Mustek

Integrated Annual Report 2012

Mustek 25 YEARS

longevity

About this Report

Report profile

Mustek published its first integrated annual report for the 2011 financial year. It was a major first step, but constrained by the reorganising of its internal information systems and reporting policies to fit the integrated reporting model. This 2012 integrated annual report is structured to align more fully with the King Code of Governance Principles for South Africa 2009 (King III) and other reporting guidelines, although this journey to fully integrated reporting is still under way.

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 2012 report meets the integrated reporting scope to the fullest extent that Mustek can provide at this stage. Future reports will build upon this foundation.

Report scope and boundary

Mustek's financial year is from 1 July to 30 June. This report covers Mustek's operations in South Africa, elsewhere in Africa and in Australia for the financial year 1 July 2011 to 30 June 2012. Where reporting value and insights can be added by including post-30 June 2012 events and information, this has been done and recorded as having occurred subsequent to the reporting period.

This integrated annual report covers the economic, social and environmental performance of the entire Group and all its subsidiaries.

Reporting principles and approach

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, the King Report on Governance for South Africa 2009 (King III) and the guidelines of the Global Reporting Initiative (GRI 3.1). The only restatement made was the splitting out of discontinued operations.

Assurance

Mustek is on the road to creating a combined assurance model. Our financial statements for the period were independently audited and assured by Deloitte & Touche. At this stage of our integrated reporting path, our reporting information systems are not yet bedded down sufficiently to assure the non-financial information, but Mustek will consider phasing in non-financial assurance in the next few years. For this period, we have self-assessed our application of the GRI 3.1 reporting framework to be at Level C.

www.mustek.co.za

Board responsibility statement

The Mustek Board of Directors (the Board) acknowledges its responsibility to ensure the integrity of its integrated annual report for the 2012 financial year. The Board has accordingly applied its mind 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 systems enable.

Feedback

We need your feedback to ensure that we are reporting on the things that matter to you. Visit www.mustek.co.za or email ltd@mustek.co.za.

Forward-looking statement disclaimer

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 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 date 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.

information

Highlights of the Year

- Founded in 1987, Mustek celebrates 25 years as South Africa's foremost local ICT company, with in-house brand Mecer being the most recognised South African IT brand.
- Revenue from continuing operations climbed 20,9% to R3,503 billion.
- Continued adding quality new brands to our portfolio, including Acer, Lenovo, Canon and Huawei.
- Distribution, administrative and other operating expenses up 6,2%.
- Dividend unchanged at 17 cents per share.
- Net cash from operations of R119,9 million (2011: R125,5 million).

Financial highlights

Revenue from continuing operations

up *20,9%*

Distribution, administrative and other operating expenses from continuing operations

up *6,2%*

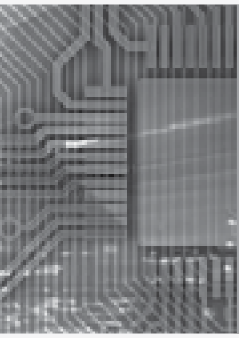
Dividend unchanged at

17 cents per share

Net cash from operations of

R119,9 million

(2011: R125,5 million)



for more info go to:

www.mustek.co.za

Organisational Structure

Mustek LIMITED

Registration number 1987/070161/06

- 100% Mustek
  - 100% Mustek Gauteng
  - 100% Mustek Western Cape
  - 100% Mustek Eastern Cape
  - 100% Mustek KwaZulu-Natal
  - 100% Mustek Free State
  - 100% Mustek Northern Cape
  - 100% Mustek Mpumalanga
- 100% Rectron Holdings Limited
  - 100% Rectron Johannesburg
  - 100% Rectron Cape Town
  - 100% Rectron Durban
  - 100% Rectron Bloemfontein
  - 100% Rectron Port Elizabeth
  - 50% Rectron Electronics (Pty) Limited
  - 100% Formprops 110 (Pty) Limited
  - 100% Sheerprops 68 (Pty) Limited
- 41,8% Comztek Holdings (Pty) Limited
  - 100% Comztek (Pty) Limited
  - 100% Comztek Africa (Pty) Limited
  - 51% Netshield (Pty) Limited
- 100% Quickstep 94 (Pty) Limited
  - 100% Mecer Inter-Ed (Pty) Limited
    - 68% Soft 99 (Pty) Limited
- 100% Makeshift 1000 (Pty) Limited
  - 100% PWS Investments (Pty) Limited
    - 38% Preworx (Pty) Limited
- 100% Mustek East Africa Limited
- 100% Mustek Limited Co Limited
- 99% Mustek Lesotho (Pty) Limited
- 75% Digital Surveillance Systems (Pty) Limited
- 40% Continuous Power Systems (Pty) Limited
- 28% Mustek Zimbabwe Private Limited
- 26% Khauleza IT Solutions (Pty) Limited
- 12% Zinox Technologies Limited

Six-year Financial Review

	2012 R000	2011 R000	2010 R000	2009 R000	2008 R000	2007 R000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Revenue	4 143 022	3 506 373	3 409 515	3 481 903	3 420 798	3 354 661
Cost of sales	(3 562 106)	(2 990 485)	(2 923 883)	(2 916 547)	(2 853 007)	(2 803 598)
Gross profit	580 916	515 888	485 632	565 356	567 791	551 063
Distribution, administrative and other operating expenses	(417 777)	(337 084)	(331 119)	(422 877)	(386 957)	(387 105)
EBITDA	163 139	178 804	154 513	142 479	180 834	163 958
Headline profit	76 344	97 921	63 776	53 733	81 330	58 942
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
Assets	2 117 199	1 669 539	1 723 306	1 816 489	2 034 305	1 851 721
Property, plant and equipment	122 625	128 333	143 602	158 024	177 514	116 609
Intangible assets	60 240	67 813	72 114	64 667	50 590	40 080
Investments and loans	40 470	42 177	42 373	40 032	54 596	60 648
Non-current trade and other receivables	—	—	2 619	15 652	25 667	10 345
Deferred tax asset	15 666	23 925	22 025	24 376	25 159	32 543
Current assets	1 609 534	1 407 291	1 440 573	1 513 738	1 700 779	1 591 496
Assets classified as held-for-sale	268 664	—	—	—	—	—
Equity and liabilities	2 117 199	1 669 539	1 723 306	1 816 489	2 034 305	1 851 721
Equity attributable to equity holders of the parent	755 732	693 734	617 199	570 302	549 416	521 921
Minority interest	18 426	18 940	24 552	18 488	19 408	10 187
Long-term borrowings	4 711	86 598	132 514	305 616	318 542	308 083
Deferred tax liability	2 409	5 243	3 591	2 192	921	777
Current liabilities	1 141 690	865 024	945 450	919 891	1 146 018	1 010 753
Liabilities directly associated with assets classified as held-for-sale	194 231	—	—	—	—	—

	2012 R000	2011 R000	2010 R000	2009 R000	2008 R000	2007 R000
KEY STATEMENT OF FINANCIAL POSITION FIGURES						
Total assets	2 117 199	1 669 539	1 723 306	1 816 489	2 034 305	1 851 721
Ordinary shareholders' equity	755 732	693 734	617 199	570 302	549 416	521 921
Return on ordinary shareholders' equity (%)	11,1	14,4	10,3	9,8	15,25	11,3
Net asset value per share (cents)	697	633	563	516	497	476
MARKET INFORMATION AT 30 JUNE						
Ordinary shares in issue	108 469 165	109 547 165	109 547 165	110 449 804	110 449 804	109 615 732
Weighted average number of ordinary shares	108 831 677	109 547 165	110 254 438	110 449 804	110 303 273	109 008 923
Headline earnings per share (cents)	70,2	89,4	57,8	48,7	73,7	54,1
Market price per share (cents)						
– year end	595	499	410	175	300	935
– highest	635	540	411	399	950	1 125
– lowest	450	325	154	102	290	860
Number of transactions	3 645	3 351	3 102	2 590	2 791	5 194
Number of shares traded	36 835 543	39 048 010	53 051 163	38 982 708	29 177 344	55 073 751
Value of shares traded (R)	204 105 119	163 229 612	142 440 850	94 700 256	188 044 723	531 855 698
Percentage of issued shares traded	34	36	48	35	26	51
LIQUIDITY AND LEVERAGE						
Interest cover (times)	5,9	8,4	4,1	3,1	5,3	4,0
Net cash from (used in) operating activities	44 602	50 493	159 394	(88 507)	73 774	(138 113)
Current ratio (times)	1,4	1,6	1,5	1,6	1,5	1,6
PROFITABILITY						
Operating margin (%)	3,9	5,1	4,5	4,1	5,3	4,9
EMPLOYEES						
Number of employees	1 122	1 097	1 120	1 272	1 310	1 246

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

Organisational Overview

Group profile and history

Mustek Limited is a limited liability company founded by David Kan in 1987 and listed on the JSE in 1997.

Up to 2008, Mustek focused on its proprietary Mecer brand of PCs, notebooks, servers and peripherals, along with limited distribution of printers and consumables. Locally assembled Mecer PCs are custom-built to end-user requirements, and the Mecer brand remains one of the best-selling PC brands in South Africa.

The Group then took a strategic decision to adopt a horizontal growth strategy and to reposition Mustek as a broad-based distributor of premium-brand ICT and technology-related products. Essentially, this broad-base distribution strategy incorporates any product that utilises computing or is related to computing. Mustek embarked on an aggressive product expansion programme and now boasts an impressive range of premium brands.

Mustek has a comprehensive infrastructure for a national support network, and branches offering the full range of service including distribution, service and repairs are located at its head office in Midrand and in Cape Town, Port Elizabeth, East London, Durban, Bloemfontein, Kimberley and Nelspruit.

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.

Awards and recognition

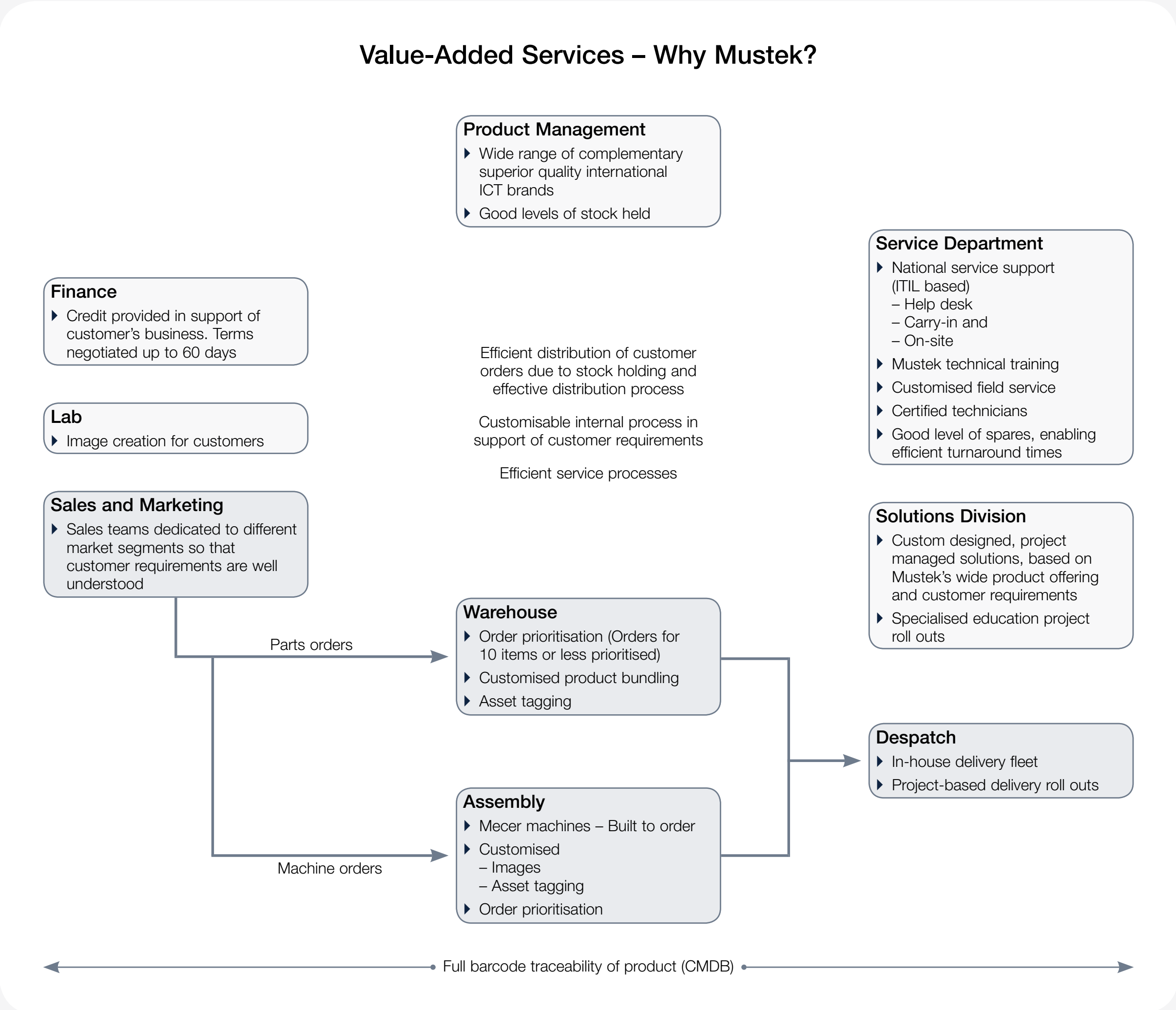
- Mustek won the Sake 24 award for best financial results advertisement.
- Andrada Manu, APC Product Manager Mustek, was conferred the award for Outstanding Sales of the Year for Southern Africa, as well as APC Product Manager of the Year for Africa.
- Mustek won the Epson Distributor of the Year award.
- Epson – The Rising Star Award was conferred on Shaun Battis (Epson Product Manager at Mustek).
- Mustek won the Microsoft – OEM Hardware Partner of the Year award.
- Rectron was named Distributor of the Year, resulting from an independent survey of South Africa's resellers.
- Comztek won the coveted Symantec Distribution Partner of the Year award 2012.

Business model

Originally founded to market and distribute the Mecer PC brand, Mustek leveraged its industry-leading logistics network to add in a growing range of complementary ICT brands and products. These products are carefully chosen so not to take away or 'cannibalise' existing ranges, but rather to engage new customer segments and adjacent market niches.

Mustek's post-2008 business model is proving successful and sustainable, as Mustek is able to provide an end-to-end distribution and support service, from when the product is sourced, right through to support and repair.

To support this business strategy, Mustek is continually looking to enter into complementary sectors, such as – for example – solar power technology.



Organisational Overview *(continued)*

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 macro-economic 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 – achieved 2012	KPI – target 2012	KPI – target 2013	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	R163,14m	R188,57m	R169,96m	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	R4,14bn	R4,17bn	R4,53bn	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	11,06%	14,78%	12,29%	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 skills development ▸ Preferred procurement from BEE suppliers ▸ CSI spend focused on education ▸ ED spend focused on the provision of expertise and on customising credit solutions for SMMEs	Level 3	Level 4	Level 3	Continually ensuring that the BEE strategy is a genuine value-adding process for all parties concerned

Material issues	Objectives	Key activities undertaken to date	KPI – achieved 2012	KPI – target 2012	KPI – target 2013	Benefits of the strategies
Carbon reduction	Reduce carbon emissions	▸ Completed and reported first carbon footprint in January 2011	9 426t CO_2e	8 150t CO_2e by 2014	8 150t CO_2e by 2014	Reduced carbon footprint
Energy consumption	Reduce energy consumption	▸ Published corporate energy policy ▸ Procured equipment with low energy ratings	3% kWh energy saving	9,2% kWh energy saving	20% reduction by 2014	Cost savings and reduced carbon footprint
Waste management	Increase recycling	▸ Increased number of waste streams being recycled ▸ Reduced landfill	58% of waste recycled	60% of waste recycled	60% of waste recycled	Reduce landfill

Organisational Overview *(continued)*

Stakeholder engagement

We are working hard at improving our engagement with our shareholders and investment community, our customers, the media, the community, our employees, suppliers, bankers and the government. We need to deepen our engagement and dialogue with them and speak openly on important industry issues. We've also made it a priority to partner proactively with them in appropriate areas. Stakeholders are selected on the basis of their material impacts on, or inputs into, Mustek.

Stakeholder	Method of engagement
Shareholders and investment community	▸ Annual general meeting ▸ Presentations at investor forums ▸ Meetings with investors and analysts ▸ SENS ▸ Company's website ▸ Integrated report ▸ Interim results
Customers/resellers	▸ Improved online portal with greater self-service capability (Dealernet) dedicated website portal ▸ Active engagement and communication via weekly e-mailers (mailman) ▸ National Product Roadshows ▸ Sales team via telephonic and e-mail communication
Media	▸ Press announcements ▸ Product reviews ▸ Presentations ▸ Briefings ▸ Roadshows ▸ PR agency
Community	▸ CSI initiatives ▸ Learnerships ▸ Environmental initiatives ▸ Waste recycling projects
Employees	▸ Formal induction course ▸ Meetings at operational and executive management levels ▸ Intranet
Suppliers, bankers, government	▸ Regular ad hoc meetings

What to expect – key ICT trends in 2012/13

Microsoft and Intel's response

The new 'tablet' category that emerged cut deeply into the traditional desktop and laptop PC segments, which fell back into single-digit growth.

This proved to be a major wake-up call for the Microsoft Intel (Wintel) technology collaboration, which responded by releasing standards for a new range of notebooks called 'ultrabooks'. Ultrabook models are being launched by most major PC manufacturers from mid-2012 and must comply with a specific Intel standard, of which the main features are a low-voltage Intel Core processor, a frame no thicker than 22 mm, at least five hours of battery life, and fast boot times.

Fitted with touchscreens, the ultrabooks will run Microsoft's revolutionary Windows 8 operating system, which integrates 'touch' and gestures as key user interfaces. Windows 8 is intuitive for users and has the processing power and physical keyboard input to generate content easily.

Microsoft's 'three screens' counter strike

Besides its integral involvement in the ultrabooks campaign, Microsoft positioned itself by launching Windows 8 in October 2012 in conjunction with its Surface Tablet, which is pitched directly against other tablets. The Surface will offer competitive advantages such as a microSD card slot for added storage capacity and a neatly designed cover/keyboard that integrates with the tablet to make it an effective netbook or notebook replacement.

In October 2012, Microsoft also launched its Windows 8 Mobile platform for smartphones, with Nokia and other major cellphone manufacturers such as Samsung, Huawei and HTC all committed to releasing Windows 8 models before the end of 2012. This incoming wave of Windows 8-based software and hardware platforms enables Microsoft to offer an integrated computing and communication platform across the entire range of digital user interfaces, with commercial users likely to select up to 'three screens' from desktops, notebooks, tablets and mobile phones.

Microsoft continues to overwhelmingly dominate the commercial desk space with its Microsoft Office software and Windows operating system (OS) desktop computers or notebooks.

Until the launch of Windows 8 – which is Microsoft's most revolutionary OS update since Windows 95 – Microsoft competed mainly through software. Now Microsoft clearly intends competing through hardware as well. This is exacerbated by the fact that Windows 8 can run efficiently on older hardware – another shift from previous Microsoft policy, which compelled hardware upgrades. At Mustek, we don't see this slowing our own hardware sales, due to many corporate users having held onto ageing XP OS hardware for years beyond the usual upgrade cycle.

How will corporations respond to Windows 8? Many still on the venerable XP operating system may decide to leapfrog Windows 7 and upgrade directly to Windows 8, as the new OS supports traditional mouse and keyboard operability. It is expected that Windows 8's robust 'touch' functionality will initially be embraced mainly by general consumers, as touch screens are still relatively expensive, though will inevitably drop in price in coming years.

Company information officers (CIOs) and IT departments will be especially attracted to Windows 8, with its integrated services across all devices and security features more advanced than those of competitors.

The beginning of the end of the mouse? Touch, gestures and voice

For nearly 40 years, the humble 'mouse' has been a vital part of the human interface with computers. But notebook trackpads started weaning users away and Apple's revolutionary iPad, with no mouse option at all, accelerated the trend toward on-screen touch. Microsoft's new Windows 8 OS is primarily based on touch, but with some voice capability, yet still supports traditional mouse and keyboard interaction.

At a developer conference in San Francisco in September 2012, Intel sponsored another long stride into the future of computing by unveiling a kit that will enable developers to create gesture, facial and voice recognition applications for Intel-based computers. With processors becoming powerful enough, the envisaged 'perceptual computing' will allow people to simply ask their computers to open a document, play a song, search the Internet, or post a picture to Twitter and Facebook, all without having to type on the keyboard, tap a touchpad or touch the screen.

The first Intel Perceptual Computing Software Development Kit (SDK) beta is geared towards ultrabooks and PCs using Intel's Core processor.

Ultrabooks are expected to come into their own in 2013, when Intel will release the fourth-generation Intel Core processor family, codenamed 'Haswell', which is expected to provide twice as much power as the current Intel Cores at the same battery life, or will offer the same power with double the battery life. This would enable 'all-day computing', with ultrabook users not needing to recharge for a full working day.

Cloud computing – a threat or an opportunity?

Another growing factor is the advent of 'cloud computing', with its potential for storing and manipulating corporate data on off-site servers. Keeping company data 'in the cloud' offers security from hacking, improved data manipulation, lower hardware costs and business services, less demand on staff and IT expertise, as well as shared costs for continually improving business services.

We foresee that over the next three to five years, many large companies will initially test the cloud by using it as a backup rather than for primary storage. In South Africa, bandwidth and broadband speeds will continue to inhibit cloud adoption, while as data hacking becomes more sophisticated, database security remains a concern. Most often the weakest link in data security is human rather than technical, therefore offsite backups remain essential.

Africa's bandwidth rolls out – slowly

Although broadband delivery into Africa is growing by leaps and bounds, it needs networks and 'last mile' infrastructure to get into the businesses and homes of consumers. While this is being rolled out, Africa is still years away from leveraging all the bandwidth now being piped into the continent. As a consequence, Internet access and data still takes between 30 to 40% of company ICT spend. When this figure is brought down to 20% and below, demand for new hardware would certainly accelerate.

Digital innovation in Africa

Africa's younger generations are fast turning to technology and, in many instances, are completely bypassing the traditional PC or notebook by designing or utilising apps that allow them to do banking and other business transactions through their mobile phones. Although content generation remains difficult on these smaller devices, Samsung's Note, a larger smartphone issued with a stylus and the capacity to digitalise drawings and handwriting, has proven surprisingly popular. Ideally suited to the African market, it may well spawn a 'phablet' generation of devices halfway between smartphones and tablets that could take market share from notebooks and tablets.

Global trends

Chronic financial instability in many leading economies will probably persist for at least the next five years until the underlying causes have been worked out through the global economy. At this time Europe is the key problem area, the USA is gripped by its presidential election, while previously rampant Asian economies such as China and India are slowing down.

Fortunately, Mustek has little direct customer exposure to these economies and we have the size and flexibility to adapt to major macro-economic events.

Global ICT growth

According to research published by Gartner, the world's leading IT research company, worldwide IT spend grew by 7.9% in 2011. Gartner forecasts that growth in global IT spending will slip to 3% in 2012.

Strong IT growth in Africa

By contrast, IT spending in Africa continues to show robust growth, with Gartner expecting 11% in 2012. This is due to continued strong economic growth in sub-Saharan Africa.

