of proven ITC products and services.

Microsoft launched its much-anticipated Windows 7 operating system in October 2009, which rapidly became the runaway success that its predecessor, Vista, was not. Although similar in appearance and functionality to Microsoft Vista, Windows 7 has proven to be stable, faster and unarguably more user-friendly than its predecessor, which had caused many organisations and users to revert back to the reliable but ageing Windows XP.

PEOPLE AND BUSINESS

Chief Executive Officer's Report
(continued)

Windows 7 has since become the fastest-selling computer operating system in history, with more than 90 million licences sold in just the first four months, and is now the best-selling computer operating system of all time. As the first OEM (original equipment manufacturer) computer assembler and distributor in the Middle East and Africa to be awarded Microsoft's 'Windows Hardware Quality Laboratory' certification for its preloaded Windows 7 operating system, Mustek gained from invigorated hardware sales, although new demand is clearly still inhibited by current economic circumstances.

The external environment

The nature of Mustek's business entails importing most of our components and products from US Dollar (USD) denominated markets, therefore our profit margins are inherently tied to the Rand-USD exchange rate. As an importer, the historically erratic nature of the Rand-USD exchange rate will continue to be a major factor in our hedging policies.

Cash flows

Our pursuit of operational efficiencies over the past two years enabled Mustek to substantially reduce inventory levels and generate R230,5 million cash from operations (2009: R11,0 million). R215,0 million was used in financing activities and will lead to a substantial reduction in finance costs in the years ahead.

Operating results

In this period, trading volumes increased by about 13%, but the average exchange rate of R7,61 to the USD, compared to R9,05 in the previous financial year, lowered revenue by 2,1% to R3,410 billion.

Dividend

The final dividend declared by the Mustek Board for the financial year ended 30 June 2010 was 12 cents per ordinary share.

Value-added services and new products

In this financial year, Mustek will be reviewing its operational efficiencies further after concluding a consolidation and cost-cutting exercise in the previous year. We concluded that Mustek was running its service department as a cost centre while having the spare capacity and expertise to be transformed into profit centres with their own income streams. Mustek also acquired a 26% shareholding in Khauleza, a BEE ITC maintenance company with which we intend partnering in pursuing new business in ITC maintenance.

Mustek has also signed an agreement to be a South African distributor of the Huawei-Symantec joint-venture business that offers storage and security solutions.

Developing capacity

The nature of our ITC import, assembly and distribution business model means that Mustek requires a certain amount of physical land upon which to build our warehousing, administrative, ITC assembly and related infrastructure. As the inventory has become more efficiently managed and stock levels reduced, Mustek's physical space requirement reduced. At the same time, Mustek's warehousing space at South Africa's other major cities were minimised, with almost all products now being distributed from the primary Midrand warehouse.

Mustek's subsidiary company Rectron, which is physically located within two kilometres of Mustek, is in the process of acquiring a substantial portion of land immediately adjacent to its own property, which will enable it to extend its own warehousing and distribution facilities when needed.

Corporate governance (King II and King III)

Mustek subscribes to and complies in all material aspects with the Code on Corporate Governance Practices and Conduct as contained in the King II Report on Corporate Governance. The King Code and Report on Governance for South Africa (King III) effectively superseded the King II requirements on 1 March 2010 and Mustek is actively working to understand, align with and incorporate the principles of the King III Report into the operations of our Board, management and business.

OPERATIONAL OVERVIEW

On 25 November 2009, Mustek disposed of Tier One Electronics (Pty) Limited for R1 million and on 1 June 2010, the Group acquired 100% of the shareholding of Mustek Capital (Pty) Limited, a securitisation vehicle, for R100 000.

Mecer

Mecer is Mustek's original brand and has proven brand recognition from over 95% of our target market. Mecer-branded products generate about 20% of Mustek's overall revenue.

As Mustek's single biggest subsidiary, extracting operational efficiencies from Mecer was a key component of Mustek's drive to improve its bottomline through appropriate cost-cutting and identifying where operations can be made more effective. Mecer's management again rose to the challenge, delivering consistent margins, managing working capital for optimum returns and streamlining its business operations.

The desktop PC market remains consistent. Large corporate buyers remain committed to the platform due to the control it gives them, a much lower total cost of ownership and superior performance. Corporates have realised that, to extend the life of an asset, PC upgrades should be easily facilitated utilising standard components. Notebooks, apart from memory and hard drives, use proprietary non-standard components, increasing the total cost of ownership and do not always facilitate upgrading.

After several years being hindered by a limited range of notebooks, Mecer released its new and attractive Xpression range, which has been well received by customers and the general public alike.

Rectron

South Africa's biggest distributor of computer components and peripherals, Rectron, is also the exclusive national distributor of Asus and Gigabyte notebooks and components, Transcend and other leading technology brands. Other top brands distributed by Rectron include Sony, LG, Samsung and TomTom.

Rectron complements rather than rivals Mustek as it focuses entirely on bulk importation and distribution, without offering the value-added services that Mustek does. A recent comparison of the Rectron and Mustek customer databases revealed a mere 12% overlap.

In this period, Rectron lifted its revenue by 8,4% and contributed R35,4 million (2009: R32,2 million) to Mustek's net profit, despite tough trading conditions and muted consumer spending. This performance was bolstered by Rectron's Australian subsidiary showing a welcome return to profitability.

Chief Executive Officer's Report
(continued)

In line with Mustek's drive for efficiencies this year, Rectron's executive team focused on tight financial management and optimising its inventory to reduce unwarranted costs.

After relocating back to its previous premises and setting up an advanced robotic warehousing system in the 2008/2009 year, Rectron is in the process of acquiring land adjacent to its site to cater for future expansion.

COMZTEK

This division supplies mainly networking solutions and Microsoft and Symantec products and licences to users across Africa.

MUSTEK IN AFRICA

Mustek exports to or has operations in 17 African countries. In this period, our African operations performed satisfactorily, with our Zinox brand in Nigeria delivering admirable results. As broadband rolls out across Africa, the continent's long-term prospects remain excellent, but our prudent approach in the wake of the global recession convinced Mustek not to extend its operations in this period.

Nigeria

Mustek's Zinox-branded PCs remain dominant in the West African markets and our investment there continues to generate sound operational profits.

Zimbabwe

During Zimbabwe's hyperinflation period, Mustek Zimbabwe was sold to its management team for a nominal amount, with the proviso that Mustek had the option to obtain a 28% shareholding, again for a nominal amount.

During 2010, Mustek exercised this option. Commercial trading in Zimbabwe is now primarily USD-based, with the result that Mustek can again realise income from this source.

LOOKING AHEAD – INDUSTRY TRENDS

Netbooks and Apple's iPad

When Asus launched its EEE 'netbook' three years ago, a new category of mobile computers was born. Intel's consequent release of its miniature Atom processor confirmed the trend, with the corporate and consumer markets both embracing these small, power-thrifty mobile PCs, even though these lacked DVD drives and other notebook features.

The high-profile launch of Apple's iPad in this last year – and its astonishing sales in the first months thereafter – appeared set to cannibalise the netbook category, but this is not yet apparent. Intel's Atom CPU has gained dual core speed and innovative technology, longer battery life and bigger drives are keeping the ultra-portable netbooks at the top of the popularity stakes.

A host of factors, including the rise of 'cloud computing', the convergence of smart phones and PCs, as well as an intensifying contest between the applications and operating systems of Microsoft, Apple and Google, make the future direction of converged ITC communications, applications and media – and what forms of hardware will deliver these – still the battleground of ITC analysts and prophets.

Windows 7 and the hardware refresh cycle

The overwhelming market response to Windows 7 is persuading consumers and all organisation forms – government, enterprise and corporate – to replace hardware. Mustek is benefiting from this fresh wave of demand, but it is evident that corporate and individual consumers are slower to make buying decisions than before the recession.

Microsoft Office 2010

After extensive and worldwide beta testing by literally millions of free trialists, uptake of the recently released Microsoft Office 2010 is expected to be a major commercial success, especially as reviewers regard it to be a genuine improvement on the already popular Office 2007. Microsoft needs its Office 10 to be a major commercial and critical success, as this may be its last major Windows-based application suite release before business office functions migrate into 'the cloud'.

Broadband for Africa

Until recently starved of broadband capacity, the arrival of the Seacom and EASSY undersea cables has positively lifted South Africa's bandwidth capacity to near parity with the developed world.

Uncapped access to end-users has become commonplace and cellular operators are planning 21 Mbps and LTE (100 Mbps) connections, which will dramatically improve the ability of users to tap into high-speed applications such as video streaming and teleconferencing.

Cloud computing on its way

Cloud computing is a general term for anything that involves delivering hosted services over the internet. A cloud service differs from traditional hosting in that it is sold by the minute or hour; users can have as much or as little of a service as they require at any given time; and the service is fully managed by the provider. All that the consumer requires is a personal computer and internet access. At this time, the three largest sellers of cloud computing services are Microsoft, Google and Amazon.

Given sufficient and stable broadband, the reasons for moving into cloud computing are compelling. One advantage is that user data and services are not bound to physical office or home computers so that users can access these from anywhere. Cloud computing also means that users only pay for what they get, rather than having to invest in hardware and software that might not be utilised to its full potential.

Microsoft believes that 'the cloud' will exist in varying formats. Microsoft itself, Google, Amazon and other large providers offer 'public clouds' in which any enterprise or individual can purchase the services that they require. Large corporations, governments and major internet service providers (ISPs) will create smaller and 'private clouds' for their employees, users or subscribers, as the case may be.

I believe that large organisations, governments and major banks will certainly establish their own 'private clouds' in the coming years, but the risk of moving their data into 'the cloud' as their primary storage will be too great. These organisations will continue to entrust their main data storage to server banks, with their cloud facilities offering user-friendly interfaces, cost-effective ITC systems and a useful backup storage facility.

The coming of 'the cloud' to South Africa is imminent as our broadband speeds climb and its costs fall. I am convinced that this will lead to new demand for hardware, albeit not necessarily in the same configurations as previously. I also suspect that 'the cloud' will afford a new lease of life to the classic desktop PC in large organisations. Many corporations would see the logic of retaining their 'cloud-connected' PCs onsite at company premises. Another view in this era of increasingly unified communications is that the desktop PC will host the 'personal clouds' of users, who will utilise it to interconnect and support their mobile devices such as net books, notebooks, smart phones, cameras, music players and iPad-type tablet computers.

Chief Executive Officer's Report
(continued)

Open Source software

This class of software can be defined as software for which the underlying programming code is available to the users so that they may read it, make changes to it, and build new versions of the software incorporating their changes.

The most well-known rivals to Microsoft's Windows and Apple's X10 operating systems (OSs) are the various Linux distributions, of which Mark Shuttleworth's Ubuntu offering is among the most popular.

Although Linux is growing in usage as newer and more user-friendly versions of this OS are released, Microsoft still overwhelmingly dominates, with Apple growing its market share.

Nevertheless, the South African government considers the cost of Microsoft and Apple OSs to be prohibitive in the medium term and its official policy at present is to migrate public sector organisations to Open Source. This process has begun with the South African government's official ITC agency SITA converting to Open Source.

A Linux or Open Source operating system also forces the user to work within specific working applications, as it has far fewer built-in features than Windows or Macintosh operating systems.

Mustek's current policy is that Open Source, currently based on Linux, is a niche operating system that nevertheless is significant if the South African government intends converting to it.

Mustek is already developing Linux drivers for its PC products to meet the demand that may result from other departments and organisations following SITA's lead.

New technologies that will make impacts

The Wireless N standard is appearing in new wireless routers, which affords higher speeds, a further range and improved security in corporate networks, while ordinary consumers can then stream music, HD media and TV through their home networks.

Another technology is WiMAX, which got off to a slow start in South Africa due to insufficient broadband, but will now play an increasingly important role in providing network access to customers and backhaul capability as a wireless alternative to fibre networks.

Corporate sales

During this period, Mustek clinched new contracts and signed extensions to existing contracts with satisfied clients. No major contracts were lost in this reporting year.

Corporate sales are a major factor that is keeping the sales of desktop PCs consistent. These buyers value the control desktops give them over employee usage, while these generally outperform notebooks for a significantly lower price. The total cost of ownership is also substantially lower as desktop upgrades are easily made utilising standard components. Notebooks, apart from memory and hard drives, generally require proprietary and more expensive components.

Teachers Laptop Initiative

In May 2009, the Minister of Education announced the Teachers' Laptop Initiative, through which government will subsidise the purchase of laptops for South Africa's more than 360 000 school teachers.

Mustek has been shortlisted as a potential supplier and is confident of gaining at least a share of this order, which will massively boost the sale of laptops around the country.

CONCLUSION

Over the past three years, Mustek has repositioned itself as a leading provider of a complementary range of ITC brands and services. This we have done against the background of the global economy's most severe economic recession since 1929.

As world economic growth hesitantly gathers pace, this year we adopted a guarded strategy of consolidating our own operational efficiencies and position in the South African and African markets, rather than pursuing new expansion strategies. While remaining fully aware of outside opportunities, we chose to look inwards and to unlock the strengths and efficiencies that we already own but had not sufficiently utilised within our own resources. Being conservative in the face of the real threat of a potential 'double dip', is sound management. After all, when the timing is right, Mustek is well-positioned to service potentially the biggest emerging market over the next decade – an Africa that is at last crossing the digital divide to enter the mainstream of global internet connectivity. By taking care of our housekeeping and further consolidating our repositioned business model, Mustek is laying the foundation for the next round of robust rather than risky growth.

For South Africa, 2010 is the year that we as a country get connected properly through the new undersea cables, while fibre and wireless networks are rolled out across the hinterland by telecommunication companies stimulated by exciting commercial prospects.

The Board heartily welcomes our new Chairman, Dr Len Konar, who joins the Board following the resignation of Mr Vuli Cuba with effect from 16 October 2009. Dr Konar is an experienced director of numerous listed South African companies and brings a wealth of top-level business experience and insights into Mustek.

In another series of tough years, Mustek's people were again up to the challenge. I proudly thank each and every Mustek employee for taking on the hard work of making Mustek ready for the prime years that lie ahead.

David C Kan

Chief Executive Officer

Six-year Financial Review

	2010 R000	2009 R000	2008 R000	2007 R000	2006 R000	2005 R000
SUMMARISED GROUP INCOME STATEMENTS						
Revenue	3 409 515	3 481 903	3 420 798	3 354 661	3 200 206	2 942 244
Cost of sales	(2 923 883)	(2 916 547)	(2 853 007)	(2 803 598)	(2 692 283)	(2 469 795)
Gross profit	485 632	565 356	567 791	551 063	507 923	472 449
Distribution, administrative and other operating expenses	(331 119)	(422 877)	(386 957)	(387 105)	(385 267)	(299 335)
EBITDA	154 513	142 479	180 834	163 958	122 656	173 114
Headline profit	63 711	53 733	81 330	58 942	47 058	92 796
SUMMARISED GROUP BALANCE SHEETS						
Assets	1 761 723	1 829 749	2 034 305	1 851 721	1 889 569	1 696 305
Property, plant and equipment	182 499	171 616	177 514	116 609	105 429	144 946
Intangible assets	72 114	64 667	50 590	40 080	11 735	3 598
Investments and loans	42 373	40 032	54 596	60 648	56 531	48 867
Non-current trade and other receivables	2 619	15 652	25 667	10 345	22 116	13 233
Deferred tax asset	21 545	24 044	25 159	32 543	30 330	20 202
Current assets	1 440 573	1 513 738	1 700 779	1 591 496	1 663 428	1 465 459
Equity and liabilities	1 761 723	1 829 749	2 034 305	1 851 721	1 889 569	1 696 305
Equity attributable to equity holders of the parent	650 834	582 204	549 416	521 921	505 823	500 283
Minority interest	24 552	18 488	19 408	10 187	69 594	80 615
Long-term borrowings	132 514	305 616	318 542	308 083	115 805	245 330
Deferred tax liability	8 373	3 550	921	777	808	469
Current liabilities	945 450	919 891	1 146 018	1 010 753	1 197 539	869 608

	2010 R000	2009 R000	2008 R000	2007 R000	2006 R000	2005 R000
KEY BALANCE SHEET FIGURES						
Total assets	1 761 723	1 829 749	2 034 305	1 851 721	1 889 569	1 696 305
Ordinary shareholders' equity	650 834	582 204	549 416	521 921	505 823	500 283
Return on ordinary shareholders' equity	9,4%	9,4%	14,8%	11,2%	12,2%	16,4%
Net asset value per share (cents)	594	527	497	476	470	478
MARKET INFORMATION AT 30 JUNE						
Ordinary shares in issue	109 547 165	110 449 804	110 449 804	109 615 732	107 514 661	104 643 639
Weighted average number of ordinary shares	110 254 438	110 449 804	110 303 273	109 008 923	106 595 794	103 723 755
Headline earnings per share (cents)	57,8	48,7	73,7	54,1	44,1	89,5
Market price per share (cents)						
– year-end	410	175	300	935	1 025	1 010
– highest	411	399	950	1 125	1 200	1 060
– lowest	154	102	290	860	871	680
Number of transactions	3 102	2 590	2 791	5 194	7 874	4 157
Number of shares traded	53 051 163	38 982 708	29 177 344	55 073 751	71 471 937	44 112 050
Value of shares traded (R)	142 440 850	94 700 256	188 044 723	531 855 698	730 750 291	384 317 153
Percentage of issued shares traded	48%	35%	26%	51%	67%	43%
LIQUIDITY AND LEVERAGE						
Interest cover (times)	4,1	3,1	5,3	4,0	3,5	7,2
Net cash from (used in) operating activities	159 394	(88 507)	73 774	(138 113)	98 754	8 615
Current ratio (times)	1,5	1,6	1,5	1,6	1,4	1,7
PROFITABILITY						
Operating margin	4,5%	4,1%	5,3%	4,9%	3,8%	5,9%
EMPLOYEES						
Number of employees	1 120	1 272	1 310	1 246	1 205	1 162

GLOSSARY

EBITDA – Earnings before interest, taxation, depreciation and amortisation

Current ratio – current assets divided by current liabilities

Interest cover – EBITDA divided by net interest paid

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

Operating margin – EBITDA as a percentage of revenue

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

Environmental Sustainability

MANAGEMENT AND POLICY

Mustek's Board and management are committed to managing Mustek's operational environment in accordance with the environmental best practices embodied in ISO 14001. Mustek has successfully maintained its ISO 14001 certification since 2004. The standards embodied in this certification fully support the environmental and community components of the King III Report.

The Mustek management's environmental policy integrates the quality of Mustek's service and products, its impacts on the environment and health and safety. This policy is reviewed annually and communicated and made available to all staff members.

Reducing Mustek's carbon footprint

A carbon footprint assessment is currently being undertaken to obtain a Greenhouse Gas (GHG) inventory of the company for the period 1 July 2009 to 30 June 2010. The full Scope 1 (Direct emissions), Scope 2 (Indirect emissions used from electricity onsite) and Scope 3 (Indirect emissions – other), will be included in this carbon footprint report.

This assessment will also provide a roadmap on how Mustek needs to improve its data collation to support effective carbon footprint accounting, reporting and disclosure in the next years. Another outcome of the assessment will be recommendations on how to reduce Mustek's impact on the environment.

The assessment process follows the international best practice methodologies of the GHG Accounting Protocol (WDCSD and WRI) and is aligned with ISO 14064.

IMPROVING ENERGY EFFICIENCY

Mustek's energy policy defines objectives for energy management and includes the establishment of a performance management programme, staff awareness and involvement, procurement of energy-efficient plant and equipment and the reduction of fuel and electricity usage.

Measuring equipment to calculate accurate consumption and usage has been installed.

RESPONSIBLE USE OF WATER

Water is not required in Mustek's business processes and is used only for human consumption and cleaning functions. Water is mostly drawn from municipal supplies and is not recycled or reused. Mustek's workforce is being made aware of the need to reduce general water consumption.

USAGE OF MATERIAL AND HANDLING OF WASTE

The significant materials used in Mustek's business processes are computer-related materials and packaging. Products are purchased and distributed by Mustek without manufacturing intervention, or finished components are sourced by Mustek for use in the assembly of PCs and notebooks.

Electronic waste (e-waste) includes many computer components that contain heavy metals such as lead, mercury, nickel and cadmium, which are all persistent, bio-accumulative toxins (PBTs) that can cause environmental and health risks.

Computer-related waste generated by Mustek is comparatively little in comparison to the volume of computer-related equipment sold. Mustek's major impact on the environment occurs when Mustek's customers dispose of their obsolete equipment.

In terms of the National Environmental Management Waste Act, No 59 of 2008 (NEMWA), producers are responsible for their products, even after these have been sold to consumers, especially when those products are considered hazardous in their waste form.

UNLOCKING GROWTH

Environmental Sustainability
(continued)

Mustek partners with an ISO 14001-certified recycler to enable customers to deliver their e-waste to Mustek for onward transporting to Mustek's recycler. If the volume of this e-waste is sufficiently high, the recycler will collect the e-waste directly from the customer.

REDUCING POLLUTION

The significant impact on the environment from Mustek's activities is waste.

Mustek collects, separates and recycles: paper, cardboard, plastic and computer electronic waste. Hazardous waste such as fluorescent light bulbs, lead batteries and aerosol cans are disposed of through a legally compliant process.

Currently negotiations are underway to form a partnership with a waste management company to assist in maximising recyclable items and providing monthly sustainability reports.

ENVIRONMENTAL AUDITS

Mustek remains environmentally legally complaint, as confirmed by independent internal and external environmental legal compliance audits conducted in this year.

In this period, Mustek did not receive any environmental fines or non-monetary sanctions for lack of compliance with environmental laws and regulations.

QUALITY, ENVIRONMENTAL, HEALTH AND SAFETY POLICY

The management and personnel of Mustek Limited are committed to providing computer-related equipment and services of the highest quality and technological standards to ensure continued customer satisfaction, while recognising the importance of protecting the environment without compromising the occupational health and safety of our people.

We implement and maintain the requirements of ISO 9001 and ISO 14001 to provide a means of continued improvement in both the delivery of products and services to our customers and in environmental management and performance.

Our primary goals are the following:

- Leadership of Mustek and its products in our chosen markets.
- Increasing market share while maintaining margins.
- Maintaining our leadership position by introducing technology advances to the marketplace ahead of other suppliers.
- Optimising internal processes through the implementation of our service principles.
- Equity in the workplace through focused empowerment initiatives and management of our broad-based black economic empowerment (BBBEE) status.
- Growth and value through targeted initiatives at larger, high-value customers.
- Committed management of our environmental performance in compliance with applicable environmental legislation and prevention of pollution with emphasis on waste management, supplier, tenant and customer influence.
- Management of our occupational health and safety performance in accordance with the Occupational Health and Safety (OHS) Act.

