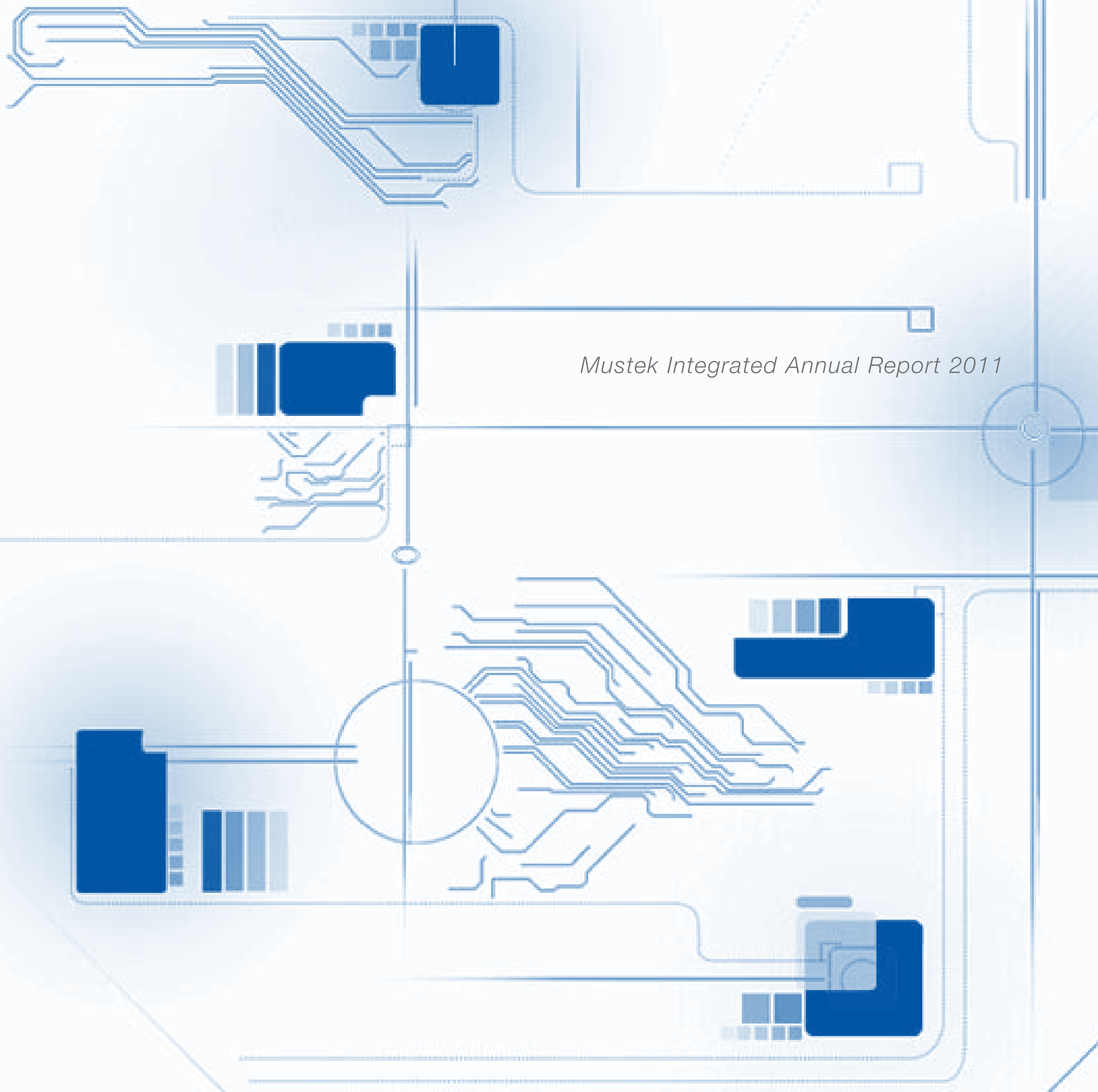
Mustek
LIMITED



Mustek Integrated Annual Report 2011

unlocking potential

CONTENT

www.mustek.co.za

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.

CAUTION ON FORWARD LOOKING STATEMENTS

Certain forward-looking statements are made regarding Mustek's operations, economic performance or financial condition. These include statements concerning the economic and technological outlook for the ICT industry. Although Mustek regards these forward-looking statements as being reasonable from its available information, no assurance can be given that such expectations will prove to be correct. Outcomes may differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic conditions, results from business and operating initiatives, regulatory changes, exchange rate fluctuations, technological advances or disruptions, and actualised risks. Mustek is not obliged to update publicly or release any revisions of these forward-looking statements to reflect events or circumstances after the dates of the annual financial statements, or to note unanticipated events. All subsequent written or oral forward-looking statements attributable to Mustek or any other person acting on its behalf are qualified by this cautionary statement.

SCOPE AND BOUNDARY OF THE REPORT

This report covers Mustek's operations in South Africa, elsewhere in Africa and in Australia for the financial year of 1 July 2010 to 30 June 2011. Where reporting value and insights can be added by including post-30 June 2011 events and information, this has been done and recorded as having occurred subsequent to the reporting period.

This integrated annual report and annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the Companies Act (Act 71 of 2008), as amended, the JSE Limited Listings Requirements, and the King Report on Governance for South Africa 2009 (King III).

This integrated annual report covers the entire Group and all its subsidiaries.

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, technically adept workforce, high quality products and superior service levels. The Group aims to continue sustainably growing headline earnings and creating long-term shareholder value by remaining focused on its business model. This model provides cost-efficient, world-class distribution, after-sales support and added value services for quality ICT brands that include Mustek's own well-established Mecer brand.

MUSTEK'S INTEGRATED ANNUAL REPORT FOR THE 2011 FINANCIAL YEAR

This integrated annual report constitutes a major step along Mustek's road to the full integration of the Group's management reporting systems with the spirit and principles of the King Code of Governance Principles for South Africa 2009 (King III). Mustek has reported to the extent that its internal management systems and reporting policies enable at this stage, and will develop its reporting processes in the areas on which the Group is not yet in a position to report in terms of King III.

The Integrated Reporting Committee of South Africa defines an integrated report as "a report that incorporates, in clear language, material information from these and other sources to enable stakeholders to evaluate the organisation's performance and to make an informed assessment about its ability to create and sustain value. An integrated annual report should provide stakeholders with a concise overview of an organisation, integrating and connecting important information about strategy, risks and opportunities and relating them to social, environmental, economic and financial issues".

This form of annual reporting integrates economic, environmental, social and governance issues into a single concise report that also emphasises company risks and strategies.

Mustek's engagement of King III and its process of producing all-inclusive integrated reports will influence the Group's business thinking, consequent management decisions and systems of information gathering. This 2011 report meets the integrated reporting scope to the fullest extent that Mustek can provide at this time. Future reports will build upon this foundation.

BOARD RESPONSIBILITY STATEMENT

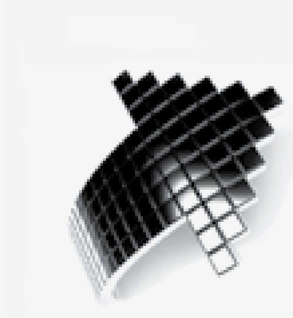
The Mustek Board of Directors (the Board) acknowledges its responsibility to ensure the integrity of its integrated annual report for the 2011 financial year. The Board has accordingly applied its mind to the integrated annual report and in its opinion this integrated annual report addresses all material issues, and presents fairly the integrated performance of the organisation and its impacts. This integrated annual report has been prepared in accordance with the recommendations of principle 9.1 of the King III Code, to the extent that current Mustek management policies and processes allow. The Board has authorised the integrated report to be presented as part of the 2011 annual report.

CORPORATE VISION

Mustek will achieve its corporate objectives through:

- Leadership in its chosen markets.
- Increasing market share while maintaining margins.
- Maintaining its 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 customers.
- Equity in the workplace through focused empowerment initiatives.
- Growth and value through targeted initiatives with larger, high-value customers.

FINANCIAL HIGHLIGHTS



Revenue R3,5 billion
(2010: R3,4 billion)

EBITDA R179 million
(2010: R155 million)

Headline earnings per share up 55% to
89 cents (2010: 58 cents)

Dividend per share up 42% to
17 cents (2010: 12 cents)

Distribution, administrative and other operating expenses up
1,7 %

Net finance costs down
44 %

Margin expansion; operating margin
5,1 % (2010: 4,5%)

Six-year Financial Review

	2011 R000	2010 R000	2009 R000	2008 R000	2007 R000	2006 R000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Revenue	3 506 373	3 409 515	3 481 903	3 420 798	3 354 661	3 200 206
Cost of sales	(2 990 485)	(2 923 883)	(2 916 547)	(2 853 007)	(2 803 598)	(2 692 283)
Gross profit	515 888	485 632	565 356	567 791	551 063	507 923
Distribution, administrative and other operating expenses	(337 084)	(331 119)	(422 877)	(386 957)	(387 105)	(385 267)
EBITDA	178 804	154 513	142 479	180 834	163 958	122 656
Headline profit	97 921	63 776	53 733	81 330	58 942	47 058
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
Assets	1 669 539	1 723 306	1 816 489	2 034 305	1 851 721	1 889 569
Property, plant and equipment	128 333	143 602	158 024	177 514	116 609	105 429
Intangible assets	67 813	72 114	64 667	50 590	40 080	11 735
Investments and loans	42 177	42 373	40 032	54 596	60 648	56 531
Non-current trade and other receivables	–	2 619	15 652	25 667	10 345	22 116
Deferred tax asset	23 925	22 025	24 376	25 159	32 543	30 330
Current assets	1 407 291	1 440 573	1 513 738	1 700 779	1 591 496	1 663 428
Equity and liabilities	1 669 539	1 723 306	1 816 489	2 034 305	1 851 721	1 889 569
Equity attributable to equity holders of the parent	693 734	617 199	570 302	549 416	521 921	505 823
Minority interest	18 940	24 552	18 488	19 408	10 187	69 594
Long-term borrowings	86 598	132 514	305 616	318 542	308 083	115 805
Deferred tax liability	5 243	3 591	2 192	921	777	808
Current liabilities	865 024	945 450	919 891	1 146 018	1 010 753	1 197 539

	2011 R000	2010 R000	2009 R000	2008 R000	2007 R000	2006 R000
KEY STATEMENT OF FINANCIAL POSITION FIGURES						
Total assets	1 669 539	1 723 306	1 816 489	2 034 305	1 851 721	1 696 305
Ordinary shareholders' equity	693 734	617 199	570 302	549 416	521 921	500 283
Return on ordinary shareholders' equity (%)	14,4	10,3	9,8	15,2	11,3	17,2
Net asset value per share (cents)	633	563	516	497	476	478
MARKET INFORMATION AT 30 JUNE						
Ordinary shares in issue	109 547 165	109 547 165	110 449 804	110 449 804	109 615 732	104 643 639
Weighted average number of ordinary shares	109 547 165	110 254 438	110 449 804	110 303 273	109 008 923	103 723 755
Headline earnings per share (cents)	89,4	57,8	48,7	73,7	54,1	89,5
Market price per share (cents)						
– year end	499	410	175	300	935	1 010
– highest	540	411	399	950	1 125	1 060
– lowest	325	154	102	290	860	680
Number of transactions	3 351	3 102	2 590	2 791	5 194	4 157
Number of shares traded	39 048 010	53 051 163	38 982 708	29 177 344	55 073 751	44 112 050
Value of shares traded (R)	163 229 612	142 440 850	94 700 256	188 044 723	531 855 698	384 317 153
Percentage of issued shares traded	36	48	35	26	51	43
LIQUIDITY AND LEVERAGE						
Interest cover (times)	8,4	4,1	3,1	5,3	4,0	7,2
Net cash from (used in) operating activities	50 493	159 394	(88 507)	73 774	(138 113)	8 615
Current ratio (times)	1,6	1,5	1,6	1,5	1,6	1,7
PROFITABILITY						
Operating margin (%)	5,1	4,5	4,1	5,3	4,9	5,9
EMPLOYEES						
Number of employees	1 097	1 120	1 272	1 310	1 246	1 162

GLOSSARY

EBITDA – Earnings before interest, taxation, depreciation and amortisation

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

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

Interest cover – EBITDA divided by net interest paid

Current ratio – current assets divided by current liabilities

Operating margin – EBITDA as a percentage of revenue

Material Issues

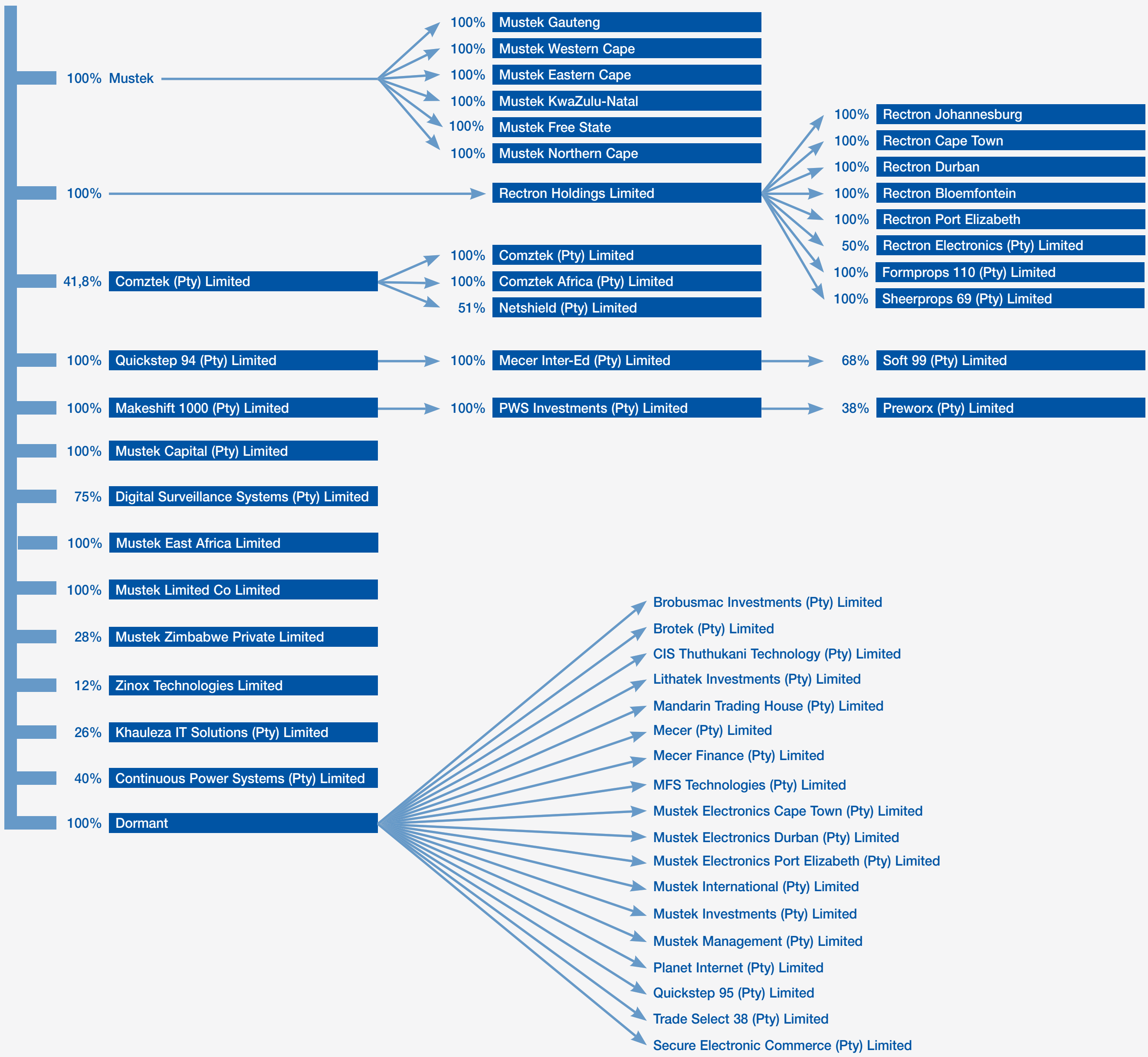
Material issues are those that impact the economic, social and environmental sustainability of Mustek. In selecting the topics to be discussed in this report, the Board considered those issues most relevant to all stakeholders taking into account their strategic importance and the insights these issues disclose. The material issues included in this report were selected on the basis of Mustek's business model, the macroeconomic and environmental factors that impact on the business, as well as significant business risks identified through the Group's risk identification process.

Material issues	Objectives	Key activities undertaken to date	KPI 2011	KPI – target 2012	Benefits of the strategies
Increase profitability	Achieve budgeted EBITDA target	▶ Reducing low margin business and increasing profitable business ▶ Cost containment through excellent inventory management ▶ Days sales outstanding reduction realised	R159,21m	R188,57m	Growth in market share, increased profits
Increase market share and revenues	Achieve budgeted revenue and grow market share	▶ Change in structure of sales strategy ▶ More focused marketing approach to improve customer loyalty	R3,82bn	R4,17bn	Increased market share ensuring consumer visibility and long-term sustainability
Improve return on equity	Increase rate of return on ownership interest	▶ Higher levels of profitability	13,41%	14,78%	Increased efficiency of capital utilisation, increased profits
Improve BBBEE level	Maintain and improve on BBBEE elements	▶ Aligned EE plan with BBBEE objectives ▶ Increased budget in favour of focused training to improve skill development ▶ Preferred procurement from BEE suppliers ▶ CSI spend focused on education ▶ ED spend focused on the provision of expertise and in customising credit solutions for SMMEs	Level 4	Level 4 – improve elements	Continuously ensure that the BEE strategy is a genuine value-adding process for all parties concerned
Carbon reduction	Reduce carbon emissions	▶ Completed and reported first carbon footprint in January 2011	10 867t CO_2e	25% reduction by 2014	Reduced carbon footprint
Energy consumption	Reduce energy consumption	▶ Published corporate energy policy ▶ Procured equipment with low energy ratings	9,2% KWh energy savings	20% reduction by 2014	Cost savings and reduced carbon footprint
Waste management	Increase recycling	▶ Increased number of waste streams being recycled ▶ Reduced landfill	44% of waste recycled	Increase to 60%	Reduce landfill

Group Structure

Mustek LIMITED

Registration number 1987/070161/06



During the year, Mustek bought an additional 25% of Digital Surveillance Systems for R1,9 million, as well as a 40% stake in Continuous Power Systems for a nominal amount. It also sold its 60% stake in Corex IT Distribution Dynamics for R9,8 million.

Chairman's and Chief Executive Officer's Review

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.

Due to the advent in this financial period of the King III corporate governance principles, Mustek's Board has decided to present a high level and analytical commentary that combines the traditional Chairman and CEO statement. This commentary is supported by the full Board and is written in the spirit of the integrated reporting format encouraged by King III.

ECONOMIC PERFORMANCE

We are pleased to report that our 2010/11 financial year delivered a much improved performance over the previous period, which had been impacted by the 2008/09 global recession.

Our headline earnings improved by a healthy 55% to 89,39 cents per share (2010: 57,84 cents), despite sluggish business and consumer demand, as well as the negative effect on revenue growth of the Rand's strength against the US Dollar. The stronger Rand usually affects profitability, but the Group was able to increase its gross profit margin from 14,2% to 14,7% in the period.

Revenue improved to R3,5 billion (2010: R3,4 billion) and gross profit rose to R515,9 million (2010: R485,6 million). Operating profit increased to R155,1 million (2010: R128 million), while profit attributable to ordinary shareholders of the Company strengthened to R94,6 million (2010: R61,4 million). A final ordinary dividend of 17 cents per share (2010: 12 cents) was declared.

Cash generated by operations was used to fund growth and reduce debt, with net finance costs lowered by 44% to R21 million in the past financial year.

Mustek focused on growing volumes as the primary driver of performance across our operations. In pursuing this goal we


working
together

Chairman's and Chief Executive Officer's Review *(continued)*

added top brands such as Acer, Huawei and Lenovo to our portfolio, which also includes the house brand Mecer as well as Brother, Toshiba, APC, Epson, Fujitsu, Microsoft and NEC. This broader basket of products can meet the needs of customers across the board, from small and medium businesses to corporates and the public sector. Mustek continuously seeks new brands to further complement our expanding range of quality products.