In recent years, African desktop or notebook users typically spend 70% on Internet connectivity and 30% on hardware. As connectivity costs reduce, users will have more disposable income for hardware. Falling costs and improving ICT infrastructure and computer literacy skills over the next 10 years will accelerate the growth of personal computing across Africa.

Growing bandwidth and falling prices will accelerate hardware demand

Although broadband capacity piped into southern Africa has grown exponentially in recent years, its roll out to end-users is hampered by lack of delivery infrastructure, high costs to consumers, regulatory inefficiency and the relative poverty of millions of potential consumers. Network operators and Internet service providers are now collaborating to develop terrestrial networks connecting to the undersea cable network.

Growth will be achieved as terrestrial networks expand and prices for fixed and mobile broadband fall. Over the next three to five years, revenue growth will come from data services that add value and new users joining networks as these expand.

This will, however, depend on regulators being reasonably quick in unlocking spectrum and licensing new technologies.

Chairman 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 with the Occupational Health and Safety Act.

Compliance with environmental requirements.

Financial highlights

Revenue from continuing operations increased by 20,9% to R3,503 billion (2011: R2,897 billion), while the gross profit percentage reduced to 14,3% (2011: 14,9%). This result can be ascribed largely to adding the Acer and Lenovo product ranges in this financial year, which helped grow revenue but decreased margins, as these products are typically sold at lower margins.

Included in the profit from operations figure is R47,8 million relating to realised and unrealised foreign exchange losses.

Mustek's headline earnings from continuing operations was 71,37 cents per share and basic earnings from continuing operations came in at 74,89 cents per share.

A need for increased working capital raised financing costs in this year. Distribution, administrative and other operating expenses were tightly controlled, and increased by just 6,2%. An increased focus on working capital management will reduce finance costs.

Rectron grew its full-year revenue by 5,7%, which was satisfactory after the decline of 6,5% in the six months to December 2011. This was against the background of a new executive team taking the reins at Rectron, with Lindi Shortt appointed as CEO.

Comztek's overall performance was disappointing, although its broader Africa operations grew by 30% and delivered profits well above budget. A major setback was Microsoft's appointment of a second distributor of its Xbox console and games, which reduced Comztek's share of that market.

Dividend

The final dividend declared by the Board of Directors for the financial year ended 30 June 2012 remained unchanged at 17 cents per share.

economic performance

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

Exchange rates and the Reserve Bank

The South African Rand is among the world's most volatile currencies, which makes business forward planning difficult, particularly for those companies operating in the import and/or export markets, or needing to source products from abroad.

Mustek uses the Rand/USD spot rate at the beginning of each month to determine its selling prices, with adjustments made during the month should the exchange rate change substantially. Inventory is accounted for at the exchange rate at the time when risks and rewards transfer to the company and accounting standards do not allow the fair valuation of inventory, but require the corresponding foreign accounts payable to be stated at the closing spot rate. As long as this is the case and the Rand remains as volatile as it currently is, reported earnings will be in line with the volatilities of the Rand.

Price war among network providers – the consequences

Until now, the major cellphone (mobile) network operators such as MTN and Vodacom have controlled the distribution of cellphones, as these were typically linked into contracts and subsidised to keep consumers loyal to their chosen network provider. But over the past year Cell C is aggressively growing its market share by sparking off a price and contract package war. Cell C has rather cleverly cut its call charges and enabled clients to customise their contracts in a manner that allows them to include their handsets, or bring their own.

I foresee the fallout being that the network operators will no longer control the supply of cellphones to end-users, as the major cellphone brands will turn to established distributors to channel their handsets to the marketplace. As one of South Africa's leading IT distributors – with a 25-year track record – Mustek is well-positioned to offer a competitive service when the opportunity inevitably arises.

Gazetting of the ICT Charter

In planning since 2003, South Africa's ICT Charter (sector code) was gazetted and became legally binding on entities in the ICT sector until 30 April 2026, with the mid-term five-year review scheduled for 30 April 2017.

Key points in the charter are:

- a black ownership target of 30% to be achieved by entities in the sector, including multinationals;
- a set target of 5% net profit after tax to be spent on enterprise development initiatives aimed at developing black-owned ICT enterprises; and
- a spend of 1,5% of net profit after tax on socio-economic development initiatives to improve the lives of communities and bridge the digital divide in the country.

The ICT Charter includes a sector-specific scorecard for determining the BEE scores of enterprises in the ICT sector.

In August 2012, Mustek's BEE rating was assessed for the first time against the ICT sector code, which sets higher BEE benchmarks than the generic code against which previous assessments of Mustek were done. These more rigorous standards notwithstanding, Mustek improved its BEE rating from Level 4 to Level 3, which shows that our efforts to comply are well on track.

Consolidation of distribution network

The obstacles faced by small business are contributing to a trend we have been experiencing in recent years, in which many of our distributors are consolidating into larger tier 1 or 2 distributors, probably due to the rising costs of doing business and the consequent squeeze on margins. Although this trend isn't good for small business, it hasn't negatively affected our sales margins. If anything, having fewer but larger distributors is easier to administer.

Mustek revenue growth in 2012

During this financial period, Mustek brought in major new brands to our stable that included Acer, Huawei and Lenovo, while Rectron clinched the Canon agency. These new brands have enabled Mustek to appeal to a wider range of consumers.

Acer, Lenovo and Toshiba offer quality choices for customers seeking generic technology products, while those with specific requirements can engage with our Mecer division for configurations built to their exact specifications.

As a consequence, we anticipate increasing our market share and the average spend per customer by building on our industry-leading after-sales service and support programme.

With the South African government committed to major infrastructure development across the country and the National Development Plan approved, we expect robust public sector spending on ICT equipment in areas such as health, education and security, particularly as we offer specialised solutions in those areas.

Stakeholder engagement

We at Mustek maintain regular communications with our stakeholders, as their input is vital to the Group remaining profitable and sustainable. Our salespeople and the distributors and resellers that market and move our products are particularly vital stakeholders, and we pay constant attention to their feedback. This stakeholder group offers us the market intelligence that guides us in sourcing the right products and identifying weak points in our supply chain. Mustek has already commenced on a more formal and upscaled stakeholder engagement process.

Delisting from Taiwan Stock Exchange

In 2003 Mustek listed on the Taiwan Stock Exchange (TSE), primarily to increase our international brand recognition, and to raise capital in international markets. In subsequent years, the initial 20 million Taiwan Depository Receipts (TDRs) have dwindled, as the Depository Receipt holders took advantage of price differentials to make profits by converting and selling the TDRs back on the JSE.

Maintaining the Mustek Depository Receipts on the TSE was proving expensive due to Taiwan's reporting legislation and accounting standards being different to South Africa's. For the sake of transparency, investor communications and Company reports had to be translated into Chinese for the simultaneous release in both markets, which was a logistical headache.

Recently the TSE passed a new regulation requiring listed companies there to maintain a minimum of 10 million TDRs on the bourse, which placed Mustek in the position of having to issue new TDRs to replace those that had left Taiwan.

We weighed up the management time spent on the Taiwan listing and the associated costs of listing fees, translation, audit fees and publication against the liquidity of the receipts, share prices and the potential for dilution if more TDRs were issued.

In the balance, the Board decided to end our Taiwan listing from 27 August 2012 and delist our remaining TDRs. This action had no effect on the trading of Mustek shares on the JSE stock exchange.

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

Operations elsewhere in Africa

Mustek is the 100% shareholder in Mustek East Africa, which is a small but vigorously growing ICT company based in Kenya. Although its contribution remains small, we are pleased by its steadily improving performance and see real potential for further growth.

Mustek Zimbabwe has survived an especially challenging decade, but appears to have turned the corner and is rebuilding off a low base. We recently exercised the option to repurchase a 28% share, and look forward to trading conditions there improving further.

Mustek was a founder shareholder in Zinox, an ICT company in Nigeria that operates on a similar business model to Mustek and, through organic growth and acquisitions, has expanded to a similar size to Mustek. After a rights issue in recent years, our shareholding has shrunk to 12%. As we have no supply or trading connection with Zinox, we will dispose of the shares when the opportunity arises and the timing is appropriate.

Forward-looking strategies

Mustek will continue growing the Group in accordance with our operating model, which again proved to be on the right track. Adding in high-profile brands such as Acer, Lenovo and Canon to our product portfolio has offered increased choice to the consumer and increased product volumes. We take care to introduce brands that will not cannibalise sales from existing brands such as Mecer, Brother and Toshiba, which in this instance proved correct, as Mecer, Brother and Toshiba continued to grow their annual sales.

Another recently acquired brand, Huawei, offers immense potential through its wide range of well-priced products and the considerable sums it invests into research and development (R&D). Although expanding aggressively around the globe, Huawei is not yet well-recognised in South Africa, but with focused marketing and keen pricing, we believe that Huawei will make significant inroads.

In the quarter century since our founding, Mustek has developed one of South Africa's most efficient distribution networks, which is capable of handling larger volumes of product than at present. Logic dictates that we should continue seeking complementary products to take advantage of the potential economies of scale. One possibility is solar power technology. Another is a potential distribution of mobile phones, as discussed earlier in this commentary. We already offer a portfolio of security technology products and are confident of expanding this business.

Product service and repair

As Mustek developed and broadened our in-house range of Mecer desktops and notebooks, we established a service centre network to support them. In recent years we have been certified to service and support the complementary brands brought into the Mustek stable, such as Toshiba, Acer, Lenovo and Brother printers, among others. In effect, our service 'cost' centres have become 'profit' centres. This capacity is a key advantage that Mustek enjoys over our competitors in the South African marketplace, as their products are sent for maintenance and repair to third-party contractors with considerably slower turnaround times.

Mustek will further leverage our service network by becoming authorised service and support centres for current and incoming brands that we distribute.

Mustek is also a 36% shareholder in Khauleza IT Services, a company that provides ICT services and support. We believe that our support of Khauleza will be rewarded with a growing share of maintenance and repair business in South Africa's public and corporate sectors.

Mustek's 25th anniversary

Over a quarter century, Mustek has progressed from an unknown start-up to the most recognised local brand in South African ICT. With the Group financially sound and continuing to grow, this proves the sustainability of our business model and is a testament to the sheer hard work and loyalty of our core managers and staff members.

Mustek has progressed far beyond assembling and distributing hardware, having evolved into taking ownership of the whole ICT value chain, by offering customisable business and lifestyle solutions. We are committed to South Africa and its future, which we support by addressing critical ICT skills shortages through nationwide training programmes and e-learning initiatives.

Sale of shareholdings in Comztek and Rectron Australia BV

The Mustek Board took a strategic decision to dispose of its shareholdings in these two companies. Mustek obtained its stake in Comztek when we supported a management buyout, but we have decided that being the minority shareholder does not fit with the Group's forward strategy, so will rather exit to focus on other opportunities. As regards Rectron Australia BV, the Board's decision is that the company is geographically too distant and small to justify the management focus it takes up. We are confident of finding suitable buyers within the next 12 months.

Corporate governance

Under the leadership of the Chairman and the Audit Committee, the Board re-examined all management and corporate governance structures against the requirements of the revised Code of and Report on Governance Principles for South Africa (King III). Where necessary, the relevant changes were implemented. In line with King III, a Social and Ethics Committee at Board level was established in April 2012, and it held its first two meetings before the end of the financial year.

During this period there were no changes to the directors of the Board, which means that a settled and well-informed team is guiding Mustek into the 2013 financial year.

Appreciation

The fact that Mustek continues to make solid progress in developing our business model and generating profits in the context of a highly unstable international economic climate, again shows the hard-working commitment and loyalty of the entire Mustek team – from bottom to top. The Group is blessed to be staffed by a willing and stable workforce, as proven by our low employee turnover rate and remarkably sound labour relations.

To our employees and various stakeholders – ranging from investors, salespeople, distributors, and all those consumers who add value to their lives by using our products – we thank you for your steady loyalty and support. In this next financial year, we will work harder and smarter to bring the new products and services to you that are making this Information Age such an exciting era to be living in.

Yours sincerely

DKonar

Dr Len Konar	David Kan
Chairman	*Chief Executive Officer*

Corporate strategy

Vision and mission

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.

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 by continually nurturing the entrepreneurial spirit of our people and business associates.

Operational Review

Operational divisions

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. Mecer produces a range of desktop PCs, notebooks and accessories, as well as custom-built computer systems specified by clients.

As the only brand produced in-house by Mustek, Mecer operates a production line that includes assembly, testing, quality control, checking and packing. It has an average output of 400 units per day, which can be increased to 700 per day without requiring overtime work. January through to April is the busiest time, during which Mustek produces approximately 16 000 Mecer units per month – an average of 735 units per day.

Quality assurance lab

The Mustek Electronics Quality Assurance Lab was developed to create a sophisticated information and communication infrastructure. The aim of the lab is to supply and research information to supply a better product, create better product knowledge, and offer better product support. In return, all departments benefit from the information generated.

Service

The effective handling of warranty and post-warranty repair services can be a key differentiator between distributors, especially in South Africa.

Mustek has state-of-the-art repair workshops that are authorised by many leading ICT brands to service and repair its products.

The Mustek Service Centre has a large PC board component level repair facility at Midrand, with advanced facilities for activities such as testing, de-bugging, applying Engineering Change Orders, Bios flashing and EPROM reprogramming.

Rectron

Rectron's core business is the importation and distribution of computer components to computer dealers, resellers and systems integrators. Rectron is widely recognised as South Africa's leading ICT and consumer electronics distributor.

Major brands distributed by Rectron include: Gigabyte, Intel, Microsoft, Samsung, Sony, Transcend, Tomtom, Seagate, LiteON, PCM, Acer, AMD, Corsair, Epson, Leadtek, Western Digital, ZyXEL, Luxa2, Symantec, AOpen, Envision, Imation, Panasonic, Partner Tech and LG.

Rectron conducts its business through three divisions, each focused on a particular segment of the business. These divisions are the:

- Consumer Business Group;
- White Box PC Business Group; and
- MNC Business Group.

Highlights

The 2012 financial year was a period of fundamental renewal for Rectron. After the resignation of longstanding CEO Mark Lu and several senior executives, Lindi Shortt was appointed as the new CEO together with a new executive team.

The new brooms wasted no time in sweeping clean, with Rectron rebounding from sub-optimal results in the first six months to a stellar performance in the last two quarters. This turnaround provides a foundation of excellence for significantly improved performances in coming years.

Much emphasis was placed on staff morale, work environment, productivity and realigning the workforce to a shared set of goals. The result was a harmonious team spirit, with fewer HR issues and staff resignations.

Building the product portfolio

Highlights were the gaining of the Canon brand in February 2012 and signing up Corsair in June 2012. Corsair's range of high-performance computing hardware will expand Rectron's offering of higher margin products in the lucrative gaming

Operational Review *(continued)*

market, among others. Rectron will also distribute Mustek-aligned brands such as Brother, D-link and Huawei into specific niche markets. RCT – Rectron's in-house brand – is a growing contributor to the overall product pool. In this period, Rectron re-established its agreement with Samsung as one of only three tier 1 distributors in South Africa. It remains the sole local distributor for Gigabyte products.

Optimising the inventory and resolving operational issues

The incoming executive team addressed certain inherited issues that were inhibiting business performance. The result is improved control systems for stock forecasting and timely accessing of forex. Rectron also tackled the issue of ageing stock and reduced the capital tied up in inventory.

Automated storage system

A key competitive advantage is Rectron's automated warehouse, which is among the most advanced of its kind in the southern hemisphere. Installed at Rectron's primary distribution centre in Midrand, Gauteng, the system is capable of storing 3 050 pallets, utilising seven cranes running simultaneously and covering three metres per second. A 12-metre container can be loaded or unloaded in just 30 minutes.

The automated storage system is designed for drastically minimised vibration, which is essential for handling sensitive components like hard drives.

Outlook for the year ahead

Staff morale at Rectron has never been higher and the entire operation is committed to achieve its targets. One major initiative is a partnership with Sony SA to establish Sony Service Clinics across the country – repair and maintenance facilities for consumers to have any Sony device serviced or repaired free of charge, or at significantly reduced prices.

The company also intends boosting the Rectron experience with new, hi-visual signage at its main branches, as well as setting up high-tech service lounges.

Comztek

Comztek is a distributor and specialist services provider for the ICT networking and communications sector. It offers quality hardware and software that can be packaged to meet specific client needs in these fields. It can be described as a tier 2 distributor to resellers of integrated systems infrastructure.

The company is one of South Africa's leading names in networking and integrated communications and, in the last five years, has successfully expanded its services into 26 other African countries. Clients are serviced from its main Midrand offices; regional offices in Kenya, Mauritius, Namibia, Zambia and Zimbabwe; and its KwaZulu-Natal and Western Cape branches.

Comztek is a shareholder in Netshield, a South African research and development house that specialises in the networking, datacom, telecom and Free Space Optical laser communications environments.

Financial performance

Comztek's overall financial performance in this period was disappointing, primarily due to losing the sole distributorship in South Africa of Microsoft's Xbox console and the associated games. Microsoft had given fair warning of its intention to introduce a second distributor, but the consequence was a 35% loss of market share in Comztek's single biggest retail consumer line, which makes up between 15 to 20% of the company's revenue. To regain profitability, Comztek restructured its retail operation and unfortunately had to reduce the headcount by 12%.

On a positive note, Comztek's cross-border revenues grew by 30%, delivering more than double the budgeted profit.

Key risks, opportunities and strategies

About 70% of Comztek's business is still done in South Africa, although growth here is slow in what is a relatively developed market for Africa. As the company expands its operations outside into other African economies, it is finding that the comparative lack of ICT infrastructure there is translating into promising growth opportunities. It is anticipated that the size of Comztek's cross-border operations will equal or be bigger than its South African returns within the next three to five years.

There is a certain degree of currency risk, which is implicit in any export business, but the company has the safety of dealing in a basket of currencies rather than just Rand or US Dollars. This is also true of our business model, which is aimed at many countries rather than being confined to South Africa's sluggish economy.

The new Internet undersea cables that have landed on Africa's western and eastern seaboards – with more under way – offer massive opportunities for Comztek, as it specialises in providing the hardware and systems for linking networks and infrastructure to these cables. It intends being one of the major providers as infrastructure is rolled out to distribute this bandwidth.

Doing business in Africa can be challenging, particularly for new companies entering these markets but, after five years, Comztek is well established and knows the ropes for doing successful business in these regions.

Outlook for the forthcoming year

Mustek has stated its intention to sell its 42% shareholding in Comztek during the next 12 months and Comztek remains confident that its investment proposition and prospects are appealing enough to attract a suitable buyer. It is hopeful that the right investor will add value through vision, management support and possible investment into expanding operations.

Comztek has developed a unique and effective distribution model in Africa that is well suited for additional brands wanting to enter these markets, but which lack the expertise and experience to do so. It is in the strategic position of being able to market and distribute hardware and software brands across 26 African countries. This unique selling proposition has already attracted the attention of several top ICT brands and discussions are under way.

Mustek in Africa

Mustek exports to, or has operations in, 17 African countries. Its Export division develops and manages the Group's export drive into Africa, which focuses on long-term business relationships, quality and logistics to give Mustek the competitive edge. Mustek's distribution channels and dealer support systems are undoubtedly the quickest and most comprehensive. Typically, two to three top dealers are selected in each country, and support each other through marketing and sales campaigns, assistance with import/export legalities, on-site stockpiling of spares and rapid supply of products by air or road. Mustek can assemble and deliver orders within two days, whereas competitors are often limited by delivery times of six weeks or more.

Nigeria

Mustek has a 12% shareholding in Zinox in Nigeria, which is a dominant West African brand. As a minority shareholder and with no trading or supply agreement in place, Mustek will dispose of this asset when a suitable opportunity arises.

Zimbabwe

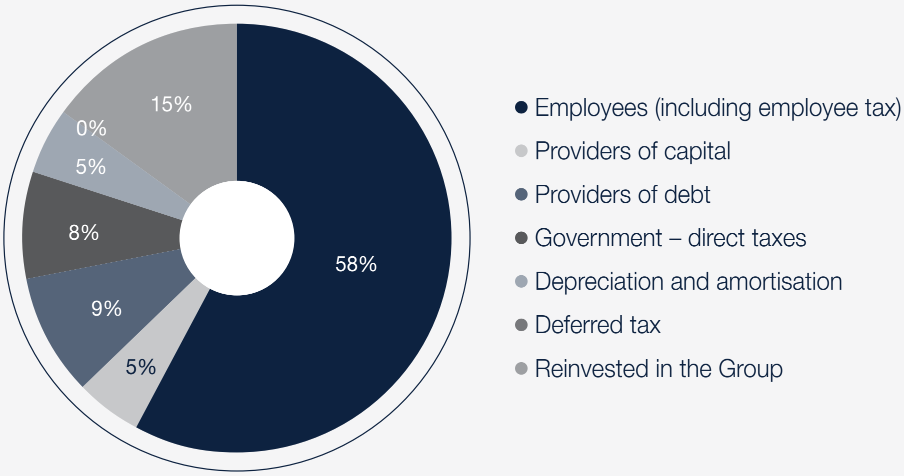
During Zimbabwe's hyper-inflation period, Mustek Zimbabwe was sold to its management team for a nominal amount, while retaining an option to repurchase a 28% shareholding, again for a nominal amount. This option was exercised during December 2010. Mustek is pleased to report that Mustek Zimbabwe is beginning to thrive again, as that country's economy slowly improves.

Kenya

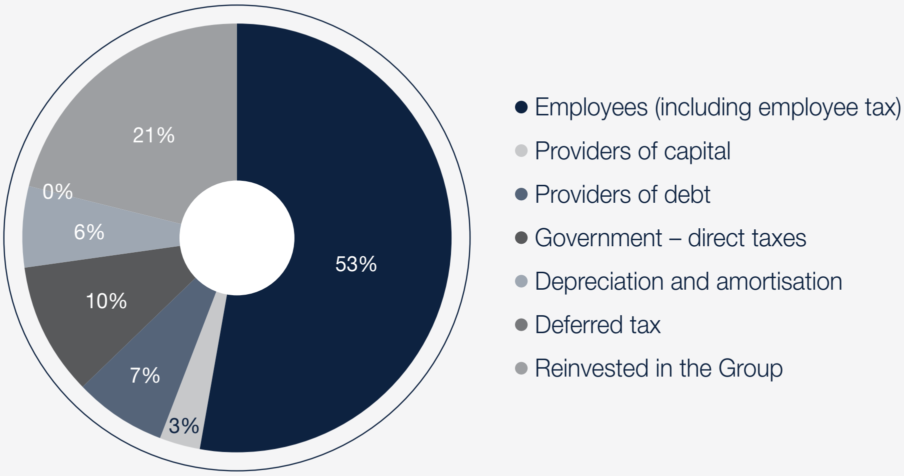
Mustek East Africa is showing promise, as it returned to profitability in the year under review. With the East African economies growing consistently at above 5% per annum, it is anticipated that this operation will deliver improving results in the coming years.

Value Added

2012
Value added



2011
Value added



communication technology

Sustainability and Social and Environmental Reporting

Approach and sustainability journey

Sustainability is central to Mustek's business model and we consider not only issues of financial sustainability, but also those relating to the environment, social impact and the principles of good governance. While the Group already addresses key areas of our 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.