Mustek's Board of Directors and management annually review Mustek Limited's corporate goals, vision and policies.

Social Responsibility

LABOUR PRACTICES

Labour and management relations

Founded 23 years ago, Mustek is a major JSE-listed corporation specialising in the Information Technology and Communications (ITC) industry. With a workforce of over 500 staff members across South Africa, management maintains a transparent and accessible relationship with our employees, which ensures a harmonious working environment and keeps workplace conflicts to a minimum.

The company has a mature and well-entrenched range of effective HR policies and procedures, all of which are introduced to new employees during their induction and are always accessible via the company intranet.

Mustek is proud of its staff members' dedication to the family spirit of the company, evidenced by its low resignation rate for the ITC industry. Many employees have over 15 years' service and a small group, including our CEO, has been with the company for over 20 years. This bears testimony to the fact that Mustek remains a preferred employer for many of South Africa's talented ITC professionals.

Health and safety

Mustek conforms to all legislation and conducts its business within the parameters of a group Safety, Health, Environmental and Quality (SHEQ) manual. Emergency and disaster plans have been prepared for all areas and the workforce is thoroughly trained in their application.

Within the Group, the 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, and to suggest possible improvements to safety procedures across the organisation.

No reportable SHEQ incidents occurred during the year under review.

Training and education

Mustek competes in a high-tech industry in which the correct skills and experience are always in short supply. As such, ongoing skills development and training is a business imperative. The continued in-house training of staff allows Mustek to stay abreast of constantly changing technology. Specific staff training courses are outsourced to reputable and appropriately registered service providers. Mustek continues to be a fully accredited member of the ISETT SETA and reclaims its full development levies every year.

The Group continues to develop skills and talent from within the ranks of its own employees – striving, at the same time, to develop the industry leaders of the future. In line with national directives, priority in terms of skills development is given to previously disadvantaged individuals (PDIs), including women.

Mustek's progressive vision and training and further education for its staff continue to benefit not only the company, but also the broader South African economy.

Diversity and opportunity

Mustek's workforce continues to reflect the diversity of South African society. Management at Mustek focuses closely on aligning the company's staff complement with South Africa's racial and cultural demographics. The 'Mustek family' is the core ethos for all employees. Respect, dignity and fair treatment are core Mustek values and we have adopted a policy of zero tolerance for any form of discrimination or unfair treatment. When vacancies occur, Mustek first seeks to promote or transfer people from within its staff before advertising to the broader job market. Preference is given to individuals in Mustek from previously disadvantaged backgrounds.

Social Responsibility
(continued)

HUMAN RIGHTS

Freedom of association

Mustek complies with the Labour Relations Act and all associated labour legislation. Our employees may associate with, or be members of, any representative organisation or trade union that they choose.

Disciplinary practices

All cases and disputes are handled in terms of a legally compliant disciplinary code and grievance procedure which applies to all Mustek's South Africa-based employees, managers and executives. Clear explanations of disciplinary and grievance procedures have been extensively circulated to staff at all Mustek workplaces.

HIV/AIDS and the workplace

For nearly a decade Mustek has conducted a comprehensive HIV/AIDS strategy and programme, based on the core principle that the human rights and dignity of any of our employees infected by the virus should, at all times, and under all circumstances, be upheld. The approach also recognises the need to educate all our 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. In addition, the confidentiality of employees seeking assistance via the programme is assured at all times.

CHALLENGES AND FOCUSING ON THE YEAR AHEAD

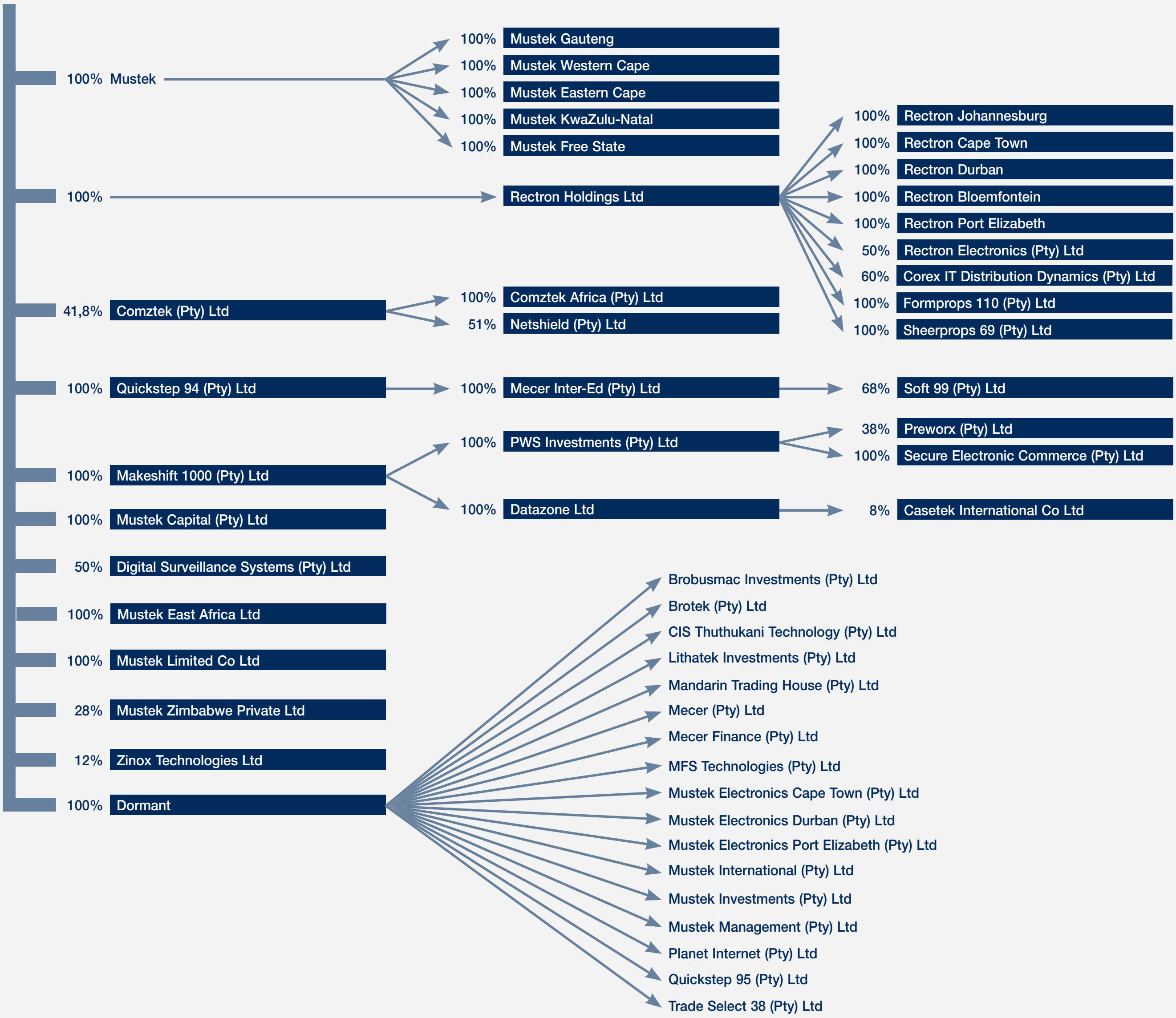
The ICT industry in South Africa continues to be challenged by the scarcity of key skills – and Mustek is no exception. As such, Mustek regularly sponsors accredited 'learnerships' through ISETT SETA. This programme educates and trains unemployed members of the South African economy in order to make them employable within the IT industry. Upon completion of the programme, Mustek offers employment opportunities to those 'graduates' with the appropriate skills to fill any vacancies that exist in the Group. Those not immediately employed by Mustek generally find work within the industry due to their Mustek-sponsored IT training.

Mustek also continues its popular and successful adult English literacy programme for staff whose first language is not English.

Group Structure

Mustek LIMITED

Registration number 1987/070161/06



Board of Directors

EXECUTIVE DIRECTORS

David Kan
Chief Executive Officer

David Kan, aged 51, 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
Executive Director

Hein Engelbrecht, aged 41, holds a BCom (Hons) degree, is a registered chartered accountant, and joined the Group in 1997 as Group Financial Manager. Hein completed his articles with Grant Thornton Kessel Feinstein and spent two and a half years as financial manager of Office Directions (Pty) Limited. Hein was appointed to the Board on 1 September 2000.

Neels Coetzee
Financial Director

Neels Coetzee, aged 35, is a registered chartered accountant and joined the Group in 2001 as Group Financial Manager after completing his articles with Deloitte & Touche in 2000. Neels was appointed to the Board as Financial Director on 29 August 2008.

NON-EXECUTIVE DIRECTORS

Dr Len Konar
Non-executive Chairman

Doctor Len Konar, aged 56, 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 Securities Regulation Panel, the Corporate Governance Forum and the Institute of Directors. Dr Konar is also a non-executive director of Old Mutual South Africa, the South African Reserve Bank, JD Group, Sappi and Steinhoff International Holdings.

Mdu Gama
Non-executive Director

Mdu Gama, aged 41, was appointed as director of Mustek in 2002. He holds an MBA degree and various management qualifications from SA, US and UK universities. Mdu is currently the CEO of Safika Asset Finance (Pty) Limited and a non-executive director of Comztek (Pty) Limited.

Thembisa Dingaan
Non-executive Director

Thembisa Dingaan, aged 37, holds an LLM degree and joined the Mustek Board on 6 February 2009. Thembisa is also a director of the Development Bank of Southern Africa where she is also a member of the Credit and Investment, Audit and Finance Committees. She is also a member of the Trade and Industry Standing Advisory Committee on Company Law. In August 2008, Thembisa was appointed by Cabinet as a board member of the Export Credit Insurance Corporation of South Africa (ECIC).

Ralph Patmore
Non-executive Director

Ralph Patmore, aged 58, was appointed to the Board on 16 October 2009. He holds a BCom degree and an MBL he obtained from Unisa's School of Business Leadership. He was the CEO of Iliad Africa Limited since inception in 1998 to retirement in September 2008. Ralph is also a non-executive director of William Tell Limited, a.b.e. Construction Chemicals Limited and ARB Holdings Limited.

Annual Financial Statements

30 June 2010

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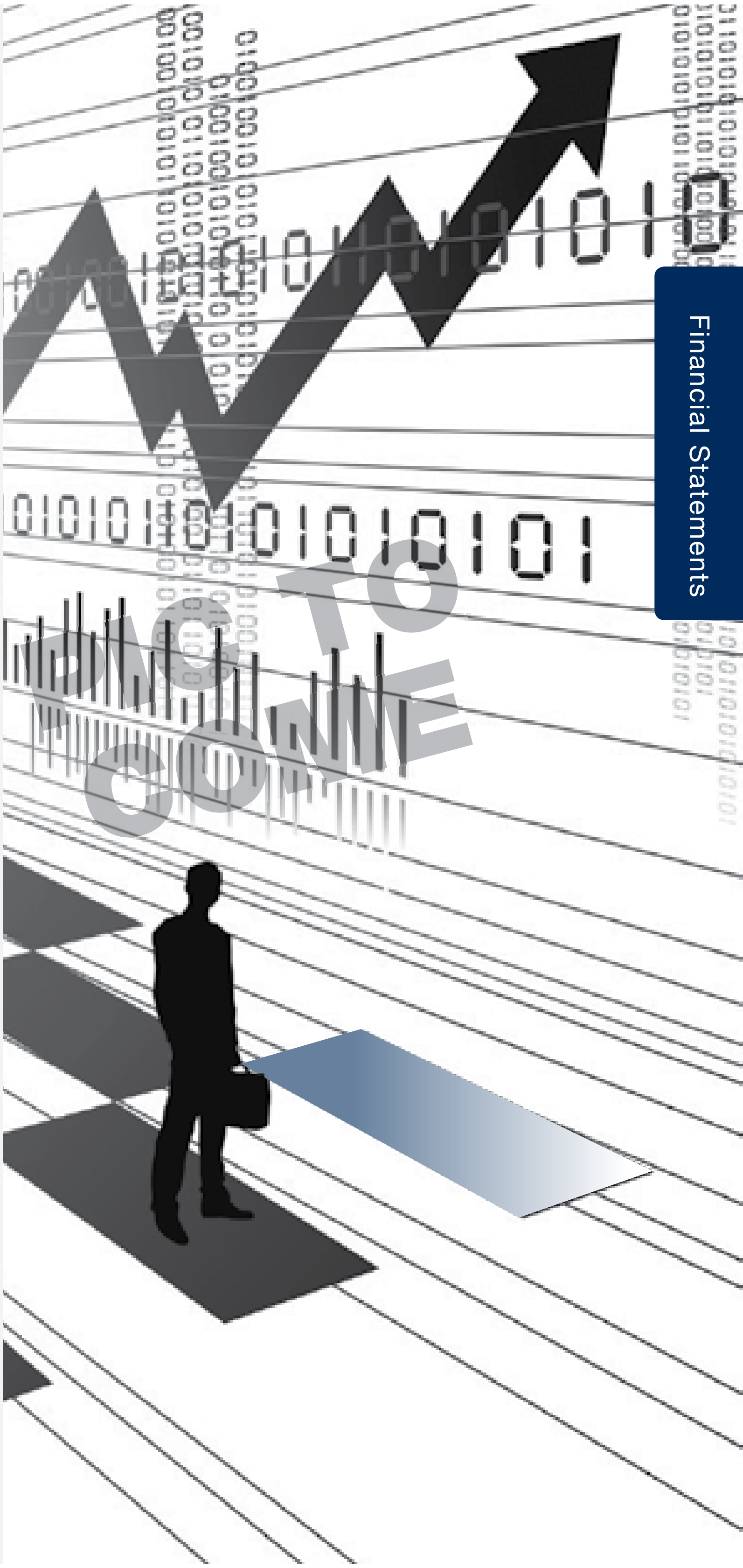

Directors' Responsibility for Financial Reporting

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 34.

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 35 to 117 were approved by the Board of Directors on 27 August 2010 and are signed on their behalf by:

D Konar

DC Kan

Johannesburg
27 August 2010

CERTIFICATION BY COMPANY SECRETARY

In my capacity as Company Secretary, I hereby confirm, in terms of section 268 G(d) of the Companies Act, 1973, as amended, that for the year ended 30 June 2010, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

CJ Coetzee
Secretary

27 August 2010

Corporate Governance Statement

for the year ended 30 June 2010

THE KING CODE OF CORPORATE PRACTICES AND CONDUCT

In accordance with the requirements of the JSE Limited, applicable to all companies listed on the main board of the JSE Limited, the directors submit that they subscribe to the principles incorporated in the Code of Corporate Practices and Conduct as set out in the King Report and apply them therewith. The directors have recognised the need to conduct the enterprise with integrity and in accordance with generally accepted corporate practices.

CODE OF ETHICS AND CONDUCT

It 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. All employees at Group and company level are required to comply with the spirit as well as the letter of this policy, and to maintain the highest standards of conduct in all dealings.

The Board had adopted a Code of Ethics and Conduct for the Group in order to:

- clearly state what is acceptable and unacceptable practice and behaviour;
- guide policy and practices by providing a set of ethical corporate standards;
- encourage continuous ethical behaviour of the Board, managers and employees at all levels;
- guide ongoing ethical decision-making;
- make infringements easy to identify and respond decisively thereto;
- promote awareness of, and sensitivity to, ethical issues; and
- help resolve conflicts expeditiously.

There has been full compliance with the Group's Code of Ethics and Conduct during the year under review.

CORPORATE CODE OF CONDUCT

The Group is committed to:

- trading with customers and suppliers who subscribe to ethical business practices;
- non-discriminatory employment practices and the promotion of employees to realise their potential through training and development of their skills;
- the highest standards of integrity in all its dealings with its stakeholders and society at large;
- carrying-on of business through fair commercial competitive practices; and
- being proactive towards environmental and social sustainability issues.

BOARD OF DIRECTORS

Composition of the Board

The Group has a unitary Board of Directors that currently comprises four non-executives (three of whom are independent) and three executive directors.

The executive directors have overall responsibility for implementing the Group's strategy and managing its operations.

Non-executive directors complement the skills and experience of the executive directors and bring judgement to bear, independent of management, on issues of strategy, budgets, performance, resources, transformation, diversity, employment equity, standards of conduct and evaluation of performance, contributing to the formulation of policy and decision-making through, inter alia, their knowledge and experience. The Board is of the view that all non-executive directors bring independent judgement to bear on material decisions of the company.

The Chairman is independent and the roles of the Chairman and Chief Executive Officer are separate and a clear division of responsibility exists. Details of the directorate are provided on page 24 of this annual report.

The non-executive directors take responsibility for ensuring that the Chairman encourages proper deliberation of all matters requiring the Board's attention. The Board ensures that there is an appropriate balance of power and authority so that no one individual or block of individuals can dominate the Board's decision-making process.

The Board gives strategic direction to the Group under the Chairmanship of Dr Len Konar, who succeeded Mr Vuli Cuba with effect from 16 October 2009. The Board meets at least four times a year and has a formal schedule of matters reserved to it as recorded in its Board Charter. The Board retains full and effective control over the Group and monitors executive management in implementing plans and strategies.

The Board has established a comprehensive control environment ensuring that risks are mitigated and the Group's objectives are attained. This control environment sets the tone for the Group and covers ethical values, management's philosophy and the competence of employees.

Corporate Governance Statement

for the year ended 30 June 2010 (continued)

The Board ensures that the Group complies with all relevant laws, regulations and codes of business practice and that it communicates with its shareholders and relevant internal and external stakeholders transparently, promptly and with substance prevailing over form.

With the appointment of Dr Len Konar as Chairman, the membership of the committees have been reconstituted, in accordance with the requirements of the King Report (King III). Mr Ralph Patmore was appointed as an independent non-executive director with effect from 16 October 2009, and has since been appointed as Chairman of the Audit and Remuneration committees.

The Board and its committees are supplied with full and timely information which enables them to discharge their responsibilities. They have unrestricted access to all Group information, records, documents and property. Non-executive directors have access to management and meet separately with management without the attendance of executive directors periodically. The information needs of the Board are well-defined and regularly monitored. All directors have access to the advice and services of the Company Secretary and there is an agreed procedure by which directors may obtain independent and professional advice at the Group's expense, when they deem this necessary.

The Board defines levels of authority, reserving specific powers to itself and delegating other matters with the necessary authority to management. These matters are monitored and evaluated on a regular basis.

Through the Audit 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.

On an ongoing basis, the Board reviews the required mix of skills, experience and other qualities such as its demographics and diversity in order to assess its effectiveness.

Procedures for appointment to the Board are formal and transparent. Following the appointment of new directors to the Board, visits to the Group's businesses and meetings with senior management, as appropriate, as well as induction, are offered to facilitate their understanding of the Group and their fiduciary responsibilities.

Mr Mike Hennessy retired as a director and committee member on 16 October 2009.

The record of attendance of each director at Mustek Limited Board meetings for the financial year ended 30 June 2010 is as follows:

Director	25 Aug 2009	8 Dec 2009	18 Feb 2009	26 May 2009
VW Cuba* *(past Chairman)*	✓	n/a	n/a	n/a
D Konar *(Chairman)*xx*	✓	✓	✓	✓
ME Gama*	✓	✓	✓	✓
MF Hennessy*	✓	n/a	n/a	n/a
T Dingaan*	✓	✓	✓	✓
DC Kan *(CEO)*	✓	✓	✓	✓
H Engelbrecht *(COO)*	✓	–	✓	✓
CJ Coetzee *(CFO)*	✓	✓	✓	✓
RB Patmorexx*	n/a	✓	✓	✓

**Non-executive.*
✓Indicates attendance.
–Indicates absence with apologies.
xxAppointed on 16 October 2009.

BOARD COMMITTEES

Three principal committees have been established to assist the Board in discharging its responsibilities. The committees facilitate high standards of governance. Specific responsibilities have been formally delegated to the Board committees with defined terms of reference, duration and function, clearly agreed upon reporting procedures and written scope of authority documented in formal charters. There is transparency and full disclosure from the Board committees to the Board, except where mandated otherwise by the Board. Board committees are free to take independent outside professional advice as and when necessary and are subject to evaluation by the Board to ascertain their performance and effectiveness.

The principal Board committees are as follows:

Executive Committee

The Executive Committee consists of the Chief Executive Officer, Chief Operations Officer, Chief Financial Officer and certain operational directors. The Executive Committee takes all day-to-day decisions, relating to the Group and refers major decisions, which have their sanction, to the Board for approval.

Audit Committee

Through the Audit Committee, the Board regularly reviews processes and procedures to ensure the effectiveness of the systems of internal control so that its decision-making capability and the accuracy of its reporting are maintained at a high level at all times. The Board, furthermore, identifies and monitors the non-financial aspects relevant to the business and reviews appropriate non-financial information that goes beyond assessing the financial and quantitative performance of the Group, and looks at other qualitative performance factors, which take into account broad stakeholder issues. The Board is committed to conforming to good corporate governance, without impacting on the Group's entrepreneurial flair.

Dr Len Konar chaired the Audit Committee and its other members until 16 October 2009 were Mr Mike Hennessy and Mr Mdu Gama. Since February 2010, Mr Patmore has been Chairman of the committee while Thembisa Dingaan was appointed to the committee on 8 December 2009. The Chief Executive Officer, Chief Operations Officer, Chief Financial Officer, Group Internal Audit Manager, Company Secretary and external auditors are invited to attend every meeting. Other members of the Board and management team attend as required. The Audit Committee meets separately with the external auditors and the Group Internal Audit Manager twice a year without management present.

The Audit Committee meets at least four times a calendar year and is responsible for reviewing the interim and final financial statements, internal financial control procedures, accounting policies, compliance and regulatory matters, recommending the appointment of external auditors and other related issues. All members of the Audit Committee 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.

The record of attendance of each member at Mustek Limited Audit Committee meetings for the financial year ended 30 June 2010 is as follows:

Director	25 Aug 2009	8 Dec 2009	18 Feb 2009	26 May 2009
RB Patmore *(Chairman)**	n/a	✓	✓	✓
D Konar *(past Chairman)***	✓	✓	✓	✓
MF Hennessy	✓	n/a	n/a	n/a
ME Gama	✓	✓	✓	✓
T Dingaan***	✓	✓	✓	✓

**Appointed Chairman, February 2010.*
***Resigned as Chairman, February 2010.*
****Appointed on 8 December 2009.*
✓Indicates attendance.