Mustek is reaping the rewards from our efforts in recent years to reduce operating expenses and optimise our workforce for improved productivity, supported by a continuous improvement process in operations.

The only disappointment was Rectron's marginal decrease in revenue which is being rectified in the current financial year by acquiring new brands and introducing new management.

Mustek is working to introduce new revenue streams by offering solutions built on single or multiple products to add value through our distribution channels. The Group continues to differentiate itself from competitors by leveraging our sector-leading services and after-sale support for solutions and products.

ENVIRONMENTAL PERFORMANCE

Since 2004 Mustek has fully complied with the environmental ISO 14001 standard and two years ago launched a Group-wide programme to measure and mitigate all our environmental impacts, including carbon emissions, power, water and waste. This programme is now fully implemented and is reported on in detail elsewhere in this report.

The Group is a member of Energy Star, the internationally recognised ICT energy reduction programme that rates energy-efficient devices for using at least 20% to 30% less energy than industry standard levels. Most products in the Mecer range – Mustek's house brand – already meet Energy Star guidelines, with the Group aiming for 80% compliance in the next financial period.

SOCIAL AND ETHICAL PERFORMANCE

Since 1987 Mustek has developed an enviable reputation for our cordial and caring relationship with our workforce, which is distinguished by the remarkable number of employees who have remained with the Group since its early years.

An excellent example of the respect with which Mustek treats employees is the Group's comprehensive HIV/AIDS policy and cover, which sets the standard for industry across South Africa when introduced ten years ago.

Mustek adopts a similar approach in our relations with the broader community, which focuses on schooling and education. Over the years Mustek has developed award-winning educational programmes for wide distribution and has equipped many schools for computer learning and literacy. We are now rolling out the first phase of the national Teacher Laptop Initiative and remain dedicated to building educational capacity in South Africa.

MARKET TRENDS

Markets remain under pressure due to the sluggish economy, but Mustek is successfully engaging this trend by energetically pursuing new brands and products. Competition between broadband providers is causing these prices to fall steadily, which is also stimulating new growth in South Africa's ICT market.

Microsoft's aging Windows XP operating system (OS) is nearing the end of its useful corporate life, with Microsoft ending support for it in April 2014. Microsoft's current release of Windows 7 OS has proven to be stable and user-friendly. The replacement cycle of the XP OS in South African businesses by Windows 7 is well underway and will generate considerable sales for Mustek.

CONVERGENCE AND MARKET GROWTH: DESKTOPS, LAPTOPS, TABLETS AND SMARTPHONES

Windows 7 is a major step on the way to full integration between fixed hardware (i.e. desktops) and mobile devices such as tablets and smartphones – a definitive and fast growing trend in business communications. As consumers and business users become "dual device" users, a struggle for market share is underway between tablet and laptop manufacturers. Although smartphones and tablets offer convenient portability, desktops and laptops will continue to be the primary content generators ("motherships") to which users will tether their smartphones, tablets, cameras and other electronic gadgets.

The recent arrival of tablet computers hot on the heels of smartphones is turning the world of commercial and personal computing on its head – to the advantage of Mustek. The growing popularity of these devices is unlikely to replace traditional desktops and laptops, but they offer consumers communications and media functionality in handier forms. Smartphones are highly portable communication devices that add limited internet, media and banking transaction capabilities to their core voice function. These are well suited to the aspirational classes and constantly on-the-move business people, while also offering the internet and transactional requirements of millions of South Africans who cannot afford or don't need traditional computers.

Apple launched the original iPad in April 2010 and sold nearly 15 million by the end of that year. Virtually overnight the iPad tablet created a hardware niche between desktops or laptops and smartphones. Tablets are physically larger than smartphones, but are still easily portable and offer even better media consumption and data inputting features. However, they are cumbersome for content generation, manipulating or inputting.

For the foreseeable future – which in the ICT universe is about two years – desktops and laptops will remain the primary data inputting and content generating hardware for transferring documents and media into tablets and smartphones for portable use. Traditional desktops and laptops are about to undergo drastic make-overs. Desktops will morph into lean all-in-one units with touch screen capability, while laptops will slim down into powerful but low voltage "ultrabooks" with tablet-like features and significantly more battery hours between charges.

The boundary between laptops and tablets is set to blur, with laptops becoming lighter and thinner, while tablets become more powerful. The short-lived netbook niche is already fading away, but the contest for dominance between laptops and tablets has hardly begun.

APPLE'S IPAD WAKE-UP CALL FOR MICROSOFT AND INTEL (WINTEL)

Apple's launch of iPad, now in its best-selling iPad 2 release, was a sharp wake-up call for Microsoft and Intel (Wintel). Microsoft's operating systems are traditionally memory-intensive, slow and cumbersome, while Intel's dominance of

Chairman's and Chief Executive Officer's Review *(continued)*

the central processing unit (CPU) sector is being challenged by aggressive competitors such as ARM and Nvidia.

Under pressure to improve the processing power and reduce the power consumption of its processors, Intel is about to introduce its "Ivy Bridge" range of processors, which are its current "Sandy Bridge" processors, built on a substantially thinner 22nm architecture that markedly reduces energy consumption and heat. These processors will be the engine rooms of thinner and longer-life "ultrabooks" designed to challenge the rise of tablets and Apple's class-leading "Mac Air" thin laptops.

Another aspect of the Wintel counter-campaign is Microsoft's development of its Windows 8 operating system (OS), with its public launch expected in late 2012. Windows 8 will go head to head with Apple's iOS and Google's Android by introducing a comprehensive graphical user interface (GUI) redesign supporting innovative touch screen and tablet-type features that will be a radical departure from Windows 7 and XP. Windows 8 will operate desktops, laptops and tablets across the spectrum, from 10-inch touch-only tablets to big screens, and from desktops and ultrabooks to sophisticated business systems.

Wintel is also introducing mSATA flash memory hardware to be built into new form desktops and laptops. These 8GB devices will contain the operating system and provide virtually instantaneous boot-up times when computers are switched on, as well as enabling far quicker general operations.

Having "instant-on" hardware will generate its own replacement cycle, as users become impatient with the slow boot-up times of current hardware.

Another Intel innovation, "thin mini ITX" motherboards, will significantly reduce the price of space efficient all-in-one (AIO) desktops, in which the hardware and disk drives are built in behind the LCD monitor, rather than in the traditional separate "tower" cases. Many components in these computers will be interchangeable to offer considerable cost savings as machines are upgraded during their operational lifecycles.

Mustek predicts that the incoming inexpensive and space-efficient AIOs will ramp up desktop sales growth at the expense of laptops, which won't have the part interchangeability factor and will therefore be more expensive. As a consequence, "dual device" consumers will be tempted to combine AIO desktops and tablets, which would slow the current double digit volume growth of laptop sales, while growth in desktop sales may break out of its current sluggish phase.

Every parent of young children who regularly cleans finger prints off TV screens will know that "touch screen" technology is intuitive, especially if the little ones have encountered their parents' smartphones. Manipulating computer operations by touching or gesturing at the screen is a smartphone and tablet technology that will be integrated into new screens and supported by all incoming operating systems.

CREATING AND SUSTAINING VALUE IN THE SHORT, MEDIUM AND LONG TERM

The ICT industry is quick moving and fast-growing. Realistically, one year is the short term, two years medium and three years long term. Five years ahead – the short term for most other industries – is unknowable. Industry-changing advances, disrupt future planning and impel ICT companies to respond by changing direction.

Mustek is South Africa's longest standing original equipment manufacturer (OEM) assembler and distributor, with Mecer as its house brand. Its business model is based on sustainability and has evolved in accordance with market trends and specific niches that become apparent from time to time. Although Mustek's early business model focused on gaining market share for its Mecer brand, it has evolved in recent years to leverage its market-leading customer channels to become the lead distributor of a spread of reputable ICT brands into the South African market.

This approach of continually investigating new market opportunities cannot always pay off, but where it doesn't Mustek disposes of underperforming assets without harming the integrity of its core business model. Most ventures do however pay dividends in revenue and market share, which enable Mustek to refine or expand its business model for long-term sustainability. As successful and sustainable companies cannot afford to stagnate, particularly in the fast-moving technology sector, Mustek will continue to prudently engage new opportunities within its risk appetite. An inherent strength of Mustek's business model is that it doesn't engage in research and development (R&D) and isn't an original equipment manufacturer (OEM). Based on efficient logistics, distribution and marketing, Mustek easily adds new lines or can switch to incoming technologies that may dominate or generate strong revenues from ICT markets.

Mustek has the proven warehousing capacity, distribution channels, the financing and expertise to add value to its product lines and services.

Mustek's tested and consistent management keeps it well-positioned in ICT, which is without doubt one of the world's most dynamic and fast-growing markets. New technologies, products and innovations are continually appearing in the mainstream of demand. Where other industries are heavily impacted by adverse economic circumstances – or even threatened by redundancy through technological advances – demand for Mustek's lines may at times be slowed by economic realities, but its fundamental sustainability remains sound. Since its founding in 1987 Mustek has consistently delivered annual profits.

MAJOR RISKS

Mustek has not in any manner deviated from its risk tolerance, nor have any undue, unexpected or unusual risks been taken. The Group has not suffered any material losses and is not entertaining any current or envisaged risk that may threaten its long-term sustainability.

A year-to-year risk is the South African Rand's historic volatility against other currencies, in particular the US Dollar (USD). In this financial period the Rand's consistent strength against the USD dampened revenue growth.

The pace of technological advancement continually speeds up, which poses the risk of Mustek holding obsolescent inventory. This risk is well managed through the Group's state-of-the-art ordering and automated warehousing strategies.

Mustek's profit margins depend largely on the Rand/USD exchange rate. Mustek mitigates this variable to an extent by curbing operating expenses and raising workforce productivity.

Most distributors such as Mustek face the risk of having too narrow a spread of customers, meaning that the loss of one or two primary customers could seriously harm the supplier's profitability. Over the decades Mustek has built up a wide-ranging client base as a buffer against this potential risk.

MAJOR OPPORTUNITIES

BRINGING IN NEW BRANDS AND SERVICES

Taiwan-based Huawei is a leading global ICT solutions provider, with annual revenue exceeding US$32 billion. It is best known in telecom networks, devices and cloud computing, but plans to expand within five years into a US$100 billion revenue corporation by penetrating global commercial and retail markets. The preferred partnership that Mustek has entered into with Huawei will significantly boost the Group's scope of product and services offerings.

CLOUD COMPUTING

As broadband in South Africa grows in capacity and drops in price, "in the cloud computing" is becoming feasible for South African businesses of all sizes. "Cloud computing" offers computation, software, data access, and storage services through the internet, much like electricity streaming through power lines energises all the electrical machines and appliances in a workplace or home. Mustek is tapping into this fast-growing global trend, which enables organisations and users to seamlessly add capacity and services by paying user fees rather than investing in new infrastructure, training new personnel or licensing new software.

A key aspect of cloud computing is data security, which Mustek is now offering as a key part of its portfolio of security-related services.

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.

TRANSFORMATION

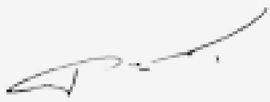
In its broadest sense, transformation is a central and strategic priority at Mustek.

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.

ACKNOWLEDGEMENTS AND BOARD MOVEMENTS

There were no changes to the Board of Directors during this period, with the settled team of the previous financial year remaining at the helm. Mustek is constantly challenged by the uncertain economic climate of recent years and swift – often far-reaching – changes in the ICT sector. The fact that we once again report a solid year of achievement against this background is owed entirely to the wise counsel of the Board and the consistently high standards of work delivered by Mustek's staff, day after day. As the Chairman and CEO of the Group, we are truly privileged to lead such an exceptional team of people.

Yours sincerely



Dr Len Konar	David Kan
Chairman	*Chief Executive Officer*

AWARDS AND RECOGNITION

Microsoft Country Partner of the Year WPC 2010

Microsoft Distributor of the Year 2010

Microsoft Royalty OEM Partner of the Year 2010

Microsoft Managing Director's Choice – Partner of the Year 2010

APC Product Manager of the Year

2010 Best Performance – Storage Award for NEC Storage

Epson Distributor of the Year 2010

Epson Channel Champion of the Year 2010

MUSTEK

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

Extracting operational efficiencies from Mecer was a key component of Mustek's drive to improve its bottom-line through appropriate cost-cutting and identifying where operations could be made more effective. Mustek'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, the much lower total cost of ownership and superior performance. Corporates have realised that, to extend the life of an asset, PC upgrades should use standard components. Notebooks, apart from memory and hard drives, use proprietary non-standard components that increase the total cost of ownership and do not always facilitate upgrading.

Mecer's recent Xpression laptop range has been well received by organisational customers and the general public alike.

RECTRON

Rectron is South Africa's biggest distributor of computer components and peripherals. It distributes Acer notebooks and leading technology brands such as Transcend, Sony, LG, Samsung, TomTom and Microsoft.

Rectron complements Mecer as it focuses entirely on bulk importation and distribution. A recent comparison of the Rectron and Mustek customer databases revealed a mere 14% overlap.

In this period, Rectron contributed R28,6 million (2010: R35,4 million) to Mustek's net profit in a tough market characterised by muted consumer spending.

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

COMZTEK

The main business of this division is the supply of networking solutions and Microsoft products and licences to users across Africa.

MUSTEK IN AFRICA

Mustek exports to, or has operations in, 17 African countries. While Africa's long-term prospects remain excellent as broadband rolls out across the continent, Mustek has taken the strategic decision to limit further expansion until the global economy becomes more robust.

NIGERIA

Mustek's Zinox-branded PC's remain dominant in the West African markets.

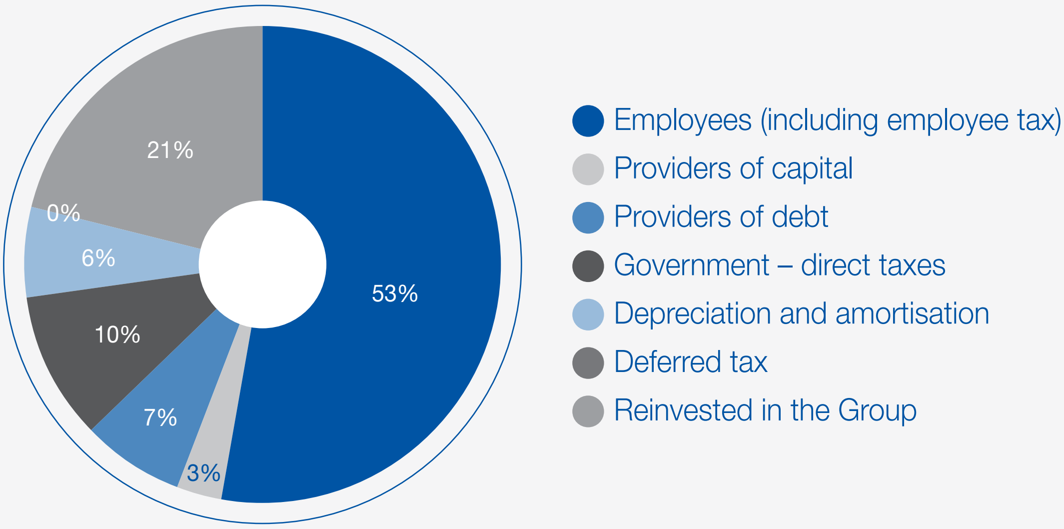
ZIMBABWE

During Zimbabwe's hyperinflation period, Mustek Zimbabwe was sold to its management team for a nominal amount, with retaining an option to repurchase a 28% shareholding, again for a nominal amount. This option was exercised during December 2010.

KENYA

The Company incurred a small loss, mainly due to the rapid weakening of the Kenyan Shilling during the last financial year.

2011
Value added



2010
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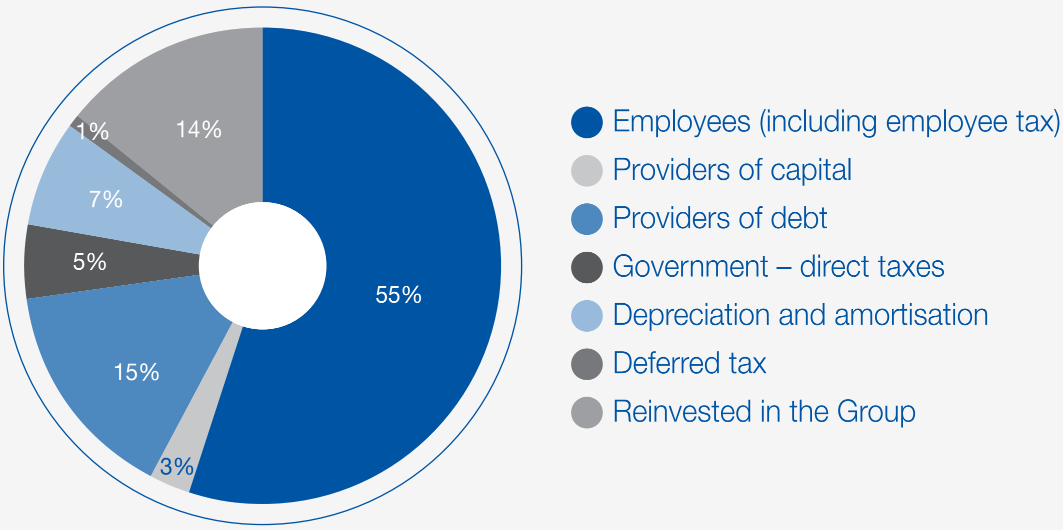


Sustainability

Sustainability is central to Mustek's business model and the Company considers not only issues of financial sustainability, but also those relating to the environment, social impacts and the principals of good governance. While the Group already addresses key areas of the Company's overall sustainability, it is currently in the process of formalising its approach to non-financial sustainability and is assessing the best way to put in place a sustainability policy and framework.

STAKEHOLDER ENGAGEMENT

Mustek favours the stakeholder inclusive approach to sustainability, as recommended by King III. Although a formal stakeholder engagement process in not yet in place, the Group interacts with its major stakeholders on an ad hoc basis in the normal course of business.

Stakeholder group	Nature of engagement
Shareholders	Interim and annual reports, meetings and presentations
Employees	Interactions in the normal course of business
Suppliers	Interactions in the normal course of business
Customers	Interactions in the normal course of business
Business partners	Interactions in the normal course of business
Communities	Various CSI initiatives
Government and regulators	Interactions where necessary
Media	Interacts through corporate communications department

HUMAN CAPITAL

LABOUR AND MANAGEMENT RELATIONS

Management maintains a transparent and accessible relationship with the almost 1 000 staff across South Africa, which ensures a harmonious working environment and keeps workplace conflicts to a minimum.

The Company has a mature and well-entrenched range of effective human resources policies and procedures, all of which are introduced to new employees during their induction and are 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 ICT industry. Many employees have over 15 years' service. Several employees, including the CEO, have 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 ICT professionals.

HEALTH AND SAFETY

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


map navigation
statistics
business
solutions

The Group's focus on health and safety is driven by staff volunteers who are elected by their peers onto various health and safety committees. These committees meet quarterly to assess Company performance in terms of health, safety and related issues, 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. Specialised training courses are outsourced to reputable and appropriately registered service providers. Mustek is a fully accredited member of the ISETT SETA and reclaims its full development levies every year.

The Group develops 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.

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', with over 30 learners presently on the programme. South Africans from diverse backgrounds are selected for training to become employable in the ICT industry. They receive a salary during this period and their training fees are fully sponsored by Mustek. 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.

Mustek's progressive education and training vision benefit not only the Group, 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.

HUMAN RIGHTS

Mustek complies with the Labour Relations Act and all associated labour legislation in the spirit of freedom of association. Employees may associate with, or be members of, any representative organisation or trade union that they choose. All disciplinary 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 are made available to employees 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 employees infected by the virus should, at all times, and under all circumstances, be upheld. The approach also recognises the need to educate all employees regarding HIV/AIDS to empower them to protect themselves and their loved ones from the disease. This programme also provides antiretroviral drugs to HIV-positive staff as needed.