Sustainability focus areas

Our people

Labour relations

Every Mustek staff member has received training in all Mustek policies. These policies comply with human rights in terms of South African labour law requirements which embody human rights. No incidents of discrimination within Mustek were recorded in the past financial year, no forced or compulsory labour was applied, there were no incidents regarding violations of the rights of indigenous people, and no grievances were filed related to human rights. No human rights reviews or impact assessments have been undertaken with Mustek staff.

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 our South Africa-based employees, managers and executives. Clear explanations of disciplinary and grievance procedures are made available to our employees at all Mustek workplaces.

There are no collective bargaining agreements in place between employees and Mustek. In terms of benefits, full-time employees are provided with membership to the Company pension fund, while temporary or part-time employees are not. Mustek has a 100% score in the return-to-work and retention rate after parental leave.

Our 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.

We have 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 our 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 us for over 20 years. This bears testimony to the fact that we remain a preferred employer for many of South Africa's talented ICT professionals.

Health and safety

Four per cent of Mustek's staff are represented in formal joint management-worker health and safety committees, which help monitor and advise on occupational health and safety programmes. Our rates of injury, occupational diseases, lost days, absenteeism, and number of work-related fatalities are currently not being measured and recorded. In terms of education, training, counselling, prevention, and risk-control programmes are in place to assist workforce members, their families or community members regarding serious diseases, and 100% of our staff are trained on wellness annually – with a specific emphasis on HIV transmission and prevention. No health and safety topics are covered in formal agreements with trade unions.

Mustek conforms to all applicable health and safety legislation and we conduct our 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.

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.

HIV/AIDS and the workplace

For nearly a decade, we have conducted a comprehensive HIV/AIDS strategy and programme, based on the core principle that the human rights and dignity of any employees infected by the virus should, at all times, and under all circumstances, be upheld. The approach also recognises the need to educate all our employees regarding HIV/AIDS 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.

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 our staff allows us 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 we reclaim our full development levies every year.

The Group develops skills and talent from within the ranks of our 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, we regularly sponsor 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 us. Upon completion of the programme, we offer employment opportunities to those ‘graduates’ with the appropriate skills to fill any vacancies that exist in the Group. Those not immediately employed by us generally find work within the industry due to their Mustek-sponsored IT training.

We also continue our popular and successful adult English literacy programme for staff whose first language is not English.

Our progressive education and training vision benefit not only the Group, but also the broader South African economy.

Identifying future leaders

Mustek is passionate about the development of our future leaders. We continually develop in-house and tailor-made programmes with the golden thread of connecting the Company strategy throughout everyday work and leadership.

Our programmes start at an entry Foundation level, followed by Jump (junior management). This facilitates continual learning through self-awareness, as well as on-line coaching and training that cultivates leadership capabilities. We support our future leaders with the day-to-day application of newly acquired soft and technical skills. There are currently 18 employees being developed at the Foundation level, and five employees on the Jump initiative. A Mustek certification will be awarded once a candidate has successfully completed the training course.

Sustainability and Social and Environmental Reporting *(continued)*

All of our staff receive regular performance and career development reviews, on a quarterly basis. The average hours of training per year per employee are not recorded at present.

All our security personnel are also trained in Mustek's values and aspects of operations.

Diversity and equal opportunity

Mustek staff complement

Mustek has an Employment Equity Committee, comprising the following Mustek staff:

Name	Gender	Diversity
Mdu Gama (Chairman)	Male	African
Michael Cameron	Male	White
Hein Engelbrecht	Male	White
Alton Calvin	Male	Coloured
Tarisa Joubert	Female	White
Gail Vorster	Female	White
Marietjie van Zyl	Female	White
Letta Motlhape	Female	African
Innocent Komako	Male	African
Welcome Mbatha	Male	African
Alet Pelser	Female	White
Bethuel Ndhlovu	Male	African
Donald Nyarhi	Male	African
Yogeshinee Naicker	Female	Indian

Our workforce continues to reflect the diversity of South African society. Management at Mustek focuses closely on aligning our 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, we first seek to promote or transfer people from within our staff before advertising to the broader job market. Preference is given to individuals in Mustek from previously disadvantaged backgrounds.

Key employee indicators

Mustek Limited

Racial and gender profile

Race	Total	Race %	Female	Female %	Male	Male %
African	276	49,73	103	46,82	173	51,64
Coloured	68	12,25	25	11,36	43	12,84
Indian	40	7,21	12	5,45	28	8,36
Black subtotal	384	69,19	140	63,64	244	72,84
White	171	30,81	80	36,36	91	27,16
Total	555	100,00	220	100,00	335	100,00

Staff complement	Jun 12	Jun 11	Jun 10	Jun 9	Jun 8	Jun 7	Jun 6
Gauteng	373	362	341	440	426	372	397
KwaZulu-Natal	42	38	43	69	70	73	68
Eastern Cape	34	32	35	38	55	54	50
Western Cape	75	70	68	92	96	96	89
Free State	28	25	22	27	32	26	22
Mpumalanga	3	—	—	—	—	—	—
Total	555	527	509	666	679	621	626

Staff turnover	Gauteng (%)	KwaZulu-Natal (%)	Eastern Cape (%)	Western Cape (%)	Free State (%)	Company average (%)
June 2012	8,40	14,80	11,90	11,10	11,30	9,60
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

Sustainability and Social and Environmental Reporting *(continued)*

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 who took sick leave
2012	389	1 800	R1 075 675	555	70,09	4,63
2011	403	2 070	R1 090 263	527	76,47	5,14

Training expenditure	Budget	Funds used	% of budget used
Mustek training July 2011 – June 2012	R3 320 928	R3 008 844	90,60
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) Limited

Racial and gender profile

Race	Total	Race %	Female	Female %	Male	Male %
African	135	44,41	85	55,19	50	33,33
Coloured	33	10,86	14	9,09	19	12,67
Indian	38	12,50	21	13,64	17	11,33
White	98	32,24	34	22,08	64	42,67
Total	304	100,00	154	100,00	150	100,00

Staff complement	Jun 12	Jun 11	Jun 10	Jun 9	Jun 8	Jun 7	Jun 6
Gauteng	181	181	178	183	178	166	160
KwaZulu-Natal	50	44	44	44	45	44	43
Eastern Cape	44	15	15	15	12	16	16
Western Cape	15	52	50	49	54	55	58
Free State	14	14	14	14	17	17	17
Total	304	306	301	305	306	298	294

Staff turnover	Gauteng (%)	Western Cape (%)	KwaZulu-Natal (%)	Eastern Cape (%)	Free State (%)	Company average (%)
June 2012	22,10	10,00	15,91	20,0	21,43	17,89
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 who took sick leave
2012	275	1 634	R822 313	304	90,46	5,94
2011	63	140	R60 174	306	20,59	2,22

Training expenditure	Budget	Funds used	% of budget used
Rectron training July 2011 – June 2012	R1 750 000	R1 341 580	76,66
Rectron training July 2010 – June 2011	R1 850 000	R1 659 168	89,68
Rectron training July 2009 – June 2010	R1 450 000	R1 227 176	84,63

Sustainability and Social and Environmental Reporting *(continued)*

Comztek (Pty) Ltd

Racial and gender profile

Race	Total	Race %	Female	Female %	Male	Male %
African	60	38,96	31	37,35	29	40,84
Coloured	13	8,44	4	4,82	9	12,68
Indian	13	8,44	9	10,84	4	5,63
White	68	44,16	39	46,99	29	40,85
Total	154	100,00	83	100,00	71	100,00

Staff complement	Jun 12	Jun 11	Jun 10
Gauteng	136	143	148
KwaZulu-Natal	8	10	10
Western Cape	10	11	13
Total	154	164	171

Staff turnover	Gauteng (%)	Western Cape (%)	KwaZulu-Natal (%)	Company average (%)
June 2012	22,20	38,1	66,70	25,90
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 who took sick leave
2012	131	711	R448 167	154	85,06	5,43
2011	120	673	R363 572	164	73,17	5,61

Training expenditure	Budget	Funds used	% of budget used
Comztek training July 2011 – June 2012	R472 235	R424 894	89,98
Comztek training July 2010 – June 2011	R277 000	R240 927	86,97
Comztek training July 2009 – June 2010	R354 998	R166 263	46,83

Mustek environmental and climate change

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 environmental 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% over the next three years starting 2011	▸ 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 58% of Mustek's waste was recycled from July 2011 to June 2012.

Sustainability and Social and Environmental Reporting *(continued)*

Focus area	Objectives	Strategy	Impact on environmental issues	Achievements
Carbon reduction	▸ Assess and report Mustek's carbon footprint	▸ Measure carbon emissions for all three scopes (direct and indirect emissions). ▸ Consider lifecycle energy costs for all new projects. ▸ 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 9 426 tonnes CO_2e for the 2011 financial year.
Energy reduction	▸ Reduce energy consumption by 20% over the three years starting 2011.	▸ 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.	▸ Provided regular management reports on energy costs and consumption. ▸ Procured equipment with low energy ratings as far as possible. ▸ Reduced consumption of energy by 3,2% kWh units of energy delivered for the 2012 financial year.

Materials

Mustek markets and distributes finished products such as computer components and finished items such as personal computers and notebooks, printers, scanners, LCD screens, CCTV cameras etc. Mustek also assembles the Mecer range of PCs and notebooks from finished components.

A breakdown of the materials used in the products sold is thus not calculated by Mustek.

However, regarding direct materials, the total tonnage of product imported is:

Financial year	Tonnes imported
2011	2 722 tonnes

Energy

Mustek uses direct energy in the form of petrol and diesel.

Total direct energy consumption by non-renewable sources:

	Energy	Gigajoules (GJ)		
		2012	2011	2010
Scope 1 (direct)	Petrol	5 738	5 073	5 142
	Diesel (vehicles and generators)	1 698	2 001	1 731
Total		7 436	7 074	6 873

The intermediate or indirect energy purchased is electricity.

Indirect energy used:

	Energy	Gigajoules (GJ)		
		2012	2011	2010
Scope 2 (indirect)	Electricity	13 201	15 769	17 770

Compared to 2010, Mustek has saved 4 569 GJ of energy in 2012 in its efforts to reduce energy use and increase energy efficiency. This energy saving comes mostly from reducing electricity consumption by changes in personnel behaviour.

Electricity usage is Mustek's biggest contributor to CO_2 emissions and hence the initiatives introduced to save electricity also reduce the Company's carbon footprint. Mustek is supporting South Africa's drive to conserve electricity by implementing an energy policy to reduce its energy consumption.

Water

Water does not form part of Mustek's business processes and is used only for consumption by staff (washroom facilities) and irrigation. Water is 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. The volume of water used for 2011/2012 was 2 277 m^3.

Biodiversity

Mustek's leased properties are in developed business areas and do not impact protected areas. Similarly, Mustek's activities, products and services involve home and office environments and do not impact protected areas. However, there are no declared alien or invader plants on the leased properties, and Mustek uses external pest control contractors who are legally permitted pest control operators.

Sustainability and Social and Environmental Reporting *(continued)*

Emissions, effluents and waste

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 were submitted to the internationally recognised GCX 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 on-site) and Scope 3 (indirect emissions – other) – were included in the assessment:

- The carbon emissions were measured in accordance with the GHG Protocol: Revised Edition (WRI & WBCSD, 2004).
- As per the classification of the GHG Protocol, all Scope 1 and Scope 2 emissions were included in the report. Although optional, significant and relevant Scope 3 indirect emissions were included wherever possible.
- The equity share approach was used to consolidate all emissions within the specified boundary.
- All emission factors used were from DEFRA (2010) or IPCC (2007) unless stated otherwise.
- All emissions were expressed as CO_2 equivalents (CO_2e), which accounts for carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O) GHGs.
- Global Warming Potentials (GWPs) were taken from DEFRA (2010).
- Electricity grid emission factors were taken from Eskom (2010).
- Paper production emission factors were from Mondi Paper Profiles for 80 g/m^2 Mondi Rotatrim business paper (2009).
- The embedded carbon from pumping water was included as a Scope 3 emission in this carbon footprint calculation. Water factors were taken from Watergy (2002). The emission factor for paper that was recycled was taken from GCX (2010).
- Packaging emission factors were from the SA Fruit and Wine Calculator, IPW, 2010.
- Waste emission factors were from Catalyst R&D, 2008 and The National Greenhouse Accounts Factors, Australian Government, Dept CC, June 2009.
- An employee commute survey was conducted. Of the 533 Mustek employees, 282 usable results were obtained. These results were extrapolated for all Mustek employees.
- Mustek submitted all activity data used for the calculations to GCX.

Mustek staff attended training courses provided by GCX and then used this training and the 2010 report as a basis for calculating the footprint for 2011 financial year.

Direct and indirect greenhouse gas emissions by weight

	Emission	Metric tonnes CO_2e	
		2011	2010
Scope 1 (direct)	Stationary fuels	12,44	4,01
	Company-owned vehicles	939,96	1 349,26
	Other fugitive emissions	39,82	67,54
Scope 2 (indirect)	Electricity	4 511,77	5 084,24
	Subtotal	5 503,99	6 505,05

Other relevant indirect greenhouse gas emissions by weight

	Emission	Metric tonnes CO_2e	
		2011	2010
Scope 3	Business travel	20,01	87,72
	Employee commute	792,49	792,49
	Outsourced freight transport	136,09	16,45
	Imports	2 909,55	3 065,15
	Exports	0,05	—
	Packaging materials	12,3	18,85
	Water (embedded CO_2)	12,33	37,33
	Waste	36,84	329,09
	Paper usage	14,21	14,82
	Subtotal	3 921,58	4 361,9
	Grand total	9 425,57	10 866,95

All Mustek's emission reduction targets are voluntary.

Initiatives

1. Reduction of electricity is a key factor when targeting the reduction of Mustek's carbon footprint, and initiatives to reduce indirect energy (electricity) use include:
   - ongoing staff awareness programmes;
   - replacement of internal ICT equipment with energy-efficient units: up to 350 energy-efficient PCs have been rolled out across Mustek's branches;
   - replacement of obsolete plant equipment with energy-efficient plant equipment.
2. Use of renewable energy sources such as solar has been implemented in the replacement of old geysers with solar geysers.

   A project is also under way to place solar panels on the roof of the building in Midrand to reduce the consumption of electricity. It is Mustek's expectation that, with the use of innovative technology, the generation capacity reduction of the solar panels installed will have a significant impact on reducing the electricity consumed.
3. Improving the management of Mustek's waste is an ongoing project, focusing on the recycling of as many of the different waste streams as possible.

Sustainability and Social and Environmental Reporting *(continued)*

Reductions achieved

1. Mustek's operations generated a total of 9 426 tonnes CO_2e for the 2011 financial reporting period, a reduction of 13% from the previous year.
2. Electricity, indirect energy consumption, is the highest contributor, accounting for 48% of Mustek's carbon footprint. Electricity consumption has been reduced and the reduction in emissions is 11,3%.
3. Although not significant contributors overall, there have been reductions in emissions from waste – 88,8% – and company-owned vehicles – 30%.

A non-Kyoto refrigerant gas used at Mustek in air conditioners is Freon (R-22), which has ozone-depleting implications. As part of the management of plant equipment, old R-22 aircon units are being replaced as they fail with units containing non-ozone-depleting gas.

Emission	Metric tonnes CO_2e	
Other fugitive emissions	67,54	39,82

Mustek does not generate any significant air emissions, and water discharged from Mustek is from general office use only.

Waste

Total weight of waste by type and disposal method

Waste type	Volume (tonnes) 2012
Recycled waste	124,9
Waste landfilled	105,7
Electronic waste (recycled)	20,3

A waste management and disposal company is used by Mustek to recycle and dispose of its waste. The company used is certified to ISO 14001 and has staff on site at Mustek separating waste into different waste streams. Each stream is then collected and either sent for recycling or disposed of at a permitted landfill site and the tonnage per stream is reported back to Mustek.

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

There have been no incidents regarding spills.

e-Waste

The United Nations Environment Programme (UNEP) estimates that 20 to 50 million tonnes 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.

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 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. 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. Mustek does not import, export or treat hazardous waste.

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

Waste type	Volume (tonnes) 2012
Electronic waste sent for recycling	20,3

Transport

The sales and distribution of computer-related equipment is a core process of Mustek's business. Greenhouse gas emissions of transport-related impacts were calculated for Mustek's carbon footprint and the percentage contribution of transport to Mustek's carbon footprint is thus significant at 42%, 4006 CO_2e. This calculation includes emissions from company-owned vehicles, business travel and outsourced freight transport.

The impact on the environment from local deliveries is managed by strict maintenance of Mustek's vehicles, including measuring vehicle emissions and noise. Delivery routes are also carefully planned and managed to maximise deliveries while optimising fuel usage.

Social impacts

Corporate social investment (CSI)

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

Local engagement remains the responsibility of each operation, which carries out their own socio-economic development programmes based on our Company policy. The primary focus of our CSI spend is educational initiatives, and our approach ensures that the most sustainable and significant positive impact on local communities is achieved and that value will be created on a long-term basis. All operations engage their local communities appropriately.

Our value creation includes offering children from previously disadvantaged communities fully fledged computer labs with the latest technological offerings to ensure learning on an interactive level. These communities will now have the opportunity to be taught on the same platforms as their more privileged counterparts, which in essence places them on a level playing field when entering the employment market.

Financial contributions are made by sponsoring disabled men and women in specifically sought-out learning institutions, which are adapted for their special needs. These institutions will ensure they obtain the appropriate skills to pursue a career in information technology. These graduates will provide recruitment opportunities for us in the future.

Current initiatives are:

- Action for the Blind and Disabled
- NNMU
- Khayalami School
- Bongi Ngema Zuma Foundation
- Afrika Tikkun.

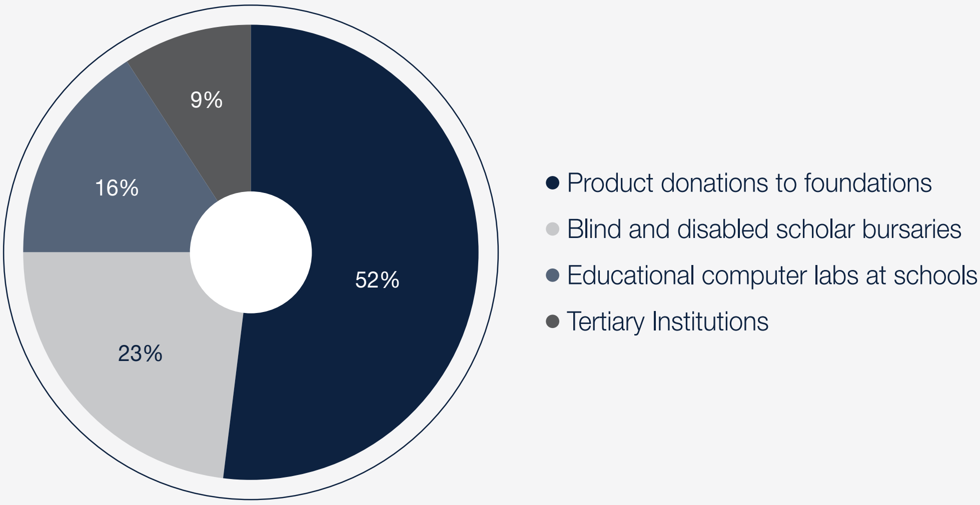
Our investment in local communities has increased over the last three years at an average rate of 11% pa.

Given the nature of the Group's operations, none has significant potential or actual negative impacts on local communities. None of the Company's operations has significant potential or actual negative impacts on local communities, so mitigation measures are not required.

Mustek remains committed to investing in the development and growth of the economy through our current enterprise development initiatives. We have sought to partner with qualifying small and medium enterprises by providing financial and non-financial support. These initiatives will ensure the development of these SMMEs and, in turn, enable them to gain access to the mainstream economy.

No significant indirect economic impacts can currently be reported on.

Sustainability and Social and Environmental Reporting *(continued)*



Description	Amount (R)	Area
Action for the Blind	93 215,00	Gauteng
NNMU Commons	50 220,42	Eastern Cape
Khayalami School	178 027,55	Mpumalanga
NNMU	50 000,00	Eastern Cape
Action for the Blind	162 000,00	Gauteng
Product Donation – Bongi Ngema-Zuma Foundation	268 727,64	Gauteng
Product Donation – Afrika Tikkun	328 840,07	Gauteng
	1 131 030,68	

Customer health and safety

Mustek markets and distributes finished products such as computer components and computer related equipment. We also assemble the Mecer range of PCs and notebooks from finished components. The original equipment manufacturer (OEM) ensures that the products we purchase are compliant.

We ensure that our products sold meet regulatory requirements regarding health and safety impacts by obtaining proof of compliance from the supplier. This proof is then submitted to the National Regulator for Compulsory Specifications (NRCS) and a Letter of Authority (LOA) obtained for the product. Locally manufactured or imported products falling under the scope of the compulsory specifications can only be sold if an LOA is available.

The standards for electrical and electronic apparatus for compulsory safety are the International Electrotechnical Commission's (IEC) Standards. SANS IEC 60950 is the standard in particular that relates to the safety of information technology equipment and related equipment. An LOA confirms product safety, and LOAs are only issued by the NRCS after successful evaluation of the specified test reports. There have been no incidents of non-compliance.

Product and service labelling

Labelling regarding the safe use of Mustek's products is ensured by obtaining the regulatory 'Letters of Authority'. This is a requirement for all computer-related equipment that Mustek sells. Waste electrical and electronic equipment – that is, office, information and communication equipment – is categorised as hazardous. This information is communicated on the packaging of Mecer machines. There have been no incidents of non-compliance.

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 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 supplier, tenant and customer influence.

The Group's 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 Mustek's 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

Corporate Governance Report

The King Code of corporate practices and conduct

Mustek strives to maintain and enhance governance standards by constantly reviewing current and emerging trends. The Board is committed to complying with the recommendations of the King Code and Report on Corporate Governance for South Africa 2009 (King III). All requirements in terms of the JSE Listings Requirements dealing with governance are reported on in this report and a detailed summary of the application of all the King III principles are listed at the end of the Governance Report.

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 has 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 continual ethical behaviour of the Board, managers and employees at all levels;
- guide ongoing ethical decision-making;
- make infringements easy to identify and respond decisively thereto;
- promote awareness of, and sensitivity to, ethical issues; and
- help resolve conflicts expeditiously.

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

Corporate code of conduct

The Group is committed to:

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

Board of Directors

Composition of the Board

The Group has a unitary Board of Directors that currently comprises four independent non-executive directors and three executive directors. No changes to the Board were made during the reporting period.

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

value-added technology

Corporate Governance *(continued)*

Corporate Governance Report *(continued)*

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 64 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 is the focal point for and custodian of corporate governance and 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 Risk Committee and chairs the remuneration-related issues on the Remuneration and Nomination Committee of the Company.

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 and Risk Committee, the Board identifies the key risk areas and key performance indicators for the Group. The Board has a process by which these risks are updated regularly.

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 2012 is as follows:

Director	22 Aug 2011	1 Dec 2011	20 Feb 2012	14 May 2012
D Konar* (Chairman)	✓	✓	✓	✓
ME Gama*	✓	✓	✓	—
T Dingaan*	✓	✓†	—	✓
RB Patmore*	✓	✓	✓	✓
DC Kan (CEO)	✓	✓	✓	✓
H Engelbrecht (COO)	✓	✓	✓	✓
CJ Coetzee (CFO)	✓	✓	✓	✓

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

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 section 88(2)(e) of the Act appears on page 67.