The Audit Committee has written terms of reference that deal adequately with its membership, authority and duties. The Audit Committee considers whether adequate and appropriate internal financial controls are in place to meet the current and future needs; that significant business, strategic, compliance, reputational, statutory and financial risks have been identified and are being monitored and managed; and that appropriate standards of governance, reporting and compliance are in operation. The Audit Committee advises the Board on issues ranging from the application of accounting standards to published financial information. Interim and annual results of the Group are reviewed and revised by the Audit Committee before submission to the Board for approval.

The Audit Committee has a responsibility to recommend to the Board, for its consideration and acceptance by shareholders, the appointment of external auditors. The Audit Committee approves the external auditor's engagement letter and terms, nature and scope of the audit function and the audit fee. The Audit Committee reviews the nature and quantum of non-audit projects undertaken by the external auditors. The auditors are required, on an annual basis, to provide a summary of relationships that they consider may have a bearing on their independence and objectivity.

After considering the expertise and experience of the Chief Financial Officer, the Audit Committee confirmed that it was satisfied with the expertise and experience of the Chief Financial Officer.

Corporate Governance Statement
for the year ended 30 June 2010 (continued)

Remuneration and Nomination Committee

The Remuneration Committee determines the remuneration of directors and senior management at levels sufficient to attract, retain and incentivise individuals of quality. Only non-executive directors receive fees for their services on the Board and on Board committees. Executive directors are remunerated in terms of their contracts of employment with the Group.

The Remuneration Committee consists of two non-executive directors and the Chief Executive Officer. Dr Len Konar was the Chairman of the Remuneration Committee and was succeeded by Mr Ralph Patmore in February 2010. The other independent member during the year was Mr Mike Hennessy. The Remuneration Committee meets at least once a year. The committee is responsible for the assessment and approval of the broad remuneration strategy for the Group, determination of short- and long-term incentive pay structures for the Group executives, positioning of senior executive pay levels relative to local and international industry benchmarks and assessment and authorisation of specific reward proposals for the Group's executive directors and senior management. The objective of the remuneration philosophy is to employ the necessary skills for the company to achieve its business goals and to base remuneration on personal and company performance in accordance with competitive market practices.

The Chief Executive Officer, Chief Financial Officer, Human Resources Manager and Company Secretary attend meetings of the Remuneration Committee but are excluded from the review of their own remuneration.

Schedules setting out directors' remuneration and equity interest appear in the Directors Report on pages 40 and 36.

The record of attendance at the Mustek Limited Remuneration Committee meeting for the financial year ended 30 June 2010 is as follows:

Director	29 Jun 2010
RB Patmore	✓
D Konar	✓
DC Kan	✓

✓*Indicates attendance.*

GOING CONCERN

The Board minutes the facts and assumptions used in the assessment of the going-concern status of the Group at the financial year-end. At the interim reporting stage, the directors consider their assessment at the previous year-end of the Group's ability to continue as a going concern and determine whether or not any of the significant factors in the assessment have changed to such an extent that the appropriateness of the going-concern assumption at the interim reporting stage has been affected.

ACCOUNTABILITY AND AUDIT

Auditing and accounting

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

Risk management

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

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

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

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

Internal financial controls

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

Internal audit function

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

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

- assurance that the management processes are adequate to identify and monitor significant risks;
- confirmation of the adequacy and effective operation of the established internal control systems; 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 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 Committee and senior management.

Insider trading

The Group has a formal policy, established by the Board and implemented by the Company Secretary, prohibiting dealing in securities by directors, officers and other selected employees for a designated period preceding the announcement of its financial results and in any other period considered sensitive. The Chairman, through the Company Secretary in any event, approves all dealings by directors during 'open' periods.

Directors and officers of the Group who have access to unpublished price-sensitive information are prohibited from dealing in the shares of the company during defined restricted periods, including those periods immediately prior to the announcement of interim and final financial results.

Relations with shareholders

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

It is the policy of the Group to pursue dialogue with institutional investors based on constructive engagement and the mutual understanding of objectives taking due regard of statutory, regulatory and other directives regulating the dissemination of information by companies by their directors. To achieve this dialogue, presentations are made to analysts, investors and the press and some one-on-one meetings are held with investors and analysts to communicate the strategy and performance of the Group. 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.

Corporate Governance Statement

for the year ended 30 June 2010 (continued)

GROUP 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.

Fixed remuneration

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

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

Employees' fixed remuneration is reviewed and increased annually in July by the Remuneration Committee.

Annual performance bonus

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.

Long-term incentive plans – Mustek Share Incentive Scheme

Executive directors and a limited number of executive management participate in the Mustek Share Incentive Scheme, which is designed to recognise the contributions of senior staff to the growth in the value of the Group's financial position and performance and to retain key employees. Within the limits imposed by the company's shareholders and the JSE Limited, options are allocated to executive directors and senior staff in proportion to their contributions to the business as reflected by their seniority.

The Remuneration Committee grants share options as follows:

- When an employee is promoted or appointed to the relevant management level or positions.
- Supplementary share option grants are normally granted annually, as approved by the Remuneration Committee.

Employee participation

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

Empowerment and employment equity

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

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

The Group has employment policies which it believes are appropriate to the business and the market in which it trades. They are designed to attract, motivate and retain quality staff at all levels. Equal employment opportunities are offered to all employees without discrimination.

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

Policy on directors' fees and remuneration

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

Executive directors

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

Directors' service contracts

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

Non-executive directors

The Remuneration Committee recommends 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 2009 were approved by the shareholders at the annual general meeting of members on 8 December 2009.

ENVIRONMENT

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

SOCIAL INVESTMENT

The Group operates in diverse environments where, particularly in the African countries of operation, the development needs of the communities from which it draws its employees are significant.

Recognising Mustek's interdependence with these communities, the Group has active social investment programmes in each country of operation which are structured to address the specific needs of such communities.

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.

COMPANY SECRETARY

The Board is cognisant of the duties imposed on the Company Secretary who is accordingly employed to properly fulfil those duties. In addition to the statutory duties, the Company Secretary provides the Board and directors individually with guidance as to how their responsibilities should be properly discharged in the best interests of the Group. The Company Secretary is responsible for the duties set out in section 268G of the Companies Act. The certificate required to be signed in terms of subsection (d) of the Act appears on page 26.

Independent Auditors' Report

for the year ended 30 June 2010

TO THE MEMBERS OF MUSTEK LIMITED

We have audited the Group annual financial statements and annual financial statements of Mustek Limited, which comprise the consolidated and separate statement of financial positions as at 30 June 2010, and the consolidated and separate statement of comprehensive incomes, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 35 to 117.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Mustek Limited as at 30 June 2010, 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 in the manner required by the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Registered Auditors
Per DF Crowther
Partner – Audit

27 August 2010

221 Waterkloof Road
Waterkloof
0181

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit DL Kennedy Tax and Legal and Risk Advisory L Geeringh Consulting L Bam Corporate Finance CR Beukman Finance TJ Brown Clients and Markets NT Mtoba Chairman of the Board MJ Comber Deputy Chairman of the Board

Regional Leader: X Botha

A full list of partners and directors is available on request.

Report of the Directors

for the year ended 30 June 2010

INTRODUCTION

The directors have pleasure in presenting their report on the activities of the company and the Group for the year ended 30 June 2010.

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 from continuing operations was R87,6 million (2009: R73,7 million).

SHARE CAPITAL

The authorised and issued share capital of the company is detailed in note 20 to the annual financial statements. During the current financial year, 902 639 ordinary shares were bought back. These shares were subsequently delisted from the JSE and cancelled as issued share capital.

DIRECTORS AND SECRETARY

Dr D Konar has been appointed as non-executive Chairman in place of VW Cuba who resigned with effect from 16 October 2009. RB Patmore has also been appointed as non-executive director following the resignation of MF Hennessy with effect from 16 October 2009. The directors in office at the date of this report are as follows:

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

[1]*Independent.*

[2]*Audit Committee member.*

[3]*Remuneration and Nomination Committee member.*

[4]*These directors are retiring in terms of the company's Articles of Association. In terms of the statutes of the company ME Gama, DC Kan and CJ Coetzee are available for re-election at the next annual general meeting. Biographical details of all the directors are set out on page 24.*

Secretary – CJ Coetzee

Report of the Directors
for the year ended 30 June 2010 (continued)

DIRECTORS' SHAREHOLDING

At 30 June 2010, the directors collectively held the following direct and indirect interests in shares in the company, which represents 9,7% (2009: 8,9%) of the issued share capital of the company. (No change occurred between 30 June 2010 and 27 August 2010):

	DIRECT AND BENEFICIAL		INDIRECT AND NON-BENEFICIAL	
	2010	2009	2010	2009
DC Kan	46	2 342 860	10 032 442	6 509 883
MF Hennessy	—	—	—	400 000
H Engelbrecht	430 000	430 000	—	—
CJ Coetzee	135 000	135 000	—	—
D Konar	25 303	25 303	—	—
	590 349	2 933 163	10 032 442	6 909 883

These shareholdings exclude options held. The remainder of the directors do not hold any shares.

EXECUTIVE SHARE TRUST

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 2010. 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 is 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 4	50%
Year 2	15%	Year 5	70%
Year 3	30%	Year 6	100%

The directors may amend these delivery periods and percentages and have done so before.

EXECUTIVE SHARE TRUST *(continued)*

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 2010 (2009: 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 listings division. As a result of the ruling, the remaining 579 072 (2009: 579 072) options are taken into account in the calculation of diluted earnings per share in note 9.

	WEIGHTED AVERAGE PRICE		NUMBER OF OPTIONS	
	2010	2009	2010	2009
Options undelivered at the beginning of the year	R8,88	R8,87	7 314 072	7 539 072
Options lapsed during the year	R8,36	R8,36	(250 000)	(225 000)
Shares delivered during the year (see note 20)	—	—	—	—
Options undelivered at year-end	R8,90	R8,88	7 064 072	7 314 072

No share options were granted to employees in the current financial year (2009: nil). The fair values were calculated using a binomial tree that adheres to all the Black-Scholes option-pricing model principles. In terms of IFRS 2, share options allocated and accepted with all conditions being met before 7 November 2002, were not valued. All these share options are equity-settled and therefore only valued upon granting. The inputs into the model were as follows:

	1 December 2006	29 June 2006
Weighted average share price	R9,25	R10,05
Weighted average exercise price	R8,36	R10,01
Expected volatility	30%	27%
Expected life	8 years	8 years
Risk-free rate	8,6%	8,5%
Expected dividend yield	8,0%	5,5%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous six years. The Group and company recognised total expenses of R1 420 582 (2009: R2 552 076) related to equity-settled share options during the current and previous years respectively.

Report of the Directors

for the year ended 30 June 2010 (continued)

EXECUTIVE SHARE TRUST *(continued)*

The options valued will be expensed as follows:

	2010 R000	2009 R000
First year	733	1 624
Second year	89	772
Third year	—	100
Fourth year	—	—
	822	2 496
Number of options held by:		
Executive directors	3 800 000	3 800 000
Executives and employees	2 685 000	2 935 000
Executive Share Trust	579 072	579 072
	7 064 072	7 314 072

Share options exercised, including these R5,00 options held by the trust, are due for delivery and payment at the following values and in the following periods ending 30 June:

2010

Option price	2011	2012	Number of undelivered shares	Total Rand value
R5,00	729 072	—	729 072	3 645 360
R8,36	2 028 000	507 000	2 535 000	21 192 600
R10,01	3 800 000	—	3 800 000	38 038 000
	6 557 072	557 000	7 064 072	62 875 960

EXECUTIVE SHARE TRUST *(continued)*

2009

Option price	2010	2011	2012	Number of undelivered shares	Total Rand value
R5,00	729 072	—	—	729 072	3 645 360
R8,36	1 671 000	557 000	557 000	2 785 000	23 282 600
R10,01	3 040 000	760 000	—	3 800 000	38 038 000
	5 440 072	1 317 000	557 000	7 314 072	64 965 960

The directors may amend the delivery periods or percentages. Altogether 5 190 072 options due for delivery before 30 June 2010 (2009: 3 988 072) were not delivered. The weighted average price of the options outstanding at year-end is R8,90 per option (2009: R8,88).

SHARE OPTIONS

The directors have the following share options outstanding or delivered to them after being accepted at the following dates:

2010

Director	Offer price	Acceptance date	Undelivered shares at 30 June 2009	Due for delivery during the year	Delivery date	Undelivered shares at 30 June 2010	Share option loss 2010*
DC Kan	R10,01	29 June 2006	2 250 000	1 800 000	29 June 2010	2 250 000	(2 659 500)
H Engelbrecht	R10,01	29 June 2006	1 250 000	1 000 000	29 June 2010	1 250 000	(1 477 500)
CJ Coetzee	R10,01	29 June 2006	300 000	240 000	29 June 2010	300 000	(354 600)
			3 800 000	3 040 000		3 800 000	(4 491 600)

2009

Director	Offer price	Acceptance date	Undelivered shares at 30 June 2008	Due for delivery during the year	Delivery date	Undelivered shares at 30 June 2009	Share option loss 2009*
DC Kan	R10,01	29 June 2006	2 250 000	1 350 000	29 June 2009	2 250 000	(3 730 500)
H Engelbrecht	R10,01	29 June 2006	1 250 000	750 000	29 June 2009	1 250 000	(2 072 500)
CJ Coetzee	R10,01	29 June 2006	—	180 000	29 June 2009	300 000	(497 400)
			3 500 000	2 280 000		3 800 000	(6 300 400)

**The loss represents the decrease in value of shares from the grant date to the due date for delivery of the shares. It includes unrealised losses on shares that became due for delivery but where delivery was not taken, and excludes any losses where delivery is not yet due.*

Report of the Directors

for the year ended 30 June 2010 (continued)

DIRECTORS' EMOLUMENTS

	Fees for services R000	Basic salary R000	Expense allowances R000	Pension contributions R000	Total R000
2010					
Executive directors	—	3 993	750	301	5 044
DC Kan	—	1 210	384	118	1 712
H Engelbrecht	—	1 733	270	117	2 120
CJ Coetzee	—	1 050	96	66	1 212
Non-executive directors	1 062	—	—	—	1 062
T Dingaan	150	—	—	—	150
ME Gama	360	—	—	—	360
D Konar	240	—	—	—	240
RB Patmore*	170	—	—	—	170
VW Cuba**	75	—	—	—	75
MF Hennessy**	67	—	—	—	67
	1 062	3 993	750	301	6 106
2009					
Executive directors	—	3 315	724	259	4 298
DC Kan	—	1 038	374	106	1 518
H Engelbrecht	—	1 572	270	108	1 950
CJ Coetzee***	—	705	80	45	830
Non-executive directors	948	—	—	—	948
VW Cuba	150	—	—	—	150
MF Hennessy	200	—	—	—	200
ME Gama	360	—	—	—	360
D Konar	175	—	—	—	175
T Dingaan****	63	—	—	—	63
	948	3 315	724	259	5 246

*For 8,5 months.
**For 4 months until resignation.
***For a 10-month period.
****For a 5-month period.

Losses made by directors on share options are disclosed on the previous page.

SUBSIDIARIES

The interest of the company in the aggregate net profit (loss) after tax of subsidiaries and joint ventures are as follows:

	2010 R000	2009 R000
Net aggregate profits	64 757	40 220
Net aggregate losses	(1 031)	(6 440)

Details of the company's subsidiaries and joint ventures are set out in notes 12 and 14.

DIVIDENDS

A final dividend of 10 cents per ordinary share was declared on 25 September 2009 and paid on 5 October 2009. (A final dividend of 10 cents per ordinary share was declared on 26 September 2008 and paid on 6 October 2008.)

SHAREHOLDERS' SPREAD

At 30 June 2010, 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	16 359 947	14,9
DK Trust*	10 032 442	9,2
SBSA ITF NGI Growth Fund	5 499 457	5,0
	31 891 846	29,1

**DC Kan, chief executive and trustee of this trust, also owned 46 shares (2009: 2 342 860 shares) at 30 June 2010. The resulting percentage held is 9,2% (2009: 8,0%).*

2010

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 140	72,3	1 657 273	1,5
5 001 – 10 000	166	10,5	1 322 909	1,2
10 001 – 50 000	160	10,1	3 642 884	3,3
50 001 – 100 000	32	2,0	2 287 351	2,1
100 001 – 1 000 000	60	3,8	21 485 299	19,6
Over 1 000 000	20	1,3	79 151 449	72,3
	1 578	100,0	109 547 165	100,0

Report of the Directors

for the year ended 30 June 2010 (continued)

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	590 349	0,5
Trusts with directors as trustees	1	0,1	10 032 442	9,2
Public shareholders	1 573	99,6	98 924 374	90,3
	1 578	100,0	109 547 165	100,0

At 30 June 2009, insofar as is known, the following shareholders beneficially held more than 5% of the issued Mustek shares:

Shareholding – ordinary shares in issue	Number of shares	% of shares in issue
Old Mutual Life Assurance Company SA Limited	15 439 823	14,0
DK Trust*	6 509 883	5,9
Government Employee Pension Fund	5 648 238	5,1
	27 597 944	25,0

**DC Kan, chief executive and trustee of this trust, also owned 46 shares (2009: 2 342 860 shares) at 30 June 2010. The resulting percentage held is 9,2% (2009: 8,0%).*

2009

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 100	73,6	1 548 720	1,4
5 001 – 10 000	151	10,1	1 199 414	1,1
10 001 – 50 000	133	8,9	3 231 636	2,9
50 001 – 100 000	35	2,3	2 542 872	2,3
100 001 – 1 000 000	50	3,4	16 043 794	14,5
Over 1 000 000	25	1,7	85 883 368	77,8
	1 494	100,0	110 449 804	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	2 933 163	2,6
Trusts with directors as trustees	2	0,1	6 909 883	6,3
Public shareholders	1 488	99,6	100 606 758	91,1
	1 494	100,0	110 449 804	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 investments in and loans to subsidiaries, associates and other investments. Refer to notes 12, 13 and 15 to the annual financial statements for more information. The following matters are highlighted with regard to the aforementioned consideration:

Quickstep 94 (Pty) Limited, Mecer Inter-Ed (Pty) Limited and Soft 99 (Pty) Limited

The full investment in and loans receivable from these companies are stated at the value of the deferred tax asset in Mecer Inter-Ed (Pty) Limited. The deferred tax asset largely relates to accumulated losses. The directors consider the ability of the Group to utilise the losses in this company, taking into account the performance of the company and considered it appropriate to retain the asset. This is largely based on the Group's ability to utilise the asset through its education and 'back to school' activities.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

The Group acquired 100% of Mustek Capital (Pty) Limited on 1 June 2010 and disposed of its 100% share in Tier One Electronics (Pty) Limited (Tier One) on 25 November 2009 to Stephen Easton. The operations and associated assets of Tier One, which was integrated into that of Mustek Limited on acquisition, was sold to Stephen Easton on 10 February 2010.

During the previous financial year, the Group acquired 51% of Ballena Trading 29 (Pty) Limited on 1 May 2009, 100% of Mustek Middle East FZCO on 6 October 2008 and transferred the business, including all assets and liabilities, of 50% held subsidiary Digital Surveillance Systems (Pty) Limited into Mustek Limited on 1 January 2009.

Mustek Middle East FZCO is in the process of closure as at 30 June 2010. Operations during the current financial year mostly represent the disposal of remaining inventory.

POST-STATEMENT OF FINANCIAL POSITION EVENTS

The directors of the company propose a final dividend of 12 cents per share to all shareholders. 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 2010

	Notes	2010 R000	2009 R000
Revenue	2	3 409 515	3 481 903
Cost of sales		(2 923 883)	(2 916 547)
Gross profit		485 632	565 356
Other income		20 626	14 858
Distribution, administrative and other operating expenses		(378 292)	(463 623)
Profit from operations	3	127 966	116 591
Investment revenues	4	15 269	20 800
Finance costs	5	(53 132)	(66 051)
Other (losses) gains	6	(2 480)	2 319
Profit before tax		87 623	73 659
Income tax expense	7	(23 228)	(21 224)
Profit for the year		64 395	52 435
Other comprehensive income			
Exchange differences on translation of foreign operations		(2 635)	(10 818)
Realisation of foreign currency translation reserves		—	1 477
Surplus on revaluation of properties		22 111	6 605
Realisation of revaluation surplus on sale of property		—	(2 351)
Asset revaluation		—	(8 465)
Other comprehensive income for the year, net of tax		19 476	(13 552)
Total comprehensive income for the year		83 871	38 883
Profit attributable to:			
Equity holders of the parent		61 374	54 731
Non-controlling interest		3 021	(2 296)
		64 395	52 435
Total comprehensive income attributable to:			
Equity holders of the parent		80 781	41 281
Non-controlling interest		3 090	(2 398)
		83 871	38 883
Earnings and dividend per share (cents)	9		
Basic earnings per ordinary share		55,67	49,55
Diluted basic earnings per ordinary share		55,67	49,55
Dividend per ordinary share – paid		10,00	10,00
Dividend per ordinary share – proposed		12,00	10,00

Consolidated Statement of Financial Position

at 30 June 2010

	Notes	2010 R000	2009 R000
ASSETS			
Non-current assets			
Property, plant and equipment	10	182 499	171 616
Intangible assets	11	72 114	64 667
Investments in associates	13	6 364	5 708
Other investments and loans	15	36 009	34 324
Deferred tax assets	16	21 545	24 044
Non-current trade and other receivables	18	2 619	15 652
		321 150	316 011
Current assets			
Inventories	17	574 479	652 115
Trade and other receivables	18	591 200	518 524
Foreign currency assets	23	2 057	1 604
Tax assets		12 884	2 890
Bank balances and cash	19	259 953	338 605
		1 440 573	1 513 738
TOTAL ASSETS		1 761 723	1 829 749
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	20	877	884
Ordinary share premium		122 484	123 583
Retained earnings		497 623	447 294
Properties revaluation reserve		34 159	12 048
Foreign currency translation reserve		(4 309)	(1 605)
Equity attributable to equity holders of the parent		650 834	582 204
Non-controlling interest		24 552	18 488
Total equity		675 386	600 692
Non-current liabilities			
Long-term borrowings	21	132 514	305 616
Deferred tax liability	16	8 373	3 550
		140 887	309 166
Current liabilities			
Short-term borrowings	21	77 518	115 138
Trade and other payables	22	732 538	628 833
Provisions	22	15 056	15 448
Foreign currency liabilities	23	161	36 846
Deferred income		20 507	26 034
Tax liabilities		13 847	6 818
Bank overdrafts	21	85 823	90 774
		945 450	919 891
Total liabilities		1 086 337	1 229 057
TOTAL EQUITY AND LIABILITIES		1 761 723	1 829 749