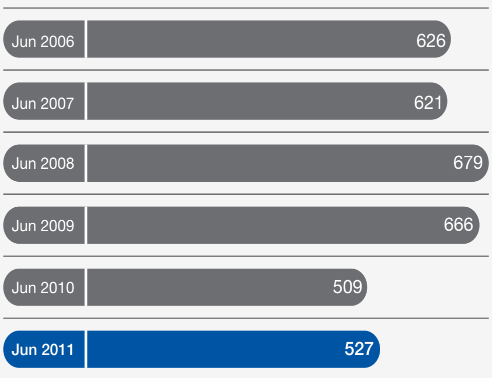
Mustek continues to fund this programme in its entirety, with none of the costs passed on to employees. In addition, the confidentiality of employees seeking assistance via the programme is assured at all times.

KEY EMPLOYEE INDICATORS

MUSTEK LTD:

Staff complement	Jun-11	Jun-10	Jun-09	Jun-08	Jun-07	Jun-06
Gauteng	362	341	440	426	372	397
KwaZulu-Natal	38	43	69	70	73	68
Eastern Cape	32	35	38	55	54	50
Western Cape	70	68	92	96	96	89
Free State	25	22	27	32	26	22
Total	527	509	666	679	621	626

Mustek staff complement



Staff turnover	Gauteng	KwaZulu-Natal	Eastern Cape	Western Cape	Free State	Company average
June 2011	10,00%	24,40%	30,80%	14,40%	38,30%	14,30%
June 2010	33,20%	54,10%	49,30%	41,00%	36,70%	37,40%
June 2009	22,70%	10,10%	70,30%	15,90%	37,90%	24,30%
June 2008	18,30%	19,90%	29,90%	18,80%	20,70%	19,60%
June 2007	21,60%	22,70%	19,20%	17,30%	25,00%	21,00%
June 2006	18,40%	37,30%	25,00%	20,70%	31,80%	21,70%

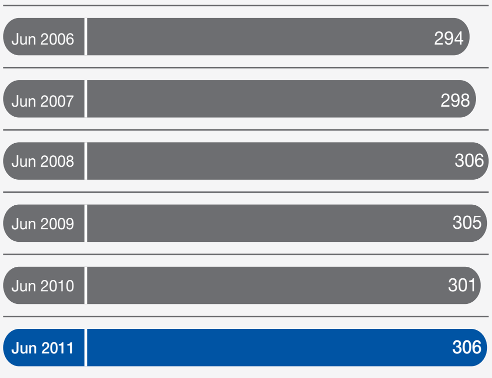
Mustek sick leave/ absenteeism	Number of individual staff in Company who took sick leave	Total sick leave days taken	Rand value of sick leave taken	Total employees in Company	Percentage of Company who took sick leave	Average sick leave days taken by each staff member
Total	403	2 070	R1 090 263	527	76,47	5,14

Training expenditure	Budget	Funds used	% of budget used
Mustek training July 2010 – June 2011	R2 292 200	R1 935 189	84,42
Mustek training July 2009 – June 2010	R1 172 213	R1 205 939	102,88

RECTRON (PTY) LTD:

Staff complement	Jun-11	Jun-10	Jun-09	Jun-08	Jun-07	Jun-06
Gauteng	181	178	183	178	166	160
Western Cape	52	50	49	54	55	58
KwaZulu-Natal	44	44	44	45	44	43
Eastern Cape	15	15	15	12	16	16
Free State	14	14	14	17	17	17
Total	306	301	305	306	298	294

Rectron staff complement



Staff turnover	Gauteng	Western Cape	KwaZulu-Natal	Eastern Cape	Free State	Company average
June 2011	38,12%	15,38%	2,27%	0,00%	14,29%	26,14%
June 2010	15,73%	20,00%	2,27%	0,00%	7,14%	13,29%
June 2009	6,56%	24,49%	9,09%	6,67%	50,00%	11,80%
June 2008	9,55%	9,26%	11,11%	16,67%	0,00%	9,48%
June 2007	12,05%	16,36%	25,00%	18,75%	17,65%	15,44%
June 2006	31,25%	24,14%	11,63%	12,50%	5,88%	24,49%

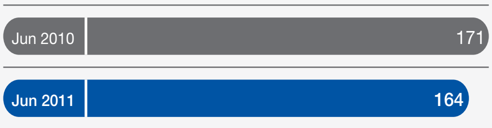
Rectron Sick leave/absenteeism	Number of individual staff in Company who took sick leave	Total sick leave days taken	Rand value of sick leave taken	Total employees in Company	Percentage of Company who took sick leave	Average sick leave days taken by each staff member
Total	63	140	R60 174	306	20,59	2,22

Training expenditure	Budget	Funds used	% of budget used
Rectron training July 2010 – June 2011	R3 514 262	R2 435 000	69,29
Rectron training July 2009 – June 2010	R2 995 438	R1 948 634	65,05

COMZTEK (PTY) LTD:

Staff complement	Jun-11	Jun-10
Gauteng	143	148
Western Cape	11	13
KwaZulu-Natal	10	10
Total	**164**	**171**

Comztek staff complement



Staff turnover	Gauteng	Western Cape	KwaZulu-Natal	Company average
June 2011	24,30%	18,20%	10,50%	22,08%
June 2010	16,20%	43,50%	31,60%	19,10%

Comztek Sick leave/absenteeism	Number of individual staff in Company who took sick leave	Total sick leave days taken	Rand value of sick leave taken	Total employees in Company	Percentage of Company who took sick leave	Average sick leave days taken by each staff member
Total	120	673	R363 572	164	73,17%	5,61

Training expenditure	Budget	Funds used	% of budget used
Comztek training July 2010 – June 2011	R277 000	R240 927	86,97
Comztek training July 2009 – June 2010	R354 998	R166 263	46,83

ENVIRONMENTAL SUSTAINABILITY

Mustek's business is the sale and distribution of computer-related equipment. Its operations therefore have only an indirect impact on the environment. The Group is nevertheless committed to developing operating policies to address the environmental impact of its business activities by integrating efficiency gains, pollution control and waste management activities into operating procedures.

ISO 14001 CERTIFICATION AND COMPLIANCE

Mustek's Board and management are committed to managing Mustek's environment impacts in accordance with environmental best practice. Mustek has maintained its ISO 14001 certification since 2004 and has received no fines or sanctions for non-compliance with environmental laws and regulations.

ENVIRONMENTAL PERFORMANCE

Focus area	Objectives	Strategy	Impact on environmental issues	Achievements
Waste management	Increase recycling percentage to 60% and reduce waste operational cost by 20% over the next three years	▶ Identify waste streams as general, hazardous and recyclable waste. ▶ Identify the processes needed to manage each waste stream and maintain records of disposal and recycling. ▶ Contract a waste management company for accurate reporting. ▶ Initiate staff awareness programme. ▶ Recycle at source.	▶ Lowered impact on environment by increasing volumes of recyclables. ▶ No hazardous waste sent to landfill and disposal is legally compliant.	▶ Reduced the volume of waste being sent to landfill. ▶ Increased the number of waste streams being recycled. *An average of 44% of Mustek's waste was recycled from January to June 2011.*
Carbon reduction	Assess and report Mustek's carbon footprint	▶ Measure carbon emissions in all three scopes (direct and indirect emissions). Consider lifecycle energy costs for all new projects. ▶ Procure services from carbon aware service providers. ▶ Ensure the assessment process follows international best practice methodologies of the GHG Accounting Protocol (WDCSD and WRI).	▶ Now that the carbon emissions status of Mustek is known, emissions can be reduced by focusing on identified key areas.	▶ Completed and reported first carbon footprint in January 2011. *Mustek's operations generated a total of 10 866,95 tons CO_2e for the 2010 financial year.*

Focus area	Objectives	Strategy	Impact on environmental issues	Achievements
Energy reduction	Reduce energy consumption by 20% over the next three years	▶ Install electricity meters. ▶ Run staff awareness campaigns. ▶ Replace current plant with energy efficient equipment over time. ▶ Implement a regular programme of energy audits.	▶ By reducing energy consumption, carbon emissions are reduced.	▶ Published a corporate energy policy. ▶ Provided regular management reports on energy costs and consumption. ▶ Procured equipment with low energy ratings as far as possible. *Reduced consumption of energy by 9,2% KWh units of energy delivered for the 2011 financial year.*
Reducing water consumption	Reduce water consumption by 15% over the next three years	▶ Harvest rain water. ▶ Use grey water as far as possible. ▶ Replace old taps with water saving taps. ▶ Water saving awareness campaign and posters.	▶ Water is an increasingly scarce resource and needs to be conserved.	This is a new project as water is only used for general office and irrigation purposes at Mustek. A borehole is used for irrigation at Mustek.

ENVIRONMENTAL IMPACTS

Metal housings and electronic components are included in hardware manufactured by the ICT industry. Also, hazardous materials such as lead, phosphor and barium are used in computer monitors, while lead is found throughout electronic components, component packaging and printed circuit boards.

Products sold by Mustek in time become obsolete and are deemed hazardous waste when disposed of. Recycling of ICT disposals, known as “e-waste”, is growing in economic importance as the supply of natural resources used in computer manufacture is limited and may become increasingly scarce in coming decades.

Sustainability
(continued)

WASTE MANAGEMENT

The United Nations Environment Programme (UNEP) estimates that 20 to 50 million tons of e-waste is being generated each year and is increasing in volume three times faster than other forms of municipal waste. Expanding demand for ICT hardware and the increasing speed of product innovation is making older hardware redundant more quickly.

Regions and countries are introducing legislation to manage e-waste. The European Union (EU) has introduced its Waste Electrical and Electronic Equipment (WEEE) directive, while South Africa has implemented its National Environmental Management: Waste Act No 59 of 2008 (NEMWA). Both are designed to encourage recycling and reduce the amount of e-waste going into landfills.

Mustek is ISO 14001 certified and works actively to comply with its Quality, Environmental, Health and Safety Policy by recycling its waste to minimise quantities that may end up in landfill.

Actions taken include:

- consolidating waste areas;
- contracting an ISO 14001 specialist to measure waste streams;
- providing awareness training to staff; and
- appropriately separating waste at the sources.

Mustek's customers are encouraged to use the Group's e-waste recycling infrastructure to responsibly dispose of their obsolete computer equipment.

The graph below illustrates the percentage of waste recycled for the period January to June 2011.

Recycled waste

REDUCING CARBON EMISSIONS

Mustek's carbon emission reduction strategy is aimed at reducing its CO_2 emissions by 25% over the next three years. To achieve this Mustek will focus on:

- reducing its energy usage wherever possible, with particular emphasis on its use of electricity; and
- ensuring that plant equipment and the vehicle fleet are well maintained to support energy efficiency.

In this period Mustek conducted its first carbon footprint assessment to ascertain a greenhouse gas (GHG) inventory of the Company for the period 1 July 2009 to 30 June 2010.

The data was submitted to GCX, an internationally recognised environmental consultancy, which issued its assessment report in terms of the best practice methodologies of the GHG Accounting Protocol according to the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), as aligned with the ISO 14064 standard.

All three scopes, being scope 1 (direct emissions), scope 2 (indirect emissions used from electricity onsite) and scope 3, (indirect emissions – other) were included in the assessment.

Type	Source	Tons CO_2e
Scope 1	Fuels	4,01
	Company owned vehicles	1 349,26
Other	Fugitive emissions (Non-Kyoto gases)	67,54
Scope 2	Electricity	5 084,24
Subtotal – Scope 1, Scope 2 and other direct emissions		**6 606,05**
Scope 3	Business travel	87,72
	Employee commute	792,49
	Outsourced freight transport	3 081,60
	Packaging materials	18,85
	Water (embedded CO_2)	37,33
	Waste	329,09
	Paper use	4,82
Total		**10 866,95**

Sustainability
(continued)

- Mustek's operations generated a total of 10 866,95 tons CO_2e for the 2010 financial reporting period.
- Electricity was the highest contributor, accounting for 78,16% of scope 1, scope 2 and other direct emissions.
- Outsourced freight transport was the next largest contributor, responsible for 28,26% of total measured emissions.
- Company-owned vehicles contributed a significant 12,42% of the total footprint.

Mustek is using the results of this assessment to guide an energy efficiency audit to identify cost-effective energy-saving solutions. The Group will also further optimise its data collection for future assessments, as well as reviewing the efficiency of its product distribution networks.

ENERGY REDUCTION

Electricity usage is Mustek's biggest contributor to CO_2 emissions. Mustek is supporting South Africa's drive to conserve electricity by implementing an energy policy to reduce its energy consumption.

Investigations to further reduce consumption include:

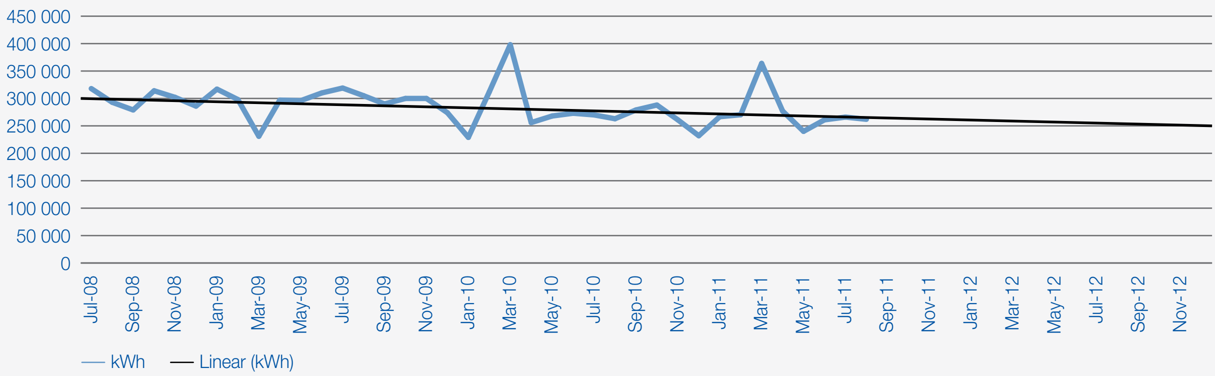
- large scale replacement of hazardous fluorescent light bulbs with LED lighting;
- ongoing replacement of internal ICT equipment with energy efficient units; and
- procurement of energy efficient plant equipment.

The below graph depicts Mustek's energy usage over the past three financial years.

WATER REDUCTION

Water is not utilised in Mustek's business processes at Mustek and is used only for consumption by staff. Water is mostly drawn from municipalities and currently isn't recycled. Nevertheless, Mustek is investigating ways to reduce consumption by considering rain water harvesting techniques and the replacement of bathroom fittings with water-saving mechanisms.

Electricity year on year comparison



SOCIAL IMPACTS

CORPORATE SOCIAL INVESTMENT (CSI)

Mustek has a consistent record in community support and corporate social investment (CSI). The Group traditionally focuses its CSI efforts on children's needs – in particular their education – but also supports charities, sporting events and community facilities.

QUALITY, ENVIRONMENTAL, HEALTH AND SAFETY POLICY

Mustek's management and personnel are committed to providing computer-related equipment and services of the highest quality and technological standards to ensure continued customer satisfaction. This commitment is balanced with a recognition of the importance of protecting the environment and a refusal to compromise the occupational health and safety of employees.

Mustek complies with the requirements of ISO 9001 and ISO 14001 as measures to provide continuous improvement in delivering products and services to its customers, as well as in managing environmental impacts.

Mustek is committed to managing its environmental performance in compliance with applicable environmental legislation and to preventing pollution, with an emphasis on waste management, supplier, tenant and customer influence.

Our occupational health and safety performance is managed to fully comply with the Occupational Health and Safety (OHS) Act.

CULTURE, ETHICS AND VALUES

There is a comprehensive Code of Ethics and Business Conduct in place to entrench the concepts of fair dealing and integrity in the conduct of all of the Group's business. This commitment, which is actively endorsed by the Board of Directors, is based on a fundamental belief that business should be conducted honestly, fairly and legally. Mustek expects all employees to share its commitment to high moral, ethical and legal standards.

The code is designed to inform all its stakeholders of policies in various areas including:

- compliance with laws and regulations;
- conflicts of interest;
- relationships with clients, customers and suppliers;
- gifts, hospitality and favours;
- discrimination;
- health and safety;
- environmental management;
- political support;
- fraud and dishonesty;
- external communications;
- privacy and confidentiality; and
- obligations of employees.

Corporate Governance Report

COMPLIANCE WITH THE COMPANIES ACT (ACT 71 OF 2008), AS AMENDED

The new Companies Act came into effect on 1 May 2011, and the Board confirms its commitment to the implementation of and compliance to the new Companies Act. The Group is in the process of matching the requirements of the new Companies Act and related regulations against its current practices. Its compliance actions and mechanisms will be reported on in its 2012 integrated annual report.

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 (King III) 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.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BOARD OF DIRECTORS

Composition of the Board

The Group has a unitary Board of Directors that currently comprises four non-executives (all 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 44 of the integrated annual report. There are no other contracts of service between any of the directors and any subsidiaries within the Group.

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. 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.

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.

Mr Ralph Patmore is the 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.

The record of attendance of each director at Mustek Limited Board meetings for the financial year ended 30 June 2011 is as follows:

Director	24 Aug 2010	11 Oct 2010	15 Oct 2010	18 Oct 2010	2 Dec 2010	18 Feb 2011	20 May 2011
D Konar* *(Chairman)*	✓	✓	✓	✓	✓	✓	✓
ME Gama*	✓	✓	✓	✓	✓	—	✓
T Dingaan*	—	✓†	✓†	—	✓	✓	✓
DC Kan *(CEO)*	✓	✓	✓	✓	✓	✓	✓
H Engelbrecht *(COO)*	✓	✓	✓	✓	✓	✓	✓
CJ Coetzee *(CFO)*	✓	✓	✓†	✓	✓	✓	✓
RB Patmore*	✓	✓	✓	—	✓	✓	✓

* *Non-executive.*
✓ *Indicates attendance.*
✓† *Indicates attendance via teleconference.*
— *Indicates absence with apologies.*

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 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.

Mr Patmore has been Chairman of the committee. The Chairman of the Board, 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 three 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 2011 is as follows:

Director	24 Aug 2010	2 Dec 2010	18 Feb 2011	20 May 2011
RB Patmore *(Chairman)*	✓	✓	✓	✓
T Dingaan*	—	✓	✓	✓
ME Gama	✓	✓	—	✓

* *Non-executive.*
✓ *Indicates attendance.*
— *Indicates absence with apologies.*

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.

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. The Chairman of the Remuneration Committee is Mr Ralph Patmore. 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 form the review of their own remuneration.

A schedule setting out directors' remuneration and equity interest appear in the Directors Report on pages 54 and 50.

The record of attendance at Mustek Limited Remuneration Committee meetings for the financial year ended 30 June 2011 is as follows:

Director	21 Jun 2011
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.

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 88 of the Companies Act. The certificate required to be signed in terms of subsection 88(2)(e) of the Act appears on page 47.

Remuneration Report

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 2010 were approved by the shareholders at the annual general meeting of members on 8 December 2010.

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 global ICT 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.

KEY RISKS

MACROECONOMIC ENVIRONMENT

As a significant player in the international ICT industry, Mustek is impacted by events in the world's developed and developing markets. The Group's operations and financial results will therefore be influenced by global and macroeconomic trends.

MARKET RISK

The Group's activities expose it to fluctuations in foreign currency exchange rates. Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group enters into various derivative financial instruments to manage its exposure to foreign currency risk. These include foreign exchange forward contracts as well as call and put options to manage the exchange rate risk arising on foreign denominated transactions. The Board cannot predict the effect of exchange rate fluctuations upon future operating results and therefore cannot give assurance that exchange rate fluctuations will not have a material effect on Mustek's business, operating results or financial condition.

WORKING CAPITAL

Mustek's business flow is based on working capital as accounts receivable and inventories are financed. The Group largely relies on revolving credit and vendor financing for its working capital needs. Mustek typically carries sufficient inventory to meet anticipated customer needs. Any decline in demand, or sudden technological changes, could lead to excess or obsolete inventory.