Board committees

Four 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, in line with the Group's authority framework, to the Board for approval.

Audit and Risk Committee

Through the Audit and Risk 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.

Corporate Governance *(continued)*

Corporate Governance Report *(continued)*

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 and the Chairman of the Board is not a member of this 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 and Risk Committee meets separately with the external auditors and the Group Internal Audit Manager twice a year without management present.

The Audit and Risk 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 such as this annual integrated report, recommending the appointment of external auditors and other related issues. All members of the Audit and Risk 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 and Risk Committee meetings for the financial year ended 30 June 2012 is as follows:

Director	22 Aug 2011	1 Dec 2011	20 Feb 2012	14 May 2012
RB Patmore*	✓	✓	✓	✓
T Dingaan*	—	✓†	—	✓
ME Gama	✓	✓	✓	✓

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

The Audit and Risk Committee has written terms of reference that deal adequately with its membership, authority and duties. The Audit and Risk 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 and Risk 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 and Risk Committee before submission to the Board for approval.

The Audit and Risk Committee has a responsibility to recommend to the Board, for its consideration and acceptance by shareholders, the appointment of external auditors. The Audit and Risk Committee approves the external auditor's engagement letter and terms, nature and scope of the audit function and the audit fee. The Audit and Risk 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.

During the year, the committee satisfied itself with Mr Coetzee's work experience, performance and technical skills in fulfilling his role as full-time financial director.

The board monitors Information Technology (IT) governance through the Audit and Risk Committee. An IT Steering Committee has been established to assist the Audit and Risk

Committee in this regard and the Chief Technology Officer/ Chief Information Officer, Dimitri Tserpes, attends the Audit and Risk Committee meeting by invitation to report on all IT matters. The terms of reference sets out all the responsibilities of the IT Steering Committee. The technology governance framework includes aligning technical strategy and business needs, delivering value and managing performance, information security, information management and business continuity management.

Remuneration and Nomination Committee

The Remuneration and Nomination 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 and Nomination Committee consists of two non-executive directors. Remuneration issues are chaired by Mr Ralph Patmore and the nominations related issues are chaired by Dr Len Konar. The 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 remuneration philosophy is tabled annually at each Annual General Meeting for confirmation.

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

A schedule setting out directors' remuneration and equity interest appears in the Directors Report on pages 74 and 69.

The record of attendance at Mustek Limited Remuneration and Nomination Committee meetings for the financial year ended 30 June 2012 is as follows:

Director	23 Jul 2011	23 Apr 2012
RB Patmore	✓	✓
D Konar	✓	✓

✓ Indicates attendance

Social and Ethics Committee

The Companies Act, 2008, as amended, provides that all listed public companies must establish a Social and Ethics Committee before 1 May 2012. This committee was established in April 2012 and the Chairman of the Board is also chairman of this committee. The terms of reference was adopted by the Board which governs the responsibilities of this committee.

The record of attendance at Mustek Limited Social and Ethics Committee meetings for the financial year ended 30 June 2012 is as follows:

Director	24 Apr 2012	14 May 2012
D Konar (Chairman)	✓	✓
ME Gama	✓	✓
H Engelbrecht	✓	✓

✓ Indicates attendance

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 co-ordination 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.

Corporate Governance Report (continued)

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.

Trading in shares

The Group has a formal Trading in Shares 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 and Chief Executive Officer through the Company Secretary in any event, approve 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 regarding 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.

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.

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.

Broad-based black economic empowerment

Mustek remains focused on delivering the identified initiatives in order to reach and improve its targets relating to BBBEE recognition levels. Mustek has been certified as a Level 3 contributor, which means that Mustek's customers can claim 110 cents in every Rand procured from Mustek.

Sustainability reporting

Mustek is committed to advancing the principles and practice of sustainable development and to behave and act as a responsible corporate concern. The following are our specific focus areas where we focus our sustainability endeavours:

- *Customer focus* – understanding the broader need of the South African community.
- *Economic value creation* – understanding the needs of the broader government growth and development plans for South Africa, with a specific focus on the IT sector. It is committed to continue to make affordable for the community at large, and to improve on its processes and efficiencies to be able to continue to do so sustainably.
- *Employment equity and transformation* – ensuring Mustek's employees, customers and suppliers represent the demographics of South Africa.
- *Corporate reputation* – being recognised as an ethical company that maintains high standards of corporate governance.
- *Environmental responsibility* – Mustek is committed to utilise its assets in the most efficient way so as not to harm the environment. Mustek has already implemented the best technology available in order to operate efficiently.

Information and communications technology 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.

Corporate Governance Report (continued)

Compliance in terms of the non-mandatory principles contained in the King Code on Corporate Governance

		Principle(s)	Application of the principle(s)
1. Ethical leadership and corporate citizenship			
Responsible leadership	1.1	The board should provide effective leadership based on an ethical foundation.	The ethical foundation on which the Board provides effective leadership is incorporated in the Code of Ethics and Conduct and the Social and Ethics Committee Charter. The Group's values on which it builds its foundation are included in the 2012 Integrated Annual Report.
	1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen.	The Board ensures that the Company is and is seen to be a corporate citizen and this is also included in the Board Charter as part of the role of the Board.
	1.3	The board should ensure that the company's ethics are managed effectively.	The Board adopted the Code of Ethics and Conduct, thereby committing that the Company's ethics will be managed effectively. An external whistle-blowing process is in place.
2. Boards and directors			
Role and function of the board	2.1	The board should act as the focal point for and custodian of corporate governance.	The Board's Charter sets out its responsibilities and the Board meets at least four times per year. Proper minutes are maintained to ensure that proper corporate governance is being implemented on an on-going basis.
	2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable.	The Board informs and approves the strategy and is aligned with the purpose of the Company, its value drivers and the legitimate interests and expectations of its stakeholders to ensure sustainable outcomes. This principle is also included in the Board Charter.
	2.3	The board should provide effective leadership based on an ethical foundation.	The Code of Ethics and Conduct is a fundamental policy of the Group to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards. The Corporate Code of Conduct has been adopted.
	2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen.	Through the Audit and Risk Committee, the Board 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.

	Principle(s)	Application of the principle(s)
2.5	The board should ensure that the company's ethics are managed effectively.	All employees are required to comply with the spirit as well as the letter of the Code of Ethics and Conduct and maintain the highest standards of conduct in all dealings.
2.6	The board should ensure that the company has an effective and independent audit committee.	The Audit and Risk Committee consists of three independent non-executive directors.
2.7	The board should be responsible for the governance of risk.	Through the Audit and Risk Committee, the Board identifies the key risk areas and key performance indicators for the Group. The Board has a process by which these risks are updated regularly.
2.8	The board should be responsible for information technology (IT) governance.	The Board delegated this function to the Audit and Risk Committee to ensure that IT governance is properly implemented. The Chief Information Officer attends Audit and Risk Committee meetings by invitation to report on the relevant IT matters.
2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	The Audit and Risk Committee oversees this function, however certain of these responsibilities will be delegated to the newly established Social and Ethics Committee and be stipulated as such in the relevant committee terms of reference.
2.10	The board should ensure that there is an effective risk-based internal audit.	Internal audit assists the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation.	We are working hard at improving our engagement with our stakeholders. We engage and speak openly on important issues. We've also made it a priority to partner proactively with them in appropriate areas.
2.12	The board should ensure the integrity of the company's integrated report.	This responsibility was delegated to the Audit and Risk Committee to review the integrity of the Company's Integrated Annual Report prior to tabling this to the Board for final approval.
2.13	The board should report on the effectiveness of the company's system of internal controls.	The internal auditor's primary mandate is to examine and evaluate the effectiveness of the systems of internal control, so as to bring material deficiencies, instances of non-compliance and development needs to the attention of the Board through the Audit and Risk Committee.

Corporate Governance *(continued)*

Corporate Governance Report (continued)

	Principle(s)	Application of the principle(s)
2.14	The board and its directors should act in the best interests of the company.	A standard declaration of interest agenda item allows directors to report on real or perceived conflicts. The Board and committees are free to take professional advice in the exercise of their duties. A formal policy on insider trading and dealing with shares was adopted by the Board.
2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.	The Board Charter is currently being reviewed to include these requirements in terms of the Companies Act, 2008.
2.16	The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board.	Dr Len Konar is an independent non-executive director and Chairman of the Board.
2.17	The board should appoint the chief executive officer and establish a framework for the delegation of authority.	A delegation of authority framework was adopted and the CEO's role was formalised and his performance is evaluated against specific criteria.
2.18	The board should comprise a balance of power, with majority of non-executive directors. The majority of non-executive directors should be independent.	Four of the seven directors are independent non-executive directors. The Board size, diversity and demographics were considered and the Board of seven members are efficient.
2.19	Directors should be appointed through a formal process.	Directors are appointed through a formal process and this is overseen by the Remuneration and Nomination Committee and confirmed by the Board.
2.20	The induction of an ongoing training and development of directors should be conducted through formal processes.	Following the appointment of new directors, they visit the Group's businesses and meet with senior management, as appropriate and are encouraged to facilitate their understanding of the Group and their fiduciary responsibilities. Directors receive training as and when required.

		Principle(s)	Application of the principle(s)
	2.21	The board should be assisted by a competent, suitably qualified and experienced company secretary.	The Financial Director also fulfilled the role of Company Secretary, but an independent Company Secretary was appointed with effect from 1 November 2012.
	2.22	The evaluation of the board, its committees and the individual directors should be performed every year.	A self-evaluation was conducted by the Board and its sub-committees during 2012.
	2.23	The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.	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 its formal Charters.
	2.24	A governance framework should be agreed between the group and its subsidiary boards.	The managing directors of the major subsidiaries attend Board meetings by invitation and provide a written report on progress in their respective businesses. Management meetings are held in the respective subsidiary companies as well as formal Board meetings. A formal framework is still to be developed.
	2.25	Companies should remunerate directors and executives fairly and responsibly.	An approved remuneration philosophy, consisting of fixed pay, a bonus component and participation in an incentive scheme is in place.
	2.26	Companies should disclose the remuneration of each individual director and certain senior executives.	The directors' remuneration is disclosed in the 2012 Annual Integrated Report.
	2.27	Shareholders should approve the company's remuneration policy.	The remuneration philosophy was approved by shareholders at the AGM that was held on 22 December 2011 and will again be tabled for shareholder approval at the AGM to be held on 14 December 2012.
3. Audit committee			
	3.1	The board should ensure that the company has an effective and independent audit committee.	The committee comprises three independent non-executive directors.
	3.2	Audit committee members should be suitably skilled and experienced independent non-executive directors.	The members have the required financial knowledge and experience to oversee and guide the Board and the Group in respect of the audit and corporate governance disciplines.

Corporate Governance Report (continued)

		Principle(s)	Application of the principle(s)
	3.3	The audit committee should be chaired by an independent non-executive director.	The committee is chaired by Mr RB Patmore, who is an independent non-executive director.
	3.4	The audit committee should oversee integrated reporting.	This function is included in the committee's terms of reference.
	3.5	The audit committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities.	A combined assurance model is being considered for all assurance activities.
	3.6	The audit committee should satisfy itself of the expertise, resources and experience of the company's finance functions.	The committee has satisfied itself with Mr CJ Coetzee's work experience, performance and technical skills in fulfilling his role as Financial Director and providing leadership to the rest of the financial team.
	3.7	The audit committee should be responsible for overseeing of internal audit.	The internal audit department continues to grow and mature and is being reviewed by the committee at each meeting. The Company is considering expanding the internal audit department.
	3.8	The audit committee should be an integral component of the risk management process.	The internal audit plan, approved by the Audit and Risk Committee, is based on risk assessments, which are of a continual nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.
	3.9	The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	The Audit and Risk Committee approves the appointment of the external auditor as well as its engagement letter and terms, nature and scope of the audit function and the audit fee.
	3.10	The audit committee should report to the board and shareholders on how it has discharged its duties.	The Audit and Risk Committee advises the Board on issues ranging from the application of accounting standards to published financial information and feedback is provided at each Board meeting. A report from the Audit and Risk Committee chairman is included in the 2012 Integrated Annual Report.

		Principle(s)	Application of the principle(s)
4. The governance risk			
	4.1	The board should be responsible for the governance of risk.	The Board has established a comprehensive control environment ensuring that risks are mitigated and the Group's objectives are attained. Oversight function in terms of risk is delegated to the Audit and Risk Committee and discussed at each meeting with feedback to the Board.
	4.2	The board should determine the levels of risk tolerance.	The risk tolerance levels are discussed at each Audit and Risk Committee meeting.
	4.3	The risk committee or audit committee should assist the board in carrying out its risk responsibilities.	The Board's risk responsibilities are delegated to the Audit and Risk Committee. The internal audit plan is based on risk assessments, which are of a continual nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.
	4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan.	All inherent and residual risks are discussed at each Audit and Risk Committee meeting with feedback to the Board. The risk register includes the risks, ratings, internal controls and mitigating actions.
	4.5	The board should ensure that risk assessments are performed on a continual basis.	The inherent and residual risks are discussed at the quarterly Audit and Risk Committee meetings.
	4.6	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	The risk register is continually reviewed and discussed quarterly at the Audit and Risk Committee meetings.
	4.7	The board should ensure that management considers and implements appropriate risk responses.	Responses in terms of the risk register are being enhanced so as to include detailed responses.
	4.8	The board should ensure continual risk monitoring by management.	The Board has established a comprehensive control environment ensuring that risks are mitigated and the Group's objectives are attained.
	4.9	The board should receive assurance regarding the effectiveness of the risk management process.	External consultants conduct continual reviews in terms of internal controls and systems and attend the Audit and Risk Committee meetings to table their working report.

Corporate Governance *(continued)*

Corporate Governance Report (continued)

	Principle(s)	Application of the principle(s)
4.10	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	The major risks are disclosed in the 2012 Integrated Annual Report.
5. The governance of information technology		
5.1	The board should be responsible for information technology (IT) governance.	The Board delegated this function to the Audit and Risk Committee and it is included in its terms of reference as well as being the responsibility of the Audit and Risk Committee. An IT Steering Committee was established to assist the Audit and Risk Committee in this regard. Feedback is provided on IT governance at each Board meeting.
5.2	IT should be aligned with the performance and sustainability objectives of the company.	An IT Steering Committee was established with its own terms of reference. The Chief Information Officer attend Audit and Risk Committee meetings by invitation and report on IT matters.
5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework.	An IT Steering Committee was established with its own terms of reference. The Chief Information Officer attends Audit and Risk Committee meetings by invitation and report on IT matters.
5.4	The board should monitor and evaluate significant IT investments and expenditure.	IT investments and expenditure are being monitored and approved in terms of the delegation of authority framework.
5.5	IT should form an integral part of the company's risk management.	Inherent and residual IT risks are included in the Company risk register and also dealt with separately on a bi-annual basis.
5.6	The board should ensure that information assets are managed effectively.	The Audit and Risk Committee assists the Board in carrying out its IT responsibilities.
5.7	A risk committee and audit committee should assist the board in carrying out its IT responsibilities.	The Audit and Risk Committee assists the Board in carrying out its IT responsibilities.

		Principle(s)	Application of the principle(s)
6. Compliance with laws, rule, codes and standards			
	6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	The Audit and Risk Committee assists the Board in complying with the applicable laws, rules, codes and standards in the ambit of its terms of reference. The balance of the compliance matters will be delegated to the Social and Ethics Committee.
	6.2	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.	Directors have a working understanding of all applicable laws, rules, codes and standards applicable to the Company.
	6.3	Compliance risk should form an integral part of the company's risk management process.	External assurance providers report all non-compliance areas to the Board via the relevant Board sub-committee.
	6.4	The board should delegate to management the implementation of an effective compliance framework and processes.	The Company is in the process of developing a compliance framework to assist the relevant sub-committee in fulfilling its responsibility in this regard.

Corporate Governance *(continued)*

Corporate Governance Report *(continued)*

		Principle(s)	Application of the principle(s)
7. Internal audit			
	7.1	The board should ensure that there is an effective risk based internal audit.	The internal audit plan is of a continual nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.
	7.2	Internal audit should follow a risk based approach to its plan.	Refer to 7.1
	7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management.	A quarterly report from the internal auditors is submitted to the Audit and Risk Committee meetings.
	7.4	The audit committee should be responsible for overseeing internal audit.	The internal audit function forms part of the Audit and Risk Committee's responsibility as set out in its terms of reference.
	7.5	Internal audit should be strategically positioned to achieve its objectives.	The internal audit plan is developed in order for it to achieve its objectives. This is reviewed at the quarterly Audit and Risk Committee meetings which the internal auditors attend by invitation.
8. Governing stakeholder relationships			
	8.1	The board should appreciate that stakeholders' perceptions affect a company's reputation.	Although a formal stakeholder engagement process is not yet in place, the Group interacts with its major stakeholders on an ad hoc basis in the normal course of business.
	8.2	The board should delegate to management to proactively deal with stakeholder relationships.	Refer to 8.1 above.
	8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	Refer to 8.1 above.
	8.4	Companies should ensure the equitable treatment of shareholders.	Shareholders are all treated equally irrespective of their percentage shareholding in the Company.

		Principle(s)	Application of the principle(s)
	8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	The Board strives to ensure that reporting to stakeholders is relevant, transparent and accurate.
	8.6	The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	All internal dispute resolutions are in place.
9. Integrated reporting and disclosure			
	9.1	The board should ensure the integrity of the company's integrated report.	This forms part of the responsibilities of the Audit and Risk Committee and is included as such in its terms of reference prior to presenting the report to the Board.
	9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting.	The Group endeavours to integrate all information to stakeholders in the form of the Integrated Report, focusing on sustainability on all levels, including finances.
	9.3	Sustainability reporting and disclosure should be independently assured.	Sustainability reporting is currently being self-assured, however, this is being reviewed.

Corporate Governance *(continued)*

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;
- 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;
- rewarding individual and business performance and encouraging superior performance.

The remuneration policy distinguishes between three main elements of remuneration:

- fixed remuneration;
- short-term incentive – Annual performance bonus;
- long-term incentive – Mustek Share Incentive and Share Appreciation Rights Schemes.

Fixed remuneration

Following established best market practice, salaries are set with reference to external market data. Individual performance is also taken into consideration. For this benchmarking process, the Remuneration and Nomination Committee has determined to set the base salary for executive directors at the median of similar companies to ensure sustainable performance and market competitiveness.

Employees receive guaranteed packages which include membership of one of the Group's medical health care 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 and Nomination Committee.

Short-term incentive – 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. These targets are determined by the Remuneration and Nomination Committee and include measures of corporate performance.

For the year ended 30 June 2012, the weighting set by the Remuneration and Nomination Committee for the bonus, was as follows:

- 50% Profit before tax (PBT)
- 30% Cash flow
- 20% Revenue growth

These components were scored as follows:

PBT

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

Cash flow

- Cash from operations is 50% of Profit from operations = score of 50%
- Cash from operations is 65% of Profit from operations = score of 75%
- Cash from operations is 80% of Profit from operations = score of 100%

Revenue

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

Executive directors were able to earn up to 100% of their annual cost-to-company packages as bonuses and Rectron and Mustek's EXCO teams were able to earn up to 50% of their annual cost-to-company packages as bonuses.

The executive directors' short-term bonuses were weighted 50/50 based on Mustek and Rectron's performances and were calculated as follows:

- ((% score for Mustek x 50%) + (% score for Rectron x 50%)) times total cost-to-company annual package.

No bonus is payable to the relevant EXCOs if the PBT target is not reached. Furthermore, the bonus paid will be the lower of the bonus as calculated or the amount of the overachievement above the budgeted PBT for the relevant company.

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

Executive directors and a limited number of executive management participate in the Mustek Share Incentive and Share Appreciation Rights Schemes, which are 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 and Nomination 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 and Nomination Committee.

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

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 and Share Appreciation Rights Schemes, ensuring that a portion of their package is linked to the achievement of improved business performance.

Non-executive directors

The Remuneration and Nomination 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 2011 were approved by the shareholders at the Annual General Meeting of members on 22 December 2011.

Directors' service contracts

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

Although shareholders appoint non-executive directors at annual general meetings, appointments may be made between annual general meetings. Such appointees may not serve beyond the following annual general meeting and may make themselves available for re-election by shareholders.

Nomination

The Remuneration and Nomination Committee is responsible for securing nominations for the board whenever vacancies arise. The Committee investigates nominees' backgrounds and whether their qualifications are in accordance with the JSE requirements for listed companies.

The committee is also responsible for striving that the composition of the Board has optimal ethnic and gender diversity, qualifications, professional skills, industry knowledge and expertise to best serve its purpose. The committee also assesses the effectiveness of the Board and its committees.

Interests of directors in share capital

Details of the directors' interests in share capital are detailed in the Report of the Directors.

Risk Management Report

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 continual process of developing and enhancing its comprehensive systems for risk identification and management. The risks to the business encompass such areas as the world IT component and product prices, exchange rates, political and economic factors, local and international competition, legislation and national regulations, interest rates, people skills, and general operational and financial risks.

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

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

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

Key risks

Macroeconomic environment

As a global player, the Group is exposed to the world's developed and developing markets, and its operations and financial results will be impacted by trends in the macro-economic environment.

Market risk

The Group's activities expose it primarily to the risks of 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 because of changes in foreign exchange rates. 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. The Board cannot predict the effect of exchange rate fluctuations upon future operating results and there can be no assurance that exchange rate fluctuations will not have a material effect on its business, operating results or financial condition.

Working capital

The Group's business is working-capital intensive as accounts receivable and inventories are financed. The Group largely relies on revolving credit and vendor financing for its working capital needs. The Group typically carries sufficient inventory to meet its customers' anticipated needs. Decline in demand or technological change could lead to excess or obsolete inventory.

Dependence on key personnel

Certain key employees who would be difficult to replace have relationships with principal vendors and customers. The loss of any or all of these employees could harm the business and prospects of the Group. The appropriate incentive schemes are in place to ensure that key personnel remain within the Group.

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 is reliable.

Internal audit function

The internal audit department continues to grow and mature 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 and Risk 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 is of a continual nature so as to identify not only existing and residual risks, but also emerging risks and issues highlighted by the Audit and Risk Committee and senior management.

Leadership

Directorate

Executive directors

David Kan

Chief Executive Officer

David Kan, aged 53, 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 43, holds a BCom (Hons) degree, is a registered chartered accountant, and joined the Group in 1997 as Group Financial Manager. He completed his articles with Grant Thornton Kessel Feinstein and spent two-and-a-half years as financial manager of Office Directions (Pty) Limited. He was appointed to the Board on 1 September 2000.

Neels Coetzee

Financial director

Neels Coetzee, aged 37, is a registered chartered accountant and joined the Group in 2001 as Group Financial Manager after completing his articles with Deloitte & Touche in 2000. He was appointed to the Board as Financial Director on 29 August 2008.

Non-executive directors

Dr Len Konar

Independent non-executive Chairman

Dr Len Konar, aged 58, 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

Independent non-executive director

Mdu Gama, aged 43, 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. He is currently the CEO of Resultant Finance (Pty) Limited and a non-executive director of Comztek (Pty) Limited.