Consolidated Statement of Changes in Equity

for the year ended 30 June 2010

	Ordinary share capital R000	Ordinary share premium R000	Retained earnings R000	Invest-ments revalua-tion reserve* R000	Properties revalua-tion reserve* R000	Transla-tion reserves R000	Attribu-table to equity holders of the parent R000	Non-con-trolling interest R000	Total R000
Balance at 30 June 2008	884	121 031	403 608	8 465	7 794	7 634	549 416	19 408	568 824
Net profit for the year	—	—	54 731	—	—	—	54 731	(2 296)	52 435
Other comprehensive income	—	—	—	(8 465)	4 254	(9 239)	(13 450)	(102)	(13 552)
Recognition of share-based payments	—	2 552	—	—	—	—	2 552	—	2 552
Dividends paid	—	—	(11 045)	—	—	—	(11 045)	(613)	(11 658)
Investment in subsidiary	—	—	—	—	—	—	—	2 091	2 091
Balance at 30 June 2009	884	123 583	447 294	—	12 048	(1 605)	582 204	18 488	600 692
Net profit for the year	—	—	61 374	—	—	—	61 374	3 021	64 395
Other comprehensive income	—	—	—	—	22 111	(2 704)	19 407	69	19 476
Recognition of share-based payments	—	1 421	—	—	—	—	1 421	—	1 421
Dividends paid	—	—	(11 045)	—	—	—	(11 045)	—	(11 045)
Investment in subsidiary	—	—	—	—	—	—	—	2 974	2 974
Buyback of ordinary shares	(7)	(2 520)	—	—	—	—	(2 527)	—	(2 527)
Balance at 30 June 2010	877	122 484	497 623	—	34 159	(4 309)	650 834	24 552	675 386

**Revaluation reserves are stated net of deferred tax.*

Consolidated Cash Flow Statement

for the year ended 30 June 2010

	Notes	2010 R000	2009 R000
OPERATING ACTIVITIES			
Cash receipts from customers		3 353 070	3 472 696
Cash paid to suppliers and employees		(3 122 539)	(3 461 717)
Net cash from operations	24	230 531	10 979
Investment revenues received		14 553	11 504
Finance costs paid		(53 132)	(66 051)
Dividends received		716	1 748
Dividends paid		(11 045)	(11 045)
Income taxes paid		(22 229)	(35 642)
Net cash from (used in) operating activities		159 394	(88 507)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	10	(7 904)	(35 125)
Proceeds from sale of property, plant and equipment		712	12 538
Proceeds on disposal of subsidiaries, net of cash disposed	25	—	—
Acquisition of subsidiaries, net of cash acquired	26	(100)	(2 226)
Increase in investments in and loans to associates	13	(656)	(1 232)
Increase in investments and loans	15	(1 685)	(172)
Decrease in loan to joint venture		—	1 000
Additions to intangible asset	11	(10 810)	(5 769)
Increase in non-current trade receivables	18	(2 619)	—
Net cash used in investing activities		(23 062)	(30 986)
FINANCING ACTIVITIES			
Buyback of ordinary shares	20	(2 527)	—
Decrease in long-term borrowings		(170 815)	(5 482)
(Decrease) increase in short-term borrowings		(36 691)	51 238
Decrease in bank overdrafts		(4 951)	(7 761)
Net cash (used in) from financing activities		(214 984)	37 995
Net decrease in cash and cash equivalents		(78 652)	(81 498)
Cash and cash equivalents at the beginning of the year		338 605	420 103
Cash and cash equivalents at the end of the year	19	259 953	338 605

Company Statement of Comprehensive Income

for the year ended 30 June 2010

	Notes	2010 R000	2009 R000
Revenue	2	1 557 879	1 721 386
Cost of sales		(1 304 480)	(1 411 064)
Gross profit		253 399	310 322
Other income		8 138	8 784
Distribution, administrative and other operating expenses		(229 584)	(315 109)
Profit from operations	3	31 953	3 997
Investment revenues	4	26 065	29 951
Finance costs	5	(13 848)	(16 294)
Other (losses) gains	6	(8 830)	8 774
Profit before tax		35 340	26 428
Income tax expense	7	(10 776)	(7 094)
Profit for the year		24 564	19 334
Other comprehensive income, net of tax		–	–
Total comprehensive income for the year		24 564	19 334

Company Statement of Financial Position

at 30 June 2010

	Notes	2010 R000	2009 R000
ASSETS			
Non-current assets			
Property, plant and equipment	10	22 874	29 035
Intangible assets	11	9 369	9 206
Investments in subsidiaries	12	250 789	265 011
Investments in associates	13	2 154	—
Other investments and loans	15	21 099	78 931
Deferred tax asset	16	14 260	17 409
Non-current trade receivables	18	2 540	15 652
		323 085	415 244
Current assets			
Inventories	17	321 172	419 729
Trade and other receivables	18	97 359	132 053
Investments in subsidiaries	12	259 071	—
Foreign currency assets	23	1 833	—
Tax asset		2 529	—
Bank balances and cash	19	35 008	82 002
		716 972	633 784
TOTAL ASSETS		1 040 057	1 049 028
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	20	877	884
Ordinary share premium		122 484	123 583
Retained earnings		223 557	210 242
Total equity		346 918	334 709
Non-current liabilities			
Long-term borrowings	21	87 534	18 316
Current liabilities			
Short-term borrowings	21	8 561	21 643
Trade and other payables	22	375 023	380 017
Provisions	22	8 883	10 295
Foreign currency liabilities	23	25	30 254
Loans owing to subsidiaries	12	125 146	130 990
Deferred income		20 398	25 923
Tax liabilities		—	6 116
Bank overdrafts	21	67 569	90 765
		605 605	696 003
Total liabilities		693 139	714 319
TOTAL EQUITY AND LIABILITIES		1 040 057	1 049 028

Company Statement of Changes in Equity

for the year ended 30 June 2010

	Ordinary share capital R000	Ordinary share premium R000	Retained earnings R000	Total R000
Balance at 30 June 2008	884	121 031	201 953	323 868
Net profit for the year	—	—	19 334	19 334
Recognition of share-based payments	—	2 552	—	2 552
Dividends paid	—	—	(11 045)	(11 045)
Balance at 30 June 2009	884	123 583	210 242	334 709
Net profit for the year	—	—	24 564	24 564
Shares bought back	(7)	(2 520)	—	(2 527)
Recognition of share-based payments	—	1 421	—	1 421
Dividends paid	—	—	(11 045)	(11 045)
Other adjustments	—	—	(204)	(204)
Balance at 30 June 2010	877	122 484	223 557	346 918

Company Cash Flow Statement

for the year ended 30 June 2010

	Note	2010 R000	2009 R000
OPERATING ACTIVITIES			
Cash receipts from customers		1 609 312	1 741 583
Cash paid to suppliers and employees		(1 460 877)	(1 852 379)
Net cash from (used in) operations	24	148 435	(110 796)
Interest received		17 421	19 624
Finance costs paid		(13 848)	(16 294)
Dividends received		8 644	2 779
Dividends paid		(11 045)	(11 045)
Income taxes paid		(16 273)	(12 923)
Net cash from (used in) operating activities		133 334	(128 655)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	10	(3 493)	(13 540)
Proceeds from sale of property, plant and equipment		121	441
Acquisition of subsidiaries	26	(100)	(3 568)
(Increase) decrease in loans to subsidiaries	12	(198 281)	9 543
Increase in loans to associates	13	(2 154)	(1 232)
Increase in non-current trade receivables		(2 540)	—
Decrease in loan to joint venture		—	2 000
Additions to intangible asset	11	(5 842)	(5 744)
Increase in investments and loans	15	(1 668)	(12 659)
Net cash used in investing activities		(213 957)	(24 759)
FINANCING ACTIVITIES			
Buyback of ordinary shares	20	(2 527)	—
Increase (decrease) in long-term borrowings		71 505	(23 410)
(Decrease) increase in short-term borrowings		(12 153)	8 151
(Decrease) increase in bank overdrafts		(23 196)	2001
Net cash from (used in) financing activities		33 629	(13 258)
Net decrease in cash and cash equivalents		(46 994)	(166 672)
Cash and cash equivalents at the beginning of the year		82 002	248 674
Cash and cash equivalents at the end of the year	19	35 008	82 002

Accounting Policies

for the year ended 30 June 2010

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. The principal accounting policies adopted are set out below.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

In the current year, the Group and company have adopted the following Standards and Interpretations:

IFRS 7	Financial Instruments: Disclosures – Amendments enhancing disclosures about fair value and liquidity risk effective for annual periods beginning on or after 1 January 2009
IFRS 8	Operating Segments effective for annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income effective for annual periods beginning on or after 1 January 2009

The adoption of these Standards and Interpretations has resulted in disclosure changes, but has not led to any changes in the Group and company's accounting policies.

The following Standards and Interpretations are also effective for the current period, but had no impact on accounting policies, transactions, balances or disclosures:

IFRS 1	First-time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption effective for annual periods beginning on or after 1 January 2009
IFRS 2	Share-based Payment – Amendment relating to vesting conditions and cancellations effective for annual periods beginning on or after 1 January 2009
IFRS 2	Share-based Payment – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 July 2009
IFRS 3	Business Combinations – Comprehensive revision on applying the acquisition method effective for annual periods beginning on or after 1 July 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 July 2009
IAS 1	Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation effective for annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009
IAS 16	Property, Plant and Equipment – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009
IAS 19	Employee Benefits – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009
IAS 20	Government Grants and Disclosure of Government Assistance – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009
IAS 23	Borrowing Costs – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009
IAS 27	Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3 effective for annual periods beginning on or after 1 July 2009
IAS 27	Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first-time adoption effective for annual periods beginning on or after 1 January 2009
IAS 27	Consolidated and Separate Financial Statements – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009

IAS 28 Investments in Associates – Consequential amendments arising from amendments to IFRS 3 effective for annual periods beginning on or after 1 July 2009

IAS 28 Investments in Associates – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009

IAS 29 Financial Reporting in Hyperinflationary Economies – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009

IAS 31 Interests in Joint Ventures – Consequential amendments arising from amendments to IFRS 3 effective for annual periods beginning on or after 1 July 2009

IAS 31 Interests in Joint Ventures – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009

IAS 32 Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation effective for annual periods beginning on or after 1 January 2009

IAS 36 Impairment of Assets – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009

IAS 38 Intangible Assets – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009

IAS 38 Intangible Assets – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 July 2009

IAS 39 Financial Instruments: Recognition and Measurement – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009

IAS 39 Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items effective for annual periods beginning on or after 1 July 2009

IAS 40 Investment Property – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009

IAS 41 Agriculture – Amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009

IFRIC 15 Agreements for the Construction of Real Estate effective for annual periods beginning on or after 1 January 2009

IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective for annual periods beginning on or after 1 October 2008

IFRIC 17 Distributions of Non-cash Assets to Owners effective for annual periods beginning on or after 1 July 2009

IFRIC 18 Transfers of Assets from Customers effective for transfers received on or after 1 July 2009

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

IFRS 1 First-time Adoption of International Financial Reporting Standards – Amendments relating to oil and gas assets and determining whether an arrangement contains a lease effective for annual periods beginning on or after 1 January 2010

IFRS 2 Share-based Payment – Amendments relating to group cash-settled share-based payment transactions effective for annual periods beginning on or after 1 January 2010

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010

IFRS 8 Operating Segments – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010

IAS 1 Presentation of Financial Statements – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010

Accounting Policies

for the year ended 30 June 2010 (continued)

IAS 7	Statement of Cash Flows – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010
IAS 17	Leases – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010
IAS 36	Impairment of Assets – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010
IAS 39	Financial Instruments: Recognition and Measurement – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Group and company's financial statements for the period commencing after 1 July 2010 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 intragroup transactions, balances, income and expenses are eliminated on consolidation.

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

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.

Accounting Policies

for the year ended 30 June 2010 (continued)

Sales of goods

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

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

Revenue for services

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

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

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.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. Actuarial gains and losses that exceed 10% of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past-service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past-service cost, and as reduced by the fair value of plan assets.

Accounting Policies

for the year ended 30 June 2010 (continued)

Any asset resulting from this calculation is limited to unrecognised actuarial losses and past-service cost, plus the present value of available refunds and reductions in future contributions to the 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

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the statement of financial position date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

All other 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.

INVESTMENT PROPERTY

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value.

Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

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 the intangible assets' 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:

Accounting Policies

for the year ended 30 June 2010 (continued)

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

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

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

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

IMPAIRMENT OF INTANGIBLE AND TANGIBLE ASSETS, EXCLUDING GOODWILL

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, directs 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. A 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 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.

Accounting Policies

for the year ended 30 June 2010 (continued)

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 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 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 uncollectible, 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.

Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

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.

Accounting Policies
for the year ended 30 June 2010 (continued)

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.

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 result 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 to note 2).

Key sources of estimation uncertainty

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

- Residual values and useful lives of property, plant and equipment (refer to note 10).
- Impairment of goodwill (refer to note 11).
- Most likely further considerations payable regarding the Rectron Limited acquisition of non-controlling shareholders (refer to note 21).
- Most likely further considerations payable regarding the Digital Surveillance Systems (Pty) Limited – and Rectron Holdings Limited acquisition of assets and liabilities (refer to note 21).
- Valuation of investments (refer to report of the directors and note 23).
- Inventory provisions (refer to note 17).
- Recoverability of accounts receivable (refer to note 18).
- Bonus and leave pay provisions (refer to note 22).
- Fair value of derivatives and other financial instruments (refer to note 23).

Notes to the Annual Financial Statements

for the year ended 30 June 2010

1. SEGMENTAL REPORTING

BUSINESS SEGMENTS

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.
Rectron	Distribution of computer components and peripherals.
Comztek	Distribution of networking equipment and related software licences.
Group	Include investments in associates and other investments and loans. Refer to notes 13 and 15 for more information about their activities.

2010	Mustek R000	Rectron R000	Comztek R000	Group R000	Elimination R000	Total R000
REVENUE						
External sales	1 576 653	1 441 884	390 978	—	—	3 409 515
Intersegment sales	10 270	41 044	4 003	—	(55 317)	—
Total revenue	1 586 923	1 482 928	394 981	—	(55 317)	3 409 515
SEGMENT RESULTS						
EBITDA*	84 979	68 846	10 593	(9 905)	—	154 513
Depreciation	(15 466)	(9 381)	(1 700)	—	—	(26 547)
Profit from operations	69 513	59 465	8 893	(9 905)	—	127 966
Investment revenues	18 459	5 374	1 265	563	(10 392)	15 269
Finance costs	(32 246)	(13 484)	(6 103)	(11 691)	10 392	(53 132)
Other gains (see note 6)	—	—	—	(2 480)	—	(2 480)
Profit before tax	55 726	51 355	4 055	(23 513)	—	87 623
Income tax expense	(17 110)	(12 729)	28	6 583	—	(23 228)
Profit (loss) for the year	38 616	38 626	4 083	(16 930)	—	64 395

2009	Mustek R000	Rectron R000	Comztek R000	Group R000	Elimination R000	Total R000
REVENUE						
External sales	1 738 468	1 316 919	426 516	—	—	3 481 903
Intersegment sales	7 995	51 028	2 448	—	(61 471)	—
Total revenue	1 746 463	1 367 947	428 964	—	(61 471)	3 481 903
EBITDA*	78 585	72 417	14 917	(23 440)	—	142 479
Depreciation and amortisation	(15 281)	(9 423)	(1 184)	—	—	(25 888)
Profit from operations	63 304	62 994	13 733	(23 440)	—	116 591
Investment revenues	24 736	2 031	1 106	8 854	(15 927)	20 800
Finance costs	(36 241)	(20 993)	(7 946)	(16 798)	15 927	(66 051)
Other gains (see note 6)	1 916	—	(4 718)	5 121	—	2 319
Profit before tax	53 715	44 032	2 175	(26 263)	—	73 659
Income tax expense	(15 537)	(13 069)	(1 240)	8 622	—	(21 224)
Profit (loss) for the year	38 178	30 963	935	(17 641)	—	52 435

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

1. SEGMENTAL REPORTING *(continued)*

BUSINESS SEGMENTS *(continued)*

2010	Mustek R000	Rectron R000	Comztek R000	Group R000	Eliminations R000	Total R000
OTHER INFORMATION						
Capital expenditure	15 853	3 516	2 318	—	—	21 687
ASSETS						
Segment assets*	803 131	703 956	144 659	98 220	(7 491)	1 742 475
Investment in associates	—	—	—	6 364	—	6 364
Consolidated total assets	803 131	703 956	144 659	104 584	(7 491)	1 748 839
LIABILITIES						
Segment liabilities**	571 878	386 737	121 366	—	(7 491)	1 072 490
Number of employees at year-end	539	353	228	—	—	1 120

2009	Mustek R000	Rectron R000	Comztek R000	Group R000	Eliminations R000	Total R000
OTHER INFORMATION						
Capital expenditure	17 059	19 983	3 852	—	—	40 894
ASSETS						
Segment assets*	993 724	600 741	141 931	89 230	(4 475)	1 821 151
Investment in associates	—	—	—	5 708	—	5 708
Consolidated total assets	993 724	600 741	141 931	94 938	(4475)	1 826 859
LIABILITIES						
Segment liabilities**	766 477	337 613	122 624	—	(4 475)	1 222 239
Number of employees at year-end	704	358	210	—	—	1 272

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

Notes to the Annual Financial Statements
for the year ended 30 June 2010 (continued)

1. SEGMENTAL REPORTING *(continued)*
GEOGRAPHICAL SEGMENTS

2010	Mecer East Africa R000	Rectron Australia R000	Comztek Africa R000	South Africa R000	Total R000
Revenue	27 200	121 937	79 093	3 181 285	3 409 515
Profit (loss) for the year	62	2 831	(2 454)	63 956	64 395
OTHER INFORMATION					
Capital expenditure	448	112	53	21 074	21 687
Segment assets*	33 707	50 370	9 511	1 655 251	1 748 839

2009	Mecer East Africa R000	Rectron Australia R000	Comztek Africa R000	South Africa R000	Total R000
Revenue	25 157	134 405	84 297	3 238 044	3 481 903
Profit (loss) for the year	1 721	(2 670)	(1 356)	54 740	52 435
OTHER INFORMATION					
Capital expenditure	305	64	189	40 336	40 984
Segment assets*	29 885	45 442	27 601	1 723 931	1 826 859

**Excludes tax assets.*

2. REVENUE
An analysis of the Group and company's revenue for the year from continuing operations, is as follows:

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
Sales of goods	3 403 752	3 472 742	1 553 049	1 713 370
Rendering of services	5 763	9 161	4 830	8 016
	3 409 515	3 481 903	1 557 879	1 721 386

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 for continuing and discontinued operations has been arrived at after taking the following items into account:

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
Auditors' remuneration:				
Audit fees	4 912	5 293	1 940	2 350
Fees for other services	482	912	—	606
Under (over) provision in previous years	—	(6)	—	—
Expenses	3	4	—	—
	5 397	6 203	1 940	2 956
Staff costs	192 623	204 053	113 938	126 274
Depreciation of property, plant and equipment:				
Land and buildings	653	574	—	—
Improvements to leased premises	4 671	4 279	1 710	3 067
Plant and machinery	4 683	4 054	2 187	1 698
Furniture, fixtures and office equipment	3 674	4 764	732	1 515
Computer equipment	5 417	10 727	3 622	9 854
Motor vehicles	1 564	1 490	960	1 015
	20 662	25 888	9 211	17 149
Amortisation of intangible assets	5 885	2 185	5 679	2 081
Net profit (loss) on disposal of property, plant and equipment:				
Land and buildings	—	4 251	—	—
Improvements to leased premises	(11)	(78)	—	—
Plant and machinery	—	(4)	—	—
Furniture, fixtures and office equipment	(219)	(672)	—	(66)
Computer equipment	(65)	(857)	(13)	(753)
Motor vehicles	(380)	(188)	(242)	(196)
	(675)	2 452	(255)	(1 015)
Fees for services:				
Administrative	25	2 090	—	2 090
	25	2 090	—	2 090
Operating lease expenses:				
Land and buildings	21 708	19 186	15 214	12 548
Furniture, fixtures, office and computer equipment	267	247	—	—
Motor vehicles	3 055	2 933	—	—
	25 030	22 366	15 214	12 548
Pension contributions (defined contribution plan)	7 105	8 301	4 865	5 629
Foreign exchange gains (losses):				
Realised	17 176	(93 845)	1 807	(78 549)
Unrealised	(6 400)	61 329	(3 010)	55 406
	10 776	(32 516)	(1 203)	(23 143)

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

	GROUP		COMPANY	
	2010 R 000	2009 R000	2010 R000	2009 R000
3. PROFIT FROM OPERATIONS *(continued)*				
Fair value adjustments:				
Open foreign exchange contracts gains (losses)	1 895	(35 242)	1 807	(30 254)
	1 895	(35 242)	1 807	(30 254)
4. INVESTMENT REVENUES				
Investment revenue on financial instruments not at fair value through profit or loss:				
Interest received on bank balances and cash	14 553	11 504	4 963	18 730
Interest received from subsidiaries and joint venture	—	—	12 458	894
Dividends received from short-term dividend unit trusts and other investments	716	9 296	40	9 020
Dividends from subsidiaries and joint venture	—	—	8 604	1 307
	15 269	20 800	26 065	29 951
5. FINANCE COSTS				
Finance costs on financial instruments not at fair value through profit or loss:				
Interest paid on bank overdrafts	6 667	7 901	5 012	2 632
Interest paid on loans	40 275	47 736	139	—
Preference dividends received (see note 18 pertaining to offset against interest paid at Group level)	(8 939)	(8 939)	—	—
Interest paid on letters of credit	3 738	4 038	3 738	4 038
Trade finance commission	1 954	7 044	—	5 200
Finance leases	882	2 094	—	—
Other interest paid*	7 399	4 743	3 849	3 110
Interest paid to taxation authorities	1 156	1 434	1 110	1 314
	53 132	66 051	13 848	16 294

**Included in other interest paid is an amount of R1 159 495 (2009: R1 575 571) which relates to notional interest on the consideration payable for investment in subsidiary (Rectron Limited) that was remeasured at amortised cost, at an effective interest rate of 7,68%. In the previous financial year, an amount of R321 033 was included in other interest paid, which related to notional interest on the consideration payable for investment in subsidiary (Tier One (Pty) Limited) that was remeasured at amortised cost, at an effective interest rate of 7,68%. This investment has subsequently been disposed of (refer to note 25).*

		GROUP		COMPANY	
		2010 R000	2009 R000	2010 R000	2009 R000
6. OTHER (LOSSES) GAINS					
Fair valuation gain of subsidiary loans payable (see note 12)		—	—	—	2 877
Fair valuation (loss) gain on other loans payable (see note 21)		(785)	7 444	(785)	7 444
Impairment of subsidiary loans receivable (see note 12)		—	—	(6 450)	(7 236)
Reversal of impairment of subsidiary loans (see note 12)		—	—	—	6 096
Impairment of other investments and loans (see note 15)		—	(5 125)	—	(407)
Impairment of goodwill (see note 11)		(100)	—	—	—
Loss on disposal of subsidiary (see note 25)		(1 595)	—	(1 595)	—
		(2 480)	2 319	(8 830)	8 774
7. INCOME TAX EXPENSE					
South African normal tax		(22 670)	(20 388)	(10 776)	(7 094)
Foreign tax		(558)	(836)	—	—
		(23 228)	(21 224)	(10 776)	(7 094)
Comprising:					
Normal current tax	– Current year	(20 083)	(16 613)	(8 841)	(5 104)
	– Prior year	700	(240)	1 215	(466)
Normal deferred tax	– Current year	(4 082)	(4 011)	(1 904)	(2 420)
	– Prior year	890	2 017	(146)	2 645
	– Rate change	328	—	—	—
Secondary tax on companies	– Current tax	119	(125)	—	—
	– Deferred tax	(1 100)	(1 749)	(1 100)	(1 749)
Capital gains tax	– Current tax	—	(503)	—	—
Income tax expense for the year		(23 228)	(21 224)	(10 776)	(7 094)
Tax rate reconciliation					
South African statutory rate of tax		28,0	28	28,0	28
Dividends received		(3,1)	(1,1)	(6,8)	(2,9)
Secondary tax on companies		1,1	2,5	3,1	6,6
Rate change		(0,4)	—	—	—
Current tax prior year (over) under provision		(0,8)	0,3	(3,4)	1,8
Deferred tax prior year over (under) provision		(1,0)	(2,7)	0,4	(10,0)
Disallowed expenses		2,7	1,8	9,2	3,3
Effective tax rate		26,5	28,8	30,5	26,8

Notes to the Annual Financial Statements
for the year ended 30 June 2010 (continued)

8. DISCONTINUED OPERATIONS
No discontinued operations existed in the current or previous financial year.

9. EARNINGS PER SHARE
The calculation of the basic and headline earnings per share is based on the following data:

	GROUP	
	2010 R000	2009 R000
Earnings		
Basic earnings (profit for the year attributable to equity holders of the parent)	61 374	54 731
Group's share of after-tax loss (profit) on disposal of property, plant and equipment	742	(2 475)
Loss on disposal of subsidiary (see note 25)	1 595	—
Realisation of foreign currency translation reserve	—	1 477
Headline earnings	63 711	53 733
Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	110 254	110 450
Effect of dilutive potential ordinary shares – share options	—	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	110 254	110 450

At year-end, 7 064 072 (2009: 7 314 072) share options were outstanding exercisable over the next two (2009: three) years at a weighted average price of R8,90 per share (2009: R8,88 per share). The weighted average market price for the 2010 year was R2,68 per share (2009: R2,43 per share).