DEPENDENCE ON KEY PERSONNEL

Certain key employees have relationships with principal vendors and customers that would be difficult to replace. The loss of any or all of these employees could harm the Group's business and prospects.

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.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) GOVERNANCE

As an ICT company, technology is core to the business. Mustek keeps abreast of the latest ICT developments, as ICT governance is vital to striking the right balance between holding on to our technology lead and managing costs.

In line with King III, ICT governance forms an important part of our governance structures, policies and procedures. It is also fully integrated into our strategic and business processes, and is managed by our Chief Technical Officer.

Our technology governance framework includes:

- aligning technical strategy and business needs;
- delivering value and managing performance;
- information security;
- information management; and
- business continuity management.

Board of Directors

EXECUTIVE DIRECTORS

David Kan
Chief Executive Officer

David Kan, aged 52, 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 42, 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 36, 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 57, 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 42, was appointed as director of Mustek in 2002. He holds an MBA degree, a PhD (finance) degree and various management qualifications from SA, US and UK universities. Mdu is currently the CEO of Resultant Finance (Pty) Limited and a non-executive director of Comztek (Pty) Limited.

Thembisa Dingaan
Non-executive Director

Thembisa Dingaan, aged 38, 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 59, 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, Calgro M3 Holdings Limited and ARB Holdings Limited.

EXECUTIVE COMMITTEE

This committee is responsible for managing Mustek's operations, developing strategy and policy proposals for the Board's consideration and implementing the Board's directives. It has a properly constituted mandate and terms of reference.

The committee's responsibilities include:

- leading executives, management and employees;
- developing the annual budget and business plans for the Board's approval; and
- developing, implementing and monitoring policies and procedures, internal controls, governance, risk management, ethics and authority levels across the Group.

Annual Financial Statements

CONTENTS

Audit Committee Report

The Audit Committee comprised the following non-executive directors during the year and to the date of this report:

- Mr RB Patmore – *Chairman*
- Dr ME Gama
- Ms T Dingaan.

The Audit Committee reports that it has adopted formal terms of reference as its charter, and has regulated its affairs in compliance with its charter, and has discharged all of the responsibilities set out herein.

The Audit Committee considered the matters set out in section 94(7) of the Companies Act (Act 71 of 2008), and is satisfied with the independence and objectivity of Deloitte & Touche as external auditors and Mr Bester Greyling as the designated auditor. The Audit Committee further approved the fees to be paid to Deloitte & Touche and its terms of engagement and pre-approved any proposed contract with Deloitte & Touche for the provision of non-audit services to the Company up to 25% of the audit fee in aggregate.

As required by the JSE Listings Requirement 3.84(h), the Audit Committee has satisfied itself that the Chief Financial Officer has the appropriate expertise and experience.

The Audit Committee is satisfied that there was no material breakdown in the internal accounting controls during the financial year. This is based on the information and explanations given by management and the internal audit function.

The Audit Committee has evaluated the financial statements of Mustek Limited and the Group for the year ended 30 June 2011 and, based on the information provided to the Audit Committee, considers that the Group complies, in all material aspects, with the requirements of the Companies Act (Act 71 of 2008), as amended, and International Financial Reporting Standards (IFRS).

RB Patmore

25 August 2011

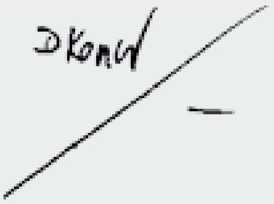
Directors' Responsibility for Financial Reporting

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 48.

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 49 to 137 were approved by the Board of Directors on 25 August 2011 and are signed on their behalf by:



D Konar

Chairman

DC Kan

Chief Executive Officer

Johannesburg

25 August 2011

CERTIFICATION BY COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act (Act 71 of 2008), as amended (the "Act"), I certify that for the year ended 30 June 2011, Mustek Limited has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

CJ Coetzee

Company Secretary

25 August 2011

The annual financial statements have been prepared by Ernst Nieuwoudt, Group Accountant.

Independent Auditors' Report

for the year ended 30 June 2011

TO THE SHAREHOLDERS 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 2011, 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 49 to 137.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

OPINION

In our opinion, these financial statements presents fairly, in all material respects, the consolidated and separate financial position of Mustek Limited as at 30 June 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche

Registered Auditor

Per Bester Greyling

Partner

25 August 2011

221 Waterkloof Road
Waterkloof
0181

Report of the Directors

for the year ended 30 June 2011

INTRODUCTION

The directors have pleasure in presenting their report on the activities of the Company and the Group for the year ended 30 June 2011.

GENERAL REVIEW

Mustek Limited is a company incorporated in South Africa and listed on the JSE Limited and the Group's major activities comprise the procurement, assembly, distribution and servicing of computers, computer components and allied products. The Group's profit before taxation from these activities was R132,7 million (2010: R87,6 million).

SHARE CAPITAL

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

DIRECTORS AND SECRETARY

During the previous financial year, Dr D Konar was 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, 4]	DC Kan (Chief Executive Officer)	322 15th Road	PO Box 1638
ME Gama[2]	H Engelbrecht	Randjespark	Parklands
T Dingaan[1, 2, 4]	CJ Coetzee	Midrand	2121
RB Patmore[1, 2, 3, 4]		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 D Konar, T Dingaan and RB Patmore are available for re-election at the next annual general meeting. Biographical details of all the directors are set out on page 44.*

CJ Coetzee

Company Secretary

DIRECTORS' SHAREHOLDING

At 30 June 2011, the directors collectively held the following direct and indirect interests in shares in the Company, which represents 10,3% (2010: 9,7%) of the issued share capital of the Company. (No change occurred between 30 June 2011 and 25 August 2011):

	BENEFICIAL				NON-BENEFICIAL	
	Direct		Indirect		Indirect	
	2011	2010	2011	2010	2011	2010
DC Kan	46	46	654 843	—	10 032 442	10 032 442
H Engelbrecht	430 000	430 000	—	—	—	—
CJ Coetzee*	184 800	135 000	—	—	—	—
D Konar	25 303	25 303	—	—	—	—
	640 149	590 349	654 843	—	10 032 442	10 032 442

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

**The 2011 holding includes 49 800 shares held through 498 single stock future contracts.*

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 2011. 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 2011 (2010: 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 options were taken into account in the calculation of diluted earnings per share in previous periods. These options have however lapsed in the current financial year.

	WEIGHTED AVERAGE PRICE		NUMBER OF OPTIONS	
	2011	2010	2011	2010
Options undelivered at the beginning of the year	R8,90	R8,88	7 064 072	7 314 072
Options lapsed during the year	R6,00	R8,36	(1 039 072)	(250 000)
Options undelivered at year-end	R9,40	R8,90	6 025 000	7 064 072

No share options were granted to employees in the current financial year (2010: nil). The fair values were calculated using a binomial tree that adheres to all the Black-Scholes option pricing model principles. All these share options are equity settled and therefore only valued upon granting. The 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 R339 567 (2010: R1 420 582) related to equity-settled share-options during the current and previous years respectively.

EXECUTIVE SHARE TRUST *(continued)*

The options valued will be expensed as follows:

	2011 R000	2010 R000
First year	53	733
Second year	—	89
Third year	—	—
Fourth year	—	—
	53	822
Number of options held by:		
Executive directors	3 800 000	3 800 000
Executives and employees	2 225 000	2 685 000
Executive Share Trust	—	579 072
	6 025 000	7 064 072

Share options exercised are due for delivery and payment at the following values and in the following periods ending 30 June:

2011

Option price	2012	Number of undelivered shares	Total Rand value
R8,36	2 225 000	2 225 000	18 601 000
R10,01	3 800 000	3 800 000	38 038 000
	6 025 000	6 025 000	56 639 000

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	507 000	7 064 072	62 875 960

The directors may amend the delivery periods or percentages. 5 518 000 options due for delivery before 30 June 2011 (2010: 5 190 072) were not delivered. The weighted average price of the options outstanding at year-end is R9,40 per option (2010: R8,90).

SHARE OPTIONS

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

2011

Director	Offer price	Acceptance date	Undelivered shares at 30 June 2010	Due for delivery during the year	Delivery date	Undelivered shares at 30 June 2011	Share option loss 2011*
DC Kan	R10,01	29 June 2006	2 250 000	2 250 000	29 June 2011	2 250 000	(2 281 500)
H Engelbrecht	R10,01	29 June 2006	1 250 000	1 250 000	29 June 2011	1 250 000	(1 267 500)
CJ Coetzee	R10,01	29 June 2006	300 000	300 000	29 June 2011	300 000	(304 200)
			3 800 000	3 800 000		3 800 000	(3 853 200)

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)

**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.*

DIRECTORS' EMOLUMENTS

2011

	Fees for services R000	Basic salary R000	Expense allowances R000	Pension contributions R000	Bonus and performance related R000	Total R000
Executive directors	—	4 166	808	312	2 061	7 347
DC Kan	—	1 180	407	118	813	2 518
H Engelbrecht	—	1 834	291	122	650	2 897
CJ Coetzee	—	1 152	110	72	598	1 932
Non-executive directors	1 050	—	—	—	—	1 050
T Dingaan	150	—	—	—	—	150
ME Gama	360	—	—	—	—	360
D Konar	300	—	—	—	—	300
RB Patmore	240	—	—	—	—	240
	1 050	4 166	808	312	2 061	8 397

2010

	Fees for services R000	Basic salary R000	Expense allowances R000	Pension contributions R000	Bonus and performance related R000	Total R000
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

* *For 8,5 months.*
** *For four months until resignation.*

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:

	2011 R000	2010 R000
Net aggregate profits	26 458	38 908
Net aggregate losses	(4 593)	(17 171)

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

DIVIDENDS

A final dividend of 12 cents per ordinary share was declared on 1 October 2010 and paid on 11 October 2010. During the previous financial year, a final dividend of 10 cents per ordinary share was declared on 25 September 2009 and paid on 5 October 2009.

SHAREHOLDERS' SPREAD

At 30 June 2011, 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	19 220 533	17,5
DK Trust *	10 032 442	9,2
Mega International Commercial Bank	7 100 479	6,5
	36 353 454	33,2

**DC Kan, Chief Executive and trustee of this trust, also owned 46 shares (2010: 46 shares) and Mustek Electronics Properties (Pty) Limited, owned 75,8% by the DK Trust, owned 654 843 at 30 June 2011. The resulting percentage held is 9,8% (2010: 9,2%).*

2011

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 067	73,6	1 481 250	1,4
5 001 – 10 000	123	8,5	972 344	0,9
10 001 – 50 000	141	9,7	3 092 830	2,8
50 001 – 100 000	28	1,9	2 067 122	1,9
100 001 – 1 000 000	66	4,6	21 063 780	19,2
Over 1 000 000	24	1,7	80 869 839	73,8
	1 449	100,0	109 547 165	100,0

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	0,2	640 149	0,6
Companies controlled by directors	1	0,1	654 843	0,6
Trusts with directors as trustees	1	0,1	10 032 442	9,2
Public shareholders	1 443	99,6	98 219 731	89,6
	1 449	100,0	109 547 165	100,0

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 at 30 June 2010. The resulting percentage held is 9,2% at 30 June 2010.*

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

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

FAIR VALUE ADJUSTMENTS TO AND IMPAIRMENTS OF GOODWILL, OTHER INTANGIBLE ASSETS, INVESTMENTS IN AND LOANS TO SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS

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

ZINOX TECHNOLOGIES LIMITED

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

BALLENA TRADING 29 (PTY) LIMITED

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 was recognised at the purchase price and counterparty contributions of R10,34 million. This distribution right was not yet in the condition necessary for it to be capable of operating in the manner intended by management and have therefore not been amortised as at 30 June 2010, nor as at 30 June 2011. Taking into account the nature of the software industry and the risk of software obsolescence, a portion to the amount of R3,4 million of the distribution right has been impaired in the current financial year.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

MUSTEK MIDDLE EAST FZCO

Mustek Middle East FZCO is in the process of closure as at 30 June 2011. Operations during the current financial year mostly represent the disposal of remaining inventory.

DIGITAL SURVEILLANCE SYSTEMS (PTY) LIMITED

With effect from 1 September 2010, the Group acquired an additional 25% shareholding in Digital Surveillance Systems (Pty) Limited.

CONTINUOUS POWER SYSTEMS (PTY) LIMITED

The Group acquired a 40% shareholding in Continuous Power Systems (Pty) Limited with effect from 1 January 2011.

COREX IT DISTRIBUTION DYNAMICS (PTY) LIMITED

With effect from 1 January 2011, the Group disposed of its investment in Corex IT Distribution Dynamics (Pty) Limited at its net asset value.

POST STATEMENT OF FINANCIAL POSITION EVENTS

The directors of the Company propose a final dividend of 17 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 2011

	Notes	2011 R000	(Restated) 2010 R000
Revenue	2	3 506 373	3 409 515
Cost of sales		(2 990 485)	(2 923 883)
Gross profit		515 888	485 632
Other income		24 075	20 626
Distribution, administrative and other operating expenses		(384 826)	(378 227)
Profit from operations	3	155 137	128 031
Investment revenues	4	7 302	15 269
Finance costs	5	(28 627)	(53 132)
Other losses	6	(1 413)	(2 480)
Share of profit of associates	13	263	—
Profit before tax		132 662	87 688
Income tax expense	7	(36 624)	(23 228)
Profit for the year		96 038	64 460
Other comprehensive income			
Exchange differences on translation of foreign operations		(3 884)	(2 322)
Other comprehensive income for the year, net of tax		(3 884)	(2 322)
Total comprehensive income for the year		92 154	62 138
Profit attributable to:			
Equity holders of the parent		94 623	61 439
Non-controlling interest		1 415	3 021
		96 038	64 460
Total comprehensive income attributable to:			
Equity holders of the parent		90 733	59 048
Non-controlling interest		1 421	3 090
		92 154	62 138
Earnings and dividend per share (cents)	8		
Basic earnings per ordinary share		86,38	55,72
Diluted basic earnings per ordinary share		86,38	55,72
Dividend per ordinary share – paid		12,00	10,00
Dividend per ordinary share – proposed		17,00	12,00

Consolidated Statement of Financial Position

at 30 June 2011

	Notes	2011 R000	(Restated) 2010 R000	(Restated) 2009 R000
ASSETS				
Non-current assets				
Property, plant and equipment	10	128 333	143 602	158 024
Intangible assets	11	67 813	72 114	64 667
Investments in associates	13	8 589	6 364	5 708
Investment in joint venture	14	—	—	—
Other investments and loans	15	33 588	36 009	34 324
Deferred tax assets	16	23 925	22 025	24 376
Non-current trade and other receivables	18	—	2 619	15 652
		262 248	282 733	302 751
Current assets				
Inventories	17	646 023	574 479	652 115
Trade and other receivables	18	556 134	591 200	518 524
Foreign currency assets	23	1 620	2 057	1 604
Tax assets		7 727	12 884	2 890
Bank balances and cash	19	195 787	259 953	338 605
		1 407 291	1 440 573	1 513 738
TOTAL ASSETS		1 669 539	1 723 306	1 816 489
EQUITY AND LIABILITIES				
Capital and reserves				
Ordinary share capital	20	877	877	884
Ordinary share premium		122 823	122 484	123 583
Retained earnings		576 181	492 818	442 424
Properties revaluation reserve		—	—	—
Non-distributable reserve		2 725	4 116	4 116
Foreign currency translation reserve		(8 872)	(3 096)	(705)
Equity attributable to equity holders of the parent		693 734	617 199	570 302
Non-controlling interest		18 940	24 552	18 488
Total equity		712 674	641 751	588 790
Non-current liabilities				
Long-term borrowings	21	86 598	132 514	305 616
Deferred tax liability	16	5 243	3 591	2 192
		91 841	136 105	307 808
Current liabilities				
Short-term borrowings	21	58 741	77 518	115 138
Trade and other payables	22	723 604	732 538	628 833
Provisions	22	21 244	15 056	15 448
Foreign currency liabilities	23	2 185	161	36 846
Deferred income		22 479	20 507	26 034
Tax liabilities		5 066	13 847	6 818
Bank overdrafts	21	31 705	85 823	90 774
		865 024	945 450	919 891
Total liabilities		956 865	1 081 555	1 227 699
TOTAL EQUITY AND LIABILITIES		1 669 539	1 723 306	1 816 489

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

	Ordinary share capital R000	Ordinary share premium R000	Retained earnings R000	Properties revalua-tion reserve R000	Non-distributable reserve R000	Trans-lation reserve R000	Attributable to equity holders of the parent R000	Non-controlling interest R000	Total R000
Balance at 30 June 2009 – As previously reported	884	123 583	447 294	12 048	—	(1 605)	582 204	18 488	600 692
Reversal of revaluation and related deferred tax	—	—	—	(12 048)	146	—	(11 902)	—	(11 902)
Reclassification of at acquisition revaluations net of deferred tax	—	—	(4 870)	—	3 970	900	—	—	—
Balance as at 30 June 2009 – Restated	884	123 583	442 424	—	4 116	(705)	570 302	18 488	588 790
Profit for the year	—	—	61 439	—	—	—	61 439	3 021	64 460
Other comprehensive income	—	—	—	—	—	(2 391)	(2 391)	69	(2 322)
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
Buy back of ordinary shares	(7)	(2 520)	—	—	—	—	(2 527)	—	(2 527)
Balance as at 30 June 2010	877	122 484	492 818	—	4 116	(3 096)	617 199	24 552	641 751
Net profit for the year	—	—	94 623	—	—	—	94 623	1 415	96 038
Other comprehensive income	—	—	—	—	—	(3 890)	(3 890)	6	(3 884)
Premium on acquisition of additional shareholding in a controlled entity	—	—	—	—	(1 391)	—	(1 391)	—	(1 391)
Recognition of share-based payments	—	339	—	—	—	—	339	—	339
Dividends paid	—	—	(13 146)	—	—	—	(13 146)	—	(13 146)
Investment in subsidiary (refer note 26)	—	—	—	—	—	—	—	(506)	(506)
Disposal of subsidiary (refer note 25)	—	—	—	—	—	—	—	(6 527)	(6 527)
Realisation of foreign exchange gains on liquidation of foreign subsidiary	—	—	985	—	—	(985)	—	—	—
Other adjustments	—	—	901	—	—	(901)	—	—	—
Balance at 30 June 2011	877	122 823	576 181	—	2 725	(8 872)	693 734	18 940	712 674

Consolidated Cash Flow Statement

for the year ended 30 June 2011

	Notes	2011 R000	2010 R000
OPERATING ACTIVITIES			
Cash receipts from customers		3 531 452	3 353 070
Cash paid to suppliers and employees		(3 405 981)	(3 122 539)
Net cash from operations	24	125 471	230 531
Investment revenues received		6 711	14 553
Finance costs paid		(28 627)	(53 132)
Dividends received		591	716
Dividends paid		(13 146)	(11 045)
Income taxes paid		(40 507)	(22 229)
Net cash from operating activities		50 493	159 394
INVESTING ACTIVITIES			
Additions to property, plant and equipment	10	(8 607)	(7 904)
Proceeds from sale of property, plant and equipment		836	712
Proceeds on disposal of subsidiaries	25	5 097	—
Acquisition of subsidiaries	26	(1 897)	(100)
Increase in investments in and loans to associates	13	(3 344)	(656)
Decrease (increase) in investments and loans	15	1 767	(1 685)
Additions to intangible asset	11	(6 601)	(10 810)
Increase in non-current trade receivables	18	—	(2 619)
Net cash used in investing activities		(12 749)	(23 062)
FINANCING ACTIVITIES			
Buy back of ordinary shares	20	—	(2 527)
Decrease in long-term borrowings		(29 015)	(170 815)
Decrease in short-term borrowings		(18 777)	(36 691)
Decrease in bank overdrafts		(54 118)	(4 951)
Net cash used in financing activities		(101 910)	(214 984)
Net decrease in cash and cash equivalents		(64 166)	(78 652)
Cash and cash equivalents at the beginning of the year		259 953	338 605
Cash and cash equivalents at the end of the year	19	195 787	259 953