Thembisa Dingaan

Independent non-executive director

Thembisa Dingaan, aged 39, holds an LLM degree and joined the Mustek Board on 6 February 2009. She 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 a member of the Trade and Industry Standing Advisory Committee on Company Law. In August 2008, she was appointed by Cabinet as a board member of the Export Credit Insurance Corporation of South Africa (ECIC).

Ralph Patmore

Independent non-executive director

Ralph Patmore, aged 60, was appointed to the Board on 16 October 2009. He holds a BCom degree and an MBL from Unisa's School of Business Leadership. He was the CEO of Iliad Africa Limited since inception in 1998 to retirement in September 2008. He is also a non-executive director of Sentula Mining Limited, Calgro M3 Holdings Limited and ARB Holdings Limited.

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

Mustek

Audit and Risk Committee Report

The Audit and Risk 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 and Risk 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 and Risk Committee considered the matters set out in section 94(7) of the Companies 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 and Risk 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 and Risk Committee has satisfied itself that the Chief Financial Officer has the appropriate expertise and experience.

The Audit and Risk 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 and Risk Committee has evaluated the financial statements of Mustek Limited and the Group for the year ended 30 June 2012 and, based on the information provided to the Audit and Risk Committee, considers that the Group complies, in all material aspects, with the requirements of the Companies Act (71 of 2008), as amended, and International Financial Reporting Standards (IFRS).

RB Patmore

27 August 2012

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 68.

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 69 to 161 were approved by the Board of Directors on 27 August 2012 and are signed on their behalf by:

D Konar
Chairman

DC Kan
Chief Executive Officer

Johannesburg
27 August 2012

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 2012, Mustek Limited has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

CJ Coetzee
Company Secretary

27 August 2012

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

Independent Auditors' Report

for the year ended 30 June 2012

To the shareholders of Mustek Limited

We have audited the consolidated and separate financial statements of Mustek Limited, set out on pages 69 to 161, which comprise the statements of financial position as at 30 June 2012, the statements of comprehensive income, the statements of changes in equity, the cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory statements of information.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Mustek Limited as at 30 June 2012, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2012, we have read the Directors' Report, the Audit and Risk Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per Bester Greyling
Partner
Pretoria, South Africa

27 August 2012

Report of the Directors

for the year ended 30 June 2012

Introduction

The directors have pleasure in presenting their report on the activities of the Company and the Group for the year ended 30 June 2012.

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 R109,3 million (2011: R132,7 million).

Share capital

The authorised and issued share capital of the Company is detailed in note 20 to the annual financial statements. During the current financial year, 1 078 000 depository receipts representing 1 078 000 ordinary shares, were bought back on the Taiwan Stock Exchange.

Directors

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

[1]*Independent.*
[2]*Audit and Risk Committee member.*
[3]*Remuneration and Nomination Committee member.*
[4]*Social and Ethics Committee member.*
[5]*These directors are retiring in terms of the Company's articles of association. In terms of the statutes of the Company, D Konar and ME Gama are available for re-election at the next annual general meeting. Biographical details of all the directors are set out on page 64.*

Company Secretary

CJ Coetzee

Directors' shareholding

At 30 June 2012, the directors collectively held the following direct and indirect interests in shares in the Company, which represents 11,3% (2011: 10,3%) of the issued share capital of the Company. (No change occurred between 30 June 2012 and 27 August 2012):

	Beneficial				Non-beneficial	
	Direct		Indirect		Indirect	
	2012	2011	2012	2011	2012	2011
DC Kan	46	46	2 460 083	654 843	9 032 442	10 032 442
H Engelbrecht	430 000	430 000	—	—	—	—
CJ Coetzee*	307 700	184 800	—	—	—	—
D Konar	25 303	25 303	—	—	—	—
	763 049	640 149	2 460 083	654 843	9 032 442	10 032 442

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

**The 2012 holding includes 172 700 shares held through 1 727 single stock future contracts (2011: 49 800 shares held through 498 single stock future contracts).*

Share-based payments

Share appreciation rights scheme

The object and purpose of the scheme is to incentivise certain selected senior employees by granting options to such employees to enable them to benefit from an improvement in the price of the Company's shares as listed on the JSE, in the manner and on the terms and conditions set out in the scheme.

The directors may, on an annual basis or from time to time, grant options to employees selected by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee shall determine the number of phantom shares which are to be the subject of each option. The price at which an option may be granted will be, in respect of each phantom share which is the subject of that option, the average market price of the ordinary shares of the Company on the JSE, as certified by the Secretary of the Company, for the 30 trading days immediately preceding that on which the employee is granted the option. Each option granted will remain in force for a period of seven years after the date of the granting of the option.

Each option may only be exercised by an employee or retired employee subject to the achievement of certain performance hurdles that may be determined by the directors from time to time.

The price at which an option may be exercised will be, in respect of each phantom share which is the subject of that option, the closing market price of the ordinary shares of the Company on the JSE, as certified by the Secretary of the Company, on the trading day immediately preceding that on which the employee or retired employee so exercises the option. Upon the exercising of an option, the employee will be paid an amount determined as the difference between the exercise price and the grant price multiplied by the number of phantom shares, less any tax that may at that time be applicable to such a cash bonus.

	Weighted average price		Number of options	
	2012	2011	2012	2011
Phantom shares granted during the year	R4,71	–	3 300 000	–
Phantom shares forfeited during the year	–	–	–	–
Phantom shares lapsed during the year	–	–	–	–
Phantom shares exercised during the year	–	–	–	–
Phantom shares outstanding at year end	R4,71	–	3 300 000	–

3 300 000 phantom shares were granted to employees in the current financial year (2011: nil). The fair values were calculated using a trinomial tree that adheres to all the Black-Scholes option-pricing model principles. All these share options are cash settled. The inputs into the model were as follows:

	30 June 2012
Share price	R5,95
Grant price	R4,71
Expected volatility	35%
Expected life	3 years
Risk-free rate	5,87%
Expected dividend yield	2,8%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous four years. The Group and Company recognised total expenses of R1 683 000 (2011: Rnil) related to cash-settled share appreciation rights during the current year. A similar amount has been included as part of long-term liabilities.

Share appreciation rights scheme *(continued)*

Outstanding phantom shares are exercisable at the following values and in the following periods ending 30 June:

Option price	2014	2015	2016	Number of undelivered phantom shares	Total Rand value
R4,71	1 100 000	1 100 000	1 100 000	3 300 000	15 543 000

The directors have the following phantom share options outstanding:

Director	Offer price	Grant date	Undelivered phantom shares at 30 June 2012
DC Kan	R4,71	1 July 2011	1 500 000
H Engelbrecht	R4,71	1 July 2011	1 050 000
CJ Coetzee	R4,71	1 July 2011	750 000
			3 300 000

Executive share trust

No new options have been granted under this scheme after 1 December 2006. The scheme consists of both a share option scheme where options can be awarded by either the Company or the trust and a share purchase scheme where shares are purchased through the trust. In terms of the option scheme, participants are granted options to acquire shares in the Company. In terms of the share purchase scheme, shares are offered to employees for purchase. There are no share purchase offers outstanding as at 30 June 2012. Options accepted and/or exercised may lapse and shares may be early-delivered to participants under certain circumstances.

Share options or purchase offers must be accepted within 14 days of grant date and must be exercised within one calendar year. Options or purchase offers accepted and exercised lapse on resignation. Participants have eight years to take delivery of the shares. These shares will therefore not be deemed issued until actually issued and delivered and are not included in issued share capital in notes 9 and 20. Payment is only due on delivery.

Shares acquired in terms of either scheme will only be delivered to the participants after expiry of the following periods from date of acceptance:

Year 1	5%
Year 2	15%
Year 3	30%
Year 4	50%
Year 5	70%
Year 6	100%

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

Report of the Directors *(continued)*

for the year ended 30 June 2012

***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 2012 (2011: 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 previous financial year.

	Weighted average price		Number of options	
	2012	2011	2012	2011
Options undelivered at the beginning of the year	R9,40	R 8,90	6 025 000	7 064 072
Options lapsed during the year		R 6,00	—	(1 039 072)
Options undelivered at year-end	R9,40	R 9,40	6 025 000	6 025 000

No share options were granted to employees in the current financial year (2011: nil). The fair values were calculated using a binomial tree that adheres to all the Black-Scholes option-pricing model principles. All these share options are equity settled and therefore only valued upon granting.

The Group and Company recognised total expenses of R52 944 (2011: R339 567) related to equity-settled share options during the current and previous years respectively. All expenses relating to the outstanding share options have been expensed.

	2012	2011
Number of options held by:		
Executive directors	3 800 000	3 800 000
Executives and employees	2 225 000	2 225 000
	6 025 000	6 025 000

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

2012

Option price	2013	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

Executive share trust *(continued)*

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

The directors may amend the delivery periods or percentages. 6 025 000 options due for delivery before 30 June 2012 (2011: 5 518 000) were not delivered. The weighted average price of the options outstanding at year-end is R9,40 per option (2011: R9,40).

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

2012

Director	Offer price	Acceptance date	Undelivered shares at 30 June 2011	Due for delivery during the year	Delivery date	Undelivered shares at 30 June 2012	Share option loss 2012
DC Kan	R10,01	29 June 2006	2 250 000	2 250 000	Available at any time	2 250 000	–
H Engelbrecht	R10,01	29 June 2006	1 250 000	1 250 000	Available at any time	1 250 000	–
CJ Coetzee	R10,01	29 June 2006	300 000	300 000	Available at any time	300 000	–
			3 800 000	3 800 000		3 800 000	–

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)

**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.*

Report of the Directors *(continued)*

for the year ended 30 June 2012

Directors' emoluments

	Fees for services R'000	Basic salary R'000	Expense allowances R'000	Pension contributions R'000	Bonus and performance related R'000	Total R'000
2012						
Executive directors	—	5 203	786	364	—	6 353
DC Kan	—	1 829	420	163	—	2 412
H Engelbrecht	—	2 010	270	131	—	2 411
CJ Coetzee	—	1 364	96	70	—	1 530
Non-executive directors	1 138	—	—	—	—	1 138
T Dingaan	148	—	—	—	—	148
ME Gama	380	—	—	—	—	380
D Konar	330	—	—	—	—	330
RB Patmore	280	—	—	—	—	280
	1 138	5 203	786	364	—	7 491
2011						
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

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 is:

	2012 R000	2011 R000
Net aggregate profits	5 067	26 458
Net aggregate losses	(10 929)	(4 593)

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

Dividends

A final dividend of 17 cents per ordinary share was declared on 23 September 2011 and paid on 3 October 2011. During the previous financial year, a final dividend of 12 cents per ordinary share was declared on 1 October 2010 and paid on 11 October 2010.

Shareholders' spread

At 30 June 2012, 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	18 733 592	17,3
DK Trust *	9 032 442	8,3
Old Mutual Albaraka Equity Fund	5 443 255	5,0
	33 209 289	30,6

**DC Kan, chief executive and trustee of this trust, also owned 46 shares (2011: 46 shares) and Mustek Electronics Properties (Pty) Limited, owned 77,3% (2011: 75,8%) by the DK Trust, owned 2 460 083 shares at 30 June 2012. The resulting percentage held is 10,6% (2011: 9,8%)*

2012

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	945	72,7	1 298 594	1,2
5 001 – 10 000	114	8,8	907 286	0,8
10 001 – 50 000	124	9,5	2 957 392	2,7
50 001 – 100 000	22	1,7	1 485 888	1,4
100 001 – 1 000 000	68	5,2	21 204 820	19,6
Over 1 000 000	27	2,1	80 615 185	74,3
	1 300	100,0	108 469 165	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	763 049	0,7
Companies controlled by directors	1	0,1	2 460 083	2,3
Trusts with directors as trustees	1	0,1	9 032 442	8,3
Public shareholders	1 294	99,5	96 213 591	88,7
	1 300	100,0	108 469 165	100,0

At 30 June 2011, insofar as is known, the following shareholders beneficially held more than 5% of the issued Mustek shares:

Shareholding – ordinary shares in issue	Number of shares	% of shares in issue
Old Mutual Life Assurance Company SA Limited	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 and Mustek Electronics Properties (Pty) Limited, owned 75,8% by the DK Trust, owned 654 843 shares at 30 June 2011. The resulting percentage held is 9,8%.*

Shareholders' spread *(continued)*

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

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

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

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

Zinox Technologies Limited

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

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 has therefore not been amortised as at 30 June 2011, nor as at 30 June 2012. 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 (2011: R3,4 million).

Acquisition and disposal of subsidiaries and associates

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

Management is of the intention to dispose of land in KwaZulu-Natal, as well as the Group's share in Comztek Holdings (Pty) Limited and Rectron Australia BV within the next 12 months. The aforementioned asset and companies were treated as discontinued operations (refer note 8) and their assets and liabilities classified as available-for-sale (refer note 31), as management is committed to a plan to sell the companies and an active programme to locate buyers and complete the plan has been initiated.

Comztek East Africa

A tax audit was conducted by the Kenya Revenue Authority (KRA) during June 2011. Subsequently an assessment was issued by the KRA. After obtaining professional advice, an objection to the above assessment was submitted to the KRA on 2 November 2011. To date, no response has been received from the KRA.

Mustek Middle East FZCO

Mustek Middle East FZCO is in the process of closure as at 30 June 2012. 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.

Special resolutions

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

- The Company and its subsidiaries are authorised, by way of a general authority, to acquire ordinary shares issued by the Company, subject to the provisions of the Companies Act (Act 71of 2008), as amended, the Listings Requirements of the JSE and the articles of association of the Company.
- With effect from 1 July 2011, the remuneration payable to non-executive directors applicable for a period of 12 months was approved.
- 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, was approved.

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 2012

	Notes	2012 R000	(Restated) 2011 R000
Continuing operations			
Revenue	2	3 502 543	2 896 924
Cost of sales		(3 002 190)	(2 464 136)
Gross profit		500 353	432 788
Other income		17 980	4 908
Foreign exchange (losses) profits		(47 813)	12 025
Distribution, administrative and other operating expenses		(333 591)	(314 145)
Profit from operations	3	136 929	135 576
Investment revenues	4	4 668	6 274
Finance costs	5	(25 337)	(19 804)
Other losses	6	(5 613)	(1 413)
Share of profit of associates	13	1 686	263
Profit before tax		112 333	120 896
Income tax expense	7	(32 515)	(34 366)
Profit for the year from continuing operations		79 818	86 530
Discontinued operations			
(Loss) profit for the year from discontinued operations	8	(2 019)	9 508
Profit for the year		77 799	96 038
Other comprehensive income			
Exchange differences on translation of foreign operations		7 883	(3 884)
Other comprehensive income for the year, net of tax		7 883	(3 884)
Total comprehensive income for the year		85 682	92 154
Profit attributable to:			
Owners of the parent		80 181	94 623
Non-controlling interest		(2 382)	1 415
		77 799	96 038
Total comprehensive income attributable to:			
Owners of the parent		86 196	90 733
Non-controlling interest		(514)	1 421
		85 682	92 154
Earnings and dividend per share (cents)	9		
From continuing and discontinued operations			
Basic earnings per ordinary share		73,67	86,38
Diluted basic earnings per ordinary share		73,67	86,38
Dividend per ordinary share – paid		17,00	12,00
Dividend per ordinary share – proposed		17,00	17,00
From continuing operations			
Basic earnings per ordinary share		74,89	80,97
Diluted basic earnings per ordinary share		74,89	80,97

Consolidated Statement of Financial Position

at 30 June 2012

	Notes	2012 R000	2011 R000
ASSETS			
Non-current assets			
Property, plant and equipment	10	122 625	128 333
Intangible assets	11	60 240	67 813
Investments in associates	13	8 737	8 589
Investment in joint venture	14	—	—
Other investments and loans	15	31 733	33 588
Deferred tax assets	16	15 666	23 925
		239 001	262 248
Current assets			
Inventories	17	773 619	646 023
Trade and other receivables	18	596 447	556 134
Foreign currency assets	23	14 389	1 620
Tax assets		666	7 727
Bank balances and cash	19	224 413	195 787
		1 609 534	1 407 291
Assets classified as held-for-sale	31	268 664	—
TOTAL ASSETS		2 117 199	1 669 539
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	20	868	877
Ordinary share premium		117 257	122 823
Retained earnings		639 655	576 181
Non-distributable reserve		809	2 725
Foreign currency translation reserve		(2 857)	(8 872)
Equity attributable to equity holders of the parent		755 732	693 734
Non-controlling interest		18 426	18 940
Total equity		774 158	712 674
Non-current liabilities			
Long-term borrowings	21	4 711	86 598
Deferred tax liability	16	2 409	5 243
		7 120	91 841
Current liabilities			
Short-term borrowings	21	143 161	58 741
Trade and other payables	22	930 255	723 604
Provisions	22	13 593	21 244
Foreign currency liabilities	23	2 585	2 185
Deferred income		28 078	22 479
Tax liabilities		3 963	5 066
Bank overdrafts	21	20 055	31 705
		1 141 690	865 024
Liabilities directly associated with assets classified as held-for-sale	31	194 231	—
Total liabilities		1 343 041	956 865
TOTAL EQUITY AND LIABILITIES		2 117 199	1 669 539

Consolidated Statement of Changes in Equity

for the year ended 30 June 2012

	Ordinary share capital R000	Ordinary share premium R000	Retained earnings R000	Non-distributable reserve R000	Translation reserve R000	Attributable to owners of the parent R000	Non-controlling interest R000	Total R000
Balance 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	—	—	—	—	—	—	(506)	(506)
Disposal of subsidiary	—	—	—	—	—	—	(6 527)	(6 527)
Realisation of foreign currency profits on disposal of foreign currency subsidiary	—	—	985	—	(985)	—	—	—
Other adjustments	—	—	901	—	(901)	—	—	—
Balance as at 30 June 2011	877	122 823	576 181	2 725	(8 872)	693 734	18 940	712 674
Net profit for the year	—	—	80 181	—	—	80 181	(2 382)	77 799
Other comprehensive income	—	—	—	—	6 015	6 015	1 868	7 883
Realisation of non-distributable reserve on disposal of fixed assets	—	—	1 916	(1 916)	—	—	—	—
Recognition of share-based payments	—	53	—	—	—	53	—	53
Dividends paid	—	—	(18 623)	—	—	(18 623)	—	(18 623)
Buy back of shares	(9)	(5 619)	—	—	—	(5 628)	—	(5 628)
Balance at 30 June 2012	868	117 257	639 655	809	(2 857)	755 732	18 426	774 158

Consolidated Cash Flow Statement

for the year ended 30 June 2012

	Notes	2012 R000	2011 R000
OPERATING ACTIVITIES			
Cash receipts from customers		3 983 731	3 531 452
Cash paid to suppliers and employees		(3 863 800)	(3 405 981)
Net cash from operations	24	119 931	125 471
Investment revenues received		5 591	6 711
Finance costs paid		(34 241)	(28 627)
Dividends received		788	591
Dividends paid		(18 623)	(13 146)
Income taxes paid		(28 844)	(40 507)
Net cash from operating activities		44 602	50 493
INVESTING ACTIVITIES			
Additions to property, plant and equipment	10	(45 656)	(8 607)
Proceeds from sale of property, plant and equipment		14 769	836
Proceeds on disposal of subsidiaries	25	—	5 097
Acquisition of subsidiaries	26	—	(1 897)
Increase in investments in and loans to associates	13	(630)	(3 344)
Decrease in investments and loans	15	1 527	1 767
Additions to intangible asset	11	(7 198)	(6 601)
Net cash used in investing activities		(37 188)	(12 749)
FINANCING ACTIVITIES			
Buy back of ordinary shares	20	(5 628)	—
Decrease in long-term borrowings		(1 946)	(29 015)
Increase (decrease) in short-term borrowings		84 420	(18 777)
Decrease in bank overdrafts		(11 650)	(54 118)
Net cash from (used in) financing activities		65 196	(101 910)
Net increase (decrease) in cash and cash equivalents		72 610	(64 166)
Cash and cash equivalents at the beginning of the year		195 787	259 953
Cash and cash equivalents at the end of the year	19	268 397	195 787

Company Statement of Comprehensive Income

for the year ended 30 June 2012

	Notes	2012 R000	2011 R000
Revenue	2	2 281 040	1 601 761
Cost of sales		(1 928 671)	(1 312 428)
Gross profit		352 369	289 333
Other income		1 556	3 167
Foreign exchange (losses) profits		(22 660)	3 799
Distribution, administrative and other operating expenses		(246 703)	(230 070)
Profit from operations	3	84 562	66 229
Investment revenues	4	69 644	23 441
Finance costs	5	(12 801)	(8 616)
Other losses	6	(9 796)	(8 496)
Profit before tax		131 609	72 558
Income tax expense	7	(27 460)	(23 556)
Profit for the year		104 149	49 002
Other comprehensive income, net of tax		–	–
Total comprehensive income for the year		104 149	49 002

Company Statement of Financial Position

at 30 June 2012

	Notes	2012 R000	2011 R000
ASSETS			
Non-current assets			
Property, plant and equipment	10	24 325	20 157
Intangible assets	11	7 905	8 100
Investments in subsidiaries	12	231 789	238 283
Investments in associates	13	6 788	6 158
Other investments and loans	15	17 121	18 662
Deferred tax asset	16	13 179	14 662
		301 107	306 022
Current assets			
Inventories	17	560 732	366 777
Trade and other receivables	18	379 564	36 062
Investments in subsidiaries	12	—	258 439
Foreign currency assets	23	7 106	986
Tax asset		666	6 712
Bank balances and cash	19	85 115	33 109
		1 033 183	702 085
TOTAL ASSETS		1 334 290	1 008 107
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	20	868	877
Ordinary share premium		117 257	122 823
Retained earnings		344 939	259 413
Total equity		463 064	383 113
Non-current liabilities			
Long-term borrowings	21	4 680	68 770
Current liabilities			
Short-term borrowings	21	143 161	6 241
Trade and other payables	22	534 463	355 959
Provisions	22	10 927	15 695
Foreign currency liabilities	23	308	1 661
Loans owing to subsidiaries	12	133 513	122 993
Deferred income		28 078	21 971
Bank overdrafts	21	16 096	31 704
		866 546	556 224
Total liabilities		871 226	624 994
TOTAL EQUITY AND LIABILITIES		1 334 290	1 008 107

Company Statement of Changes in Equity

for the year ended 30 June 2012

	Ordinary share capital R000	Ordinary share premium R000	Retained earnings R000	Total R000
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
Net profit for the year	—	—	104 149	104 149
Other comprehensive income	—	—	—	—
Recognition of share-based payments	—	53	—	53
Dividends paid	—	—	(18 623)	(18 623)
Buy back of ordinary shares	(9)	(5 619)	—	(5 628)
Balance at 30 June 2012	868	117 257	344 939	463 064

Company Cash Flow Statement

for the year ended 30 June 2012

	Notes	2012 R000	2011 R000
OPERATING ACTIVITIES			
Cash receipts from customers		1 935 989	1 665 598
Cash paid to suppliers and employees		(2 207 038)	(1 574 765)
Net cash (used in) from operations	24	(271 049)	90 833
Interest received		19 644	23 441
Finance costs paid		(12 801)	(8 616)
Dividends received		50 000	—
Dividends paid		(18 623)	(13 146)
Income taxes paid		(19 931)	(28 141)
Net cash (used in) from operating activities		(252 760)	64 371
INVESTING ACTIVITIES			
Additions to property, plant and equipment	10	(9 991)	(5 830)
Proceeds from sale of property, plant and equipment		244	437
Acquisition of subsidiaries	26	—	(1 897)
Decrease (increase) in loans to subsidiaries	12	265 657	3 139
Increase in loans to associates	13	(630)	(4 004)
Additions to intangible asset	11	(5 198)	(4 850)
Decrease in investments and loans	15	1 541	1 783
Net cash from (used in) investing activities		251 623	(11 222)
FINANCING ACTIVITIES			
Buy back of ordinary shares	20	(5 628)	—
Decrease in long-term borrowings		(62 541)	(16 863)
Increase (decrease) in short-term borrowings		136 920	(2 320)
Decrease in bank overdrafts		(15 608)	(35 865)
Net cash from (used in) financing activities		53 143	(55 048)
Net increase (decrease) in cash and cash equivalents		52 006	(1 899)
Cash and cash equivalents at the beginning of the year		33 109	35 008
Cash and cash equivalents at the end of the year	19	85 115	33 109

Accounting Policies

for the year ended 30 June 2012

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 2011.