Earnings per share	Cents	Cents
– Headline earnings per ordinary share	57,79	48,65
– Basic earnings per ordinary share	55,67	49,55
– Diluted headline earnings per ordinary share	57,79	48,65
– Diluted basic earnings per ordinary share	55,67	49,55

10. PROPERTY, PLANT AND EQUIPMENT

GROUP – 2010

Cost/valuation	Opening balance R000	Additions R000	Disposals R000	Revaluation R000	Exchange differences R000	Closing balance R000
Land and buildings	68 041	27	—	28 104	(734)	95 438
Improvements to leased premises	57 522	2 651	(11)	—	—	60 162
Plant and machinery	39 618	96	—	—	(44)	39 670
Furniture, fixtures and office equipment	35 585	1 138	(1 280)	—	(2 697)	32 746
Computer equipment	22 343	2 983	(2 129)	—	(46)	23 151
Motor vehicles	14 493	1 009	(1 966)	—	17	13 553
	237 602	7 904	(5 386)	28 104	(3 504)	264 720

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Revaluation R000	Exchange differences R000	Closing balance R000
Land and buildings	1 519	653	—	(313)	(32)	1 827
Improvements to leased premises	14 743	4 671	—	—	—	19 414
Plant and machinery	11 027	4 683	—	—	(12)	15 698
Furniture, fixtures and office equipment	18 578	3 674	(1 029)	—	(119)	21 104
Computer equipment	14 596	5 417	(1 953)	—	(32)	18 028
Motor vehicles	5 523	1 564	(950)	—	13	6 150
	65 986	20 662	(3 932)	(313)	(182)	82 221

COMPANY – 2010

Cost/valuation	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
Land and buildings	2 604	—	—	2 604
Improvements to leased premises	17 033	1 022	—	18 055
Plant and machinery	9 670	29	—	9 699
Furniture, fixtures and office equipment	8 868	277	(3)	9 142
Computer equipment	12 622	1 685	(405)	13 902
Motor vehicles	9 215	480	(810)	8 885
	60 012	3 493	(1 218)	62 287

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Improvements to leased premises	10 312	1 710	—	12 022
Plant and machinery	4 398	2 187	—	6 585
Furniture, fixtures and office equipment	5 751	732	(3)	6 480
Computer equipment	7 890	3 622	(386)	11 126
Motor vehicles	2 626	960	(386)	3 200
	30 977	9 211	(775)	39 413

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

10. PROPERTY, PLANT AND EQUIPMENT *(continued)*

GROUP – 2009

Cost/valuation	Opening balance R000	Additions R000	Disposals R000	Revaluation R000	Exchange differences R000	Closing balance R000
Land and buildings	73 925	58	(7 830)	7 198	(5 310)	68 041
Improvements to leased premises	37 655	20 404	(439)	—	(98)	57 522
Plant and machinery	38 488	3 617	(2 366)	—	(121)	39 618
Furniture, fixtures and office equipment	42 448	2 873	(8 559)	—	(1 177)	35 585
Computer equipment	44 995	6 783	(29 338)	—	(97)	22 343
Motor vehicles	16 575	1 390	(3 077)	—	(395)	14 493
	254 086	35 125	(51 609)	7 198	(7 198)	237 602

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Exchange differences R000	Closing balance R000
Land and buildings	1 489	574	—	(544)	1 519
Improvements to leased premises	10 815	4 279	(331)	(20)	14 743
Plant and machinery	8 461	4 054	(1 485)	(3)	11 027
Furniture, fixtures and office equipment	21 607	4 764	(7 430)	(363)	18 578
Computer equipment	34 460	8 542	(28 265)	(1410	14 596
Motor vehicles	5 917	1 490	(1 662)	(222)	5 523
	82 749	23 703	(39 173)	(1 293)	65 986

COMPANY – 2009

Cost/valuation	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
Land and buildings	2 546	58	—	2 604
Improvements to leased premises	13 060	4 188	(215)	17 033
Plant and machinery	10 006	610	(946)	9 670
Furniture, fixtures and office equipment	11 910	1 510	(4 552)	8 868
Computer equipment	33 331	6 128	(26 837)	12 622
Motor vehicles	9 748	1 046	(1 579)	9 215
	80 601	13 540	(34 129)	60 012

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Improvements to leased premises	7 460	3 067	(215)	10 312
Plant and machinery	3 646	1 698	(946)	4 398
Furniture, fixtures and office equipment	8 722	1 515	(4 486)	5 751
Computer equipment	26 200	7 773	(26 083)	7 890
Motor vehicles	2 554	1 015	(943)	2 626
	48 582	15 068	(32 673)	30 977

10. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
Net book value				
Land and buildings*	93 611	66 522	2 604	2 604
Improvements to leased premises	40 748	42 779	6 033	6 721
Plant and machinery**	23 972	28 591	3 114	5 272
Furniture, fixtures and office equipment	11 642	17 007	2 662	3 117
Computer equipment	5 123	7 747	2 776	4 732
Motor vehicles	7 403	8 970	5 685	6 589
	182 499	171 616	22 874	29 035

Note that comparative information has been reclassified in order to disclose computer software as intangible assets.

**Includes land and buildings with a book value of R17,6 million (2009: R17,2 million) encumbered as security for a liability of R16,3 million (2009: R15,7 million) (see note 21).*

***Includes plant and machinery under finance lease agreements with a net book value of R16,9 million (2009: R18,0 million) encumbered as security for a liability of R5,6 million (2009: R11,8 million) (see note 21).*

Land and buildings were revalued during the year by independent valuers not connected with the Group, by reference to market evidence of recent transactions for similar properties. The valuations conform to International Valuation Standards.

At 30 June 2010, had the land and buildings been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been approximately R52,4 million (2009: R54,5 million).

A register of land and buildings and details on the valuers and the dates of the valuations are available at the registered office of the company and are available to registered shareholders.

The following useful lives are used for the depreciation of property, plant and equipment:

Improvements to leased premises	over period of the initial lease
Plant and machinery	5 years
Furniture, fixtures and office equipment	5 – 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 and intangible assets 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. Buildings are revalued in terms of the accounting policy. The revalued amounts did not exceed the estimated residual values of the buildings.

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
11. INTANGIBLE ASSETS				
Goodwill				
Cost	56 442	56 790	—	—
At the beginning of the year	56 790	56 740	—	—
Acquisition of subsidiaries (see note 26)	100	50	—	—
Disposal of subsidiaries (see note 25)	(448)	—	—	—
Accumulated impairments	(6 253)	(6 150)	—	—
At the beginning of the year	(6 150)	(6 150)	—	—
Impairments	(100)	—	—	—
Exchange differences (on consolidation of foreign subsidiaries)	(3)	—	—	—
Carrying amount	50 189	50 640	—	—
Software				
Cost	43 309	37 381	24 361	18 519
At the beginning of the year	37 381	46 677	18 519	27 831
Additions	5 943	5 769	5 842	5 744
Disposals	(15)	(15 065)	—	(15 056)
Accumulated amortisation*	(33 405)	(27 621)	(14 992)	(9 313)
At the beginning of the year	(27 621)	(40 500)	(9 313)	(22 288)
Amortisation	(5 799)	(2 185)	(5 679)	(2 081)
Disposals	15	15 064	—	15 056
Carrying amount	9 904	9 760	9 369	9 206
Total	60 093	60 400	9 369	9 206
Distribution rights and development cost**				
Cost at the beginning of the year	4 267	—	—	—
Additions at cost (see note 26)	7 840	4 267	—	—
Amortisation	(86)	—	—	—
Carrying amount	12 021	4 267	—	—
Total	72 114	64 667	9 369	9 206

Note that comparative information has been reclassified in order to disclose computer software as intangible assets.

**Software is written off on a straight-line basis over three years.*

***Distribution rights and development cost are amortised on a straight-line basis over three years. The distribution rights were not yet in the condition necessary for it to be capable of operating in the manner intended by management and have therefore not been amortised at 30 June 2010.*

	GROUP	
	2010 R000	2009 R000
11. INTANGIBLE ASSETS *(continued)*		
The carrying amount of goodwill had been allocated as follows:		
Mecer Free State province	3 205	3 205
Brotek	16 069	16 069
Mecer East Africa	468	468
Netshield	1 927	1 927
Comztek Zambia	244	247
Rectron	27 276	27 276
Tier One Electronics	—	448
Digital Surveillance Systems	1 000	1 000
	50 189	50 640

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 pretax rates that reflect management's assessment of the time value of money and their views on the risks specific to the cash-generating units. The growth rates are based on management experience and their expectations of industry and market share growth. Expectation of changes in gross margins and changes in indirect costs are based on past practices, expectations of future changes in the market and a view on expected inflation rates.

Management prepared a five-year cash flow forecast using the 2010 financial year performance and the approved 2011 financial year budget based on an estimated 2% (2009: 2%) real growth, maintaining current gross margins, applying an expected inflation rate of 8% (2009: 8%) to indirect expenses and using a discount rate of 12% (2009: 12%). The assumptions have remained consistent with prior years.

On 8 June 2007, Mustek acquired the remaining 34,2% of Rectron Limited (Rectron). The agreed purchase price between the parties is based on the best estimate profit target for Rectron over a five-year period with the first cash payment of R49,8 million made on 3 July 2007. The potential further consideration will be a minimum of R10 million, if the cumulative net profit before tax of Rectron over the five-year period is above R100 million, with a maximum further consideration of R75,2 million. No further consideration is payable if the cumulative net profit before tax is below R100 million over the five-year period. The best estimate purchase price has been recorded at the date of sale with the difference between this purchase price and the outside shareholder interest acquired, being recorded as goodwill. The unpaid portion of the best estimate purchase price is regarded as a fair value through profit or loss financial instrument and with any resultant gain or loss recognised in profit or loss (see note 21). The best estimate purchase price was increased by R0,8 million (2009: R5,5 million) during the current financial year.

On 1 January 2007, Netshield (Pty) Limited became a subsidiary of Comztek Holdings (Pty) Limited. The shareholding increased from 31% to 51% by way of a cash payment of R2,5 million, in addition to deferred payments based on the net income before tax of the subsidiary for the 2008, 2009 and 2010 financial years. The purchase price, and by implication goodwill value, increased by Rnil in the current financial year (2009: R0,05 million) with the finalisation of the accounts at original acquisition.

The Group acquired 51% of Ballena Trading 29 (Pty) Limited on 9 May 2009 from the developers and shareholders of the remaining 49%. Ballena Trading 29 (Pty) 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 is valued at the purchase price and counterparty contributions of R10,336 million (2009: R4,267 million). The consideration is payable over a two-year period from inception of the agreement.

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

	COMPANY	
	2010 R000	2009 R000
12. INVESTMENTS IN SUBSIDIARIES		
Shares at cost	260 228	266 724
– opening balance	266 724	260 060
– subsidiaries acquired	100	6 664
– subsidiaries disposed	(6 596)	—
Impairment charges	(94 674)	(88 430)
Opening carrying value adjustments	(88 430)	(87 290)
Current year impairment of loan	(6 451)	(7 236)
Current year reversal of impairment on loans	207	6 096
Loans owing by subsidiaries	85 235	86 717
Non-current investments in subsidiaries	250 789	265 011
Current loans owing by subsidiaries	259 071	—
Loans owing to subsidiaries	(125 146)	(130 990)
	384 714	134 021

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2010 %	2009 %	2010 R000	2009 R000	2010 R000	2009 R000	2010 R000	2009 R000
12. INVESTMENTS IN SUBSIDIARIES *(continued)*								
DIRECT								
Unlisted								
Ballena Trading 29 (Pty) Limited[9]	51	51	5 272	5 272	—	—	5 272	5 272
Brobusmac Investments (Pty) Limited[2, 4]	100	100	1 575	1 575	(8 512)	(8 512)	(6 937)	(6 937)
Brotek (Pty) Limited[2, 4]	100	100	71 468	71 468	(85 553)	(85 553)	(14 085)	(14 085)
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]	50	50	4 000	4 000	(1 950)	(1 637)	2 051	2 363
Lithatek Investments (Pty) Limited[1, 2, 4]	100	100	19 448	19 448	2 479	2 479	—	—
Makeshift 1000 (Pty) Limited[1, 2, 9]	100	100	10 698	10 698	44 123	45 827	4 212	5 708
Mustek Capital (Pty) Limited[7, 13, 14]	100	—	100	—	259 071	—	259 171	—
Mustek Limited Company Limited[2, 8]	100	100	*	*	2 782	2 548	26	108
Mandarin Trading House (Pty) Limited[2, 4]	100	100	*	*	23	22	23	22
Mustek East Africa Limited[2, 5]	100	100	12 314	12 314	15 386	15 558	27 700	27 872
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

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2010 %	2009 %	2010 R000	2009 R000	2010 R000	2009 R000	2010 R000	2009 R000
12. INVESTMENTS IN SUBSIDIARIES *(continued)*								
DIRECT *(continued)*								
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	*	*	—	—	—	—
Mustek Management (Pty) Limited[4]	100	100	*	*	—	—	—	—
Mustek Middle East FZCO[2, 15]	100	100	1 392	1 392	1 337	1 469	2 730	2 861
Planet Internet (Pty) Limited[4]	100	100	*	*	—	—	—	—
Quickstep 94 (Pty) Limited[1, 2, 9]	100	100	2 581	2 581	19 105	18 814	2 302	8 149
Quickstep 95 (Pty) Limited[4]	100	100	*	*	—	—	—	—
Rectron Limited[7]	100	100	115 973	115 973	—	—	115 973	115 973
Tier One Electronics (Pty) Limited[16]	—	100	—	6 596	—	(6 148)	—	448
Tradeselect 38 (Pty) Limited[2, 4]	100	100	3 400	3 400	(11 911)	(11 911)	(8 511)	(8 511)
INDIRECT								
Unlisted								
Corex IT Distribution Dynamics (Pty) Limited[7]	60	60	—	—	—	—	—	—
Datazone Limited[2, 10]	100	100	—	—	(766)	(775)	(766)	(775)
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[9]	100	100	—	—	—	—	—	—
Rectron Australia (Pty) Limited[6]	50	50	—	—	—	—	—	—
Sheerprops 69 (Pty) Limited[4]	100	100	—	—	—	—	—	—
Soft 99 (Pty) Limited[7, 11]	68	68	—	—	—	—	—	—
			260 228	266 724	219 160	(44 273)	384 714	134 021

The net investment is after impairment charges against the investments and loans of R94,7 million (2009: R88,4 million).

12. INVESTMENTS IN SUBSIDIARIES *(continued)*

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.

[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]*These loans bear interest at prime and have no fixed terms of repayment.*

[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, 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. A fair value loss of R0,1 million (2009: gain of R2,9 million) was recognised in the current year based on the estimated potential further consideration payable.*

[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 in June 2013.*

[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 current financial year and is in the process of realising assets and settling liabilities as at 30 June 2010.*

[16]*Mustek Limited acquired 100% of Tier One Electronics (Pty) Limited (Tier One) on 1 March 2008. On the same date, Tier One sold its assets and liabilities to Mustek Limited. The company and business of Tier One were subsequently disposed of during the current financial year (refer to notes 15 and 25).*

**Original cost less than R500.*

Notes to the Annual Financial Statements
for the year ended 30 June 2010 (continued)

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
13. INVESTMENTS IN ASSOCIATES				
Shares at cost	28 636	28 636	4 189	4 189
– opening balance	28 636	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 losses	(4 097)	(4 097)	—	—
– opening balance	(4 097)	(4 097)	—	—
Loans owing by associates	10 114	9 458	2 154	—
Opening balance	9 458	10 690	—	1 232
Increase in loans	656	1 232	2 154	1 232
Transfer to other investments and loans (see note 15)	—	(2 464)	—	(2 464)
Fair valuation adjustments to loans	(3 750)	(3 750)	—	—
Investments in associates	6 364	5 708	2 154	—
The aggregate assets, liabilities and results of operations of associates at year-end (excluding Mustek Zimbabwe) are summarised as follows:				
Total assets	1 517	1 273	554	—
Total liabilities	11 198	9 871	2 441	—
Revenue	2 368	3 405	1 112	—
(Loss) profit before tax	(655)	450	(1 605)	—
Income tax (expense) benefit	(266)	—	—	—
Net (loss) profit for the year[1, 4]	(921)	450	(1 605)	—

13. INVESTMENTS IN ASSOCIATES *(continued)*

	Percentage holding		Cost		Loans to		Equity-accounted share of earnings		Net investment	
	2010 %	2009 %	2010 R000	2009 R000	2010 R000	2009 R000	2010 R000	2009 R000	2010 R000	2009 R000
COMPANY										
Unlisted										
Mustek Zimbabwe Private Limited[2]	—	—	4 189	4 189	—	—	—	—	—	—
Khauleza IT Solutions[1]	26,0	—	—	—	2 154	—	—	—	2 154	—
			4 189	4 189	2 154	—	—	—	2 154	—
GROUP										
Unlisted										
A Open (Pty) Limited[3]	43,0	43,0	—	—	—	—	—	—	—	—
Preworx (Pty) Limited[4]	38,0	38,0	24 447	24 447	7 960	9 458	(4 097)	(4 097)	4 210	5 708
			28 636	28 636	10 114	10 690	(4 097)	(4 097)	6 364	6 940

The net investment is after impairment charges against and fair value adjustments of the investments and loans of R28 289 000 (2009: R28 289 000) for the Group and R4 189 000 (2009: R4 189 000) for the company.

Additional information	Nature of business	Country of incorporation	Period equity accounted
A Open (Pty) Limited	Dormant	South Africa	12 months (2009: 12 months)
Columbus Technologies (Pty) Limited[5]	Computer hardware services	South Africa	0 months (2009: 11 months)
Mustek Zimbabwe Private Limited	Assembly and distribution of computers and computer components	Zimbabwe	12 months (2009: 12 months)
Khauleza IT Solutions	Provider of IT support solutions	South Africa	7 months (2009: 0 months)
Preworx (Pty) Limited	Remote access diagnostics technology	South Africa	12 months (2009: 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 shareholder's loan.*

During the current financial year, the company realised a loss. As the investment is recorded at Rnil, no portion of this was therefore equity accounted.