Company Statement of Comprehensive Income

for the year ended 30 June 2011

	Notes	2011 R000	2010 R000
Revenue	2	1 601 761	1 557 879
Cost of sales		(1 312 428)	(1 304 480)
Gross profit		289 333	253 399
Other income		6 966	8 138
Distribution, administrative and other operating expenses		(230 070)	(229 584)
Profit from operations	3	66 229	31 953
Investment revenues	4	23 441	26 065
Finance costs	5	(8 616)	(13 848)
Other (losses) gains	6	(8 496)	(8 830)
Profit before tax		72 558	35 340
Income tax expense	7	(23 556)	(10 776)
Profit for the year		49 002	24 564
Other comprehensive income, net of tax		–	–
Total comprehensive income for the year		49 002	24 564

Company Statement of Financial Position

at ended 30 June 2011

	Notes	2011 R000	2010 R000
ASSETS			
Non-current assets			
Property, plant and equipment	10	20 157	22 874
Intangible assets	11	8 100	9 369
Investments in subsidiaries	12	238 283	250 789
Investments in associates	13	6 158	2 154
Other investments and loans	15	18 662	21 099
Deferred tax asset	16	14 662	14 260
Non-current trade receivables	18	—	2 540
		306 022	323 085
Current assets			
Inventories	17	366 777	321 172
Trade and other receivables	18	36 062	97 359
Investments in subsidiaries	12	258 439	259 071
Foreign currency assets	23	986	1 833
Tax asset		6 712	2 529
Bank balances and cash	19	33 109	35 008
		702 085	716 972
TOTAL ASSETS		1 008 107	1 040 057
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	20	877	877
Ordinary share premium		122 823	122 484
Retained earnings		259 413	223 557
Total equity		383 113	346 918
Non-current liabilities			
Long-term borrowings	21	68 770	87 534
Current liabilities			
Short-term borrowings	21	6 241	8 561
Trade and other payables	22	355 959	375 023
Provisions	22	15 695	8 883
Foreign currency liabilities	23	1 661	25
Loans owing to subsidiaries	12	122 993	125 146
Deferred income		21 971	20 398
Bank overdrafts	21	31 704	67 569
		556 224	605 605
Total liabilities		624 994	693 139
TOTAL EQUITY AND LIABILITIES		1 008 107	1 040 057

Company Statement of Changes in Equity

for the year ended 30 June 2011

	Ordinary share capital R000	Ordinary share premium R000	Retained earnings R000	Total R000
Balance at 30 June 2009	884	123 583	210 242	334 709
Net profit for the year	—	—	24 564	24 564
Other comprehensive income	—	—	—	—
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
Net profit for the year	—	—	49 002	49 002
Other comprehensive income	—	—	—	—
Recognition of share-based payments	—	339	—	339
Dividends paid	—	—	(13 146)	(13 146)
Balance at 30 June 2011	877	122 823	259 413	383 113

Company Cash Flow Statement

for the year ended 30 June 2011

	Notes	2011 R000	2010 R000
OPERATING ACTIVITIES			
Cash receipts from customers		1 665 598	1 609 312
Cash paid to suppliers and employees		(1 574 765)	(1 460 877)
Net cash from operations	24	90 833	148 435
Interest received		23 441	17 421
Finance costs paid		(8 616)	(13 848)
Dividends received		—	8 644
Dividends paid		(13 146)	(11 045)
Income taxes paid		(28 141)	(16 273)
Net cash from operating activities		64 371	133 334
INVESTING ACTIVITIES			
Additions to property, plant and equipment	10	(5 830)	(3 493)
Proceeds from sale of property, plant and equipment		437	121
Acquisition of subsidiaries	26	(1 897)	(100)
Decrease (increase) in loans to subsidiaries	12	3 139	(198 281)
Increase in loans to associates	13	(4 004)	(2 154)
Increase in non-current trade receivables		—	(2 540)
Additions to intangible asset	11	(4 850)	(5 842)
Decrease (increase) in investments and loans	15	1 783	(1 668)
Net cash used in investing activities		(11 222)	(213 957)
FINANCING ACTIVITIES			
Buy back of ordinary shares	20	—	(2 527)
(Decrease) increase in long-term borrowings		(16 863)	71 505
Decrease in short-term borrowings		(2 320)	(12 153)
Decrease in bank overdrafts		(35 865)	(23 196)
Net cash (used in) from financing activities		(55 048)	33 629
Net decrease in cash and cash equivalents		(1 899)	(46 994)
Cash and cash equivalents at the beginning of the year		35 008	82 002
Cash and cash equivalents at the end of the year	19	33 109	35 008

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

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below, and are presented in South African Rand. These are consistent with the policies applied in the preparation of the annual financial statements for the financial year ended 30 June 2010, except for a change in the accounting policy adopted for the measurement of property, plant and equipment from the revaluation model, to the cost model as allowed in IAS16 – Property, Plant and Equipment. Refer note 9 for the effect of the change in accounting policy.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

In the previous financial 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; and

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.

No new Standards and Interpretations were adopted in the current financial year.

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

IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, effective for annual periods beginning on or after 1 July 2010

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

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 April 2009 Annual Improvements to IFRSs 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 May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 July 2009

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

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 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 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 17	Leases – Amendments resulting from April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010
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 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 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 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 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	Severe Hyperinflation and Removal of Fixed dates for first-time Adopters, effective for annual periods beginning on or after 1 July 2011
IFRS 7	Disclosures – Transfers of Financial Assets, effective for annual periods beginning on or after 1 July 2011
IFRS 9	Financial Instruments, effective for annual periods beginning on or after 1 January 2013
IAS 12	Deferred Tax: Recovery of Underlying Assets, effective for annual periods beginning on or after 1 January 2012

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Group and Company's financial statements for the periods commencing after 1 July 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 intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

BUSINESS COMBINATIONS

The acquisition of subsidiaries and businesses 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.

SALES OF GOODS

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

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

REVENUE FOR SERVICES

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

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

Deferred revenue represents amounts received for services not yet rendered.

DIVIDEND AND INTEREST REVENUE

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

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

LEASING

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

THE GROUP AS LESSEE

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

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

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

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

FOREIGN CURRENCIES

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

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. 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

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

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

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

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 their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

INTERNALLY GENERATED INTANGIBLE ASSETS – RESEARCH AND DEVELOPMENT EXPENDITURE

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

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

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

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

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

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

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

IMPAIRMENT OF INTANGIBLE AND TANGIBLE ASSETS, EXCLUDING GOODWILL

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, 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. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

RESTRUCTURINGS

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

WARRANTIES

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

CONTINGENT LIABILITIES ACQUIRED IN A BUSINESS COMBINATION

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

FINANCIAL ASSETS

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

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

EFFECTIVE INTEREST METHOD

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

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

FINANCIAL ASSETS AT FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 23.

HELD-TO-MATURITY INVESTMENTS

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

AFS FINANCIAL ASSETS

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

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 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 note 10).
- Impairment of goodwill (refer note 11).
- Most likely further considerations payable regarding the Rectron Limited acquisition of non-controlling shareholders (refer note 21).
- Most likely further considerations payable regarding the Digital Surveillance Systems (Proprietary) Limited - and Rectron Holdings Limited acquisition of assets and liabilities (refer note 21).
- Valuation of investments (refer report of the directors and not 23).
- Inventory provisions (refer note 17).
- Recoverability of accounts receivable (refer note 18).
- Bonus and leave pay provisions (refer note 22).
- Fair value of derivatives and other financial instruments (refer note 23).

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 and related services.
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.

2011	Mustek R000	Rectron R000	Comztek R000	Group R000	Elimination R000	Total R000
REVENUE						
External sales	1 624 018	1 397 362	484 993	—	—	3 506 373
Intersegment sales	6 679	63 960	9 475	—	(80 114)	—
Total revenue	1 630 697	1 461 322	494 468	—	(80 114)	3 506 373
SEGMENT RESULTS						
EBITDA*	114 551	59 055	17 725	(12 527)	—	178 804
Depreciation	(13 142)	(8 021)	(2 504)	—	—	(23 667)
Profit from operations	101 409	51 034	15 221	(12 527)	—	155 137
Investment revenues	10 437	5 157	603	276	(9 171)	7 302
Finance costs	(8 058)	(12 544)	(7 585)	(9 611)	9 171	(28 627)
Other gains (see note 6)	(1 278)	—	—	(135)	—	(1 413)
Share of associates' net profit (see note 13)	—	—	—	263	—	263
Profit before tax	102 510	43 647	8 239	(21 734)	—	132 662
Income tax expense	(28 906)	(12 220)	(1 584)	6 086	—	(36 624)
Profit (loss) for the year	73 604	31 427	6 655	(15 648)	—	96 038

2010 (Restated)	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	(15 401)	(9 381)	(1 700)	—	—	(26 482)
Profit from operations	69 578	59 465	8 893	(9 905)	—	128 031
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	55 791	51 355	4 055	(23 513)	—	87 688
Income tax expense	(17 110)	(12 729)	28	6 583	—	(23 228)
Profit (loss) for the year	38 681	38 626	4 083	(16 930)	—	64 460

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

1. SEGMENTAL REPORTING *(continued)*
BUSINESS SEGMENTS *(continued)*

2011	Mustek R000	Rectron R000	Comztek R000	Group R000	Eliminations R000	Total R000
OTHER INFORMATION						
Capital expenditure	9 365	2 596	1 792	—	—	13 753
ASSETS						
Segment assets*	1 230 259	170 811	175 683	83 763	(7 293)	1 653 223
Investment in associates	—	—	—	8 589	—	8 589
Consolidated total assets	1 230 259	170 811	175 683	92 352	(7 293)	1 661 812
LIABILITIES						
Segment liabilities**	491 935	312 226	140 344	—	7 293	951 798
Number of employees at year-end	557	326	214	—	—	1097

2010 (Restated)	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*	812 354	669 200	144 659	98 220	(7 491)	1 716 942
Investment in associates	—	—	—	6 364	—	6 364
Consolidated total assets	812 354	669 200	144 659	104 584	(7 491)	1 723 306
LIABILITIES						
Segment liabilities**	585 725	381 955	121 366	—	(7 491)	1 081 555
Number of employees at year-end	539	353	228	—	—	1 120

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

1. SEGMENTAL REPORTING *(continued)*

GEOGRAPHICAL INFORMATION

2011	Mecer East Africa R000	Rectron Australia R000	Comztek Africa R000	South Africa R000	Total R000
Revenue	24 652	124 455	101 254	3 256 012	3 506 373
Profit (loss) for the year	(407)	3 416	734	92 295	96 038
OTHER INFORMATION					
Capital expenditure	140	17	62	13 534	13 753
Segment assets*	26 396	63 917	18 812	1 552 687	1 661 812

2010 (Restated)	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	127	2 831	(2 454)	63 956	64 460
OTHER INFORMATION					
Capital expenditure	448	112	53	21 074	21 687
Segment assets*	29 149	50 370	9 511	1 634 276	1 723 306

**Excludes tax assets.*

2. REVENUE

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

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Sales of goods	3 498 394	3 403 752	1 595 070	1 553 049
Rendering of services	7 979	5 763	6 691	4 830
	3 506 373	3 409 515	1 601 761	1 557 879

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

3. PROFIT FROM OPERATIONS

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

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Auditors' remuneration:				
Audit fees	5 508	4 912	2 572	1 940
Fees for other services	407	482	—	—
Expenses	2	3	—	—
	5 917	5 397	2 572	1 940
Staff costs	201 688	192 623	117 106	113 938
Depreciation of property, plant and equipment:				
Land and buildings	607	588	—	—
Improvements to leased premises	4 002	4 671	1 291	1 710
Plant and machinery	3 245	4 683	1 752	2 187
Furniture, fixtures and office equipment	3 476	3 674	644	732
Computer equipment	3 754	5 417	2 204	3 622
Motor vehicles	1 140	1 564	648	960
	16 224	20 597	6 539	9 211
Amortisation of intangible assets	7 443	5 885	6 119	5 679
Net loss on disposal of property, plant and equipment:				
Improvements to leased premises	(1 484)	(11)	(1 484)	—
Furniture, fixtures and office equipment	(53)	(219)	—	—
Computer equipment	(19)	(65)	—	(13)
Motor vehicles	(116)	(380)	(87)	(242)
	(1 672)	(675)	(1 571)	(255)
Fees for services:				
Administrative	—	25	—	—
	—	25	—	—
Operating lease expenses:				
Land and buildings	21 227	21 708	16 755	15 214
Furniture, fixtures, office and computer equipment	257	267	—	—
Motor vehicles	2 901	3 055	—	—
Plant and machinery	165	—	—	—
	24 550	25 030	16 755	15 214
Pension contributions (defined contribution plan)	8 316	7 105	5 305	4 865

3. PROFIT FROM OPERATIONS *(continued)*

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Foreign exchange gains (losses):				
Realised	18 716	17 176	3 525	1 807
Unrealised	2 461	(6 400)	948	(3 010)
	21 177	10 776	4 473	(1 203)
Fair value adjustments:				
Open foreign exchange contracts (losses) gains	(565)	1 895	(675)	1 807
	(565)	1 895	(675)	1 807
4. INVESTMENT REVENUES				
Investment revenue on financial instruments not at fair value through profit or loss:				
Interest received on bank balances and cash	6 711	14 553	1 369	4 963
Interest received from subsidiaries and joint venture	—	—	22 072	12 458
Dividends received from short-term dividend unit trusts and other investments	591	716	—	40
Dividends from subsidiaries and joint venture	—	—	—	8 604
	7 302	15 269	23 441	26 065
5. FINANCE COSTS				
Finance costs on financial instruments not at fair value through profit or loss:				
Interest paid on bank overdrafts	7 477	6 667	5 568	5 012
Interest paid on loans	22 546	40 275	455	139
Preference dividends received (see note 18 pertaining to offset against interest paid at Group level)	(8 432)	(8 939)	—	—
Interest paid on letters of credit	2 550	3 738	2 550	3 738
Trade finance commission	1 964	1 954	—	—
Finance leases	227	882	—	—
Other interest paid	2 288	7 399	43	3 849
Interest paid to taxation authorities	7	1 156	—	1 110
	28 627	53 132	8 616	13 848

6. OTHER GAINS (LOSSES)

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Fair valuation gain of subsidiary loans payable (see note 12)	—	—	1 959	—
Fair valuation gain (loss) on long-term borrowings (see note 21)	1 901	(785)	1 901	(785)
Impairment of subsidiary loans receivable (see note 12)	—	—	(2 821)	(6 450)
Impairment of subsidiary investments (see note 12)	—	—	(8 881)	—
Impairment of goodwill (see note 11)	—	(100)	—	—
Loss on disposal of subsidiary (see note 25)	—	(1 595)	—	(1 595)
Realisation of foreign exchange gains on liquidation of foreign subsidiary	2 167	—	—	—
Impairment of other investments and loans (see note 15)	(654)	—	(654)	—
Impairment of associate loan (see note 13)	(1 382)	—	—	—
Impairment of distribution right (see note 11)	(3 445)	—	—	—
	(1 413)	(2 480)	(8 496)	(8 830)

7. INCOME TAX EXPENSE

		GROUP		COMPANY	
		2011 R000	2010 R000	2011 R000	2010 R000
South African normal tax		(33 796)	(22 670)	(23 556)	(10 776)
Foreign tax		(1 457)	(558)	—	—
Capital gains tax		(1 371)	—	—	—
		(36 624)	(23 228)	(23 556)	(10 776)
Comprising:					
Normal current tax	– Current year	(35 111)	(20 083)	(24 252)	(8 841)
	– Prior year	106	700	294	1 215
Normal deferred tax	– Current year	(614)	(4 082)	1 120	(1 904)
	– Prior year	966	890	(118)	(146)
	– Rate change	—	328	—	—
Secondary tax on companies	– Current tax	—	119	—	—
	– Deferred tax	(600)	(1 100)	(600)	(1 100)
Capital gains tax	– Current tax	(1 371)	—	—	—
Income tax expense for the year		(36 624)	(23 228)	(23 556)	(10 776)
Tax rate reconciliation					
South African statutory rate of tax (percentage)		28,0	28,0	28,0	28,0
Dividends received		(1,9)	(3,1)	—	(6,8)
Secondary tax on companies		0,5	1,1	0,8	3,1
Rate change		—	(0,4)	—	—
Current tax prior year (over) under provision		(0,1)	(0,8)	(0,4)	(3,4)
Deferred tax prior year over (under) provision		(0,7)	(1,0)	0,2	0,4
Capital gains tax		1,0	—	—	—
Disallowed expenses		0,8	2,7	3,9	9,2
Effective tax rate		27,6	26,5	32,5	30,5

8. EARNINGS PER SHARE

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

	GROUP	
	2011 R000	(Restated) 2010 R000
Earnings		
Basic earnings (profit for the year attributable to equity holders of the parent)	94 623	61 439
Group's share of after tax loss on disposal of property, plant and equipment	1 672	742
Loss on disposal of subsidiary (see note 25)	—	1 595
Impairment of distribution right (see note 11)	3 445	—
Minority interest in impairment of distribution right	(1 688)	
Impairment of associate and other loans (see note 13 and 15)	2 036	—
Realisation of foreign exchange gains on liquidation of foreign subsidiary	(2 167)	—
Headline earnings	97 921	63 776
Number of shares	000	000
Weighted average number of ordinary shares for the purposes of basic earnings per share	109 547	110 254
Effect of dilutive potential ordinary shares – share options	—	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	109 547	110 254

At year-end 6 025 000 (2010: 7 064 072) share options were outstanding exercisable over the next year (2010: two years) at a weighted average price of R9,40 per share (2010: R8,90 per share). The weighted average market price for the current financial year was R2,62 per share (2010: R2,68 per share).

Earnings per share	Cents	Cents
– Headline earnings per ordinary share	89,39	57,84
– Basic earnings per ordinary share	86,38	55,72
– Diluted headline earnings per ordinary share	89,39	57,84
– Diluted basic earnings per ordinary share	86,38	55,72

9. CHANGE IN ACCOUNTING POLICY

During the current financial year, the Group changed the accounting policy for the measurement of property, plant and equipment from the revaluation model, to the cost model as allowed in IAS16 – *Property, Plant and Equipment.* This was due to the adoption of IFRS for SMEs by Rectron Holdings Limited, a Group subsidiary.

The change in accounting policy has resulted in the restatement of the following statement of financial position balances as at 30 June 2009 and 30 June 2010 respectively:

R000 Dr (Cr)	Property, plant and equipment	Deferred tax asset	Deferred tax liability	Property revaluation reserve	Non-distributable reserve	Retained earnings	Foreign currency translation reserve
30 June 2009 – balance as previously reported	171 616	24 044	(3 550)	(12 048)	—	(447 294)	1 605
Cumulative restatement impact	(13 592)	332	1 358	12 048	(4 116)	4 870	(900)
30 June 2009 – restated balance	158 024	24 376	(2 192)	—	(4 116)	(442 424)	705
30 June 2010 – balance as previously reported	182 499	21 545	(8 373)	(34 159)	—	(497 623)	4 309
Cumulative restatement impact	(38 897)	480	4 782	34 159	(4 116)	4 805	(1 213)
30 June 2010 – restated balance	143 602	22 025	(3 591)	—	(4 116)	(492 818)	3 096

There was no effect on net cash flow resulting from the restatement.