Adoption of new and revised International Financial Reporting Standards and Interpretations

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	First-time Adoption of International Financial Reporting Standards – Amendments to Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters effective for annual periods beginning on or after 1 July 2011
IFRS 1	First-time Adoption of International Financial Reporting Standards – Amendments as a result of the IASB's 2008-2010 cycle of annual improvements effective for annual reporting periods beginning on or after 1 January 2011
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 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/ IAS 27	Clarification of transition requirements, measurement of non-controlling interests, unreplaced and voluntarily replaced share-based payment awards – Amendments as a result of the IASB's 2008-2010 cycle of annual improvements effective for annual reporting periods beginning on or after 1 July 2010
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 7	Financial Instruments: Disclosures – Amendments to disclosures resulting from the IASB's comprehensive review of off balance sheet activities effective for annual periods beginning on or after 1 July 2011
IFRS 7	Financial Instruments: Disclosures – Amendments as a result of the IASB's 2008-2010 cycle of annual improvements effective for annual reporting periods beginning on or after 1 January 2011
IFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets, effective for annual periods beginning on or after 1 July 2011

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 to revise the way other comprehensive income is presented effective for annual reporting periods beginning on or after 1 July 2012
IAS 1	Financial statement disclosures – Amendments as a result of the IASB's 2008-2010 cycle of annual improvements effective for annual reporting periods beginning on or after 1 January 2011
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 24	Related Party Disclosures (2009) – Amends the requirements of the previous version of IAS 24 effective for annual periods beginning on or after 1 January 2011
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 34	Interim Financial Reporting – Amendments as a result of the IASB's 2008-2010 cycle of annual

	improvements effective for annual reporting periods beginning on or after 1 January 2011
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 13	Fair value of award credits – Amendments as a result of the IASB's 2008-2010 cycle of annual improvements effective for annual reporting periods beginning on or after 1 January 2011
IFRIC 14/ IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Limited-application amendments effective for annual periods beginning on or after 1 January 2011 (applied retrospectively from the beginning of the earliest comparative period presented)
IFRIC 15	Agreements for the Construction of Real Estate effective for annual periods beginning on or after 1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation effective for annual periods beginning on or after 1 October 2008
IFRIC 17	Distributions of Non-cash Assets to Owners effective for annual periods beginning on or after 1 July 2009
IFRIC 18	Transfers of Assets from Customers effective for transfers received on or after 1 July 2009

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

IFRS 1	First-time Adoption of International Financial Reporting Standards – Amendments due to Annual Improvements 2009-2011 Cycle effective for annual periods beginning on or after 1 January 2013
IFRS 1	First-time Adoption of International Financial Reporting Standards – Amendments to Government Loans effective for annual periods beginning on or after 1 January 2013
IFRS 1	First-time Adoption of International Financial Reporting Standards – Amendments to Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters effective for annual periods beginning on or after 1 January 2012
IFRS 7	Financial Instruments: Disclosures – Amendments to Offsetting Financial Assets and Financial Liabilities effective for annual periods beginning on or after 1 January 2013 and interim periods within those periods
IFRS 9	Financial Instruments, effective for annual periods beginning on or after 1 January 2013.
IFRS 9	Financial Instruments (2010) – A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial

liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement effective for annual periods beginning on or after 1 January 2015

IFRS 9	Financial Instruments (2009) – Introduces new requirements for classifying and measuring financial assets effective on a modified retrospective basis to annual periods beginning on or after 1 January 2015
IFRS 10	Consolidated Financial Statements – Amendments due to Transition Guidance effective for annual periods beginning on or after 1 January 2013
IFRS 10	Consolidated Financial Statements – Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities effective for annual reporting periods beginning on or after 1 January 2013
IFRS 11	Joint Arrangements – Amendments due to Transition Guidance effective for annual periods beginning on or after 1 January 2013
IFRS 11	Joint Arrangements – Replaces IAS 31 Interests in Joint Ventures effective for annual reporting periods beginning on or after 1 January 2013
IFRS 12	Disclosure of Interests in Other Entities – Amendments due to Transition Guidance effective for annual periods beginning on or after 1 January 2013
IFRS 12	Disclosure of Interests in Other Entities – Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows effective for annual reporting periods beginning on or after 1 January 2013
IFRS 13	Fair Value Measurement – Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard effective for annual reporting periods beginning on or after 1 January 2013
IAS 1	Presentation of Financial Statements – Amendments due to Annual Improvements 2009-2011 Cycle effective for annual periods beginning on or after 1 January 2013
IAS 12	Income Taxes – Amendments effective for annual periods beginning on or after 1 January 2012
IAS 12	Deferred Tax – Recovery of Underlying Assets, effective for annual periods beginning on or after 1 January 2012
IAS 16	Property, Plant and Equipment – Amendments due to Annual Improvements 2009-2011 Cycle effective for annual periods beginning on or after 1 January 2013
IAS 19	Employee Benefits – Amendments effective for annual reporting periods beginning on or after 1 January 2013
IAS 27	Separate Financial Statements (2011) – Amended version of IAS 27 which now only deals with the requirements for separate financial statements effective for annual reporting periods beginning on or after 1 January 2013
IAS 28	Investments in Associates and Joint Ventures (2011) – This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures effective for annual reporting periods beginning on or after 1 January 2013
IAS 32	Financial Instruments: Presentation – Amendments due to Annual Improvements 2009-2011 Cycle effective for annual periods beginning on or after 1 January 2013
IAS 32	Financial Instruments: Presentation – Amendments to Offsetting Financial Assets and Financial Liabilities effective for annual periods beginning on or after 1 January 2014
IAS 34	Interim Financial Reporting – Amendments due to Annual Improvements 2009-2011 Cycle effective for annual periods beginning on or after 1 January 2013

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 2012 and that the adoption of those Interpretations will have no material impact on the financial statements of the Group and Company in the period of initial application.

Basis of consolidation

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

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

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

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

Business combinations

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

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

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

Investments in associates

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

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

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

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

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

Interests in joint ventures

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

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

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

Goodwill

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

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

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

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

Accounting Policies *(continued)*

for the year ended 30 June 2012

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

Accounting Policies *(continued)*

for the year ended 30 June 2012

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, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Provisions

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

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

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

Onerous contracts

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

Restructurings

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

Warranties

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

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent reporting dates, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less 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).
- Valuation of investments (refer report of the directors and note 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).
- Valuation of assets classified as held for sale, as well as liabilities directly associated with assets classified as held for sale (refer note 31).

Notes to the Annual Financial Statements

for the year ended 30 June 2012

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	Includes investments in associates and other investments and loans. Refer to notes 13 and 15 for more information about their activities.

2012	Mustek R000	Rectron R000	Comztek R000	Group R000	Elimination R000	Total R000
REVENUE						
External sales	2 303 147	1 199 396	—	—	—	3 502 543
Inter-segment sales	14 246	201 878	—	—	(216 124)	—
Total revenue from continuing operations	2 317 393	1 401 274	—	—	(216 124)	3 502 543
SEGMENT RESULTS						
EBITDA*	128 734	40 440	—	(13 344)	—	155 830
Depreciation and amortisation	(11 335)	(7 566)	—	—	—	(18 901)
Profit (loss) from operations	117 399	32 874	—	(13 344)	—	136 929
Investment revenues	8 899	1 706	—	835	(6 772)	4 668
Finance costs	(13 205)	(12 132)	—	(6 772)	6 772	(25 337)
Other losses (see note 6)	(3 445)	—	—	(2 168)	—	(5 613)
Share of associates' net profit (see note 13)	—	—	—	1 686	—	1 686
Profit (loss) before tax	109 648	22 448	—	(19 763)	—	112 333
Income tax expense	(33 665)	(4 249)	—	5 399	—	(32 515)
Profit (loss) for the year from continuing operations	75 983	18 199	—	(14 364)	—	79 818
Discontinued operations						
(Loss) profit for the year from discontinued operations (refer note 8)	—	(1 392)	(627)	—	—	(2 019)
Profit (loss) for the year	75 983	16 807	(627)	(14 364)	—	77 799

2011 (Restated)	Mustek R000	Rectron R000	Comztek R000	Group R000	Elimination R000	Total R000
REVENUE						
External sales	1 634 017	1 262 907	—	—	—	2 896 924
Inter-segment sales	2 443	52 713	—	—	(55 156)	—
Total revenue from continuing operations	1 636 460	1 315 620	—	—	(55 156)	2 896 924
SEGMENT RESULTS						
EBITDA *	114 551	54 160	—	(12 527)	—	156 184
Depreciation and amortisation	(13 142)	(7 466)	—	—	—	(20 608)
Profit (loss) from operations	101 409	46 694	—	(12 527)	—	135 576
Investment revenues	10 547	4 733	—	276	(9 282)	6 274
Finance costs	(8 168)	(11 196)	—	(9 611)	9 171	(19 804)
Other gains (losses) (see note 6)	(1 278)	—	—	(135)	—	(1 413)
Share of associates' net profit (see note 13)	—	—	—	263	—	263

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

1. SEGMENTAL REPORTING *(continued)*

BUSINESS SEGMENTS *(continued)*

2011 (Restated)	Mustek R000	Rectron R000	Comztek R000	Group R000	Eliminations R000	Total R000
Profit (loss) before tax	102 510	40 231	—	(21 734)	(111)	120 896
Income tax expense (benefit)	(28 906)	(11 546)	—	6 086	—	(34 366)
Profit (loss) for the year from continuing operations	73 604	28 685	—	(15 648)	(111)	86 530
Discontinued operations						
Profit (loss) for the year from discontinued operations (refer note 8)	—	2 742	6 655	—	111	9 508
Profit (loss) for the year	73 604	31 427	6 655	(15 648)	—	96 038

Earnings before interest, tax, depreciation and amortisation.

2012	Mustek R000	Rectron R000	Comztek R000	Group R000	Eliminations R000	Total R000
OTHER INFORMATION						
Capital expenditure	15 886	34 746	2 221	—	—	52 853
ASSETS						
Segment assets*	1 113 520	745 264	178 699	94 163	(23 850)	2 107 796
Investment in associates	—	—	—	8 737	—	8 737
Consolidated total assets	1 113 520	745 264	178 699	102 900	(23 850)	2 116 533
LIABILITIES						
Segment liabilities**	705 175	461 054	148 999	—	23 850	1 339 078
Number of employees at year-end	594	323	205	—	—	1 122

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**	491 936	312 226	140 344	—	7 293	951 799
Number of employees at year-end	557	326	214	—	—	1 097

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

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

1. SEGMENTAL REPORTING *(continued)*
GEOGRAPHICAL INFORMATION

2012	Mecer East Africa R000	Rectron Australia R000	Comztek Africa R000	South Africa R000	Total R000
Continuing operations					
Revenue	43 798	—	—	3 458 745	3 502 543
Profit for the year from continuing operations	1 458	—	—	78 360	79 818
Discontinued operations					
Profit (loss) for the year from discontinued operations	—	(1 392)	2 024	(2 651)	(2 019)
Profit (loss) for the year	1 458	(1 392)	2 024	75 709	77 799
OTHER INFORMATION					
Capital expenditure	540	62	189	52 062	52 853
Segment assets*	38 339	76 793	28 037	1 973 364	2 116 533

2011 (Restated)	Mecer East Africa R000	Rectron Australia R000	Comztek Africa R000	South Africa R000	Total R000
Continuing operations					
Revenue	24 652	—	—	2 872 272	2 896 924
(Loss) profit for the year from continuing operations	(407)	—	—	86 937	86 530
Discontinued operations					
Profit (loss) for the year from discontinued operations	—	3 416	734	5 358	9 508
(Loss) profit 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

**Excludes tax assets.*

2. REVENUE

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

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
Sales of goods	3 495 639	2 890 233	632 703	608 161	4 128 342	3 498 394	2 274 136	1 595 070
Rendering of services	6 904	6 691	7 776	1 288	14 681	7 979	6 904	6 691
	3 502 543	2 896 924	640 479	609 449	4 143 023	3 506 373	2 281 040	1 601 761

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

3. PROFIT FROM OPERATIONS

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

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
Auditors' remuneration:								
Audit fees	4 232	4 126	1 296	1 382	5 528	5 508	2 517	2 572
Fees for other services	183	271	174	136	357	407	—	—
Expenses	—	—	1	2	1	2	—	—
	4 415	4 397	1 471	1 520	5 886	5 917	2 517	2 572
Staff costs	175 321	161 659	45 191	40 883	220 512	202 542	130 785	117 106
Refer page 74 for details with regards to directors' emoluments.								
Depreciation of property, plant and equipment:								
Land and buildings	297	361	285	246	582	607	—	—
Improvements to leased premises	4 030	3 514	431	488	4 461	4 002	881	1 291
Plant and machinery	2 449	3 245	—	—	2 449	3 245	1 022	1 752
Furniture, fixtures and office equipment	2 503	2 964	325	512	2 828	3 476	663	644
Computer equipment	3 067	3 244	580	510	3 647	3 754	2 200	2 204
Motor vehicles	859	885	228	255	1 087	1 140	651	648
	13 205	14 213	1 849	2 011	15 054	16 224	5 417	6 539

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

3. PROFIT FROM OPERATIONS *(continued)*

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
Amortisation of intangible assets	5 697	6 396	1 315	1 047	7 012	7 443	5 393	6 119
Net profit (loss) on disposal of property, plant and equipment:								
Land and buildings	9 868	—	—	—	9 868	—	—	—
Improvements to leased premises	(107)	(1 484)	—	—	(106)	(1 484)	—	(1 484)
Furniture, fixtures and office equipment	(313)	(46)	—	(7)	(313)	(53)	—	—
Computer equipment	(2)	10	(2)	(29)	(5)	(19)	1	—
Motor vehicles	(99)	(116)	—	—	(99)	(116)	(163)	(87)
	9 347	(1 636)	(2)	(36)	9 345	(1 672)	(162)	(1 571)
Operating lease expenses:								
Land and buildings	23 912	20 030	4 522	1 197	28 434	21 227	22 122	16 755
Furniture, fixtures, office and computer equipment	57	215	274	42	331	257	—	—
Motor vehicles	2 664	2 901	—	—	2 664	2 901	—	—
Plant and machinery	166	165	—	—	166	165	—	—
	26 799	23 311	4 796	1 239	31 595	24 550	22 122	16 755
Pension contributions (defined contribution plan)	7 707	5 951	2 554	2 365	10 261	8 316	5 783	5 305
Foreign exchange gains (losses):								
Realised	(56 444)	11 355	1 573	7 361	(54 871)	18 716	(29 280)	3 525
Unrealised	(3 173)	882	(235)	1 579	(3 408)	2 461	(178)	948
	(59 617)	12 237	1 338	8 940	(58 279)	21 177	(29 458)	4 473
Fair value adjustments:								
Open foreign exchange contracts gains / (losses)	11 804	(213)	(514)	(352)	11 290	(565)	6 798	(675)
	11 804	(213)	(514)	(352)	11 290	(565)	6 798	(675)

4. INVESTMENT REVENUES

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
Investment revenue on financial instruments not at fair value through profit or loss:								
Interest received on bank balances and cash	3 880	5 683	1 711	1 028	5 591	6 711	2 902	1 369
Interest received from subsidiaries and joint venture	—	—	—	—	—	—	16 742	22 072
Dividends received from short-term dividend unit trusts and other investments	788	591	—	—	788	591	—	—
Dividends from subsidiaries and joint venture	—	—	—	—	—	—	50 000	—
	4 668	6 274	1 711	1 028	6 379	7 302	69 644	23 441

5. FINANCE COSTS

	GROUP Continuing operations 2012 R000	2011 R000	GROUP Discontinued operations 2012 R000	2011 R000	GROUP Total 2012 R000	2011 R000	COMPANY 2012 R000	2011 R000
Finance costs on financial instruments not at fair value through profit or loss:								
Interest paid on bank overdrafts	11 973	7 240	25	237	11 998	7 477	8 375	5 568
Interest paid on loans	1 087	11 095	14 364	11 450	15 451	22 546	—	455
Preference dividends received (see note 18 pertaining to offset against interest paid at Group level)	—	(5 568)	(5 484)	(2 864)	(5 484)	(8 432)	—	—
Interest paid on letters of credit	4 427	2 550	—	—	4 426	2 550	4 426	2 550
Trade finance commission	4 946	1 964	—	—	4 946	1 964	—	—
Finance leases	—	227	—	—	—	227	—	—
Other interest paid	2 904	2 288	—	—	2 904	2 288	—	43
Interest paid to taxation authorities	—	7	—	—	—	7	—	—
	25 337	19 803	8 905	8 823	34 241	28 627	12 801	8 616

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

6. OTHER (LOSSES) AND GAINS

	GROUP		COMPANY	
	2012 R000	2011 R000	**2012 R000**	2011 R000
Fair valuation gain of subsidiary loans payable (see note 12)	—	—	**—**	1 959
Fair valuation gain on other loans payable (see note 21)	—	1 901	**—**	1 901
Impairment of subsidiary loans receivable (see note 12)	(2 168)	—	**(2 142)**	(2 821)
Impairment of subsidiary investments (see note 12)	—	—	**(7 654)**	(8 881)
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)	(3 445)	**—**	—
	(5 613)	(1 413)	**(9 796)**	(8 496)

7. INCOME TAX EXPENSE

	GROUP Continuing operations		GROUP Discontinued operations		GROUP Total		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
South African normal tax	(31 833)	(32 995)	1 600	(801)	(30 233)	(33 796)	(27 460)	(23 556)
Foreign tax	(682)	—	(569)	(1 457)	(1 251)	(1 457)	—	—
Capital gains tax	—	(1 371)	—	—	—	(1 371)	—	—
	(32 515)	(34 366)	1 031	(2 258)	(31 484)	(36 624)	(27 460)	(23 556)
Comprising:								
Normal current tax								
– Current year	(32 488)	(32 718)	(1 259)	(2 393)	(33 747)	(35 111)	(25 993)	(24 252)
– Prior year	1 858	162	46	(56)	1 904	106	16	294
Normal deferred tax								
– Current year	(26)	(767)	2 244	153	2 218	(614)	337	1 120
– Prior year	(59)	928	—	38	(59)	966	(20)	(118)
Secondary tax on companies								
– Deferred tax	(1 800)	(600)	—	—	(1 800)	(600)	(1 800)	(600)
Capital gains tax								
– Current tax	—	(1 371)	—	—	—	(1 371)	—	—
Income tax expense for the year	(32 515)	(34 366)	1 031	(2 258)	(31 484)	(36 624)	(27 460)	(23 556)
Tax rate reconciliation								
South African statutory rate of tax					28,0%	28,0%	28,0%	28,0%
Dividends received					(0,2%)	(1,9%)	(10,6%)	0,0%
Secondary tax on companies					1,6%	0,5%	1,4%	0,8%
Current tax prior year over provision					(1,7%)	(0,1%)	0,0%	(0,4%)
Deferred tax prior year over (under) provision					0,1%	(0,7%)	0,0%	0,2%
Capital gains tax					0,0%	1,0%	0,0%	0,0%
Disallowed expenses					1,0%	0,8%	2,1%	3,9%
Effective tax rate					28,8%	27,6%	20,9%	32,5%

8. DISCONTINUED OPERATIONS

Management is of the intention to dispose land in KwaZulu-Natal, as well as the Group's share in Comztek Holdings (Pty) Limited and Rectron Australia BV within the next 12 months. The aforementioned asset and companies were treated as discontinued operations and their assets and liabilities classified as available-for-sale (refer note 31), as management is committed to a plan to sell the companies and an active programme to locate buyers and complete the plan have been initiated.

The (loss) profit for the year from discontinued operations is as follows:

	GROUP	
	2012 R000	2011 R000
Revenue	640 479	609 449
Cost of sales	(559 916)	(526 349)
Gross profit	80 563	83 100
Other income	1 023	8 660
Distribution, administrative and other operating expenses	(77 442)	(72 199)
Profit from operations	4 144	19 561
Investment revenues	1 711	1 028
Finance costs	(8 905)	(8 823)
(Loss) profit before tax	(3 050)	11 766
Income tax benefit (expense)	1 031	(2 258)
(Loss) profit for the year	(2 019)	9 508
Less loss (profit) attributable to outside shareholders	694	(3 590)
Group's share of (loss) profit for the year from discontinued operations	(1 325)	5 918

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

9. EARNINGS PER SHARE

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

	GROUP	
	2012 R000	2011 R000
From continuing and discontinued operations		
Basic earnings (profit for the year attributable to equity holders of the parent)	80 181	94 623
Group's share of after tax (profit) loss on disposal of property, plant and equipment	(7 762)	1 672
Impairment of distribution right (see note 11)	3 445	3 445
Non-controlling interest in impairment of distribution right	(1 688)	(1 688)
Impairment of associate and other loans (see note 13 and 15)	2 168	2 036
Foreign exchange gains on liquidation of foreign subsidiary	—	(2 167)
Headline earnings	76 344	97 921
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	108 832	109 547
Effect of dilutive potential ordinary shares – share options	—	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	108 832	109 547
From continuing operations		
Basic earnings (profit for the year attributable to equity holders of the parent)	80 181	94 623
Less Group's share of loss (profit) for the year from discontinued operations	1 325	(5 918)
Basic earnings from continuing operations	81 506	88 705
Group's share of after tax loss (profit) on disposal of property, plant and equipment	(7 762)	1 672
Impairment of distribution right (see note 11)	3 445	3 445
Non-controlling interest in impairment of distribution right	(1 688)	(1 688)
Impairment of associate and other loans (see note 13 and 15)	2 168	2 036
Foreign exchange gains on liquidation of foreign subsidiary	—	(2 167)
Headline earnings	77 669	92 003

At year-end, no share options were outstanding (2011: 6 025 000 exercisable over the next year, at a weighted average price of R9,40 per share). The weighted average market price for the current financial year was R5,40 per share (2011: R2,62 per share).