[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. The effect of equity-accounted results from Zimbabwe is immaterial. The impairment of the 40% option has accordingly not been reversed.*

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

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

[5]*Refer to note to 15 for further information.*

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
14. INVESTMENT IN JOINT VENTURE				
The Group jointly controls Comztek (Pty) Limited and the results of the joint venture are proportionately consolidated.				
Cost	–	–	–	–
Loans owing by joint venture	–	–	–	–
	–	–	–	–
Percentage shareholding %	50	50	50	50

The Group and company's 50% (2009: 50%) interest in the assets, liabilities and results of operations of the joint venture are summarised as follows:

	GROUP AND COMPANY	
	2010 R000	2009 R000
Non-current assets	12 298	11 261
Current assets	132 361	131 831
Non-current liabilities	30 000	30 000
Current liabilities	91 366	92 787
Revenue	390 978	426 516
Profit before tax	4 056	2 175
Income tax benefit (expense)	28	(1 240)
Profit after tax	4 084	935
Non-controlling interest	234	(930)
Net profit for the year	4 318	5

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
15. OTHER INVESTMENTS AND LOANS				
Shares at cost	33 877	33 877	13 751	13 751
– opening balance	33 877	33 877	13 751	13 751
Loans	7 896	6 211	7 598	65 430
Fair value adjustments	(5 764)	(5 764)	(250)	(250)
– opening balance	(5 764)	3 040	(250)	(250)
– provision against loans reversed	—	1 039	—	—
– fair value loss	—	(9 843)	—	—
	36 009	34 324	21 099	78 931

	Ownership interest		Shares at cost		Loans to		Net investment	
	2010 %	2009 %	2010 R000	2009 R000	2010 R000	2009 R000	2010 R000	2009 R000
COMPANY								
Unlisted								
A Lai[2]	—	—	—	—	1 000	1 000	1 000	1 000
Columbus Technologies (Pty) Limited[1]	—	—	—	—	2 166	2 464	2 166	2 646
G Veffer[5]	—	—	—	—	—	86	—	86
J Allan[6]	—	—	—	—	1 011	994	1 011	994
M Cameron[6]	—	—	—	—	496	451	496	451
Mecer Capital (Pty) Limited[8]	—	—	—	—	—	59 500	—	59 500
Option – Mecer Capital (Pty) Limited[8]	—	—	250	250	—	—	—	—
Simple Process Engineering Solutions (Pty) Limited[9]	—	—	—	—	654	619	654	619
Y Danino[5]	—	—	—	—	316	316	316	316
Zinox Technologies Limited[10]	12,0	12,0	13 501	13 501	—	—	13 501	13 501
Tier One Electronics (Pty) Limited[3]	—	—	—	—	1 955	—	1 955	—
			13 751	13 751	7 598	65 430	21 099	78 931

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2010 %	2009 %	2010 R000	2009 R000	2010 R000	2009 R000	2010 R000	2009 R000
15. OTHER INVESTMENTS AND LOANS *(continued)*								
GROUP								
Unlisted								
A Coetzee[4]	—	—	—	—	298	281	298	281
Casetek International Co Limited[7]	8,0	8,0	5 514	5 514	—	—	—	—
Firefly 91 Investments (Pty) Limited[8]	—	—	—	—	25 000	25 000	25 000	25 000
Firefly 91 Investments (Pty) Limited[8]	—	—	—	—	(25 000)	(25 000)	(25 000)	(25 000)
Mustek Capital (Pty) Limited[8]	—	—	—	—	—	(59 500)	—	(59 500)
Zinox Technologies Limited[10]	12,0	12,0	14 612	14 612	—		14 612	14 612
			33 877	33 877	7 896	6 211	36 009	34 324

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 in equal annual instalments until 1 June 2013. 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]The investment in Tier One Electronics (Pty) Limited, as well as the Tier One business was sold during the current financial year (refer to note 25). This loan is guaranteed by both David Kan (Mustek CEO) and Stephen Easton (Tier One CEO). The loan is interest free and repayable in three instalments between 31 August 2010 and 30 June 2011.

[4]The loan is unsecured, bears interest at 72% of prime and is repayable on demand.

[5]These loans are unsecured, interest free and have no fixed terms of repayment.

[6]These loans are unsecured, bear interest at 10% per annum and are repayable on demand.

[7]The investment has been fully impaired in previous financial years.

[8]In terms of funding structures the Group had in three of its entities, namely Mustek Limited, Rectron Limited and Comztek (Pty) Limited, and the accounting interpretation of these structures as entities that should be consolidated, these amounts receivable and payable are set off. See note 18 for more information.

During the current financial year, Mustek Limited acquired 100% of the issued share capital of Mustek Capital (Pty) Limited and, accordingly, the loan amount is now classified as a loan to a subsidiary (refer to note 12). The financing structure has, however, changed during the current financial year (refer to note 21).

[9]This loan is unsecured, bears interest at the South African prime bank overdraft rate and is payable on 1 December 2010.

[10]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. Due to limitations on the availability of current financial information, no subsequent adjustments were made to the cost of the investment, in terms of an exception in paragraph 46(c) of IAS 39. This treatment is consistent with the treatment in the 2009 financial year.

The directors are aware of the fact that this exception has been removed from the revised IAS 39 applicable to the next financial year and are considering alternative options in order to address this matter.

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
16. DEFERRED TAX ASSETS AND LIABILITIES				
The tax effects of temporary differences of the company and subsidiary companies resulted in deferred tax assets and liabilities. The directors have assessed 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% (2009: 28%) except if otherwise indicated:				
Tax loss	5 598	3 552	—	—
Provision for doubtful debts	2 751	4 578	2 038	1 848
Amortisation of intangible assets	29	31	29	31
Salary-related provisions	2 748	3 142	2 487	2 882
Accelerated wear and tear for tax purposes	(2 020)	(2 770)	(635)	(351)
Prepayments	1 608	(1 251)	1 761	(1 245)
Minor assets	10	13	10	13
Operating lease liabilities	105	3 110	25	3 741
Other provisions	980	2 756	683	—
Unrealised exchange gains and losses	735	280	(249)	(309)
Deferred revenue	5 726	7 315	5 711	7 259
Deposits received	0	40	—	40
Secondary tax on companies (10%)*	2 400	3 500	2 400	3 500
Unrealised fair value gain on property revaluation (at relevant tax rate where applicable)	(7 661)	(3 802)	—	—
Unrealised fair value capital gain on investment (14%)	163	—	—	—
	13 172	20 494	14 260	17 409
Deferred tax assets	21 545	24 044	14 260	17 409
Deferred tax liabilities	(8 373)	(3 550)	—	—
	13 172	20 494	14 260	17 409

**The company and Group only raised a deferred tax asset on secondary tax on companies to the extent it expects to declare dividends before 31 December 2010.*

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
16. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*				
Reconciliation between opening and closing balances:				
Deferred tax asset at the beginning of the year	20 494	24 238	17 409	18 831
Differences on taxable loss	2 046	(2 217)	—	—
Differences on provision for doubtful debts	(1 827)	1 739	190	(104)
Differences on amortisation of intangible assets	(2)	(3)	(2)	(3)
Differences on salary-related provisions	(394)	(237)	(395)	332
Differences on accelerated wear and tear	750	430	(284)	1 695
Differences on prepayments	2 859	44	3 006	(18)
Differences on minor assets	(3)	(15)	(3)	(15)
Differences on lease liability	(3 005)	(3 970)	(3 716)	(2 187)
Differences on other provisions	(1 776)	38	683	(108)
Differences on unrealised exchange gains and losses	455	820	60	186
Differences on deferred revenue	(1 589)	582	(1 548)	540
Differences on deposits received	(40)	9	(40)	9
Foreign currency translation reserve	(3 696)	786	—	—
	(6 222)	(1 994)	(2 049)	327
Differences on secondary tax on companies	(1 100)	(1 749)	(1 100)	(1 749)
Deferred tax movement through the statement of comprehensive income	(7 322)	(3 743)	(3 149)	(1 422)
Deferred tax movement through the statement of financial position	—	(1)	—	—
Differences on fair value gain on property revaluation	(3 859)	(593)	—	—
Difference on fair value adjustment of financial instruments	163	1 378	—	—
Foreign currency translation reserve	3 696	(786)	—	—
	13 172	20 494	14 260	17 409

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
17. INVENTORIES				
Finished goods, net of provision for obsolescence	513 121	626 385	296 903	413 907
Inventories in transit	61 358	25 730	24 269	5 822
	574 479	652 115	321 172	419 729
Service stock and trading stock obsolescence provisions are highly judgemental because of the very competitive nature of the business and the extremely short life cycle 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 R43 160 419 (2009: R61 557 237) and R27 389 373 (2009: R45 848 513) respectively.				
18. TRADE AND OTHER RECEIVABLES				
Trade receivables	515 038	470 760	39 803	101 242
Other receivables	76 162	47 764	57 556	30 811
Total current trade and other receivables	591 200	518 524	97 359	132 053
Non-current trade and other receivables	2 619	15 652	2 540	15 652

Included in trade and other receivables for the current year is an amount of R15,7 million (2009: R15,7 million included in non-current trade and other receivables) 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.

Trade receivables securitisation

Objectives

The Group is party to receivables securitisation transactions, which have the following funding and earnings enhancement objectives:

- To create a flexible environment whereby the Group can raise external funding using its trade receivables as security.
- To raise funding at an efficient cost.
- To facilitate the recurring funding of the Group's growing operations.
- To enhance profitability and earnings per share by reducing the Group's funding rate.

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

18. TRADE AND OTHER RECEIVABLES *(continued)*

Structure components

- Special-purpose entities (SPEs) were incorporated and the Group entered into the sale of receivables and other agreements with the SPEs. The Group reserves the right to administer the receivables books itself and earns a market-related fee for this function.
- The SPEs raise funds against its accumulated receivables books. In order to provide the external funders of the SPEs with well-secured credit exposure, the SPEs are capitalised with a sufficient level of subordinated debt, obtained from finance companies (FinCOs).
- Credit ratings were obtained on the SPEs' abilities to meet their obligations and the Group's ability to manage the receivables books, taking into consideration that the receivables books are insured by third-party insurers to a large extent.
- The Group invests in preference shares issued by investment companies. As security for the preference share investments, the Group has put options to put the preference shares to the FinCOs if certain option events are met. As security for the put options, the FinCOs cede all its rights to the Group in respect of the subordinated loans to the SPEs.
- The Group has options to acquire all the issued shares of the SPEs after the initial five-year transaction period (see note 15).

Accounting treatment

- The SPEs are consolidated as the substance of the relationships between the Group and the SPEs are such that the SPEs should be consolidated by the Group.
- In the previous financial year, the SPE was consolidated based on the substance of the relationship.
- In the current financial year, Mustek Limited acquired 100% of the share capital of the Mustek Capital (Pty) Limited SPE and therefore this SPE is now consolidated as a subsidiary (refer to note 12).
- The Group trade receivables include R426,4 million (2009: R389,7 million) of SPE trade receivables and R169,8 million (2009: R327,0 million) of external borrowings by the SPEs are included in the total borrowings of the Group (see note 21).
- The financial assets (preference share investments) and financial liabilities (subordinated loans of the FinCOs to the SPEs) are offset on the statement of financial position. The net amount is reported as the Group has legally enforceable rights to offset and intends to settle on a net basis (see note 15).
- Since the statement of financial position items are offset, it is appropriate to offset the corresponding income and expense items, being the dividends received from the preference share investments and the interest paid on the subordinated loans (see notes 4 and 5).
- The directors considered the derecognition of accounts receivable at the company level appropriate as the SPE carries the risk of these amounts receivable.

Other information

The directors consider that the carrying amount of trade and other receivables approximates to 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% (2009: 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 is between 30 and 60 days (2009: 30 and 60 days) from date of invoice. Generally, no interest is charged on trade receivables. Of the trade receivable balance at year-end, R93,6 million (2009: R25,9 million) and R22,1 million (2009: R7,0 million) is due from the Group and the company's largest customers respectively. Trade receivables are stated at 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	
	2010 R000	2009 R000	2010 R000	2009 R000
18. TRADE AND OTHER RECEIVABLES *(continued)*				
Balance at the beginning of the year	18 394	20 446	6 849	7 146
Net amounts written off as uncollectable	(7 969)	(9 935)	—	(1 464)
Charged to profit and loss	10 732	7 883	3 696	1 167
Balance at the end of the year	21 157	18 394	10 545	6 849

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 to 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. In terms of IAS 1 – *Presentation of Financial Statements,* included in bank balances and cash is Rnil (2009: R0,1 million) (Group) and Rnil (2009: R0,1 million) (company) of investments in dividend-yielding unit trusts that can be converted into cash within 24 hours and that is not exposed to equity fluctuations.

The Group's cash and cash equivalents are placed with high credit quality financial institutions. Credit risk with respect to trade receivables is limited due to a large number of customers comprising the Group's customer base and a stringent credit approval process.

In terms of the covenants of the securitisation transactions referred to in note 18, certain levels of qualifying trade receivables and cash need to be held within the securitisation vehicles. There balances fluctuated on a daily basis. On 30 June 2010, R5,5 million (2009: R103,8 million) cash was restricted in this manner. As the financing structure in Mustek Capital (Pty) Limited changed during the current financial year (refer to notes 12 and 15), cash restricted in this manner only applies to Comztek and Rectron as at 30 June 2010.

These covenants do, however, not apply to Mustek Limited on 30 June 2010 anymore.

	GROUP AND COMPANY	
	2010 R000	2009 R000
20. SHARE CAPITAL		
Authorised:		
250 000 000 (2009: 250 000 000) ordinary shares of R0,008 each	2 000	2 000
Issued:		
109 547 165 (2009: 110 449 804) ordinary shares of R0,008 each	877	884
	Number of shares '000	Number of shares '000
Ordinary shares		
Balance at the beginning of the year	110 450	110 450
Shares issued in terms of option scheme	—	—
Shares bought back	(903)	—
Balance at the end of the year	109 547	110 450

These shares exclude the 7 064 072 (2009: 7 314 072) 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 2010, 13 471 179 TDRs were in issue (2009: 1 458 000). Each TDR is linked to 1 Mustek Limited share.

On 12 April 2010, 902 639 ordinary shares were bought back at R2,80 per share. The amount over the par value of the shares was funded from share premium.

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

21. BORROWINGS

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
Interest bearing				
Unsecured – at amortised cost				
Bank overdrafts	85 823	90 774	67 569	90 765
Short-term loans	—	15 766	—	—
Unsecured – at fair value through profit and loss				
Consideration payable for investments in subsidiaries	16 259	26 595	16 259	26 595
Secured – at amortised cost				
Accounts receivable securitisation loans	169 836	333 250	79 836	—
Mortgage and term loans	18 257	17 731	—	—
Capitalised finance leases	5 589	11 781	—	—
Total interest-bearing borrowings	295 764	495 897	163 664	117 360
Interest free				
Unsecured – financial liabilities				
Short-term loans	5	5	—	—
Interest free				
Unsecured – non-financial liabilities				
Operating lease liabilities	86	15 626	—	13 363
Total interest-free borrowings	91	15 631	—	13 363
Total borrowings	295 855	511 528	163 664	130 723
Bank balances and cash	(259 953)	(338 605)	(35 008)	(82 002)
Total funds borrowed	35 902	172 923	128 656	48 721
The borrowings are repayable as follows:				
On demand or within one year	163 341	205 912	76 130	112 408
In the second year	40 649	66 977	7 698	8 238
In the third to fifth years inclusive	82 686	228 836	79 836	10 078
After five years	9 179	9 803	—	—
Total borrowings	295 855	511 528	163 664	130 724
Bank overdrafts	(85 823)	(90 774)	(67 569)	(90 765)
Amounts due for settlement within 12 months	(77 518)	(115 138)	(8 561)	(21 643)
Long-term borrowings	132 514	305 616	87 534	18 316
Consisting of:				
Interest-bearing borrowings	132 514	305 530	87 534	18 316
Interest-free borrowings	—	86	—	—
	132 514	305 616	87 534	18 316

21. BORROWINGS *(continued)*

Additional information

Included in borrowings are the following:

Accounts receivable securitisation loans

During the previous financial year, R184,0 million was due by Mustek Capital (Pty) Limited, bearing interest at a fixed interest rate of 9,70% per annum, secured against the trade receivables (see note 18) and repayable on 30 November 2011. This loan was designated as held to maturity and carried at amortised cost. The loan was settled in the current financial year due to a restructuring of this securitisation transaction (refer to note 12).

During the previous financial year, R50,0 million was due by Mustek Capital (Pty) Limited, bearing interest at the three-month JIBAR rate plus 2,8%. The payable was secured against the trade receivables (see note 18) and repayable on 23 November 2009. This loan is designated as held to maturity and carried at amortised cost. The loan was settled in the current financial year due to a restructuring of this securitisation transaction (refer to note 12).

Included in long-term borrowings is an amount of R79,8 million, which represents a 36-month trade finance and forward cover facility from the Bank of China Limited, bearing interest at JIBAR plus 2,5% and which is repayable in June 2013. This facility replaced the facility used in the previous financial year as discussed above. This loan is classified as held to maturity, carried at amortised cost and is included in long-term borrowings. The facility is secured over accounts receivable in Mustek Capital (Pty) Limited and a working capital ratio of more than one needs to be maintained by Mustek Limited company. Furthermore, the total facility of R360 million (of which R100 million represents an undrawn 12-month demand loan) is limited to 90% of the trade receivables less than 90 days of age, in Mustek Capital (Pty) Limited.

R50,0 million (2009: R50,0 million) due by Firefly 91 Investments (Pty) Limited is bearing interest at prime minus 2,1%, secured against the trade receivables (see note 18) and repayable on 31 May 2011. This loan is designated as held to maturity, carried at amortised cost and included in short-term borrowings.

Short-term loans

R30,0 million (2009: R30,0 million) due by Comztek Capital (Pty) Limited, bearing interest at a fixed interest rate of 12,87% per annum, secured against the trade receivables (see note 18) and repayable on 29 September 2011. The balance of R10,0 million (2009: 13,0 million), with the same security and repayable on 30 September 2010, bears interest at a variable interest rate of JIBAR plus 2,8%. These loans are designated as held to maturity, carried at amortised cost and included in long-term borrowings.

During the previous financial year, R6,25 million was due by Comztek (Pty) Limited, bearing interest at a fixed interest rate of 2% per month, secured against trade receivables not transferred to Comztek Capital (Pty) Limited (see note 18). This loan was designated as held to maturity and carried at amortised cost and settled in full during the current financial year.

Short-term borrowings included a loan of R15,8 million from Ann Chang (Rectron-related party) in the previous financial year. This loan bore interest at prime. There were no formal repayment terms and the loan was settled in the current financial year.

In the current financial year, short-term borrowings represent the current portion of long-term borrowings.

Bank overdrafts

Bank overdrafts of R67,6 million (2009: R90,8 million) due by the company are carried at amortised cost, denominated in United States Dollar and bear interest at LIBOR plus 1%. The balance, included in the Group financial statements, is denominated in Rand and bears interest at the prime overdraft rate.

Mortgage and term loans

R16,3 million (2009: R15,7 million) of the mortgage and term loans is denominated in Australian Dollar, bears interest at a fixed interest rate of 17,8% (2009: 17,8%), is secured by land and buildings with a net book value of R17,6 million (2009: R17,2 million) and with interest and capital payments that commenced on 1 March 2006 and are payable until 31 March 2026 when the last payment will be made. The balance is denominated in Rand. These loans are carried at amortised cost (see note 10).

Consideration payable for acquisition of subsidiary

In the previous financial year, the consideration payable for investments in subsidiaries related to the potential further consideration payable to Rectron Limited and Tier One Electronics (Pty) Limited's non-controlling shareholders in terms of the Group's acquisitions on 8 June 2007 and 1 March 2008 respectively. In the current financial year, Tier One Electronics (Pty) Limited was disposed of (refer to note 25) and only the balance for potential further consideration for Rectron Limited exists as at 30 June 2010. The loans are regarded as fair value through profit or loss financial instruments and with any resultant gain or loss recognised in profit or loss. The loan amount is based on the expected performance of Rectron Limited, until 30 June 2011. The directors made certain assumptions with regard to the estimated amounts payable (refer to note 23). Based on the fair value of these payables, a R0,8 million loss (2009: R7,4 million gain) was recognised in profit and loss in the current financial year (refer to notes 6 and 23).

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

21. BORROWINGS *(continued)*

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. During the current financial year, Mustek Limited settled its obligation under operating lease agreement in advance by making a payment of R44 million in July 2009, which gave rise to a prepaid lease asset. This asset will be realised over the remaining period of the original lease contract (refer to note 27). The short-term portion of this asset is included in other receivables (refer to note 18) and the long-term portion is included in non-current trade and other receivables (refer to note 18).

Finance lease liabilities

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
Obligations under finance leases	Minimum lease payments		Present value of minimum lease payments	
Amounts payable under finance leases:				
Within one year	5 828	7 279	5 589	6 299
In the second to fifth years inclusive	—	5 784	—	5 482
	5 828	13 063	5 589	11 781
Less future finance charges	(239)	(1 281)	n/a	n/a
Present value of lease obligations	5 589	11 781	5 589	11 781
Less amounts due for settlement within 12 months			(5 589)	(6 299)
Amount due for settlement after 12 months			—	5 482

Certain items of fixtures and equipment are held under finance leases. The average lease term is one year (2009: two years). For the year ended 30 June 2010, the weighted average borrowing rate was 9,25% (2009: 10,25%). Interest rates are variable and the average interest rate is prime less 0,75%. The Group's obligations under finance leases and instalment sale agreements are secured by the lessors' charges over leased assets with a net book value of R16,9 million (2009: R18 million) (refer to note 10). The Group's lease obligations are secured by the lessors' title to the leased assets. The lease obligations are designated as held to maturity and amortised using the effective interest rate method.

All obligations are denominated in Rand, except as noted above.

Borrowing powers, borrowing capacity and banking facilities

In terms of the memorandum of association, the company's borrowing powers are unlimited. The Group has banking facilities amounting to R926,8 million (2009: R530,9 million), which are secured by cross guarantees in the Group as follows:

	GROUP	
	2010 R000	2009 R000
General overdraft and similar facilities	328 466	322 118
Letters of credit facilities	598 352	208 760
	926 818	530 878

22. TRADE AND OTHER PAYABLES AND PROVISIONS

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
Letters of credit payables	222 015	248 629	143 816	193 131
Trade payables	479 233	331 223	217 509	161 596
Other payables	31 290	48 981	13 698	25 290
Total trade and other payables	732 538	628 833	375 023	380 017

The Group obtained import letters of credit facilities to replace the trade finance facility (as mentioned below) of the previous years. The letters of credit supplies a 120-day trade payment term to the company. The maximum facility available to the company is R328,5 million (2009: R208,8 million) and interest is calculated at LIBOR plus 2,5%. These facilities are carried at amortised cost.
During previous years, the Group had a trading agreement with international trading companies whereby the trading companies purchased products from foreign suppliers for the purpose of reselling such products to the Group. The trading companies facilitated the transactions, provided certain services and supplies between 90 and 120 days trade payment terms to the Group. The maximum facility available to the Group was R40,0 million and commission was calculated at LIBOR plus 1,35%. This facility has been cancelled at 30 June 2008 and has been replaced by an import letters of credit facility (as mentioned above).
Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases stated is 92 days (2009: 73 days).
Trade and other payables are stated at cost, which normally approximate their fair value due to their short-term maturity.

The following movements occurred in provisions:

GROUP 2010	Leave pay provision R000	Bonus provision R000	Other* R000	Total R000
Opening carrying amount	9 077	6 152	219	15 448
Additional provision	1 653	6 792	—	8 445
Amounts used	(993)	(5 971)	—	(6 964)
Unused amounts reversed	(1 654)	—	(219)	(1 873)
Closing carrying amount	8 083	6 973	—	15 056
COMPANY 2010				
Opening carrying amount	6 363	3 932	—	10 295
Additional provision	725	202	—	927
Amounts used	—	—	—	—
Unused amounts reversed	(1 632)	(707)	—	(2 339)
Closing carrying amount	5 456	3 427	—	8 883

GROUP 2009	Leave pay provision R000	Bonus provision R000	Other* R000	Total R000
Opening carrying amount	7 457	5 016	480	12 953
Additional provision	3 970	7 704	1 038	12 712
Amounts used	(2 337)	(6 544)	(1 299)	(10 180)
Unused amounts reversed	(13)	(24)	—	(37)
Closing carrying amount	9 077	6 152	219	15 448
COMPANY 2009				
Opening carrying amount	5 480	3 484	385	9 349
Additional provision	1 192	1 894	—	3 086
Amounts used	(308)	(1 447)	(385)	(2 140)
Closing carrying amount	6 364	3 931	—	10 295

Employee entitlements to annual leave are recognised as services are rendered. A provision, 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 provision relates to performance bonus targets achieved and the annual 13th cheque payable to employees of the Group and the company.