10. PROPERTY, PLANT AND EQUIPMENT

GROUP – 2011 Cost	Opening balance R000	Additions R000	Disposals R000	Transfers to other asset categories R000	Exchange differences R000	Closing balance R000
Land and buildings	56 043	35	(4 875)	—	381	51 584
Improvements to leased premises	60 162	1 318	(6 719)	—	—	54 761
Plant and machinery	39 670	136	(424)	—	(82)	39 300
Furniture, fixtures and office equipment	32 746	1 536	(1 010)	—	127	33 399
Computer equipment	23 151	4 013	(1 477)	(318)	(95)	25 274
Motor vehicles	13 553	1 569	(1 826)	—	83	13 379
	225 325	8 607	(16 331)	(318)	414	217 697

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Transfers to other asset categories R000	Exchange differences R000	Closing balance R000
Land and buildings	1 329	607	(74)	—	150	2 012
Improvements to leased premises	19 414	4 002	(5 235)	—	(6)	18 175
Plant and machinery	15 698	3 245	(89)	—	(29)	18 825
Furniture, fixtures and office equipment	21 104	3 476	(767)	—	121	23 934
Computer equipment	18 028	3 754	(1 294)	(293)	(89)	20 106
Motor vehicles	6 150	1 140	(1 060)	—	82	6 312
	81 723	16 224	(8 519)	(293)	229	89 364

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

COMPANY – 2011 Cost	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
Land and buildings	2 604	—	—	2 604
Improvements to leased premises	18 055	887	(6 719)	12 223
Plant and machinery	9 699	22	—	9 721
Furniture, fixtures and office equipment	9 142	585	—	9 727
Computer equipment	13 902	2 767	—	16 669
Motor vehicles	8 885	1 569	(992)	9 462
	62 287	5 830	(7 711)	60 406

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Improvements to leased premises	12 022	1 291	(5 235)	8 078
Plant and machinery	6 585	1 752	—	8 337
Furniture, fixtures and office equipment	6 480	644	—	7 124
Computer equipment	11 126	2 204	—	13 330
Motor vehicles	3 200	648	(468)	3 380
	39 413	6 539	(5 703)	40 249

GROUP — 2010 Cost (restated)	Opening balance R000	Additions R000	Disposals R000	Exchange differences R000	Closing balance R000
Land and buildings	54 449	27	—	1 567	56 043
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
	224 010	7 904	(5 386)	(1 203)	225 325

Accumulated depreciation (restated)	Opening balance R000	Current year R000	Disposals R000	Exchange differences R000	Closing balance R000
Land and buildings	1 454	588	—	(713)	1 329
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
	65 921	20 597	(3 932)	(863)	81 723

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

COMPANY – 2010 Cost	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

	GROUP		COMPANY	
	2011 R000	(Restated) 2010 R000	2011 R000	2010 R000
Net book value				
Land and buildings*	49 572	54 714	2 604	2 604
Improvements to leased premises	36 586	40 748	4 145	6 033
Plant and machinery**	20 475	23 972	1 384	3 114
Furniture, fixtures and office equipment	9 465	11 642	2 603	2 662
Computer equipment	5 168	5 123	3 339	2 776
Motor vehicles	7 067	7 403	6 082	5 685
	128 333	143 602	20 157	22 874

Includes land and buildings with a book value of R19 million (2010: R17,6 million) encumbered as security for a liability of R17,8 million (2010: R16,3 million) (see note 21).

***Includes plant and machinery under finance lease agreements with a net book value of Rnil (2010: R16,9 million) encumbered as security for a liability of Rnil (2010: R5,6 million) (see note 21).*

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

During previous financial years, land and buildings were revalued by independent valuers, with reference to market evidence of recent transactions for similar properties. These valuations conformed to International Valuation Standards.

However, during the current financial year, the Group changed the accounting policy for the measurement of property, plant and equipment from the revaluation model to the cost model as allowed in IAS16 – *Property, Plant and Equipment.* Refer note 9 for the effect of the change in accounting policy.

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.

11. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2011 R000		2011 R000	2010 R000
Goodwill				
Cost	56 442	56 442	—	—
At the beginning of the year	56 442	56 790	—	—
Acquisition of subsidiaries (see note 26)	—	100	—	—
Disposal of subsidiaries (see note 25)	—	(448)	—	—
Accumulated impairments	(6 267)	(6 253)	—	—
At the beginning of the year	(6 253)	(6 150)	—	—
Impairments	—	(100)	—	—
Exchange differences (on consolidation of foreign subsidiaries)	(14)	(3)	—	—
Carrying amount	50 175	50 189	—	—
Software				
Cost	48 771	43 309	29 211	24 361
At the beginning of the year	43 309	37 381	24 361	18 519
Additions	5 146	5 943	4 850	5 842
Disposals	—	(15)	—	—
Transfers from other asset categories	318		—	
Exchange differences	(2)		—	
Accumulated amortisation*	(40 123)	(33 405)	(21 111)	(14 992)
At the beginning of the year	(33 405)	(27 621)	(14 992)	(9 313)
Amortisation	(6 426)	(5 799)	(6 119)	(5 679)
Disposals	—	15	—	—
Transfers from other asset categories	(293)			
Exchange differences	1		—	
Carrying amount	8 648	9 904	8 100	9 369
Total	58 823	60 093	8 100	9 369

11. INTANGIBLE ASSETS *(continued)*

	GROUP		COMPANY	
	2011 R000		2011 R000	2010 R000
Distribution rights and development cost** Cost	13 526	12 107	–	–
At the beginning of the year	12 107	4 267	–	–
Additions	1 455	7 840	–	–
Disposals	(36)	–	–	–
Accumulated amortisation and impairments	(4 536)	(86)	–	–
At the beginning of the year	(86)	–	–	–
Amortisation	(1 017)	(86)	–	–
Impairments	(3 445)	–	–	–
Disposals	12	–	–	–
Carrying amount	8 990	12 021	–	–
Total intangible assets	67 813	72 114	8 100	9 369

**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 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 was recognised at the purchase price and counterparty contributions of R10,34 million.

This distribution right was not yet in the condition necessary for it to be capable of operating in the manner intended by management and have therefore not been amortised as at 30 June 2010, nor as at 30 June 2011. Taking into account the nature of the software industry and the risk of software obsolescence, a portion to the amount of R3,4 million of the distribution right has been impaired in the current financial year.

11. INTANGIBLE ASSETS *(continued)*

	GROUP	
	2011 R000	2010 R000
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	230	244
Rectron	27 276	27 276
Digital Surveillance Systems	1 000	1 000
	50 175	50 189

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

Management prepared a five year cash flow forecast and a perpetual cash flow forecast, based on the 2011 financial year revenue generated by the cash-generating units to which goodwill can be attributed and applying a long-term growth rate of 5% per annum, gross profit percentage of 14,6%, overheads of 10,1%, capital expenditure of 0,4%, net working capital turnover of 57 days and discounted at a rate of 14,5%. The net present value of these cash flows were found to exceed the carrying amount of goodwill and therefore the goodwill is not expected to be impaired.

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 decreased by R1,9 million (2010: increased by R0,8 million) during the current financial year (see note 6).

During the current financial year, a further 25% shareholding in Digital Surveillance Systems (Pty) Limited has been acquired at a purchase price of R1,9 million, giving rise to a premium on acquisition of R1,4 million. No further goodwill is raised, as Mustek Limited already had control of Digital Surveillance Systems (Pty) Limited before the acquisition of the additional shareholding.

12. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2011 R000	2010 R000
Shares at cost	262 125	260 228
– opening balance	260 228	266 724
– subsidiaries acquired and additional investments made	1 897	100
– subsidiaries disposed	—	(6 596)
Impairment charges	(106 376)	(94 674)
Opening carrying value adjustments	(94 674)	(88 430)
Current year impairment of investments and loans	(11 702)	(6 451)
Current year reversal of impairment on loans	—	207
Loans owing by subsidiaries	82 534	85 235
Non-current investments in subsidiaries	238 283	250 789
Current loans owing by subsidiaries	258 439	259 071
Loans owing to subsidiaries	(122 993)	(125 146)
	373 729	384 714

12. INVESTMENTS IN SUBSIDIARIES *(continued)*

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2011 %	2010 %	2011 R000	2010 R000	2011 R000	2010 R000	2011 R000	2010 R000
DIRECT								
Unlisted								
Ballena 9 Trading 29 (Pty) Limited[9]	51	51	5 272	5 272	—	—	3 514	5 272
Brobusmac Investments (Pty) Limited[2, 4]	100	100	1 575	1 575	(7 960)	(8 512)	(6 385)	(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]	75	50	5 896	4 000	—	(1 950)	5 896	2 051
Lithatek Investments (Pty) Limited[1, 2, 4]	100	100	19 448	19 448	2 479	2 479	—	—
Makeshift 1000 (Pty) Limited[1, 2, 9, 3]	100	100	10 698	10 698	43 142	44 123	1 849	4 212
Mustek Capital (Pty) Limited[7, 13, 14]	100	100	100	100	258 439	259 071	258 539	259 171
Mustek Limited Company Limited[2, 8]	100	100	*	*	3 137	2 782	60	26
Mandarin Trading House (Pty) Limited[2, 4]	100	100	*	*	(1 115)	23	(1 115)	23
Mustek East Africa Limited[2, 5, 18]	100	100	12 315	12 314	13 645	15 386	20 228	27 700
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

12. INVESTMENTS IN SUBSIDIARIES *(continued)*

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2011 %	2010 %	2011 R000	2010 R000	2011 R000	2010 R000	2011 R000	2010 R000
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	1 118	1 337	—	2 730
Planet Internet (Pty) Limited[4]	100	100	*	*	—	—	—	—
Quickstep 94 (Pty) Limited[1, 2, 9]	100	100	2 581	2 581	19 013	19 105	2 212	2 302
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]	—	—	—	—	—	—	—	—
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	—	—	—	—	—	—
Datazone Limited[2, 10, 17]	100	100	—	—	—	(766)	—	(766)
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	—	—	—	—	—	—
			262 125	260 228	217 980	219 160	373 728	384 714

The net investment is after impairment charges against the investments and loans of R106,4 million (2010: R94,7 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]*The loan receivable by Makeshift 1000 (Pty) Limited from Preworx (Pty) Limited, an associate of Makeshift 1000 (Pty) Limited, was impaired by an amount of R1,4 million during the current financial year. This impairment was based on a the present value of the expected repayments on this loan.*

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

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

[6]*Active trading company registered and incorporated in Australia.*

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

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

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

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

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

[12]*On 1 January 2009, Digital Surveillance Systems (Pty) Limited ("DSS") sold its business and all its assets and liabilities to Mustek Limited and became dormant on that date. The purchase price of the assets and liabilities is dependent on the performance of the DSS product line until 31 December 2013. A loan has been recognised based on the estimated potential further consideration payable. The loan is regarded as a fair value through profit or loss financial instrument with any resultant gain or loss recognised in profit or loss. A fair value gain of R1,9 million (2010: loss of R0,1 million) was recognised in the current year based on the estimated potential further consideration payable. With effect from 1 September 2010, Mustek Limited acquired an additional 25% shareholding in DSS at a purchase price of R1,9 million.*

[13]*On 1 June 2010, Mustek Limited acquired 100% of the issued share capital of Mustek Capital (Pty) Limited. The company was previously consolidated as a special-purpose vehicle in order to obtain loans secured over trade receivables bought from Mustek Limited. The structure of the securitisation was subsequently changed and replaced with a long-term overdraft facility with Bank of China Limited, repayable 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 2011. The full amount of the investment, as well as the loan was impaired in the current financial year.*

[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 was subsequently disposed of during the previous financial year (see notes 15 and 25).*

[17]*Datazone Limited was liquidated on 31 December 2010 and declared a liquidation dividend of R16,4 to its parent company, Makeshift 1000 (Pty) Limited.*

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

**Original cost less than R500.*

13. INVESTMENTS IN ASSOCIATES

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
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 gains (losses)	(3 834)	(4 097)	—	—
– opening balance	(4 097)	(4 097)	—	—
– current year share of post-acquisition gains	263	—	—	—
Loans owing by associates	13 458	10 114	6 158	2 154
Opening balance	10 114	9 458	2 154	—
Increase in loans	3 344	656	4 004	2 154
Fair valuation adjustments to loans	(3 750)	(3 750)	—	—
Current year impairment of loans	(1 382)	—	—	—
Investments in associates	8 589	6 364	6 158	2 154
The aggregate assets, liabilities and results of operations of associates at year-end are summarised as follows (excluding Mustek Zimbabwe Private Limited):				
Total assets	8 125	1 517	7 162	554
Total liabilities	18 549	11 198	9 791	2 441
Revenue	7 604	2 368	6 348	1 112
(Loss) profit before tax	(1 325)	(655)	(2 275)	(1 605)
Income tax (expense) benefit	(522)	(266)	(256)	—
Net (loss) profit for the year	(1 847)	(921)	(2 531)	(1 605)

13. INVESTMENTS IN ASSOCIATES *(continued)*

	Percentage holding		Cost		Loans to		Equity accounted share of earnings		Net investment	
	2011 %	2010 %	2011 R000	2010 R000	2011 R000	2010 R000	2011 R000	2010 R000	2011 R000	2010 R000
COMPANY										
Unlisted										
Mustek Zimbabwe Private Limited[2]	—	—	4 189	4 189	—	—	—	—	—	—
Khauleza IT Solutions[1]	26,0	26,0	—	—	4 858	2 154	—	—	4 858	2 154
Continuous Power Systems (Pty) Limited[5]	40,0	—	—	—	1 300	—	—	—	1 300	—
			4 189	4 189	6 158	2 154	—	—	6 158	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	7 300	7 960	(4 097)	(4 097)	2 168	4 210
Continuous Power Systems (Pty) Limited[5]	40,0	—	—	—	—	—	263	—	263	—
			28 636	28 636	13 458	10 114	(3 834)	(4 097)	8 589	6 364

The net investment is after impairment charges against and fair value adjustments of the investments and loans of R29,7 million (2010: R28,3 million) for the Group and R4,2 million (2010: R4,2 million) for the Company.

Additional information	Nature of business	Country of incorporation	Period equity accounted
Mustek Zimbabwe Private Limited	Assembly and distribution of computers and computer components	Zimbabwe	12 months (2010: 12 months)
Khauleza IT Solutions (Pty) Limited	Provider of IT support solutions	South Africa	12 months (2010: 7 months)
Continuous Power Systems (Pty) Limited	Provider of uninterrupted power supply solutions	South Africa	6 months (2010: 0 months)
A Open (Pty) Limited	Dormant	South Africa	12 months (2010: 12 months)
Preworx (Pty) Limited	Remote access diagnostics technology	South Africa	12 months (2010: 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 and previous 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]*This loan is unsecured, interest free and has no fixed terms of repayment.*
The investment in this company was impaired to Rnil in previous financial years. The Group considers the only value in the company to be the loan amount, which is carried at fair value. This loan was impaired by an amount of R1,4 million during the current financial year (2010: Rnil) and therefore no portion of the company's profit is equity accounted for (refer note 6).

[5]*With effect from 1 January 2011, Mustek Limited acquired a 40% share in Continuous Power Systems (Pty) Limited.*

14. INVESTMENT IN JOINT VENTURE

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
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% (2010: 50%) interest in the assets, liabilities and results of operations of the joint venture are summarised as follows:

	GROUP AND COMPANY	
	2011 R000	2010 R000
Non-current assets	11 748	12 298
Current assets	159 063	132 361
Non-current liabilities	–	30 000
Current liabilities	140 553	91 366
Revenue	494 468	390 978
Profit before tax	8 239	4 056
Income tax (expense) benefit	(1 584)	28
Profit after tax	6 655	4 084
Non-controlling interest	(779)	234
Net profit for the year	5 876	4 318

15. OTHER INVESTMENTS AND LOANS

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Shares at cost	33 877	33 877	13 751	13 751
– opening balance	33 877	33 877	13 751	13 751
Loans	6 129	7 896	5 815	7 598
Fair value adjustments	(6 418)	(5 764)	(904)	(250)
– opening balance	(5 764)	(5 764)	(250)	(250)
– fair value loss (see note 6)	(654)	—	(654)	—
	33 588	36 009	18 662	21 099

	Ownership interest		Shares at cost		Loans to		Net investment	
	2011 %	2010 %	2011 R000	2010 R000	2011 R000	2010 R000	2011 R000	2010 R000
COMPANY								
Unlisted								
A Lai[2]	—	—	—	—	1 000	1 000	1 000	1 000
Columbus Technologies (Pty) Limited[1]	—	—	—	—	1 849	2 166	1 849	2 166
J Allan[6]	—	—	—	—	1 011	1 011	1 011	1 011
M Cameron[6]	—	—	—	—	549	496	549	496
Option – Mecer Capital (Pty) Limited[8]	—	—	250	250	—	—	—	—
Simple Process Engineering Solutions (Pty) Limited[9]	—	—	—	—	654	654	—	654
Y Danino[5]	—	—	—	—	—	316	—	316
Zinox Technologies Limited[10]	12,0	12,0	13 501	13 501	—	—	13 501	13 501
Tier One Electronics (Pty) Limited[3]	—	—	—	—	752	1 955	752	1 955
			13 751	13 751	5 815	7 598	18 662	21 099

15. OTHER INVESTMENTS AND LOANS *(continued)*

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2011 %	2010 %	2011 R000	2010 R000	2011 R000	2010 R000	2011 R000	2010 R000
GROUP								
Unlisted								
A Coetzee[4]	—	—	—	—	314	298	314	298
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)
Zinox Technologies Limited[10]	12,0	12,0	14 612	14 612	—	—	14 612	14 612
			33 877	33 877	6 129	7 896	33 588	36 009

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 previous financial year (refer 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 previous 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 note 12). The financing structure has however changed during the previous financial year (refer note 21).

[9] *This loan is unsecured, bears interest at the South African prime bank overdraft rate and was payable on 1 December 2010. The full amount of the loan was however impaired during the current financial year (refer note 6).*

[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 the restrictive nature of cross-border investment, the investment in Zinox Technologies Limited has been valued at net asset value. Based on the latest financial information available for Zinox Technologies Limited, the net asset value was found to approximate the carrying value of the investment and therefore no fair valuation adjustments or impairments have been recognised for this investment.*

16. DEFERRED TAX ASSETS AND LIABILITIES

	GROUP		COMPANY	
	2011 R000	(Restated) 2010 R000	2011 R000	2010 R000
The tax effects of temporary differences of the Company and subsidiary companies resulted in deferred tax assets and liabilities. The directors have assessed that it is reasonable to assume that future taxable income will be sufficient to allow the tax benefits to be realised. The following are the major deferred tax liabilities and assets recognised at 28% (2010: 28%) except if otherwise indicated:				
Tax loss	5 501	5 598	—	—
Provision for doubtful debts	3 802	2 751	3 149	2 038
Amortisation of intangible assets	27	29	27	29
Salary-related provisions	4 685	2 748	4 394	2 487
Accelerated wear and tear for tax purposes	(271)	(2 020)	(726)	(635)
Prepayments	(694)	1 608	(512)	1 761
Minor assets	27	10	27	10
Operating lease liabilities	(4 643)	105	(612)	25
Other provisions	3 799	980	765	683
Unrealised exchange gains and losses	609	735	198	(249)
Deferred revenue	6 150	5 726	6 152	5 711
Secondary tax on companies (10%)*	1 800	2 400	1 800	2 400
Unrealised fair value gain on property revaluation (at relevant tax rate where applicable)**	—	—	—	—
Unrealised capital gains	(2 251)	(2 399)	—	
Unrealised fair value capital gain on investment (14%)	141	163	—	—
	18 682	18 434	14 662	14 260
Deferred tax assets	23 925	22 025	14 662	14 260
Deferred tax liabilities	(5 243)	(3 591)	—	—
	18 682	18 434	14 662	14 260

**The Company and Group only raised a deferred tax asset on secondary tax on companies to the extent it expects to declare dividends before 30 April 2012.*

***During the current financial year, the Group changed the accounting policy for the measurement of property, plant and equipment from the revaluation model to the cost model as allowed in IAS16 – Property, Plant and Equipment. Refer note 9 for the effect of the change in accounting policy.*

16. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

	GROUP		COMPANY	
	2011 R000	(Restated) 2010 R000	2011 R000	2010 R000
Reconciliation between opening and closing balances:				
Deferred tax asset at the beginning of the year	18 434	22 170	14 260	17 409
Differences on taxable loss	(97)	2 046	—	—
Differences on provision for doubtful debts	1 051	(1 827)	1 111	190
Differences on amortisation of intangible assets	(2)	(2)	(2)	(2)
Differences on salary-related provisions	1 937	(394)	1 907	(395)
Differences on accelerated wear and tear	1 749	750	(91)	(284)
Differences on prepayments	(2 302)	2 859	(2 273)	3 006
Differences on minor assets	17	(3)	17	(3)
Differences on lease liability	(4 748)	(3 005)	(637)	(3 716)
Differences on other provisions	2 819	(1 776)	82	683
Differences on unrealised exchange gains and losses	(126)	455	447	60
Differences on deferred revenue	424	(1 589)	441	(1 548)
Differences on deposits received	—	(40)	—	(40)
Foreign currency translation reserve	(370)	(338)	—	—
	352	(2 864)	1 002	(2 049)
Differences on secondary tax on companies	(600)	(1 100)	(600)	(1 100)
Deferred tax movement through the statement of comprehensive income	(248)	(3 964)	402	(3 149)
Deferred tax movement through the statement of financial position	496	228	—	—
Differences on fair value gain on property revaluation	—	—	—	—
Differences on unrealised capital gains	148	(248)	—	
Difference on fair value adjustment of financial instruments	(22)	163	—	—
Foreign currency translation reserve	370	313	—	—
	18 682	18 434	14 662	14 260

17. INVENTORIES

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Finished goods, net of provision for obsolescence	583 653	513 121	316 974	296 903
Inventories in transit	62 370	61 358	49 803	24 269
	646 023	574 479	366 777	321 172

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 R57,2 million (2010: R43,2 million) and R14,5 million (2010: R27,4 million), respectively.