9. EARNINGS PER SHARE *(continued)*

	GROUP	
	2012 Cents	2011 Cents
Earnings per share		
From continuing and discontinued operations		
– Headline earnings per ordinary share	70,15	89,39
– Basic earnings per ordinary share	73,67	86,38
– Diluted headline earnings per ordinary share	70,15	89,39
– Diluted basic earnings per ordinary share	73,67	86,38
From continuing operations		
– Headline earnings per ordinary share	71,37	83,98
– Basic earnings per ordinary share	74,89	80,97
– Diluted headline earnings per ordinary share	71,37	83,98
– Diluted basic earnings per ordinary share	74,89	80,97
From discontinued operations		
– Headline earnings per ordinary share	(1,22)	5,40
– Basic earnings per ordinary share	(1,22)	5,40
– Diluted headline earnings per ordinary share	(1,22)	5,40
– Diluted basic earnings per ordinary share	(1,22)	5,40

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

10. PROPERTY, PLANT AND EQUIPMENT

GROUP – 2012 Cost	Opening balance R000	Additions R000	Disposals R000	Transfers to other asset categories R000	Amounts transferred to assets classified as held-for-sale (refer note 31) R000	Exchange differences R000	Closing balance R000
Land and buildings	51 584	30 261	(4 234)	—	(35 548)	6 221	48 284
Improvements to leased premises	54 761	948	(4 173)	—	(3 360)	—	48 176
Plant and machinery	39 300	3 878	—	—	—	124	43 302
Furniture, fixtures and office equipment	33 399	3 817	(1 892)	—	(5 035)	513	30 802
Computer equipment	25 274	4 768	(764)	(39)	(3 223)	160	26 176
Motor vehicles	13 379	1 984	(1 706)	—	(2 451)	368	11 574
	217 697	45 656	(12 769)	(39)	(49 617)	7 386	208 314

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Transfers to other asset categories R000	Amounts transferred to assets classified as held-for-sale (refer note 31) R000	Exchange differences R000	Closing balance R000
Land and buildings	2 012	582	—	—	(1 942)	1 025	1 677
Improvements to leased premises	18 175	4 461	(4 067)	—	(2 216)	54	16 407
Plant and machinery	18 825	2 449	—	—	—	55	21 329
Furniture, fixtures and office equipment	23 934	2 828	(1 546)	—	(4 236)	417	21 397
Computer equipment	20 106	3 647	(709)	(39)	(2 605)	99	20 499
Motor vehicles	6 312	1 087	(1 023)	—	(2 268)	272	4 380
	89 364	15 054	(7 345)	(39)	(13 267)	1 922	85 689

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

Company – 2012 Cost	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
Land and buildings	2 604	—	—	2 604
Improvements to leased premises	12 223	672	—	12 895
Plant and machinery	9 721	3 323	—	13 044
Furniture, fixtures and office equipment	9 727	1 391	—	11 118
Computer equipment	16 669	2 942	(8)	19 603
Motor vehicles	9 462	1 663	(888)	10 237
	60 406	9 991	(896)	69 501

Accumulated depreciation	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Improvements to leased premises	8 078	881	—	8 959
Plant and machinery	8 337	1 022	—	9 359
Furniture, fixtures and office equipment	7 124	663	—	7 787
Computer equipment	13 330	2 200	(8)	15 522
Motor vehicles	3 380	651	(482)	3 549
	40 249	5 417	(490)	45 176

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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

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

	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Accumulated depreciation				
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

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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

	GROUP 2012 R000	GROUP 2011 R000	COMPANY 2012 R000	COMPANY 2011 R000
Net book value				
Land and buildings	46 607	49 572	2 604	2 604
Improvements to leased premises	31 769	36 586	3 936	4 145
Plant and machinery	21 973	20 475	3 685	1 384
Furniture, fixtures and office equipment	9 405	9 465	3 331	2 603
Computer equipment	5 677	5 168	4 081	3 339
Motor vehicles	7 194	7 067	6 688	6 082
	122 625	128 333	24 325	20 157

During financial years before 2011, 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 financial years before 2011, 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*.

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 2012 R000	GROUP 2011 R000	COMPANY 2012 R000	COMPANY 2011 R000
Goodwill				
Cost	54 267	56 442	—	—
At the beginning of the year	56 442	56 442	—	—
Amounts transferred to assets classified as held-for-sale (refer note 31)	(2 175)	—	—	—
Accumulated impairments	(6 249)	(6 267)	—	—
At the beginning of the year	(6 267)	(6 253)	—	—
Exchange differences (on consolidation of foreign subsidiaries)	36	(14)	—	—
Amounts transferred to assets classified as held-for-sale (refer note 31)	(18)	—	—	—
Carrying amount	48 018	50 175	—	—
Software				
Cost	54 292	48 771	34 409	29 211
At the beginning of the year	48 771	43 309	29 211	24 361
Additions	5 852	5 146	5 198	4 850
Transfers from other asset categories	39	318	—	—
Exchange differences	20	(2)	—	—
Amounts transferred to assets classified as held-for-sale (refer note 31)	(390)	—	—	—
Accumulated amortisation*	(45 515)	(40 123)	(26 504)	(21 111)
At the beginning of the year	(40 123)	(33 405)	(21 111)	(14 992)
Amortisation	(5 708)	(6 426)	(5 393)	(6 119)
Transfers from other asset categories	(39)	(293)	—	
Exchange differences	(18)	1	—	—
Amounts transferred to assets classified as held-for-sale (refer note 31)	373	—	—	—
Carrying amount	8 777	8 648	7 905	8 100
Total	56 795	58 823	7 905	8 100

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

11. INTANGIBLE ASSETS *(continued)*

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
Distribution rights and development cost**				
Cost	10 336	13 526	—	—
At the beginning of the year	13 526	12 107	—	—
Additions	1 346	1 455	—	—
Disposals	—	(36)	—	—
Amounts transferred to assets classified as held-for-sale (refer note 31)	(4 536)			
Accumulated amortisation and impairments**	(6 891)	(4 536)	—	—
At the beginning of the year	(4 536)	(86)	—	—
Amortisation	(1 304)	(1 017)	—	—
Impairments	(3 445)	(3 445)	—	—
Disposals	—	12	—	—
Amounts transferred to assets classified as held-for-sale (refer note 31)	2 394			
Carrying amount	3 445	8 990	—	—
Total intangible assets	60 240	67 813	7 905	8 100

**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 has therefore not been amortised as at 30 June 2011, nor as at 30 June 2012. Taking into account the nature of the software industry and the risk of software obsolescence, a portion to the amount of R3,4 million (2011: R3,4 million) of the distribution right has been impaired in the current financial year.

11. INTANGIBLE ASSETS *(continued)*

	GROUP	
	2012 R000	2011 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
Comztek Zambia	—	230
Rectron	27 276	27 276
Digital Surveillance Systems	1 000	1 000
	48 018	50 175

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 2012 financial year revenue generated by the cash generating units to which goodwill can be attributed and applying a long-term growth rate of 5% (2011: 5%) per annum, gross profit percentage of 14,6% (2011: 14,6%), overheads of 10,1% (2011: 10,1%), capital expenditure of 0,4% (2011: 0,4%), net working capital turnover of 57 days (2011: 57 days) and discounted at a rate of 12,5% (2011:14,5%). The net present value of these cash flows was found to exceed the carrying amount of goodwill and therefore the goodwill is not expected to be impaired.

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 adjusted by Rnil during the current financial year (2011: decreased by R1,9 million) (refer note 6).

During the previous 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.

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

12. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2012 R000	2011 R000
Shares at cost	262 125	262 125
– opening balance	262 125	260 228
– subsidiaries acquired and additional investments made	—	1 897
Impairment charges	(116 172)	(106 376)
Opening carrying value adjustments	(106 376)	(94 674)
Current year impairment of investments and loans	(9 796)	(11 702)
Loans owing by subsidiaries	85 836	82 534
Non-current investments in subsidiaries	231 789	238 283
Current loans owing by subsidiaries	—	258 439
Loans owing to subsidiaries	(133 513)	(122 993)
	98 276	373 729

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2012 %	2011 %	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
DIRECT – Unlisted								
Ballena Trading 29 (Pty) Limited[9]	51	51	5 272	5 272	—	—	1 758	3 514
Brobusmac Investments (Pty) Limited[2, 4]	100	100	1 575	1 575	(7 960)	(7 960)	(6 385)	(6 385)
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	5 896	—	—	—	5 896
Lithatek Investments (Pty) Limited[1, 2, 4]	100	100	19 448	19 448	2 479	2 479	—	—
Makeshift 1000 (Pty) Limited[1, 2, 9, 3]	100	100	10 698	10 698	43 142	43 142	—	1 849
Mustek Capital (Pty) Limited [7, 13, 14]	100	100	100	100	(10 520)	258 439	(10 420)	258 539
Mustek Limited Company Limited[2, 8]	100	100	*	*	3 382	3 137	11	60
Mandarin Trading House (Pty) Limited [2, 4]	100	100	*	*	(1 115)	(1 115)	(1 115)	(1 115)
Mustek East Africa Limited[2, 5, 18]	100	100	12 315	12 315	16 744	13 645	23 327	20 228
Mecer (Pty) Limited[4]	100	100	*	*	—	—	—	—
MFS Technologies (Pty) Limited[2, 4]	100	100	*	*	(1 323)	(1 323)	(1 323)	(1 323)
Mustek Electronics (Cape Town) (Pty) Limited[2, 4]	100	100	3 229	3 229	(3 216)	(3 216)	13	13
Mustek Electronics (Durban) (Pty) Limited[2, 4]	100	100	1 658	1 658	(1 433)	(1 433)	225	225
Mustek Electronics (Port Elizabeth) (Pty) Limited[2, 4]	100	100	327	327	(270)	(270)	57	57
Mustek Investments (Pty) Limited[4]	100	100	*	*	—	—	—	—
Mustek International (Pty) Limited[4]	100	100	*	*	—	—	—	—
Mustek Management (Pty) Limited[4]	100	100	*	*	—	—	—	—
Mustek Middle East FZCO[2, 15]	100	100	1 392	1 392	1 118	1 118	—	—

12. INVESTMENTS IN SUBSIDIARIES *(continued)*

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2012 %	2011 %	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
DIRECT — Unlisted *(continued)*								
Mustek Lesotho (Pty) Limited[2 19]	99	—	*	—	822	—	822	—
Planet Internet (Pty) Limited[4]	100	100	*	*	—	—	—	—
Quickstep 94 (Pty) Limited[1, 2, 9]	100	100	2 581	2 581	18 149	19 013	1 348	2 212
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]	—	—	—	—	—	—	—	—
Datazone Limited[2, 10, 17]	100	100	—	—	—	—	—	—
First Campus (Pty) Limited[4]	100	100	—	—	—	—	—	—
Formprops 110 (Pty) Limited[4]	100	100	—	—	—	—	—	—
Inter-Ed (Pty) Limited[4]	100	100	—	—	—	—	—	—
Mecer Inter-Ed (Pty) Limited[7, 11]	100	100	—	—	—	—	—	—
PWS Investments (Pty) Limited[9]	100	100	—	—	—	—	—	—
Rectron Australia (Pty) Limited[6]	50	50	—	—	—	—	—	—
Sheerprops 68 (Pty) Limited[4]	100	100	—	—	—	—	—	—
Soft 99 (Pty) Limited[7, 11]	68	68	—	—	—	—	—	—
			262 125	262 125	(47 677)	217 980	98 276	373 728

The net investment is after impairment charges against the investments and loans of R116,2 million (2011: R106,4 million).

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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 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 R nil (2011: R1,9 million) was recognised 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 (refer notes 15 and 25).*

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

[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.*

[19] *Mustek Lesotho (Pty) Limited was incorporated in the current financial year with the main aim of providing on-site service to Standard Bank in Lesotho in terms of a service contract with Standard Bank.*

**Original cost less than R500.*

13. INVESTMENTS IN ASSOCIATES

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 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)	(2 148)	(3 834)	—	—
– opening balance	(3 834)	(4 097)	—	—
– current year share of post acquisition gains	1 686	263	—	—
Loans owing by associates	14 088	13 458	6 788	6 158
Opening balance	13 458	10 114	6 158	2 154
Increase in loans	630	3 344	630	4 004
Fair valuation adjustments to loans	(5 132)	(3 750)	—	—
Current year impairment of loans	(2 168)	(1 382)	—	—
Investments in associates	8 737	8 589	6 788	6 158
The aggregate assets, liabilities and results of operations of associates at year-end are summarised as follows (2011: excluding Mustek Zimbabwe Private Limited):				
Total assets	67 862	8 125	66 899	7 162
Total liabilities	69 034	18 549	60 277	9 791
Revenue	53 202	7 604	53 202	6 348
Profit (loss) before tax	5 722	(1 325)	5 722	(2 275)
Income tax expense	(1 225)	(522)	(1 225)	(256)
Net profit (loss) for the year	4 497	(1 847)	4 497	(2 531)

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

13. INVESTMENTS IN ASSOCIATES *(continued)*

	Percentage holding		Cost		Loans to		Equity accounted share of earnings		Net investment	
	2012 %	2011 %	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
COMPANY										
Unlisted										
Mustek Zimbabwe Private Limited[2]	—	—	4 189	4 189	—	—	—	—	—	—
Khauleza IT Solutions[1]	26,0	26,0	—	—	5 053	4 858	—	—	5 053	4 858
Continuous Power Systems (Pty) Limited[5]	40,0	40,0	—	—	1 735	1 300	—	—	1 735	1 300
			4 189	4 189	6 788	6 158	—	—	6 788	6 158
GROUP										
Unlisted										
Mustek Zimbabwe Private Limited[2]	—	—	—	—	—	—	936	—	936	—
A Open (Pty) Limited[3]	43,0	43,0	—	—	—	—	—	—	—	—
Preworx (Pty) Limited[4]	38,0	38,0	24 447	24 447	7 300	7 300	(4 097)	(4 097)	—	2 168
Khauleza IT Solutions[1]	26,0	26,0	—	—	—	—	303	—	303	—
Continuous Power Systems (Pty) Limited[5]	40,0	40,0	—	—	—	—	710	263	710	263
			28 636	28 636	14 088	13 458	(2 148)	(3 834)	8 737	8 589

The net investment is after impairment charges against and fair value adjustments of the investments and loans of R31,8 million (2011: R29,7 million) for the Group and R4,2 million (2011: R4,2 million) for the Company.

13. INVESTMENTS IN ASSOCIATES *(continued)*

Additional information	Nature of business	Country of incorporation	Period equity accounted
Mustek Zimbabwe Private Limited	Assembly and distribution of computers and computer components	Zimbabwe	12 months (2011: 12 months)
Khauleza IT Solutions (Pty) Limited	Provider of IT support solutions	South Africa	12 months (2011: 12 months)
Continuous Power Systems (Pty) Limited	Provider of uninterrupted power supply solutions	South Africa	12 months (2011: 6 months)
A Open (Pty) Limited	Dormant	South Africa	12 months (2011: 12 months)
Preworx (Pty) Limited	Remote access diagnostics technology	South Africa	12 months (2011: 12 months)

[1]*During November 2009, Mustek Limited acquired a 26% share in this company at a nominal consideration, and provided working capital to the amount of R2,2 million in the form of a shareholders' loan*.

[2]*On 1 July 2002 Mustek disposed of Mustek Zimbabwe. The purchaser irrevocably granted Mustek an option to purchase, at any time, 40% of the entire issued share capital of Mustek Zimbabwe for a nominal value and, as a result, the option investment is treated as an equity investment in an associate company.*

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

[4]*This loan is unsecured, interest free and has no fixed terms of repayment.*
The investment in this company was impaired to Rnil in previous financial years. The Group considers the only value in the company to be loan amount, which is carried at fair value. This loan was impaired by an amount of R2,2 million during the current financial year (2011: R1,4 million) 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.

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

14. INVESTMENT IN JOINT VENTURE

The Group jointly controls Comztek (Pty) Limited and the results of the joint venture are proportionately consolidated. The net assets and results from operations of Comztek (Pty) Limited has been classified as a held-for-sale and discontinued operations respectively (refer notes 8 and 31).

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
Cost	—	—	—	—
Loans owing by joint venture	—	—	—	—
	—	—	—	—
Percentage shareholding	50%	50%	50%	50%

The Group and company's 50% (2011: 50%) interest in the assets, liabilities and results of operations of the joint venture are summarised as follows:

	GROUP AND COMPANY	
	2012 R000	2011 R000
Non-current assets	—	11 748
Current assets	—	159 063
Non-current liabilities	—	—
Current liabilities	—	140 553
Revenue	—	494 468
Profit before tax	—	8 239
Income tax (expense) benefit	—	(1 584)
Profit after tax	—	6 655
Non-controlling interest	—	(779)
Net profit for the year	—	5 876

15. OTHER INVESTMENTS AND LOANS

	GROUP 2012 R000	GROUP 2011 R000	COMPANY 2012 R000	COMPANY 2011 R000
Shares at cost	33 877	33 877	13 751	13 751
– opening balance	33 877	33 877	13 751	13 751
Loans	4 274	6 129	4 274	5 815
Fair value adjustments	(6 418)	(6 418)	(904)	(904)
– opening balance	(6 418)	(5 764)	(904)	(250)
– fair value loss (note 6)	—	(654)	—	(654)
	31 733	33 588	17 121	18 662

	Ownership interest 2012 %	Ownership interest 2011 %	Shares at cost 2012 R000	Shares at cost 2011 R000	Loans to 2012 R000	Loans to 2011 R000	Net investment 2012 R000	Net investment 2011 R000
COMPANY								
Unlisted								
A Lai[2]	—	—	—	—	1 000	1 000	1 000	1 000
Columbus Technologies (Pty) Limited[1]	—	—	—	—	2 013	1 849	2 013	1 849
J Allan[6]	—	—	—	—	—	1 011	—	1 011
M Cameron[6]	—	—	—	—	607	549	607	549
Option – Mecer Capital (Pty) Limited[8]	—	—	250	250	—	—	—	—
Simple Process Engineering Solutions (Pty) Limited[9]	—	—	—	—	654	654	—	—
Zinox Technologies Limited[10]	12,0	12,0	13 501	13 501	—	—	13 501	13 501
Tier One Electronics (Pty) Limited[3]	—	—	—	—	—	752	—	752
			13 751	13 751	4 274	5 815	17 121	18 662

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

15. OTHER INVESTMENTS AND LOANS *(continued)*

	Ownership interest		Shares at cost		Loans to (from)		Net investment	
	2012 %	2011 %	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
GROUP								
Unlisted								
A Coetzee[4]	—	—	—	—	—	314	—	314
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	4 274	6 129	31 733	33 588

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. This loan was transferred to non-current assets available for sale in the current financial year (refer note 31).*

[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 2012 R000	GROUP 2011 R000	COMPANY 2012 R000	COMPANY 2011 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% (2011: 28%) except if otherwise indicated:				
Tax loss	3 192	5 501	—	—
Provision for doubtful debts	1 746	3 802	2 006	3 149
Amortisation of intangible assets	24	27	24	27
Salary-related provisions	3 531	4 685	3 531	4 394
Accelerated wear and tear for tax purposes	(3 555)	(271)	(850)	(726)
Prepayments	(400)	(694)	(317)	(512)
Minor assets	16	27	15	27
Operating lease liabilities	848	(4 643)	839	(612)
Other provisions	2 589	3 799	774	765
Unrealised exchange gains and losses	(755)	609	(705)	198
Deferred revenue	7 862	6 150	7 862	6 152
Secondary tax on companies (10%)*	—	1 800	—	1 800
Unrealised capital gains	(1 982)	(2 251)	—	—
Unrealised fair value capital gain on investment (14%)	141	141	—	—
	13 257	18 682	13 179	14 662
Deferred tax assets	15 666	23 925	13 179	14 662
Deferred tax liabilities	(2 409)	(5 243)	—	—
	13 257	18 682	13 179	14 662

**In the previous financial year, the Company and Group only raised a deferred tax asset on secondary tax on companies to the extent to which it expected to declare dividends before 30 April 2012. Dividends were subsequently declared on 22 December 2011, utilising the deferred tax asset raised.*

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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

	GROUP 2012 R000	GROUP 2011 R000	COMPANY 2012 R000	COMPANY 2011 R000
Reconciliation between opening and closing balances:				
Deferred tax asset at the beginning of the year	18 682	18 434	14 662	14 260
Differences on taxable loss	(2 309)	(97)	—	—
Differences on provision for doubtful debts	(2 056)	1 051	(1 143)	1 111
Differences on amortisation of intangible assets	(3)	(2)	(3)	(2)
Differences on salary-related provisions	(1 154)	1 937	(863)	1 907
Differences on accelerated wear and tear	(3 284)	1 749	(124)	(91)
Differences on prepayments	294	(2 302)	195	(2 273)
Differences on minor assets	(11)	17	(12)	17
Differences on lease liability	5 491	(4 748)	1 451	(637)
Differences on other provisions	(1 210)	2 819	9	82
Differences on unrealised exchange gains and losses	(1 364)	(126)	(903)	447
Differences on deferred revenue	1 712	424	1 710	441
Foreign currency translation reserve	269	(370)	—	—
Opening balances transferred to assets classified as held-for-sale (refer note 31)	5 340	—	—	—
	1 715	352	317	1 002
Differences on secondary tax on companies	(1 800)	(600)	(1 800)	(600)
Deferred tax movement through the statement of comprehensive income	(85)	(248)	(1 483)	402
Deferred tax movement through the statement of financial position	(5 340)	496	—	—
Differences on unrealised capital gains	269	—	—	—
Difference on fair value adjustment of financial instruments	—	148	—	—
Foreign currency translation reserve	(269)	(22)	—	—
Opening balances transferred to assets classified as held-for-sale (refer note 31)	(5 340)	—	—	—
	13 257	18 682	13 179	14 662

17. INVENTORIES

	GROUP 2012 R000	GROUP 2011 R000	COMPANY 2012 R000	COMPANY 2011 R000
Finished goods, net of provision for obsolescence	673 009	583 653	488 278	316 974
Inventories in transit	100 610	62 370	72 454	49 803
	773 619	646 023	560 732	366 777

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 R54,3 million (2011: R57,2 million) and R43,6 million (2011: R14,5 million) respectively.

18. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
Trade receivables	534 836	502 945	320 362	8 053
Other receivables	61 611	53 189	49 787	28 009
Total current trade and other receivables	596 447	556 134	370 149	36 062

Included in trade and other receivables for the current year is an amount of R15,7 million (2011: R15,7 million included in 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 USD 2,8 million if this amount is not paid by 30 August 2010. As at 30 June 2012, 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.

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 2010 financial year.
- During the current financial year, the terms of the overdraft facility granted from Bank of China to Mustek Limited were changed to allow for the facility to be secured against either the accounts receivable in the SPE or the accounts receivable in Mustek Limited. Hence, with effect from 1 April 2012, all accounts receivable in the SPE were transferred to Mustek Limited.

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 2010 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 (refer note 12).
- The Group trade receivables includes R79,6 million (2011: R307,8 million) of SPE trade receivables and R53,3 million (2011: R116,3 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).

18. TRADE AND OTHER RECEIVABLES *(continued)*

- 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% (2011: 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 (2011: 30 and 60 days) from date of invoice. Generally, no interest is charged on trade receivables. Of the trade receivable balance at year end, R120,0 million (2011: R67,4 million) and R16,3 million (2011: R36,8 million) is due from the Group and the Company's largest customers, respectively. Trade receivables are stated at amortised cost, which normally approximate their fair value due to short-term maturity.
- It is the Group's policy to provide credit terms with deferred payment terms to approved dealers, government departments and parastatals, and to allow an account to exceed its credit limit by a maximum of 50% of the original credit limit for temporary periods, subject to the necessary approval. Limits are revised regularly according to the customer's requirements and payment history. When an insured limit is exceeded temporarily, an application is immediately sent to the insurer requesting an extension of the insured limit.