**Other provisions mainly consist of warranty provisions.*

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

23.1 Categories of financial instruments

GROUP 2010	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	182 499	—	—	—	—	—	182 499
Intangible assets	11	72 114	—	—	—	—	—	72 114
Investments in associates	13	6 364	—	6 364	—	—	—	—
Other investments and loans	15	36 009	—	7 897	28 112	—	—	—
Deferred tax asset	16	21 545	—	—	—	—	—	21 545
Non-current trade and other receivables	18	2 619	—	2 619	—	—	—	—
Current assets								
Inventories	17	574 479	—	—	—	—	—	574 479
Trade and other receivables	18	591 200	—	587 648	—	—	—	3 552
Foreign currency assets	23	2 057	2 057	—	—	—	—	—
Tax assets		12 884	—	—	—	—	—	12 884
Bank balances and cash	19	259 953	—	259 953	—	—	—	—
TOTAL ASSETS		1 761 723	2 057	864 481	28 112	—	—	867 073
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	877	—	—	—	—	—	877
Ordinary share premium		122 484	—	—	—	—	—	122 484
Retained earnings		497 202	—	—	—	—	—	497 202
Properties revaluation reserve		34 159	—	—	—	—	—	34 159
Foreign currency translation reserve		(3 888)	—	—	—	—	—	(3 888)
Equity attributable to equity holders of the parent		650 834	—	—	—	—	—	650 834
Non-controlling interest		24 552	—	—	—	—	—	24 552
Total equity		675 386	—	—	—	—	—	675 386
Non-current liabilities								
Long-term borrowings	21	132 514	7 698	—	—	124 816	—	—
Deferred tax liability	16	8 373	—	—	—	—	—	8 373
Current liabilities								
Short-term borrowings	21	77 518	8 561	—	—	63 281	5 589	87
Trade and other payables	22	732 538	—	—	—	732 538	—	—
Provisions	22	15 056	—	—	—	—	—	15 056
Foreign currency liabilities	23	161	161	—	—	—	—	—
Deferred income		20 507	—	—	—	—	—	20 507
Tax liabilities		13 847	—	—	—	—	—	13 847
Bank overdrafts	21	85 823	—	—	—	85 823	—	—
Total liabilities		1 086 337	16 421	—	—	1 006 458	5 589	57 870
TOTAL EQUITY AND LIABILITIES		1 761 723	16 421	—	—	1 006 458	5 589	733 256

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)*

GROUP 2009	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	181 376	—	—	—	—	—	181 376
Intangible assets	11	54 907	—	—	—	—	—	54 907
Investments in associates	13	5 708	—	5 708	—	—	—	—
Other investments and loans	15	34 324	—	6 211	28 113	—	—	—
Deferred tax asset	16	24 044	—	—	—	—	—	24 044
Non-current trade and other receivables	18	15 652	—	15 652	—	—	—	—
Current assets								
Inventories	17	652 115	—	—	—	—	—	652 115
Trade and other receivables	18	518 524	—	511 326	—	—	—	7 198
Foreign currency assets	23	1 604	1 604	—	—	—	—	—
Tax assets		2 890	—	—	—	—	—	2 890
Bank balances and cash	19	338 605	—	338 605	—	—	—	—
TOTAL ASSETS		1 829 749	1 604	877 502	28 113	—	—	922 530
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	884	—	—	—	—	—	884
Ordinary share premium		123 583	—	—	—	—	—	123 583
Retained earnings		447 294	—	—	—	—	—	447 294
Properties revaluation reserve		12 048	—	—	—	—	—	12 048
Foreign currency translation reserve		(1 605)	—	—	—	—	—	(1 605)
Equity attributable to equity holders of the parent		582 204	—	—	—	—	—	582 204
Non-controlling interest		18 488	—	—	—	—	—	18 488
Total equity		600 692	—	—	—	—	—	600 692
Non-current liabilities								
Long-term borrowings	21	305 616	18 316	—	—	281 731	5 482	87
Deferred tax liability	16	3 550	—	—	—	—	—	3 550
Current liabilities								
Short-term borrowings	21	115 138	8 279	—	—	85 021	6 299	15 539
Trade and other payables	22	628 833	—	—	—	628 833	—	—
Provisions	22	15 448	—	—	—	—	—	15 448
Foreign currency liabilities	23	36 846	36 846	—	—	—	—	—
Deferred income		26 034	—	—	—	—	—	26 034
Tax liabilities		6 818	—	—	—	—	—	6 818
Bank overdrafts	21	90 774	—	—	—	90 774	—	—
Total liabilities		1 229 057	63 441	—	—	1 086 359	11 781	67 476
TOTAL EQUITY AND LIABILITIES		1 829 749	63 441	—	—	1 086 359	11 781	668 168

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

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.1 Categories of financial instruments *(continued)*

COMPANY 2010	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	22 874	—	—	—	—	—	22 874
Intangible assets	11	9 369	—	—	—	—	—	9 369
Investments in subsidiaries	12	250 789	—	—	—	—	—	250 789
Investments in associates	13	2 154	—	2 154	—	—	—	—
Other investments and loans	15	21 099	—	7 598	13 501	—	—	—
Deferred tax asset	16	14 260	—	—	—	—	—	14 260
Non-current trade and other receivables	18	2 540	—	2 540	—	—	—	—
Current assets								
Inventories	17	321 172	—	—	—	—	—	321 172
Trade and other receivables	18	97 359	—	96 393	—	—	—	966
Investments in subsidiaries	12	259 071	—	—	—	—	—	259 071
Foreign currency assets	23	1 833	1 833	—	—	—	—	—
Tax assets		2 529	—	—	—	—	—	2 529
Bank balances and cash	19	35 008	—	35 008	—	—	—	—
TOTAL ASSETS		1 040 057	1 833	143 693	13 501	—	—	881 031
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	877	—	—	—	—	—	877
Ordinary share premium		122 484	—	—	—	—	—	122 484
Retained earnings		223 557	—	—	—	—	—	223 557
Total equity		346 918	—	—	—	—	—	346 918
Non-current liabilities								
Long-term borrowings	21	87 534	7 698	—	—	79 836	—	—
Current liabilities								
Short-term borrowings	21	8 561	8 561	—	—	—	—	—
Trade and other payables	22	375 023	—	—	—	375 023	—	—
Provisions	22	8 883	—	—	—	—	—	8 883
Foreign currency liabilities	23	25	25	—	—	—	—	—
Loans owing to subsidiaries	12	125 146	—			125 146		—
Deferred income		20 398	—	—	—	—	—	20 398
Tax liabilities		—	—	—	—	—	—	—
Bank overdrafts		67 569	—	—	—	67 569	—	—
Total liabilities		693 139	16 284	—	—	647 574	—	29 281
TOTAL EQUITY AND LIABILITIES		1 040 057	16 284	—	—	647 574	—	376 199

**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 2009	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	38 241	—	—	—	—	—	38 241
Investments in subsidiaries	12	265 011	—	—	—	—	—	265 011
Other investments and loans	15	78 931	—	65 430	13 501	—	—	—
Deferred tax asset	16	17 409	—	—	—	—	—	17 409
Non-current trade and other receivables	18	15 652	—	15 652	—	—	—	—
Current assets								
Inventories	17	419 729	—	—	—	—	—	419 729
Trade and other receivables	18	132 053	—	128 193	—	—	—	3 860
Bank balances and cash	19	82 002	—	82 002	—	—	—	—
TOTAL ASSETS		1 049 028	—	291 277	13 501	—	—	744 250
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	884	—	—	—	—	—	884
Ordinary share premium		123 583	—	—	—	—	—	123 583
Retained earnings		210 242	—	—	—	—	—	210 242
Total equity		334 709	—	—	—	—	—	334 709
Non-current liabilities								
Long-term borrowings	21	18 316	18 316	—	—	—	—	—
Current liabilities								
Short-term borrowings	21	21 643	8 280	—	—	—	—	13 363
Trade and other payables	22	380 017	—	—	—	380 017	—	—
Provisions	22	10 295	—	—	—	—	—	10 295
Foreign currency liabilities	23	30 254	30 254	—	—	—	—	—
Loans owing to subsidiaries	12	130 990	—	—	—	130 990	—	—
Deferred income		25 923	—	—	—	—	—	25 923
Tax liabilities		6 116	—	—	—	—	—	6 116
Bank overdrafts		90 765	—	—	—	90 765	—	—
Total liabilities		714 319	56 850	—	—	601 772		55 697
TOTAL EQUITY AND LIABILITIES		1 049 028	56 850	—	—	601 772	—	390 406

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

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

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, and monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's objectives, policies and processes for measuring and managing these risks are detailed below.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives and exposure levels 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 currency-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.

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	
GROUP	2010 R000	2009 R000	2010 R000	2009 R000	2010 R000	2009 R000	2010 R000	2009 R000
BUY:								
US Dollars								
Less than three months	7,51	8,05	12 711	38 653	95 471	311 155	1 895	(35 284)
Three to six months	0,00	7,72	—	9 500	—	9 500	—	42
							1 895	(35 242)
Foreign currency assets							2 056	1 604
Foreign currency liabilities							(161)	(36 846)
							1 895	(35 242)
COMPANY								
BUY:								
US Dollars								
Less than three months	7,45	7,83	8 965	24 809	66 814	194 277	1 807	(30 296)
Three to six months	0,00	7,72	—	9 500	—	73 348	—	42
							1 807	30 254

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

	Average spot rate		Closing spot rate	
	2010 R	2009 R	2010 R	2009 R
USD	7,61	9,05	7,65	7,74
Euro	10,60	12,35	9,34	10,93

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 currency-denominated monetary assets and liabilities) of the Group and company according to the different functional currencies of each entity within the Group:

	2010				2009			
Functional currency	Rand R000	United States Dollar R000	Euro R000	Other* R000	Rand R000	United States Dollar R000	Euro R000	Other* R000
GROUP								
South African Rand	—	(528 012)	835	8 955	—	(372 827)	1 107	21
Kenyan Shilling	—	(3 493)	—	8 066	(679)	5 325	—	65
	—	(531 505)	835	17 021	(679)	367 502	1 107	86
COMPANY								
South African Rand	—	(61 828)	(242 662)	2 552	—	(249 573)	716	—

**Other currencies include Kenyan Shilling, British Pound, United Arab Emirates Dirham, Namibian Dollar 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:

	2010 R000	2009 R000
GROUP		
Profit before tax	51 365	36 699
COMPANY		
Profit before tax	30 194	24 886

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

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)*

Foreign currency sensitivity analysis *(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 expose the Group and company to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
Financial liabilities				
Loans received at fixed rates of interest	64 516	264 576	16 259	26 595
Loans received and bank borrowings linked to South African prime rates	51 069	72 792	1 069	7 017
Loans received and bank borrowings linked to LIBOR	306 770	332 376	228 571	276 878
Loans received and bank borrowings linked to JIBAR	89 836	63 000	79 836	—
Finance leases linked to variable interest rates	5 589	11 781	—	—
	517 780	744 525	325 735	310 490
Financial assets				
Loans granted at fixed rates of interest	5 731	3 747	5 433	49 466
Loans granted and bank deposits linked to South African prime rates	175 540	246 052	21 726	74 790
Bank deposits linked to LIBOR	—	—		—
Bank deposits linked to money market rates	72 542	81 455	15 447	9 676
Bank deposits linked to Australian prime rates	9 128	11 179	—	—
Bank deposits linked to Kenyan prime rates	4 613	427	—	—
Bank deposits linked to other foreign prime rates	296	1 956	—	—
	267 850	344 816	42 606	133 932

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 *(continued)*

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 2010 would decrease/increase by R5,2 million (2009: R7,4 million) and R3,3 million (2009: R3,1 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 year ended 30 June 2010 and 30 June 2009 would have been unaffected as the equity investments are classified as available for sale with all fair value adjustments recognised directly in equity. The disposal of Wavetrend Technologies Limited during the previous financial year did not have an effect on profit before tax as the options in Wavetrend were fair valued to Rnil through equity and disposed of for a nominal amount; and
- investment revaluation reserve for the year ended 30 June 2010 would decrease/increase by Rnil (2009: Rnil).

The Group's sensitivity to equity prices has not changed significantly from the prior year.

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 continuously 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.

Notes to the Annual Financial Statements
for the year ended 30 June 2010 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.2 Risk management *(continued)*

23.2.2 Credit risk *(continued)*

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 R365,9 million (2009: R330,1 million) and R4,2 million (2009: R5,2 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	
	2010 %	2009 %	2010 %	2009 %
High	0,2	—	—	—
Medium	1,2	0,6	—	1,2
Low	98,6	99,4	100,0	98,8
	100,0	100	100,0	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.

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	Over 120 days past due R000
GROUP 2010						
Trade and other receivables – South Africa	74 125	39 929	17 247	4 629	9 773	2 547
Trade and other receivables – non-South African	32 160	3 346	2 212	2 686	23 916	—
	106 285	43 275	19 459	7 315	33 689	2 547
GROUP 2009						
Trade and other receivables – South Africa	55 481	23 475	11 240	4 330	6 929	9 507
Trade and other receivables – non-South African	5 093	3 763	640	72	43	575
	60 574	27 238	11 880	4 402	6 972	10 082
COMPANY 2010						
Trade and other receivables – South Africa	407	1	3	176	215	12
Trade and other receivables – non-South African	27 118	1 313	886	1 137	23 782	—
	27 525	1 314	889	1 313	23 997	12
COMPANY 2009						
Trade and other receivables – South Africa	3 628	1 896	443	329	70	890
Trade and other receivables – non-South African	1 800	1 487	—	—	—	313
	5 428	3 383	443	329	70	1 203

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

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:

GROUP 2010	Total R000	0 – 1 year R000	2 years R000	3 – 5 years R000	5 years + R000
Non-interest bearing	510 614	510 614	–	–	–
Finance lease liability	5 828	5 828	–	–	–
Variable interest rate instruments	452 420	372 584	–	79 836	–
Fixed interest rate instruments	79 519	18 635	54 943	3 055	2 886
	1 048 381	907 661	54 943	82 891	2 886
GROUP 2009					
Non-interest bearing	395 835	395 748	87	–	–
Finance lease liability	13 063	7 279	5 784	–	–
Variable interest rate instruments	481 687	427 237	54 450	–	–
Fixed interest rate instruments	341 842	39 767	37 023	245 468	19 584
	1 232 427	870 031	97 344	245 468	19 584
COMPANY 2010					
Non-interest bearing	231 207	231 207	–	–	–
Variable interest rate instruments	140 974	61 138	–	79 836	–
Fixed interest rate instruments	16 850	8 561	8 289	–	–
	389 031	300 906	8 289	79 836	–
COMPANY 2009					
Non-interest bearing	142 991	142 991	–	–	–
Variable interest rate instruments	283 896	283 896	–	–	–
Fixed interest rate instruments	29 158	8 279	8 871	12 008	–
	456 045	435 166	8 871	12 008	–

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 Group's overall strategy remains unchanged from 2008.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Group's Board of Directors reviews the capital structure on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has a target 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	
	2010 R000	2009 R000	2010 R000	2009 R000
Total interest-bearing debt	517 780	744 526	325 735	310 491
Bank balances and cash	(259 953)	(338 605)	(35 008)	(82 002)
Net interest-bearing debt	257 827	405 921	290 727	228 489
Equity	650 834	582 204	346 918	334 709
Net debt to equity ratio (%)	39,61	69,7	83,80	68,3
Total debt to equity ratio (%)	79,56	127,9	93,89	92,8
23.3 Net gains (losses) on financial instruments				
Net gains (losses) on financial instruments analysed by category are as follows:				
Financial assets and financial liabilities at fair value through profit or loss, classified as held for trading	(189)	(29 694)	(277)	(21 829)
Loans and receivables (including bank and cash)	15 270	20 393	19 615	28 403
Financial liabilities held at amortised cost	(40 319)	(95 039)	(13 802)	(38 123)
Finance leases	(882)	(2 094)	—	—
Net losses attributable to financial instruments	(26 120)	(106 434)	5 536	(31 549)

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.

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.3 Net gains (losses) on financial instruments *(continued)*

23.3.1 Fair value of financial instruments *(continued)*

23.3.2 Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position (IFRS 7.27)

In accordance with IFRS 7.27, fair value measurements of financial assets and liabilities, should be 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).

The abovementioned remeasurement levels apply to Mustek as follows:

GROUP 2010	Level 1	Level 2	Level 3
Held for trading			
Foreign currency assets	–	2 057	–
Long-term borrowings	–	–	(7 698)
Short-term borrowings	–	–	(8 561)
Foreign currency liabilities	–	(161)	–
Total – held for trading	–	1 896	(16 259)
Available for sale			
Other investments and loans	–	–	28 112
Total – available for sale	–	–	28 112
Total financial assets and (liabilities) at fair value	–	1 896	11 853

COMPANY 2010	Level 1	Level 2	Level 3
Held for trading			
Foreign currency assets	–	1 833	–
Long-term borrowings	–	–	(7 698)
Short-term borrowings	–	–	(8 561)
Foreign currency liabilities	–	(25)	–
Total – held for trading	–	1 808	(16 259)
Available for sale			
Other investments and loans	–	–	13 501
Total – available for sale	–	–	13 501
Total financial assets and (liabilities) at fair value	–	1 808	(2 758)

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 (IFRS 7.27) *(continued)*

Reconciliation of Level 3 fair value measurements of financial assets and (liabilities)

GROUP 2010	Short-term borrowings	Long-term borrowings	Other investments and loans
Opening balance	(7 779)	(14 314)	28 112
Repayments	7 779	—	—
Notional interest – unwinding of discount	—	(1 159)	—
Fair value adjustment	—	(785)	—
Transfers	(8 562)	8 561	—
Closing balance	(8 561)	(7 697)	28 112

Reconciliation of Level 3 fair value measurements of financial assets and (liabilities)

COMPANY 2010	Short-term borrowings	Long-term borrowings	Other investments and loans
Opening balance	(7 779)	(14 314)	13 501
Repayments	7 779	—	—
Notional interest – unwinding of discount	—	(1 159)	—
Fair value adjustment	—	(785)	—
Transfers	(8 561)	8 561	—
Closing balance	(8 561)	(7 697)	13 501

The fair values of the abovementioned financial assets and liabilities are determined as follows:

Long- and short-term borrowings

These amounts represent the long- and short-term portion of consideration payable to Mark Lu, for shares in Rectron Holdings Limited acquired (refer to note 12). The loan is valued at the present value of future expected cash flows up to 30 June 2011, discounted at the Mustek Group cost of capital of 7,68%, compounded annually. Cash flows are determined with reference to profit targets as set out in a contractual agreement for the acquisition of the shares. Future cash flows are estimated by applying the abovementioned contractual terms on current information, as well as expected future trends.

Other investments and loans

These amounts represent loans to Zinox Technologies Limited. Due to limitations on the availability of current financial information, the loan is carried at cost (refer to note 15).

Based on the latest available financial information regarding the profitability of the abovementioned company, the loan is not considered to be impaired.

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

23.3 Net gains (losses) on financial instruments *(continued)*

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:

	2010		2009	
	Carrying amount R000	Fair value R000	Carrying amount R000	Fair value R000
GROUP				
Financial assets				
Loans and receivables:				
Non-current trade and other receivables	2 619	2 381	15 652	14 101
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	64 516	75 497	264 576	264 923
COMPANY				
Financial assets				
Loans and receivables:				
Non-current trade and other receivables	2 540	2 309	15 652	14 101
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	16 259	14 807	26 595	23 113

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 10,0% (2009: 11%) 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 2010 and 30 June 2009 respectively. All other variables remained constant.

24. NET CASH (USED IN) FROM OPERATIONS

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
Profit for the year	64 395	52 435	24 564	19 334
Adjustments for:				
Income tax expense	23 228	21 224	10 776	7 094
Interest income	(14 553)	(11 504)	(17 421)	(19 624)
Finance costs	53 132	66 051	13 848	16 294
Dividend income	(716)	(9 296)	(8 644)	(10 327)
Loss on disposal of subsidiary	1 595	—	1 595	—
Realisation of foreign currency translation reserve	—	1 477	—	—
Depreciation of property, plant and equipment	20 662	23 703	9 211	15 068
Net loss (profit) on disposal of plant and equipment	742	(2 452)	322	1 015
(Decrease) increase in provisions	(392)	2 495	(1 412)	946
Unrealised foreign exchange losses (profits)	6 400	(61 329)	3 010	(55 406)
Fair value adjustments of derivative instruments	(1 895)	35 242	(1 807)	30 255
Share-based payment	1 421	2 552	1 421	2 552
Amortisation of intangible assets	5 886	2185	5 679	2 081
Fair valuation of investment	785	(2 319)	785	(7 037)
Impairment of subsidiary loan	—	—	6 450	(1 737)
Impairment of goodwill	100	—	—	
Impairment of non-current trade receivable	—	10 015	—	10 015
Operating cash flows before movements in working capital	160 790	130 479	48 377	10 523
Working capital movements	69 741	(119 500)	100 058	(121 319)
Decrease in inventories	71 488	120 575	92 410	22 002
(Increase) decrease in trade and other receivables	(56 445)	(9 207)	51 433	20 197
(Decrease) increase in deferred income	(5 527)	(1 967)	(5 525)	(1 976)
(Decrease) increase in trade finance payables	—	(314 408)	—	(257 800)
Increase in trade and other payables	60 225	85 507	(38 260)	96 258
Net cash from (used in) operations	230 531	10 979	148 435	(110 796)

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

25. PROCEEDS ON DISCONTINUANCE OR DISPOSAL OF SUBSIDIARIES

On 25 November 2009, Mustek Limited disposed of Tier One Electronics (Pty) Limited.

The aggregate value of assets and liabilities disposed of was as follows:

	GROUP	
	2010 R000	2009 R000
Inventories	6 148	—
Goodwill	448	—
Loans	(4 001)	—
Net asset value disposed	2 595	—
Loss on disposal	(1 595)	—
Total consideration	1 000	—
Cash and cash equivalents disposed	(1 000)	—
Net cash outflow	—	—

26. ACQUISITION OF SUBSIDIARIES

The Group acquired 51% of Ballena Trading 29 (Pty) Limited on 9 May 2009 and 100% of Mustek Middle East FZCO on 6 October 2008.