18. TRADE AND OTHER RECEIVABLES

	GROUP 2011 R000	GROUP 2010 R000	COMPANY 2011 R000	COMPANY 2010 R000
Trade receivables	502 945	515 038	8 053	39 803
Other receivables	53 189	76 162	28 009	57 556
Total current trade and other receivables	556 134	591 200	36 062	97 359
Non-current trade and other receivables	–	2 619	–	2 540

Included in trade and other receivables for the current year is an amount of R15,7 million (2010: 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. As at 30 June 2011, this guarantee was not yet called on by the Board of Directors.

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.

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). These options were exercised during the previous financial year.

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, Mustek Limited acquired 100% of the share capital of the Mustek Capital (Pty) Limited SPE and therefore this SPE is consolidated as a subsidiary (see note 12).
- The Group trade receivables includes R307,8 million (2010: R426,4 million) of SPE trade receivables and R116,3 million (2010: R169,8 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% (2010: 85%) of the value of individual trade receivables subject to an insurance deductible. Note that the majority of trade receivables are encumbered (see above and note 21).
- The average credit period on sale of goods and services, are between 30 and 60 days (2010: 30 and 60 days) from date of invoice. Generally, no interest is charged on trade receivables. Of the trade receivable balance at year-end, R67,4 million (2010: R93,6 million) and R36,8 million (2010: R22,1 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.

18. TRADE AND OTHER RECEIVABLES *(continued)*

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	
	2011 R000	2010 R000	2011 R000	2010 R000
Balance at the beginning of the year	21 157	18 394	10 545	6 849
Net amounts written off as uncollectable	(5 824)	(7 969)	—	—
Charged to profit and loss	3 836	10 732	1 859	3 696
Balance at the end of the year	19 169	21 157	12 404	10 545

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 the covenants of the securitisation transactions referred to in note 18, certain levels of qualifying trade receivables and cash needed to be held within the securitisation vehicles. These balances fluctuated on a daily basis. On 30 June 2010, R11,4 million (2010: R5,5 million) cash was restricted in this manner. As the financing structure in Mustek Capital (Pty) Limited changed during the current financial year (see note 12 and 15), cash restricted in this manner only applies to Comztek as at 30 June 2011 (2010: Comztek and Rectron).

A further amount of R14,0 million is restricted in Comztek as security for a bank guarantee obtained in the current financial year.

As at 30 June 2011, an amount of R5,9 million was held in trust in favour of Rectron Holding Limited for the registration of properties to be acquired (see note 32).

20. SHARE CAPITAL

	GROUP AND COMPANY	
	2011 R000	2010 R000
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	877
	Number of shares 000	Number of shares 000
Ordinary shares		
Balance at the beginning of the year	109 547	110 450
Shares bought back	—	(903)
Balance at the end of the year	109 547	109 547

These shares exclude the 6 025 000 (2010: 7 064 072) 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 2011, 7 100 479 TDRs were in issue (2010: 13 471 179). Each TDR is linked to one 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.

21. BORROWINGS

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Interest-bearing				
Unsecured – at amortised cost				
Bank overdrafts	31 705	85 823	31 704	67 569
Unsecured – at fair value through profit and loss				
Consideration payable for investments in subsidiaries	6 241	16 259	6 241	16 259
Secured – at amortised cost				
Accounts receivable securitisation loans	116 270	169 836	68 770	79 836
Mortgage and term loans	22 828	18 257	–	–
Capitalised finance leases	–	5 589	–	–
Total interest-bearing borrowings	177 044	295 764	106 715	163 664
Interest free				
Unsecured – financial liabilities				
Short-term loans	–	5	–	–
Interest free				
Unsecured – non-financial liabilities				
Operating lease liabilities	–	86	–	–
Total interest-free borrowings	–	91	–	–
Total borrowings	177 044	295 855	106 715	163 664
The borrowings are repayable as follows:				
On demand or within one year	90 446	163 341	37 945	76 130
In the second year	68 770	40 649	68 770	7 698
In the third to fifth years inclusive	3 126	82 686	–	79 836
After five years	14 702	9 179	–	–
Total borrowings	177 044	295 855	106 715	163 664
Bank overdrafts	(31 705)	(85 823)	(31 704)	(67 569)
Amounts due for settlement within 12 months	(58 741)	(77 518)	(6 241)	(8 561)
Long-term borrowings	86 598	132 514	68 770	87 534
Consisting of:				
Interest-bearing borrowings	86 598	132 514	68 770	87 534
Interest-free borrowings	–	–	–	–
	86 598	132 514	68 770	87 534

21. BORROWINGS *(continued)*

Additional information

Included in borrowings are the following:

Accounts receivable securitisation loans

Included in long-term borrowings, is an amount of R68,8 million (2010: 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 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 R260 million (2010: 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.

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

R30,0 million (2010: R30,0 million) is due by Comztek Capital (Pty) Limited, bears interest at a fixed interest rate of 12,87% per annum, is secured against the trade receivables (see note 18) and is repayable on 29 September 2011. The balance of R17,5 million (2010: R10,0 million), with the same security and repayable on 29 September 2011, 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.

Bank overdrafts

Bank overdrafts of R31,7 million (2010: R67,6 million) due by the Company are carried 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

R17,8 million (2010: R16,3 million) of the mortgage and term loans is denominated in Australian Dollar, bears interest at a fixed interest rate of 17,8% (2010: 17,8%), is secured by land and buildings with a net book value of R19,0 million (2010: R17,6 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, Tier One Electronics (Pty) Limited was disposed of (see note 25). A balance for potential further consideration for Rectron Limited exists as at 30 June 2010 and 30 June 2011. 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 note 23). Based on the fair value of these payables, a R1,9 million gain (2010: R0,8 million loss) was recognised in profit and loss in the current financial year (see notes 6 and 23).

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 previous 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 rose to a prepaid lease asset. This asset will be realised over the remaining period of the original lease contract (see note 27). The short-term portion of this asset is included in other receivables (see note 18) and the long-term portion is included in non-current trade and other receivables (see note 18).

Finance lease liabilities

	GROUP			
	2011 R000	2010 R000	2011 R000	2010 R000
Obligations under finance leases	Minimum lease payments		Present value of minimum lease payments	
Amounts payable under finance leases:				
Within one year	–	5 828	–	5 589
In the second to fifth years inclusive	–	–	–	–
	–	5 828	–	5 589
Less future finance charges	–	(239)	–	n/a
Present value of lease obligations	–	5 589	–	5 589
Less amounts due for settlement within 12 months			–	(5 589)
Amount due for settlement after 12 months			–	–

During the previous financial year, certain items of fixtures and equipment were held under finance leases. These finance leases were concluded during the current financial year. For the year ended 30 June 2011, the weighted average borrowing rate was 8,25% (2010: 9,25%). 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 Rnil (2010: R16,9 million) (see 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.

21. BORROWINGS *(continued)*

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 R983,8 million (2010: R926,8 million), which are secured by cross guarantees in the Group as follows:

	GROUP	
	2011 R000	2010 R000
General overdraft and similar facilities	641 429	328 466
Letters of credit facilities	342 391	598 352
	983 820	926 818

22. TRADE AND OTHER PAYABLES AND PROVISIONS

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Letters of credit payables	266 203	222 015	147 836	143 816
Trade payables	420 362	479 233	192 660	217 509
Other payables	37 039	31 290	15 463	13 698
Total trade and other payables	723 604	732 538	355 959	375 023

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 R641,4 million (2010: R328,5) and interest is calculated at LIBOR plus 2,5%. These facilities are carried at amortised cost.

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases stated is 88 days (2010: 92 days).

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

22. TRADE AND OTHER PAYABLES AND PROVISIONS *(continued)*

The following movements occurred in provisions:

GROUP 2011	Leave pay provision R000	Bonus provision R000	Other* R000	Total R000
Opening carrying amount	8 083	6 973	—	15 056
Additional provision	3 393	18 962	—	22 355
Amounts used	(3 146)	(12 921)	—	(16 067)
Unused amounts reversed	(5)	(95)	—	(100)
Closing carrying amount	8 325	12 919	—	21 244
COMPANY 2011				
Opening carrying amount	5 456	3 427	—	8 883
Additional provision	2 334	13 564	—	15 898
Amounts used	(2 295)	(6 791)	—	(9 086)
Unused amounts reversed	—	—	—	—
Closing carrying amount	5 495	10 200	—	15 695

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

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.*

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

23.1 Categories of financial instruments

GROUP 2011	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	128 333	—	—	—	—	—	128 333
Intangible assets	11	67 813	—	—	—	—	—	67 813
Investments in associates	13	8 589	—	8 589	—	—	—	—
Other investments and loans	15	33 588	—	5 475	28 113	—	—	—
Deferred tax asset	16	23 925	—	—	—	—	—	23 925
Current assets								
Inventories	17	646 023	—	—	—	—	—	646 023
Trade and other receivables	18	556 134	—	549 981	—	—	—	6 153
Foreign currency assets	23	1 620	1 620	—	—	—	—	—
Tax assets		7 727	—	—	—	—	—	7 727
Bank balances and cash	19	195 787	—	195 787	—	—	—	—
TOTAL ASSETS		1 669 539	1 620	759 832	28 113	—	—	879 974
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	877	—	—	—	—	—	877
Ordinary share premium		122 823	—	—	—	—	—	122 823
Retained earnings		574 790	—	—	—	—	—	574 790
Non-distributable reserve		4 116	—	—	—	—	—	4 116
Foreign currency translation reserve		(8 872)	—	—	—	—	—	(8 872)
Equity attributable to equity holders of the parent		693 734	—	—	—	—	—	693 734
Non-controlling interest		18 940	—	—	—	—	—	18 940
Total equity		712 674	—	—	—	—	—	712 674
Non-current liabilities								
Long-term borrowings	21	86 598	—	—	—	86 598	—	—
Deferred tax liability	16	5 243	—	—	—	—	—	5 243
Current liabilities								
Short-term borrowings	21	58 741	6 241	—	—	52 500	—	—
Trade and other payables	22	723 604	—	—	—	723 604	—	—
Provisions	22	21 244	—	—	—	—	—	21 244
Foreign currency liabilities	23	2 185	2 185	—	—	—	—	—
Deferred income		22 479	—	—	—	—	—	22 479
Tax liabilities		5 066	—	—	—	—	—	5 066
Bank overdrafts	21	31 705	—	—	—	31 705	—	—
Total liabilities		956 865	8 426	—	—	894 407	—	54 032
TOTAL EQUITY AND LIABILITIES		1 669 539	8 426	—	—	894 407	—	766 706

**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 2010 (Restated)	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	143 602	–	–	–	–	–	143 602
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	22 025	–	–	–	–	–	22 025
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		1 723 306	2 057	864 481	28 112	–	–	828 656
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	877	–	–	–	–	–	877
Ordinary share premium		122 484	–	–	–	–	–	122 484
Retained earnings		492 818	–	–	–	–	–	492 818
Properties revaluation reserve		–	–	–	–	–	–	–
Non-distributable reserve		4 116	–	–	–	–	–	4 116
Foreign currency translation reserve		(3 096)	–	–	–	–	–	(3 096)
Equity attributable to equity holders of the parent		617 199	–	–	–	–	–	617 199
Non-controlling interest		24 552	–	–	–	–	–	24 552
Total equity		641 751	–	–	–	–	–	641 751
Non-current liabilities								
Long-term borrowings	21	132 514	7 698	–	–	124 816	–	–
Deferred tax liability	16	3 591	–	–	–	–	–	3 591
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		1 081 555	16 421	–	–	1 006 458	5 589	53 088
TOTAL EQUITY AND LIABILITIES		1 723 306	16 421	–	–	1 006 458	5 589	694 839

**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 2011	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	20 157	—	—	—	—	—	20 157
Intangible assets	11	8 100	—	—	—	—	—	8 100
Investments in subsidiaries	12	220 517	—	—	—	—	—	220 517
Investments in associates	13	6 158	—	6 158	—	—	—	—
Other investments and loans	15	18 662	—	5 162	13 500	—	—	—
Deferred tax asset	16	14 662	—	—	—	—	—	14 662
Current assets								
Inventories	17	366 777	—	—	—	—	—	366 777
Trade and other receivables	18	36 062	—	32 332	—	—	—	3 730
Investments in subsidiaries	12	258 439	—	258 439	—	—	—	—
Foreign currency assets	23	986	986	—	—	—	—	—
Tax assets		6 712	—	—	—	—	—	6 712
Bank balances and cash	19	33 109	—	33 109	—	—	—	—
TOTAL ASSETS		990 341	986	335 200	13 500	—	—	640 655
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	877	—	—	—	—	—	877
Ordinary share premium		122 823	—	—	—	—	—	122 823
Retained earnings		259 413	—	—	—	—	—	259 413
Total equity		383 113	—	—	—	—	—	383 113
Non-current liabilities								
Long-term borrowings	21	68 770	—	—	—	68 770	—	—
Current liabilities								
Short-term borrowings	21	6 241	6 241	—	—	—	—	—
Trade and other payables	22	355 959	—	—	—	355 959	—	—
Provisions	22	15 695	—	—	—	—	—	15 695
Foreign currency liabilities	23	1 661	1 661	—	—	—	—	—
Loans owing to subsidiaries	12	105 227	—	—	—	105 227	—	—
Deferred income		21 971	—	—	—	—	—	21 971
Bank overdrafts		31 704	—	—	—	31 704	—	—
Total liabilities		607 228	7 902	—	—	561 660	—	37 666
TOTAL EQUITY AND LIABILITIES		990 341	7 902	—	-	561 660	—	420 779

**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 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)*

23.2 Risk management

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

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives and exposure levels are governed by the Group's policies approved by the Board of Directors. The Group do not use derivative financial instruments for speculative purposes. The Group enters into financial instruments to manage and reduce the possible adverse impact on earnings of changes in interest rates and foreign currency exchange rates.

23.2.1 Market risk

The Group's activities expose it primarily to the risks of fluctuations in foreign currency exchange rates, interest rates and equity price risks.

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk.

The Group enters into various derivative financial instruments to manage its exposure to foreign currency risk, including foreign exchange forward contracts and call and put options to manage the exchange rate risk arising on foreign denominated transactions.

Market risk exposures are measured using sensitivity analysis. A sensitivity analysis shows how profit before taxation and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

23.2.1.1 Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

It is the Group's policy to enter into foreign exchange forward contracts to buy/sell specified amounts of foreign currencies in the future at a predetermined exchange rate for approximately 50% of the Group's foreign currency commitments. The Group uses contracts with terms of up to 120 days. The contracts are entered into to manage the Group's exposure to fluctuations in foreign currency exchange rates.

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	2011 R000	2010 R000	2011 R000	2010 R000	2011 R000	2010 R000	2011 R000	2010 R000
BUY:								
US Dollars								
Less than three months	6,83	7,51	37 843	12 711	258 297	95 471	(565)	1 895
							(565)	1 895
Foreign currency assets							1 620	2 056
Foreign currency liabilities							(2 185)	(161)
							(565)	1 895
COMPANY								
BUY:								
US Dollars								
Less than three months	6,84	7,45	23 630	8 965	161 692	66 814	(675)	1 807
							(675)	1 807

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 applied for both Group and Company during the year:

	Average spot rate		Closing spot rate	
	2011 R	2010 R	2011 R	2010 R
USD	7,03	7,61	6,84	7,65
Euro	9,56	10,60	9,84	9,34

The Group and Company have various monetary assets and liabilities in currencies other than their functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group and Company according to the different functional currencies of each entity within the Group.

	2011			2010		
Functional currency	United States Dollar R000	Euro R000	Other* R000	United States Dollar R000	Euro R000	Other* R000
GROUP						
South African Rand	(435 997)	1	24 325	(528 012)	835	8 955
Kenyan Shilling	692	—	2 674	(3 493)	—	8 066
	(435 305)	1	26 999	(531 505)	835	17 021
COMPANY						
South African Rand	(295 704)	—	1			
	(295 704)	—	1	(61 828)	(242 662)	2 552

**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.

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)*

	2011 R000	2010 R000
GROUP		
Profit before tax	40 831	51 365
COMPANY		
Profit before tax	29 570	30 194

23.2.1.2 Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group and Company's interest rate profile consists of fixed and floating rate loans and bank balances which exposes the Group and Company to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Financial liabilities				
Loans received at fixed rates of interest	59 069	64 516	6 241	16 259
Loans received and bank borrowings linked to South African prime rates	—	51 069	—	1 069
Loans received and bank borrowings linked to LIBOR	297 907	306 770	179 540	228 571
Loans received and bank borrowings linked to JIBAR	86 270	89 836	68 770	79 836
Finance leases linked to variable interest rates	—	5 589	—	—
	443 246	517 780	254 551	325 735
Financial assets				
Loans granted at fixed rates of interest	5 475	5 731	5 162	5 433
Loans granted and bank deposits linked to South African prime rates	102 909	175 540	13 260	21 726
Bank deposits linked to money market rates	78 257	72 542	19 849	15 447
Bank deposits linked to Australian prime rates	11 454	9 128	—	—
Bank deposits linked to Kenyan prime rates	2 288	4 613	—	—
Bank deposits linked to other foreign prime rates	879	296	—	—
	201 262	267 850	38 271	42 606

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 2011 would decrease/increase by R4,4 million (2010: R5,2 million) and R2,5 million (2010: R3,3 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 have 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 2011 and 30 June 2010 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 affect profit before tax as the options in Wavetrend were fair valued to Rnil through equity and disposed of for a nominal amount.
- investment revaluation reserve for the year ended 30 June 2011 would decrease/increase by Rnil (2010: 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.

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 R363,5 million (2010: R365,9 million) and R2,9 million (2010: R4,2 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	
	2011 %	2010 %	2011 %	2010 %
High	—	0,2	—	—
Medium	—	1,2	—	—
Low	100,00	98,6	100,00	100,0
	100,00	100,0	100,00	100,0

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 2011						
Trade and other receivables – South Africa	68 120	31 519	23 533	2 661	3 696	6 711
Trade and other receivables – non-South African	6 127	3 662	2 220	143	96	6
	74 247	35 181	25 753	2 804	3 792	6 717
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
COMPANY 2011						
Trade and other receivables – South Africa	1 496	—	323	209	964	—
Trade and other receivables – non-South African	168	8	11	107	36	6
	1 664	8	334	316	1 000	6
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

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.

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

23.2 Risk management *(continued)*

23.2.3 Liquidity risk management *(continued)*

	Total R000	0 – 1 year R000	2 years R000	3 - 5 years R000	5 years + R000
GROUP 2011					
Non-interest-bearing	457 401	457 401	—	—	—
Variable interest rate instruments	384 456	315 686	68 770	—	—
Fixed interest rate instruments	59 723	41 895	—	3 126	14 702
	901 580	814 982	68 770	3 126	14 702
GROUP 2010					
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
COMPANY 2011					
Non-interest-bearing	208 123	208 123	—	—	—
Variable interest rate instruments	248 310	179 540	68 770	—	—
Fixed interest rate instruments	6 241	6 241	—	—	—
	462 674	393 904	68 770	—	—
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	—

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 notes 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Group's Board of Directors reviews the capital structure on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt to equity ratio of 30% to 40%.

Group equity comprises equity attributable to equity holders of the parent.

The gearing ratio at year-end was as follows:

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Total interest-bearing debt	443 246	517 780	254 551	325 735
Bank balances and cash	(195 787)	(259 953)	(33 109)	(35 008)
Net interest-bearing debt	247 459	257 827	221 442	290 727
Equity	693 733	650 834	383 112	346 918
Net debt to equity ratio (%)	35,67	39,61	57,80	83,80
Total debt to equity ratio (%)	63,89	79,56	66,44	93,89

23.3 Net gains (losses) on financial instruments

Net gains (losses) on financial instruments analysed by category are as follows:

	GROUP 2011 R000	GROUP 2010 R000	COMPANY 2011 R000	COMPANY 2010 R000
Financial assets and financial liabilities at fair value through profit or loss, classified as held for trading	891	(189)	781	(277)
Loans and receivables (including bank and cash)	5 266	15 270	21 925	19 615
Financial liabilities held at amortised cost	6 771	(40 319)	(3 697)	(13 802)
Finance leases	(227)	(882)	—	—
Net losses attributable to financial instruments	12 701	(26 120)	19 009	5 536

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

23.3.1 Fair value of financial instruments

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- The fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

23.3.2 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 (i.e. as prices) or indirectly (i.e. 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 applies to Mustek as follows:

GROUP 2011	Level 1	Level 2	Level 3
Held for trading			
Foreign currency assets	–	1 620	–
Long-term borrowings	–	–	–
Short-term borrowings	–	–	(6 241)
Foreign currency liabilities	–	(2 185)	–
Total – held for trading	–	(565)	(6 241)
Available for sale			
Other investments and loans	–	–	28 112
Total – available for sale	–	–	28 112
Total financial assets and (liabilities) at fair value	–	(565)	21 871

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(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)*

COMPANY 2011	Level 1	Level 2	Level 3
Held for trading			
Foreign currency assets	–	986	–
Long-term borrowings	–	–	–
Short-term borrowings	–	–	(6 241)
Foreign currency liabilities	–	(1 661)	–
Total – held for trading	–	(675)	(6 241)
Available for sale			
Other investments and loans	–	–	13 500
Total – available for sale	–	–	13 500
Total financial assets and (liabilities) at fair value	–	(675)	7 259

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

GROUP 2011	Short-term borrowings	Long-term borrowings	Other investments and loans
Opening balance	(8 561)	(7 697)	28 112
Repayments	8 561	–	–
Notional interest – unwinding of discount	(445)	–	–
Fair value adjustment	1 901	–	–
Transfers	(7 697)	7 697	–
Closing balance	(6 241)	–	28 112

COMPANY 2011	Short-term borrowings	Long-term borrowings	Other investments and loans
Opening balance	(8 561)	(7 697)	13 501
Repayments	8 561	–	–
Notional interest – unwinding of discount	(445)	–	–
Fair value adjustment	1 901	–	–
Transfers	(7 697)	7 697	–
Closing balance	(6 241)	–	13 501

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(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)*

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)

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

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(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)

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 above mentioned financial assets and liabilities are determined as follows:

These amounts represent the long- and short-term portion of consideration payable to Mark Lu, for shares in Rectron Holdings Limited acquired (refer 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

Due to the restrictive nature of cross-border investment, the investment in Zinox Technologies Limited has been valued at net asset value. Based on the latest financial information available for Zinox Technologies Limited, the net asset value was found to approximate the carrying value of the investment and therefore no fair valuation adjustments or impairments have been recognised for this investment (refer note 15).

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(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:

	2011		2010	
	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
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	59 069	51 488	64 516	75 497
COMPANY				
Financial assets				
Loans and receivables:				
Non-current trade and other receivables	–	–	2 540	2 309
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	6 241	5 726	16 259	14 807

23.4.4 Assumptions used in determining fair value of financial assets and liabilities

Non-current trade and other receivables

The interest rate used to discount the cash flows of the non-current trade and other receivables is the South African prime rate of 9% (2010: 10%) and holding the credit risk margin constant.

Borrowings

The fair value of the fixed rate loans are determined based on interest rates applicable on similar loans on 30 June 2011 and 30 June 2010 respectively. All other variables remained constant.

24. NET CASH FROM OPERATIONS

	GROUP		COMPANY	
	2011 R000	(Restated) 2010 R000	2011 R000	2010 R000
Profit for the year	96 038	64 460	49 002	24 564
Adjustments for:				
Income tax expense	36 624	23 228	23 556	10 776
Interest income	(6 711)	(14 553)	(23 441)	(17 421)
Finance costs	28 627	53 132	8 616	13 848
Dividend income	(591)	(716)	—	(8 644)
Loss on disposal of subsidiary	—	1 595	—	1 595
Realisation of foreign currency translation reserve	(2 167)	—	—	—
Depreciation of property, plant and equipment	16 224	20 597	6 539	9 211
Net loss on disposal of plant and equipment	1 672	742	1 571	322
Increase (decrease) in provisions	6 188	(392)	6 812	(1 412)
Unrealised foreign exchange (profits) losses	(2 461)	6 400	(948)	3 010
Fair value adjustments of derivative instruments	565	(1 895)	675	(1 807)
Share-based payment	339	1 421	339	1 421
Amortisation of intangible assets	7 443	5 886	6 119	5 679
Impairment of distribution right	3 445	—	—	—
Fair valuation of investment	(1 901)	785	(3 860)	785
Share of profit of associates	(263)	—	—	—
Impairment of other loan	654	—	654	—
Impairment of investment in subsidiary	—	—	8 881	—
Impairment of subsidiary loan	—	—	2 821	6 450
Impairment of goodwill	—	100	—	—
Impairment of associate loan	1 382	—	—	—
Operating cash flows before movements in working capital	185 107	160 790	87 336	48 377
Working capital movements	(59 636)	69 741	3 497	100 058
(Increase) decrease in inventories	(86 572)	71 488	(45 605)	92 410
Decrease (increase) in trade and other receivables	25 079	(56 445)	63 837	51 433
Increase (decrease) in deferred income	1 972	(5 527)	1 573	(5 525)
(Decrease) increase in trade and other payables	(115)	60 225	(16 308)	(38 260)
Net cash from operations	125 471	230 531	90 833	148 435

25. PROCEEDS ON DISPOSAL OF SUBSIDIARIES

On 1 January 2011, the Group disposed of Corex IT Distribution Dynamics (Pty) Limited.
On 25 November 2009, Mustek Limited disposed of Tier One Electronics (Pty) Limited.
The aggregate value of assets and liabilities disposed of were as follows:

	GROUP	
	2011 R000	2010 R000
Property, plant and equipment	5 304	—
Deferred tax asset	9	—
Inventories	15 028	6 148
Trade and other receivables	12 606	—
Tax asset	507	—
Bank balances and cash	4 694	—
Long-term borrowings	(15 000)	—
Goodwill	—	448
Trade and other payables	(6 830)	(4 001)
Non-controlling interest	(6 527)	—
Net asset value disposed	9 791	2 595
Loss on disposal	—	(1 595)
Total consideration	9 791	1 000
Cash and cash equivalents disposed	(4 694)	(1 000)
Net cash inflow	5 097	—

26. ACQUISITION OF SUBSIDIARIES

The Group acquired a further 25% of Digital Surveillance Systems (Pty) Limited on 1 December 2010. This company was consolidated in previous years.
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	
	2011 R000	2010 R000
The aggregated fair value of the assets acquired and liabilities assumed were as follows:		
Premium on acquisition of additional shareholding in controlled entity	1 391	
Goodwill	—	100
Total purchase consideration	1 391	—
Decrease in non-controlling interest	506	—
Total consideration satisfied by cash	1 897	100
Satisfied by cash	(1 897)	(100)
Bank balances and cash acquired	—	—
Net cash outflow on acquisition	(1 897)	(100)

27. OPERATING LEASE ARRANGEMENTS

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:				
Cash due:				
During the ensuing year	8 522	8 822	4 523	2 844
In the second year	7 014	7 852	4 908	3 006
In the third to fifth year inclusive	11 958	11 816	9 622	7 843
Thereafter	—	2 003	—	—
	27 494	30 493	19 053	13 693
Operating lease (asset) liability	(1 712)	(15 046)	(1 786)	(15 511)
To be expensed:				
During the ensuing year	11 199	22 509	7 156	16 601
In the second year	7 034	10 302	4 927	5 388
In the third to fifth year inclusive	10 973	11 163	8 756	7 215
Thereafter	—	1 565	—	—
	27 494	30 493	19 053	13 693

The majority of operating lease payments represents 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.
- R4,5 million guarantee in favour of Investec Bank Limited.
- R4,9 million guarantee in favour of Garlicke & Bousfield Incorporated.
- R13,6 million guarantee in favour of Michalow Geldenhuys & Humphries.

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 regards to directors' interest in contracts does not exist.

31. RELATED PARTY TRANSACTIONS

During the 2011 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	552	(7 960)
Makeshift 1000 (Pty) Limited[4]	Loan	(981)	43 142
Mustek Capital (Pty) Limited[1]	Discounting fees	(23 772)	—
	Management fees	120	—
	Interest	21 850	—
	Loan	(632)	258 439
Mustek East Africa Limited[1]	Sales	3 347	4 712
	Loan	(1 741)	13 645
Mustek Limited Company Limited[2]	Loan	355	3 137
Mustek Middle East FZCO[1, 5]	Loan	(219)	1 118
Quickstep 94 (Pty) Limited[3]	Purchases	(256)	—
	Management fees	120	—
	Loan	(91)	19 013
Rectron Holdings Limited[1]	Sales	2 443	130
	Purchases	52 713	(3 311)
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]*R3,1 million of the amount outstanding has been impaired to date.*

[3]*R16,2 million of the amount outstanding has been impaired to date.*

[4]*R41,3 million of the amount outstanding has been impaired to date.*

[5]*R1,1 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]	Loan	(2 042)	2 168
Khauleza IT Solutions (Pty) Limited[1]	Loan	2 704	4 858
Continuous Power Systems (Pty) Limited[1]	Loan	(1 300)	1 300

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	(9 421)	(2 854)
	Sales	4 236	140

[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	Amounts (payable) receivable R000
Columbus Technologies (Pty) Limited[2]	Previous associate	Loan	(317)	1 849
Mustek Electronics Properties (Pty) Limited[1]	Common directorship	Prepaid lease compensation	2 397	(400)
		Current account	468	546

[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.*

31. RELATED PARTY TRANSACTIONS *(continued)*

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, 5]	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.*

[5]*R1,1 million of the amount outstanding has been impaired to date.*

31. RELATED PARTY TRANSACTIONS *(continued)*

ASSOCIATES

Related party	Type of transaction	Amount of transaction received (paid) R000	Amount receivable R000
Preworx (Pty) Limited[1]	Loan	1 691	4 210
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.*

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	Amounts (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	2 116	(2 797)
		Lease of premises	—	—
Ann Chang[3]	Wife of Recton 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 they were an associate of the Company.*

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

31. RELATED PARTY TRANSACTIONS *(continued)*

Key management personnel compensation

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

	GROUP		COMPANY	
	2011 R000	2010 R000	2011 R000	2010 R000
Short-term benefits	11 200	8 311	8 217	6 106
Share-based payments	410	924	410	924
	11 610	9 235	8 627	7 030

32. CAPITAL EXPENDITURE

At 30 June 2011, Rectron Holdings Limited, a Group subsidiary, was in the process of acquiring properties in Durban and Cape Town to the cost of R10,5 million and R15,0 million respectively.

Apart for the capital expenditure mentioned above, the Group and Company do not have any significant planned capital expenditure in the near future.

Notice of Annual General Meeting

Notice is hereby given that the twenty-fourth annual general meeting of the Company will be held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand at 10:00 Thursday, 22 December 2011 for the following purposes:

1. *CONSIDERATION OF ANNUAL FINANCIAL STATEMENTS*

ORDINARY RESOLUTION NUMBER 1

Resolved that the audited Annual Financial Statements, including the report of the directors, Audit Committee report and Group Annual Financial Statements for the year ended 30 June 2011 all of which are contained in the Integrated Annual Report of which this notice forms part be and are hereby accepted.

2. *RE-ELECTION OF DIRECTOR*

ORDINARY RESOLUTION NUMBER 2

Resolved that D Konar who retires in terms of the Company's Articles of Association, but being eligible, offer himself for re-election, be and is hereby re-elected as a director of the Company.

3. *RE-ELECTION OF DIRECTOR*

ORDINARY RESOLUTION NUMBER 3

Resolved that RB Patmore who retires in terms of the Company's Articles of Association, but being eligible, offer himself for re-election, be and is hereby re-elected as a director of the Company.

4. *RE-ELECTION OF DIRECTOR*

ORDINARY RESOLUTION NUMBER 4

Resolved that T Dingaan who retires in terms of the Company's Articles of Association, but being eligible, offer herself for re-election, be and is hereby re-elected as a director of the Company.

5. *REAPPOINTMENT OF INDEPENDENT AUDITORS*

ORDINARY RESOLUTION NUMBER 5

Resolved that Deloitte & Touche is hereby reappointed as the Company's auditors and that BE Greyling will be the signing audit partner.

6. *APPROVAL OF AUDITOR'S REMUNERATION*

ORDINARY RESOLUTION NUMBER 6

Resolved that the Audit Committee of the Company be and is hereby authorised to fix and pay the auditor's remuneration for the year ended 30 June 2011.

7. *ELECTION OF AUDIT COMMITTEE MEMBERS*

ORDINARY RESOLUTION NUMBER 7

Resolved that, by way of a separate vote, each of the following non-executive directors be elected as members of the Company's Audit Committee, subject to the re-election of RB Patmore and T Dingaan as directors in terms of ordinary resolution number 3 and ordinary resolution number 4:

7.1 RB Patmore

7.2 T Dingaan

7.3 ME Gama.

8. *APPROVAL OF REMUNERATION POLICY*

ORDINARY RESOLUTION NUMBER 8

Resolved that the remuneration policy of the Company as reflected on pages 40 to 41 of the integrated annual report be and is hereby endorsed through a non-binding advisory vote as required by King III.

9. *SPECIFIC AUTHORITY TO ISSUE SHARES FOR CASH*

ORDINARY RESOLUTION NUMBER 9

Resolved that 6 025 000 ordinary shares in the authorised but unissued share capital of the Company be and are hereby placed under the control of the directors of the Company as a specific authority for the allotment and issue of shares in terms of the Mustek Executive Share Trust.

10. *GENERAL AUTHORITY TO ISSUE SHARES FOR CASH*

ORDINARY RESOLUTION NUMBER 10

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;
- 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, 5% of the number of ordinary shares in the Company's issued share capital;
- 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; and
- that any such issue will only be made to public shareholders and excluding related parties, as defined by the JSE [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.

11. AUTHORITY TO SIGN ALL DOCUMENTS REQUIRED

ORDINARY RESOLUTION NUMBER 11

Resolved that subject to the passing of Ordinary Resolutions 1 to 10 and Special Resolutions 1 to 3 (below), any director of the Company or Company Secretary shall be and is hereby authorised to sign all documents and perform all acts which may be required to give effect to such Ordinary Resolutions 1 to 11 and Special Resolutions 1 to 3 (below) passed at the Annual General Meeting.

12. GENERAL AUTHORITY TO REPURCHASE SHARES

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;
- at any point in time, may only appoint one agent to effect any repurchase on the Company's 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
- that such authority is limited to paragraphs 5.72(c) and 5.84(a) (when derivatives are used), which states 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 the:

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 affected 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 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 reason for and effect of this special resolution number 1 is to grant the Company and its subsidiaries a general approval 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.

13. REMUNERATION OF NON-EXECUTIVE DIRECTORS

SPECIAL RESOLUTION NUMBER 2

Resolved that with effect from 1 July 2011, the remuneration payable to non-executive directors are as follows and are applicable for a period of 12 months:

Proposed fee structure for 2012 financial year			
	Retainer	Attendance	Total
Director fee	R65 000	R10 000	R105 000
Chairman of the Board	R280 000	–	R280 000
Audit Committee member	R30 000	R7 500	R60 000
Audit Committee chairman	R50 000	R12 500	R100 000
Remuneration and Nomination Committee member	R30 000	R10 000	R50 000
Remuneration and Nomination Committee chairman	R50 000	R12 500	R75 000
Employment Equity Committee member	R20 000	–	R20 000
Employment Equity Committee chairman	R35 000	–	R35 000

REASON FOR AND EFFECT OF THE SPECIAL RESOLUTION

The reason for and effect of this special resolution number 2 is to enable Mustek to comply with the provisions of sections 65(11) (h), 66(8) and 66(9) of the Act, which stipulate that remuneration to directors for their service as directors may be paid only in accordance with a special resolution approved by shareholders within the previous two years.

14. FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED COMPANIES

SPECIAL RESOLUTION NUMBER 3

Resolved that, in accordance with section 45 of the Companies Act, the provision of any financial assistance by the Company to any company or corporation which is related or inter-related to the Company (as defined in the Companies Act), on the terms and conditions which the directors of Mustek may determine, be and is hereby approved.

REASON FOR AND EFFECT OF THE SPECIAL RESOLUTION

In terms of the Companies Act, the Board may authorise the Company to provide any financial assistance to related or inter-related companies which are Group companies, including subsidiary companies of the Company, where it believes it would be beneficial to the Company to do so in future, subject to certain requirements set out in the Act, including the Company meeting solvency and liquidity tests. This general authority is necessary for the Company to continue making loans to subsidiaries as well as granting letters of support and guarantees in appropriate circumstances. A general authorisation from shareholders avoids the need to refer each instance to shareholders for approval with the resulting time delays and expense.

OTHER DISCLOSURE IN TERMS OF SECTION 11.26 OF THE JSE LISTINGS REQUIREMENTS

- Directors and management (page 44)
- Major shareholders of Mustek Limited (page 55)
- Directors' interests in securities (page 50)
- Share capital of Mustek Limited (page 107)

1.1 MATERIAL CHANGE

Other than the facts and developments as referred to on page 57 of the integrated 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 44 of the integrated 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 44 of the integrated 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.

VOTING

Any member entitled to vote at the annual general meeting may appoint a proxy or proxies to attend, speak and vote in his 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, 22 December 2011 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

Company Secretary

Midrand

11 November 2011

Form of Proxy

Mustek Limited

(Incorporated in the Republic of South Africa) (Registration number: 1987/070161/06)
Share code: MST ISIN: ZAE000012373
("Mustek" or "the Company")

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, 22 December 2011 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 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
	Ordinary resolutions			
1.	Acceptance of annual financial statements			
2.	Re-election of D Konar as director			
3.	Re-election of RB Patmore as director			
4.	Re-election of T Dingaan as director			
5.	Confirm the reappointment of Deloitte & Touche as the Company's auditors with BE Greyling as signing audit partner			
6.	Approval of the auditors' remuneration			
7.	Election of Audit Committee members:			
	7.1 Election of RB Patmore			
	7.2 Election of T Dingaan			
	7.3 Election of ME Gama			
8.	Approval of remuneration policy			
9.	Specific authority to issue and allot 6 025 000 shares			
10.	That the Company's directors may issue unissued shares			
11.	Authority to sign all documents required			
	Special resolutions			
12.	General authority to repurchase shares			
13.	Remuneration of non-executive directors			
14.	Financial assistance to related or inter-related companies			

Signed at ____________________ on ____________________ 2011

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 deems fit in respect of all the shareholders' 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 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 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 shareholders (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 tenders 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 Ground Floor 70 Marshall Street Johannesburg, 2001	Computershare Investor Services (Pty) Limited PO Box 61051 Marshalltown, 2107

    to be received by no later than 10:00 on Tuesday, 20 December 2011 (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.

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

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Randjespark

Midrand, 1685

POSTAL ADDRESS

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Parklands, 2121

CONTACT NUMBERS

Telephone: +27 (0) 11 237 1000

Facsimile: +27 (0) 11 314 5039

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BASTION GRAPHICS

www.mustek.co.za