On 1 June 2010, Mustek Limited acquired 100% of the issued share capital of Mustek Capital (Pty) Limited. The latter was consolidated in previous years, as it classified as a special-purpose vehicle.

	GROUP	
	2010 R000	2009 R000
The aggregate fair value of the assets acquired and liabilities assumed was as follows:		
Intangible assets	—	4 267
Bank balances and cash	—	1 392
Subtotal	—	5 659
Goodwill	100	50
Total purchase consideration	—	5 709
Increase in non-controlling interest	—	(2 091)
Total consideration satisfied by cash	100	3 618
Satisfied by cash	(100)	(3 618)
Bank balances and cash acquired	—	1 392
Net cash outflow on acquisition	(100)	(2 226)

Goodwill arising on Netshield (Pty) Limited in the 2009 financial year, is attributable to the anticipated future economic benefits from the subsidiaries. No movement occurred on this goodwill in the current financial year (refer to note 11).

27. OPERATING LEASE ARRANGEMENTS

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:				
Cash due:				
During the ensuing year	8 822	58 645	2 844	47 529
In the second year	7 852	4 067	3 006	—
In the third to fifth year inclusive	11 816	3 932	7 843	—
Thereafter	2 003	—	—	—
	30 493	66 644	13 693	47 529
Operating lease (asset) liability	(15 046)	15 626	(15 511)	13 363
To be expensed:				
During the ensuing year	22 509	24 709	16 601	15 769
In the second year	10 302	19 749	5 388	15 769
In the third to fifth year inclusive	11 163	6 560	7 215	2 628
Thereafter	1 565	—	—	—
	30 493	66 644	13 693	47 529

The majority of operating lease payments represent rentals payable by the Group for the use of the properties from which it operates.

During the previous financial year, a decision was taken to early settle several operating lease obligations on order to reduce the total operating lease liability and significantly change the related cash flow profile. On 1 July 2009, Mustek Limited settled its obligation under the operating lease agreement in advance by making a payment of R44 million, which gave rise to a prepaid lease asset. This asset will be realised over the remaining period of the original lease contract.

28. GUARANTEES AND CONTINGENT LIABILITIES

Unlimited guarantees

Banking facilities of certain South African subsidiary companies.

Limited guarantees

- Standby letters of credit for Microsoft and Intel International BV for US$500 000 each.
- US$500 000 guarantee of payment in favour of Toshiba Europe GmbH on behalf of Mustek East Africa (Pty) Limited.
- R4,5 million guarantee in favour of Department of Customs and Excise, South African Revenue Service.

Legal dispute

The Group has no significant legal matters pending.

29. 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.

30. INTERESTS OF DIRECTORS IN CONTRACTS

The directors have certified that they were not materially interested in any transaction of any significance with the company or any of its subsidiaries. Accordingly, a conflict of interest with regard to directors' interest in contracts does not exist.

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

31. RELATED-PARTY TRANSACTIONS

During the 2010 financial year, the company had the following related parties:

SUBSIDIARIES

Related party	Type of transaction	Amount of transaction received (paid) R000	Amount receivable (payable) R000
Brobusmac Investments (Pty) Limited	Loan	—	(8 512)
Makeshift 1000 (Pty) Limited[4]	Loan	1 703	44 123
Mustek Capital (Pty) Limited[1]	Discounting fees	(28 831)	—
	Management fees	120	—
	Interest	12 458	—
	Loan	(115 062)	259 071
Mustek East Africa Limited[1]	Sales	3 454	2 238
	Purchases	—	—
	Loan	172	15 386
MFS Technologies (Pty) Limited[1]	Sales	—	—
	Purchases	—	—
	Loan	—	(1 323)
Mustek Limited Company Limited[2]	Loan	(235)	2 782
Mustek Middle East FZCO[1]	Loan	132	1 337
Quickstep 94 (Pty) Limited[3]	Purchases	(94)	(94)
	Management fees	120	120
	Loan	(289)	19 104
Rectron Holdings Limited[1]	Sales	1 251	90
	Purchases	(41 044)	(35 892)
Tradeselect 38 (Pty) Limited	Loan	—	(11 911)

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]*R2,4 million of the amount outstanding has been impaired to date.*

[3]*R10,7 million of the amount outstanding has been impaired to date.*

[4]*R40,1 million of the amount outstanding has been impaired to date.*

ASSOCIATES

Related party	Type of transaction	Amount of transaction received (paid) R000	Amount receivable R000
Preworx (Pty) Limited[1]	Sales	—	—
	Loan	1 691	4 210
Zinox Technologies Limited[1]	Sales	—	—
Khauleza IT Solutions (Pty) Limited[1]	Loan	(2 154)	2 154

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

Related party	Type of transaction	Amount of transaction received (paid) R000	Amount receivable (payable) R000
Comztek (Pty) Limited[1]	Purchases	(3 950)	(691)
	Sales	8 581	522

[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

Related party	Nature of relationship	Type of transaction	Amount of transaction received (paid) R000	Amount (payable) receivable R000
Columbus Technologies (Pty) Limited[2]	Previous associate	Loan	298	2 166
Mustek Electronics Properties (Pty) Limited[1]	Common directorship	Prepaid lease compensation	3 645	(2 430)
		Lease of premises	—	—
Ann Chang[3]	Wife of Rectron CEO	Loan	(15 765)	—
Continental Technology Enterprise[1]	Company owned by father of Mustek Limited CEO	Sales	23 210	26 461

[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]*Columbus Technologies (Pty) Limited is no longer a related party but the loan amount above was made to Columbus Technologies (Pty) Limited while the latter was an associate of the company.*

[3]*This loan has been fully repaid within the current financial year.*

Notes to the Annual Financial Statements

for the year ended 30 June 2010 (continued)

31. RELATED-PARTY TRANSACTIONS *(continued)*

During the 2009 financial year, the company had the following related parties:

SUBSIDIARIES

Related party	Type of transaction	Amount of transaction R000	Amount receivable (payable) R000
Brotek (Pty) Limited[1]	Loan	—	(85 553)
Brobusmac Investments (Pty) Limited	Loan	9 700	(8 512)
CIS Thuthukani Technology (Pty) Limited	Loan	—	(10 212)
Makeshift 1000 (Pty) Limited[4]	Loan	228	45 826
Mecer East Africa Limited[1]	Sales	6 042	1 800
	Loan	215	15 558
MFS Technologies (Pty) Limited[1]	Sales	9 608	—
	Purchases	3 868	—
	Loan	—	(1 323)
Mustek Limited Company Limited[2]	Loan	424	2 547
Mustek Middle East FZCO[1]	Loan	1 469	1 469
Quickstep 94 (Pty) Limited[3]	Loan	3 505	18 815
Rectron Holdings Limited[1]	Sales	3 385	197
	Purchases	50 925	(3 907)
Tradeselect 38 (Pty) Limited	Loan	56	(11 911)

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]*R2,4 million of the amount outstanding has been impaired to date.*

[3]*R10,7 million of the amount outstanding has been impaired to date.*

[4]*R40,1 million of the amount outstanding has been impaired to date.*

ASSOCIATES

Related party	Type of transaction	Amount of transaction R000	Amount receivable R000
Preworx (Pty) Limited[1]	Sales	295	562
	Receivables	5 901	5 901
Zinox Technologies Limited[1]	Sales	508	1034

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

Related party	Type of transaction	Amount of transaction R000	Amount receivable (payable) R000
Comztek (Pty) Limited[1]	Purchases	5 122	(5 690)
	Sales	20 068	1 191

[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

Related party	Nature of relationship	Type of transaction	Amount of transaction R000	Amounts (payable) receivable R000
Columbus Technologies (Pty) Limited[2]	Previous associate	Loan	1 232	2 464
Mecer Capital (Pty) Limited[1]	Common directorship	Sale of debtors	1 727 238	97 897
Mustek Electronics Properties (Pty) Limited[1]	Common directorship	Loan	2 889	—
		Lease of premises	20 356	—
Ann Chang[1]	Wife of Rectron CEO	Loan	15 765	15 765

[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]*Columbus Technologies (Pty) Limited is no longer a related party but the loan amount above was made to Columbus Technologies (Pty) Limited while they were an associate of the company.*

Key management personnel compensation

The remuneration of directors and other members of key management during the year was as follows:

	GROUP		COMPANY	
	2010 R000	2009 R000	2010 R000	2009 R000
Short-term benefits	8 311	7 795	6 106	5 066
Share-based payments	924	1 610	924	1 610
	9 235	9 405	7 030	6 676

32. CAPITAL EXPENDITURE

The Group and company do not have any significant planned capital expenditure in the near future.

Corporate Information

COMPANY SECRETARY

Neels Coetzee

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Limited

70 Marshall Street

Johannesburg, 2001

PO Box 61051

Marshalltown, 2107

South Africa

Telephone: +27 (0) 11 370 5000

SPONSOR

Deloitte & Touche Sponsor Services (Pty) Limited

REGISTERED OFFICE

322 15th Road

Randjespark

Midrand, 1685

POSTAL ADDRESS

PO Box 1638

Parklands, 2121

CONTACT NUMBERS

Telephone: +27 (0) 11 237 1000

Facsimile: +27 (0) 11 314 5039

Email: ltd@jhb.mustek.co.za

Notice of Annual General Meeting

for the year ended 30 June 2010

Notice is hereby given that the twenty-third annual general meeting of the company will be held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand, at 10:00 on Thursday, 2 December 2010 for the following purposes:

1. To consider and approve the annual financial statements for the year ended 30 June 2010.
2. To re-elect director ME Gama who retires in terms of the company's Articles of Association but, being eligible, offers himself for re-election.
3. To re-elect director DC Kan who retires in terms of the company's Articles of Association but, being eligible, offers himself for re-election.
4. To re-elect director CJ Coetzee who retires in terms of the company's Articles of Association but, being eligible, offers himself for re-election.
5. To confirm the remuneration of director DC Kan for the year under review.
6. To confirm the remuneration of director H Engelbrecht for the year under review.
7. To confirm the remuneration of director CJ Coetzee for the year under review.
8. To confirm the remuneration of director D Konar for the year under review.
9. To confirm the remuneration of director RB Patmore for the year under review.
10. To confirm the remuneration of director ME Gama for the year under review.
11. To confirm the remuneration of director T Dingaan for the year under review.
12. To confirm the remuneration of director MF Hennessy for the year under review.
13. To confirm the remuneration of director WV Cuba for the year under review.
14. To authorise the directors to determine the auditors' remuneration for the year under review.
15. To confirm the reappointment of Deloitte & Touche as the company's auditors and to note that BE Greyling will be the signing audit partner.
16. To approve the dividend of 12 cents per share.
17. To consider and, if deemed fit, to pass, with or without modification, the following ordinary and special resolutions:

ORDINARY RESOLUTION NUMBER 1

Resolved that 6 557 072 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 in terms of section 221(2) of the Companies Act, No 61 of 1973, as amended, for the allotment and issue of shares in terms of the Mustek Executive Share Trust.

ORDINARY RESOLUTION NUMBER 2

Resolved that the company's directors be hereby authorised by way of a general authority to issue unissued shares in the company for cash at the discretion of the directors, as and when suitable opportunities arise, subject to the Listings Requirements of the JSE, which currently provide, inter alia:

- that this authority will be valid until the company's next annual general meeting or for 15 months from the date of this ordinary resolution number, whichever period is shorter [5.50(b)];
- that a paid press announcement, giving full details including the impact on net asset value and earnings per ordinary share, will be published at the time of any issue representing on a cumulative basis within one year, 5% or more of the number of shares of that class in issue prior to the issues;
- that the securities will be of a class already in issue;
- that issues in the aggregate will not exceed, in any financial year of the company, 10% of the number of ordinary shares in the company's issued share capital;
- that in determining the price at which an issue of shares can be made in terms of this authority, the maximum discount at which the ordinary shares may be issued is 10% of the weighted average traded price of the shares in question, over the 30-day period prior to the date that the price of the issue is determined or agreed by the directors of the company, provided that the issue price is at least equal to the net tangible asset value per share as at the last reporting date; and

Notice of Annual General Meeting

for the year ended 30 June 2010 (continued)

- that any such issue will only be made to public shareholders and excluding related parties, as defined by the JSE Listings Requirements [5.52(b)].

The approval of 75% of the votes cast by shareholders present or represented by proxy at this meeting is required for this ordinary resolution to become effective.

SPECIAL RESOLUTION NUMBER 1

Resolved that the company and its subsidiaries be and are hereby authorised, by way of a general authority, to acquire ordinary shares issued by the company, subject to the provisions of the Companies Act, No 61 of 1973, as amended, the Listings Requirements of the JSE and the Articles of Association of the company, being that [5.72(b)]:

- the repurchase of securities being affected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty [5.72(a)];
- this general authority shall be valid only until the company's next annual general meeting, or for 15 months from the date of this special resolution number 1, whichever period is shorter [5.72(c)];
- an announcement will be published as soon as the company has acquired ordinary shares constituting, on a cumulative basis, 3% or every 3% thereafter, of the number of ordinary shares in issue prior to the acquisition pursuant to which the aforesaid 3% threshold is reached, containing full details of such shares;
- any general repurchase shall not in the aggregate in any one financial year exceed 20% of the company's ordinary issued share capital [5.68];
- in determining the price at which ordinary shares issued by the company will be acquired by the company and/or its subsidiaries in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be no more than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE, as determined over the five trading days immediately preceding the date of repurchase of such ordinary shares by the company and/or its subsidiaries;
- the sponsor of the company provides a letter to the JSE on the adequacy of working capital in terms of section 2.12 of the JSE Listings Requirements, before the share repurchase commences;
- the company at any point in time, may only appoint one agent to effect any repurchase on its behalf;
- the company may only undertake a repurchase of securities if, after such repurchase, it still complies with the shareholder spread requirements as set out in the JSE Listings Requirements;
- the company or its subsidiaries may not repurchase securities during a prohibited period, as defined in the JSE Listings Requirements; and
- such authority is limited to paragraphs 5.72(c) and 5.84(a) (when derivatives are used), which state the following:

5.72(c) Approval by shareholders in terms of a special resolution of the company, in annual general/general meeting, which shall be valid only until the next annual general meeting or for 15 months from the date of the resolution, whichever period is shorter.

5.84(a) With regard to the price of the derivative:

- i. the strike price of any put option written by the company less the value of the premium received by the company for that put option may not be greater than the fair value of a forward agreement based on a spot price not greater than that stipulated in 5.72(d);
- ii. the strike price of any call option may be greater than that stipulated in 5.72(d) at the time of entering into the derivative agreement, but the company may not exercise the call option if it is more that 10% out the money; and
- iii. the strike price of the forward agreement may be greater than the price indicated in 5.72(d) but limited to the fair value of a forward agreement calculated from a spot price not greater than stipulated in 5.72(d).

5.72(d) A further announcement must be made when the derivative transactions entered into are exercised and due to the exercise of these transactions the effected repurchases are greater than 3% of the initial number of securities, and for each 3% in aggregate of the effected repurchase thereafter. This announcement must be made as soon as possible and in any event by not later than 08:30 on the second business day following the day on which the relevant threshold is reached or exceeded.

The Board of Directors of Mustek will use this authority as and when opportunities arise [11.26(c)].

Having considered the effect of the maximum repurchase of 20% of the company's issued share capital in any one financial year, the directors are of the opinion that:

- the company and the Group will, after payment for such maximum repurchase, be able to repay its debts in the ordinary course of business for a period of 12 months following the date of the annual general meeting;
- the company's and the Group's consolidated assets, fairly valued according to generally accepted accounting practice and on a basis consistent with the last financial year of the company, will, after such payment, exceed their consolidated liabilities for a period of 12 months following the date of the annual general meeting;
- the company's and the Group's ordinary share capital and reserves will, after such payment, be sufficient to meet their needs for a period of 12 months following the date of the annual general meeting; and
- the company and the Group will, after such payment, have sufficient working capital to meet its needs for a period of 12 months following the date of the annual general meeting.

Reason for and effect of the special resolution

The effect of this special resolution and the reason therefore is to grant the company and its subsidiaries a general approval in terms of the Companies Act, No 61 of 1973, as amended, for the acquisition by the company of its own shares and/or acquisition by a subsidiary of shares in the company, which general approval shall be valid until the next annual general meeting of the company, provided that this general authority shall be valid only until the company's next annual general meeting or for 15 months from the date of this special resolution number 1, whichever period is shorter. Such general authority will provide the Board with the flexibility to repurchase shares should same be in the interest of the company at any time while the general authority subsists.

Other disclosure in terms of section 11.26 of the JSE Listings Requirements

- Directors and management (page 24)
- Major shareholders of Mustek Limited (page 41)
- Directors' interests in securities (page 36)
- Share capital of Mustek Limited (page 91)

1.1 Material change

Other than the facts and developments as referred to on page 43 of the annual report, there have been no material changes in the affairs or financial position of Mustek Limited and its subsidiaries since the date of signature of the audit report and the date of this notice.

1.2 Directors' responsibility statement

The directors, whose names are given on page 24 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to the special resolution 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 have been made and that this resolution contains all such information.

1.3 Litigation statement

In terms of section 11.26 of the Listings Requirements of the JSE, the directors, whose names are given on page 24 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Group's financial position.

Notice of Annual General Meeting

for the year ended 30 June 2010 (continued)

VOTING

Any member entitled to vote at the annual general meeting may appoint a proxy or proxies to attend, speak and vote in his/her stead and the person/persons so appointed need not be a member/members of the company.

If you are a certificated or own-name dematerialised shareholder and unable to attend the annual general meeting of ordinary shareholders to be held at 10:00 on Thursday, 2 December 2010 at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand, and wish to be represented thereat, you must complete and return the attached form of proxy in accordance with the instructions therein.

If you have dematerialised your shares with a Central Securities Depository Participant (CSDP) or broker (ie not own-name dematerialised shareholders) you must arrange with them to provide you with the necessary authorisation to attend the annual general meeting or you must instruct them as to how you wish to vote in this regard. This must be done in terms of the agreement entered into between you and the CSDP or broker, in the manner and by the cut-off time stipulated by your CSDP or broker.

Additional proxy forms are obtainable from the company secretary and must be deposited at the registered office of the company or the transfer secretaries not less than 48 hours before the meeting (Saturdays, Sundays and public holidays excluded).

By order of the Board

CJ Coetzee

Midrand

1 November 2010

Form of Proxy

For the use by certificated shareholders or dematerialised shareholders registered with own-name registration only, at the annual general meeting of shareholders of the company to be held at Mustek's head office at 322 15th Road, Randjespark, Midrand, on Thursday, 2 December 2010 commencing at 10:00.

Dematerialised shareholders holding shares, other than with own-name registration, must inform their CSDP or broker of their intention to attend the general meeting and request their CSDP or broker to issue them with the necessary letter of representation to attend the general meeting in person and vote or provide their CSDP or broker with their voting instructions should they not wish to attend the general meeting in person. These shareholders must not use this form of proxy.

I/We

(name/s in block letters)

of

(address)

being the holder/holders of____________________shares in the capital of the company do hereby appoint (see notes):

1. or failing him/ her,

2. or failing him/ her,

3. the Chairperson of the general meeting,

as my/our proxy to act for me/us at the general meeting for purposes of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment thereof; and to abstain from voting for and/or against the resolutions in respect of the shares registered in my/our name in accordance with the following instructions:

		Number of shares		
		For	Against	Abstain
1.	Adoption of the annual financial statements			
2.	Re-election of ME Gama as director			
3.	Re-election of DC Kan as director			
4.	Re-election of CJ Coetzee as director			
5.	Confirm the remuneration of director DC Kan for the year under review			
6.	Confirm the remuneration of director H Engelbrecht for the year under review			
7.	Confirm the remuneration of director CJ Coetzee for the year under review			
8.	Confirm the remuneration of director D Konar for the year under review			
9.	Confirm the remuneration of director RB Patmore for the year under review			
10.	Confirm the remuneration of director ME Gama for the year under review			
11.	Confirm the remuneration of director T Dingaan for the year under review			
12.	Confirm the remuneration of director MF Hennessy for the year under review			
13.	Confirm the remuneration of director VW Cuba for the year under review			
14.	Authorise directors to determine auditors' remuneration			
15.	Confirm the reappointment of Deloitte & Touche as the company's auditors with BE Greyling as signing audit partner			
16.	Approve dividend of 12 cents per share			
17.	Ordinary resolution number 1: Specific authority to issue and allot 6 557 072 shares			
18.	Ordinary resolution number 2: That the company's directors may issue unissued shares			
19.	Special resolution number 1: That the company's directors may purchase issued shares			

Signed at on 2010

Signature

Assisted by (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and vote in place of that shareholder at the meeting.

Form of Proxy
(continued)

NOTES

1. The form of proxy must only be used by shareholders who hold shares that are not dematerialised or who hold dematerialised shares in their own name.
2. A shareholder entitled to attend and vote may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the Chairperson of the general meeting". A proxy need not be a shareholder of the company. 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 the exclusion of those whose names follow.
3. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each share held.

   A shareholder's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the shareholder in the appropriate box(es). Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the general meeting as he/she deems fit in respect of all the shareholder's votes.
4. A vote given in terms of an instrument of proxy shall be valid in relation to the general meeting notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the vote is given, unless an intimation in writing of such death, revocation or transfer is received by the transfer secretaries not less than 48 hours before the commencement of the general meeting.
5. If a shareholder does not indicate on this form that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the general meeting be proposed, the proxy shall be entitled to vote as he/she thinks fit.
6. The Chairperson of the general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
7. The completion and lodging of this form of proxy will 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, should such shareholder wish to do so.
8. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company or unless this requirement is waived by the Chairperson of the general meeting.
9. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company.
10. Where there are joint holders of shares:
    - any one holder may sign the form of proxy; and
    - the vote(s) of the senior shareholder(s) (for that purpose seniority will be determined by the order in which the names of shareholders appear in the company's register of shareholders) who tender(s) a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
11. Forms of proxy should be lodged with or mailed to Computershare Investor Services (Pty) Limited:

Hand deliveries to:	Postal deliveries to:
Computershare Investor Services (Pty) Limited	Computershare Investor Services (Pty) Limited
Ground Floor 70 Marshall Street Johannesburg, 2001	PO Box 61051 Marshalltown, 2107

    to be received by no later than 10:00 on Tuesday, 30 November 2010 (or 48 hours before any adjournment of the general meeting which date, if necessary, will be notified in the press).
12. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory/ies.

BASTION GRAPHICS

www.mustek.co.za