Doubtful debt allowance

The Group and Company's trade receivables are stated after allowances for doubtful debts based on management's assessment of creditworthiness, an analysis of which is as follows:

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
Balance at the beginning of the year	19 169	21 157	12 404	10 545
Net amounts written off as uncollectable	(2 072)	(5 824)	—	—
Charged to profit and loss	(2 110)	3 836	(5 151)	1 859
Amounts transferred to assets classified as held-for-sale (refer note 31)	(4 024)	—	—	
Balance at the end of the year	10 963	19 169	7 253	12 404

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 2012, R1,9 million (2011: R11,4 million) cash was restricted in this manner. As the financing structure in Mustek Capital (Pty) Limited changed during the previous financial year (refer note 12 and 15), cash restricted in this manner only applies to Comztek as at 30 June 2011 and 30 June 2012.

A further amount of R14,8 million (2011: R14,0 million) is restricted in Comztek as security for a bank guarantee obtained in the previous financial year.

As at 30 June 2012 an amount of R9,6 million was held in trust in favour of Rectron Holdings Limited for the registration of properties to be acquired (refer note 32).

20. SHARE CAPITAL

	GROUP AND COMPANY	
	2012 R000	2011 R000
Authorised: 250 000 000 (2011: 250 000 000) ordinary shares of R0,008 each	2 000	2 000
Issued: 108 469 165 (2011: 109 547 165) ordinary shares of R0,008 each	868	877
	Number of shares ’000	Number of shares ’000
Ordinary shares		
Balance at the beginning of the year	109 547	109 547
Shares bought back	(1 078)	—
Balance at the end of the year	108 469	109 547

These shares exclude the 6 025 000 (2011: 6 025 000) share options granted and exercised but not yet delivered to participants in terms of the Mustek executive share scheme.

Taiwan Depository Receipts (TDRs) are listed on the Taiwan Securities Exchange. At 30 June 2012, 1 644 001 TDRs were in issue (2011: 7 100 479). Each TDR is linked to one Mustek Limited share.

During the current financial year, 1 078 000 TDRs listed on the Taiwan Securities Exchange and representing 1 078 000 ordinary shares were bought back at an average price of R5,22 per share.

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

21. BORROWINGS

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
Interest bearing				
Unsecured – at amortised cost				
Bank overdrafts	20 055	31 705	16 096	31 704
Unsecured – at fair value through profit and loss				
Consideration payable for investments in subsidiaries	—	6 241	—	6 241
Secured – at amortised cost				
Accounts receivable securitisation loans	143 161	116 270	143 161	68 770
Mortgage and term loans	—	22 828	—	—
Total interest-bearing borrowings	163 216	177 044	159 257	106 715
Interest free				
Unsecured – financial liabilities				
Cash settled share-based payment liability	1 683	—	1 683	—
Interest free				
Unsecured – non-financial liabilities				
Operating lease liabilities	3 028	—	2 997	—
Total interest free borrowings	4 711	—	4 680	—
Total borrowings	167 927	177 044	163 937	106 715
The borrowings are repayable as follows :				
On demand or within one year	163 216	90 446	159 257	37 945
In the second year	—	68 770	—	68 770
In the third to fifth years inclusive	4 711	3 126	4 680	—
After five years	—	14 702	—	—
Total borrowings	167 927	177 044	163 937	106 715
Bank overdrafts	(20 055)	(31 705)	(16 096)	(31 704)
Amounts due for settlement within 12 months	(143 161)	(58 741)	(143 161)	(6 241)
Long-term borrowings	4 711	86 598	4 680	68 770
Consisting of:				
Interest-bearing borrowings	163 216	86 598	159 257	68 770
Interest free borrowings	4 711	—	4 680	—
	167 927	86 598	163 937	68 770

21. BORROWINGS (continued)

Additional information

Included in borrowings are the following:

Accounts receivable securitisation loans

Included in long-term borrowings, is an amount of R143,2 million (2011: R68,8 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 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 Limited (2011: 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 (2011: R260 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 Limited (2011: Mustek Capital (Pty) Limited).

In the previous financial year, R30,0 million was due by Comztek Capital (Pty) Limited, bearing interest at a fixed interest rate of 12,87% per annum, secured against the trade receivables (see note 18) and was repayable on 29 September 2011. The balance of R17,5 million, with the same security and repayable on 29 September 2011, bore interest at a variable interest rate of JIBAR plus 2,8%. These loans were designated as held-to-maturity, carried at amortised cost and included in long-term borrowings.

The aforementioned facility was replaced with a new facility with similar terms on 30 September 2011. An amount due of R37,5 million bears interest at a fixed rate and an amount due of R16 million bears interest at a variable rate. Amounts drawn on this facility are repayable on 30 September 2014.

Bank overdrafts

Bank overdrafts of R16,1 million (2011: R31,7 million) due by the Company are carried amortised cost, denominated in United States Dollar and bear interest at LIBOR plus 1%.

Mortgage and term loans

In the previous financial year R17,8 million of the mortgage and term loans were denominated in Australian Dollar, bearing interest at a fixed interest rate of 17,8%, secured by land and buildings with a net book value of R19,0 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 was denominated in Rand. These loans were carried at amortised cost. (See note 10). Both the aforementioned mortgage and term loans were classified as non-current liabilities available-for-sale in the current financial year (refer note 31).

Consideration payable for acquisition of subsidiary

A balance for potential further consideration for Rectron Limited existed as at 30 June 2011, but was settled in the current financial year. The loan was 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 was based on the expected performance of Rectron Limited, until 30 June 2011. The directors made certain assumptions with regards to the estimated amounts payable (refer note 23). Based on the fair value of these payables, a R1,9 million gain was recognised in profit and loss in the previous financial year (refer note 6 and 23).

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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

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

Borrowing powers, borrowing capacity and banking facilities

In terms of the memorandum of association, the Company's borrowing powers are unlimited. The Group has banking facilities amounting to R1 250,4 million (2011: R983,8 million), which are secured by cross guarantees in the Group as follows:

	GROUP	
	2012 R000	2011 R000
General overdraft and similar facilities	763 042	641 429
Letters of credit facilities	487 333	342 391
	1 250 375	983 820

22. TRADE AND OTHER PAYABLES AND PROVISIONS

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
Letters of credit payables	316 247	266 203	189 471	147 836
Trade payables	567 778	420 362	309 365	192 660
Other payables	46 230	37 039	35 627	15 463
Total trade and other payables	930 255	723 604	534 463	355 959

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 R763,0 million (2011: R641,4 million) 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 113 days (2011: 88 days).

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

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

The following movements occurred in provisions:

GROUP 2012	Leave pay provision R000	Bonus provision R000	Total R000
Opening carrying amount	8 325	12 919	21 244
Additional provision	4 075	17 330	21 405
Amounts used	(2 060)	(23 328)	(25 388)
Unused amounts reversed	—	(136)	(136)
Amounts transferred to liabilities directly associated with assets classified as held-for-sale (refer note 31)	(2 044)	(1 488)	(3 532)
Closing carrying amount	8 296	5 297	13 593
COMPANY 2012			
Opening carrying amount	5 495	10 200	15 695
Additional provision	2 768	12 066	14 834
Amounts used	(1 398)	(18 204)	(19 602)
Closing carrying amount	6 865	4 062	10 927

GROUP 2011	Leave pay provision R000	Bonus provision 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)
Closing carrying amount	5 495	10 200	15 695

Employee entitlements to annual leave are recognised as services 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.

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

23.1 Categories of financial instruments

GROUP 2012	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	122 625	—	—	—	—	—	122 625
Intangible assets	11	60 240	—	—	—	—	—	60 240
Investments in associates	13	8 737	—	8 737	—	—	—	—
Other investments and loans	15	31 733	—	3 620	28 113	—	—	—
Deferred tax asset	16	15 666	—	—	—	—	—	15 666
Current assets								
Inventories	17	773 619	—	—	—	—	—	773 619
Trade and other receivables	18	596 447	—	591 594	—	—	—	4 853
Foreign currency assets	23	14 389	14 389	—	—	—	—	—
Tax assets		666	—	—	—	—	—	666
Bank balances and cash	19	224 413	—	224 413	—	—	—	—
Assets classified as held-for-sale	31	268 664	—	—	268 664	—	—	—
TOTAL ASSETS		2 117 199	14 389	828 364	296 777	—	—	977 669
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	868	—	—	—	—	—	868
Ordinary share premium		117 256	—	—	—	—	—	117 256
Retained earnings		639 655	—	—	—	—	—	639 478
Non-distributable reserve		809	—	—	—	—	—	809
Foreign currency translation reserve		(2 857)	—	—	—	—	—	(2 857)
Equity attributable to equity holders of the parent		755 731	—	—	—	—	—	755 554
Non-controlling interest		18 426	—	—	—	—	—	18 515
Total equity		774 157	—	—	—	—	—	774 069
Non-current liabilities								
Long-term borrowings	21	4 711	—	—	—	4 711	—	—
Deferred tax liability	16	2 409	—	—	—	—	—	2 409
Current liabilities								
Short-term borrowings	21	143 161	—	—	—	143 161	—	—
Trade and other payables	22	930 255	—	—	—	930 255	—	—
Provisions	22	13 593	—	—	—	—	—	13 593
Foreign currency liabilities	23	2 585	2 585	—	—	—	—	—
Deferred income		28 078	—	—	—	—	—	28 078
Tax liabilities		3 963	—	—	—	—	—	3 964
Bank overdrafts	21	20 055	—	—	—	20 055	—	—
Liabilities directly associated with assets classified as held-for-sale	31	194 231	—	—	194 231	—	—	—
Total liabilities		1 343 041	2 585	—	194 231	1 098 182	—	48 044
TOTAL EQUITY AND LIABILITIES		2 117 199	2 585	—	194 231	1 098 182	—	822 201

**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 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.*

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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

23.1 Categories of financial instruments *(continued)*

COMPANY 2012	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	24 325	—	—	—	—	—	24 325
Intangible assets	11	7 905	—	—	—	—	—	7 905
Investments in subsidiaries	12	231 789	—	—	—	—	—	231 789
Investments in associates	13	6 788	—	6 788	—	—	—	—
Other investments and loans	15	17 121	—	3 621	13 500	—	—	—
Deferred tax asset	16	13 179	—	—	—	—	—	13 179
Current assets				—				
Inventories	17	560 732	—	—	—	—	—	560 732
Trade and other receivables	18	379 564	—	376 938	—	—	—	2 626
Foreign currency assets	23	7 106	7 106	—	—	—	—	—
Tax assets		666	—	—	—	—	—	666
Bank balances and cash	19	85 115	—	85 115	—	—	—	—
TOTAL ASSETS		1 334 290	7 106	472 462	13 500	—	—	841 222
EQUITY AND LIABILITIES								
Capital and reserves								
Ordinary share capital	20	868	—	—	—	—	—	868
Ordinary share premium		117 257	—	—	—	—	—	117 257
Retained earnings		344 939	—	—	—	—	—	344 939
Total equity		463 064	—	—	—	—	—	463 064
Non-current liabilities								
Long-term borrowings	21	4 680	—	—	—	4 680	—	—
Current liabilities								
Short-term borrowings	21	143 161	—	—	—	143 161	—	—
Trade and other payables	22	534 463	—	—	—	534 463	—	—
Provisions	22	10 927	—	—	—	—	—	10 927
Foreign currency liabilities	23	308	308	—	—	—	—	—
Loans owing to subsidiaries	12	133 513	—	—	—	133 513	—	—
Deferred income		28 078	—	—	—	—	—	28 078
Bank overdrafts		16 096	—	—	—	16 096	—	—
Total liabilities		871 226	308	—	—	831 913	—	39 005
TOTAL EQUITY AND LIABILITIES		1 334 290	308	—	—	831 913	—	502 069

**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)*

23.2 Risk management

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

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

23.2.1 Market risk

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

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

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

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

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

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

23.2.1.1 Foreign currency risk management

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

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

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

23.2 Risk management *(continued)*

23.2.1 Market risk *(continued)*

23.2.1.1 Foreign currency risk management *(continued)*

At statement of financial position date, the Company and Group had contracted to buy/sell the following amounts under forward exchange contracts:

	Rate		Foreign currency		Contract value		Fair value	
GROUP	2012 R/US$	2011 R/US$	2012 R000	2011 R000	2012 R000	2011 R000	2012 R000	2011 R000
BUY:								
US Dollars								
Less than three months	8,15	6,83	57 855	37 843	471 451	258 297	11 385	(565)
Three to six months	8,49	—	531	—	4 508	—	(95)	—
							11 290	(565)
Foreign currency assets							14 389	1 620
Foreign currency liabilities							(3 099)	(2 185)
							11 290	(565)
COMPANY								
BUY:								
US Dollars								
Less than three months	8,22	6,84	28 258	23 630	232 199	161 692	6 798	(675)
							6 798	(675)

The following significant exchange rates applied for both Group and Company during the year:

	Average spot rate		Closing spot rate	
	2012 R	2011 R	2012 R	2011 R
US Dollars	7,79	7,03	8,19	6,84
Euro	10,41	9,56	10,46	9,84

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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

23.2 Risk management *(continued)*

23.2.1 Market risk *(continued)*

23.2.1.1 Foreign currency risk management *(continued)*

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

	2012			2011		
Functional currency	United States Dollar R000	Euro R000	Other* R000	United States Dollar R000	Euro R000	Other* R000
GROUP						
South African Rand	(722 816)	1	24 064	(435 997)	1	24 325
Kenyan Shilling	(30 048)	—	9 409	692	—	2 674
	(752 864)	1	33 473	(435 305)	1	26 999
COMPANY						
South African Rand	(404 094)	—	2 392	(295 704)	—	1
	(404 094)	—	2 392	(295 704)	—	1

**Other currencies include Kenyan Shilling, British Pound, United Arab Emirates Dirham, Namibia 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.

	2012 R000	2011 R000
GROUP		
Profit before tax	71 939	51 365
COMPANY		
Profit before tax	40 170	30 194

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

23.2 Risk management *(continued)*

23.2.1 Market risk *(continued)*

23.2.1.2 Interest rate risk management

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

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
Financial liabilities				
Loans received at fixed rates of interest	63 941	59 069	—	6 241
Loans received and bank borrowings linked to LIBOR	336 302	297 907	205 567	179 540
Loans received and bank borrowings linked to JIBAR	159 161	86 270	143 161	68 770
	559 404	443 246	348 728	254 551
Financial assets				
Loans granted at fixed rates of interest	3 948	5 475	3 620	5 162
Loans granted and bank deposits linked to South African prime rates	11 198	102 909	7 717	13 260
Bank deposits linked to LIBOR	6 671	—	3 411	—
Bank deposits linked to money market rates	72 810	78 257	47 792	19 849
Bank deposits linked to Australian prime rates	13 389	11 454	—	—
Bank deposits linked to Kenyan prime rates	2 008	2 288	—	—
Bank deposits linked to other foreign prime rates	169 109	879	32 983	—
	279 133	201 262	95 523	38 271

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 2012 would decrease/increase by R5,6 million (2011: R4,4 million) and R3,4 million (2011: R2,5 million), respectively.

23.2.1.3 Price risk

The Group is exposed to equity price risk arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. If equity had been 5% higher/lower:

- profit before tax for the year ended 30 June 2012 and 30 June 2011 would have been unaffected as the equity investments are classified as available-for-sale with all fair value adjustments recognised directly in equity.
- investment revaluation reserve for the year ended 30 June 2012 would decrease/increase by Rnil (2011: Rnil).

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

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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

23.2 Risk management *(continued)*

23.2.2 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group limits its counterparty exposure arising from money market and derivative instruments by only dealing with well-established financial institutions of high credit standing. The Group's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded are spread amongst approved counterparties.

Financial assets, which potentially subject the Group to concentrations of credit risk, consists principally of cash and cash equivalents, foreign exchange forward contracts, loans and receivables, investments and trade and other receivables. Financial guarantees granted also subject the Group to credit risk.

With respect to the foreign exchange forward contracts, the Group's exposure is on the full amount of the foreign currency payable on settlement. The Group minimises credit risk relating to foreign exchange forward contracts by limiting the counterparties to major local and international banks, and does not expect to incur any losses as a result of non-performance by these counterparties.

Financial assets recorded in the financial statements, which are net of impairment losses, represent the Company and Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Refer to notes 18 and 19 for additional information relating to credit risk.

The maximum credit exposure of forward exchange contracts is represented by the fair value of these contracts.

The maximum credit exposure of financial guarantee contracts granted is the maximum amount the Group could be required to pay, or fund, without consideration of the probability of the actual outcome.

The Group holds collateral over certain trade and other receivables. The collateral is made up of demand guarantees from financial institutions and can be exercised on liquidation of the debtor. The collateral held amounted to R419,7 million (2011: R363,5 million) and R157,7 million (2011: R2,9 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	
	2012 %	2011 %	2012 %	2011 %
High	—	—	—	—
Medium	—	—	—	—
Low	100,00	100,00	100,00	100,00
	100,00	100,00	100,00	100,00

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 2012						
Trade and other receivables – South Africa	48 634	17 872	26 411	2 389	1 962	—
Trade and other receivables – non-South African	5 225	4 759	328	89	49	—
	53 859	22 631	26 739	2 478	2 011	—
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
COMPANY 2012						
Trade and other receivables – South Africa	29 435	9 953	15 536	2 011	1 935	—
Trade and other receivables – non-South African	3 348	3 312	5	—	31	—
	32 783	13 265	15 541	2 011	1 966	—
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

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.

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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

23.2 Risk management *(continued)*

23.2.3 Liquidity risk management *(continued)*

GROUP 2012	Total R000	0 – 1 year R000	2 years R000	3 — 5 years R000	5 years + R000
Non-interest bearing	614 008	614 008	—	—	—
Variable interest rate instruments	498 975	479 463	—	19 512	—
Fixed interest rate instruments	90 300	2 524	3 692	59 477	24 607
	1 203 283	1 095 995	3 692	78 989	24 607
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
COMPANY 2012					
Non-interest bearing	344 992	344 992	—	—	—
Variable interest rate instruments	348 728	348 728	—	—	—
	693 720	693 720	—	—	—
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	—	—

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	
	2012 R000	2011 R000	2012 R000	2011 R000
Total interest-bearing debt	559 404	443 246	348 728	254 551
Bank balances and cash	(224 413)	(195 787)	(85 115)	(33 109)
Net interest-bearing debt	334 991	247 459	263 613	221 442
Equity	755 732	693 733	463 064	383 112
Net debt to equity ratio %	44,3	35,67	56,9	57,80
Total debt to equity ratio %	74,0	63,89	75,3	66,44
23.3 Net gains (losses) on financial instruments Net gains (losses) on financial instruments analysed by category are as follows:				
Financial assets and financial liabilities at fair value through profit or loss, classified as held-for-trading	11 290	891	6 798	781
Loans and receivables (including bank and cash)	(8 546)	5 266	67 502	21 925
Financial liabilities held at amortised cost	(92 520)	6 771	(42 259)	(3 697)
Finance leases	—	(227)	—	—
Net losses attributable to financial instruments	(89 776)	12 701	32 041	19 009

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

23.4.1 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.

23.4.2 Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position

Fair value measurements of financial assets and liabilities are analysed as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (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 apply to Mustek as follows:

GROUP 2012	Level 1 R000	Level 2 R000	Level 3 R000
Held-for-trading			
Foreign currency assets	–	14 389	–
Foreign currency liabilities	–	(2 585)	–
Total – held-for-trading	–	11 804	–
Available-for-sale			
Other investments and loans	–	–	28 112
Total – available-for-sale	–	–	28 112
Total financial assets and (liabilities) at fair value	–	11 804	28 112

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

COMPANY 2012	Level 1 R000	Level 2 R000	Level 3 R000
Held-for-trading			
Foreign currency assets	—	7 106	—
Foreign currency liabilities	—	(308)	—
Total – held-for-trading	—	6 798	—
Available-for-sale			
Other investments and loans	—	—	13 500
Total – available-for-sale	—	—	13 500
Total financial assets and (liabilities) at fair value	—	6 798	13 500

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

GROUP 2012	Short-term borrowings R000	Long-term borrowing R000	Other investments and loans R000
Opening balance	(6 241)	—	28 112
Repayments	6 241	—	—
Closing balance	—	—	28 112

COMPANY 2012	Short-term borrowings R000	Long-term borrowings R000	Other investments and loans R000
Opening balance	(6 241)	—	13 501
Repayments	6 241	—	—
Closing balance	—	—	13 501

GROUP 2011	Level 1 R000	Level 2 R000	Level 3 R000
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

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

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

COMPANY 2011	Level 1 R000	Level 2 R000	Level 3 R000
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 R000	Long-term borrowings R000	Other investments and loans R000
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 R000	Long-term borrowings R000	Other investments and loans R000
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)*

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

Long- and short-term borrowings:

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

23.4.3 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:

	2012		2011	
	Carrying amount R000	Fair value R000	Carrying amount R000	Fair value R000
GROUP				
Financial assets				
Loans and receivables:				
Non-current trade and other receivables	—	—	—	—
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	63 941	66 338	59 069	51 488
COMPANY				
Financial assets				
Loans and receivables:				
Non-current trade and other receivables	—	—	—	—
Financial liabilities				
Borrowings:				
Loans received at fixed rates of interest	—	—	6 241	5 726

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 8,5% (2011: 9%) and holding the credit risk margin constant.

Borrowings

The fair value of the fixed rate loans is determined based on interest rates applicable on similar loans on 30 June 2012 and 30 June 2011 respectively. All other variables remained constant.

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

24. NET CASH FROM OPERATIONS

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
Profit for the year	77 799	96 038	104 149	49 002
Adjustments for:				
Income tax expense	31 484	36 624	27 460	23 556
Interest income	(5 591)	(6 711)	(19 644)	(23 441)
Finance costs	34 241	28 627	12 801	8 616
Dividend income	(788)	(591)	(50 000)	—
Realisation of foreign currency translation reserve	—	(2 167)	—	—
Depreciation of property, plant and equipment	15 054	16 224	5 417	6 539
Net (profit) loss on disposal of plant and equipment	(9 345)	1 672	162	1 571
(Decrease) increase in provisions	(4 119)	6 188	(4 768)	6 812
Unrealised foreign exchange losses (profits)	3 408	(2 461)	178	(948)
Fair value adjustments of derivative instruments	(11 290)	565	(6 798)	675
Share-based payment	53	339	53	339
Amortisation of intangible assets	7 012	7 443	5 393	6 119
Impairment of distribution right	3 445	3 445	—	—
Fair valuation of investment	—	(1 901)	—	(3 860)
Share of profit of associates	(1 686)	(263)	—	—
Impairment of other loan	—	654	—	654
Impairment of investment in subsidiary	—	—	9 796	8 881
Impairment of subsidiary loan	—	—	—	2 821
Impairment of associate loan	2 168	1 382	—	—
Operating cash flows before movements in working capital	141 845	185 107	84 199	87 336
Working capital movements	(21 914)	(59 636)	(355 248)	3 497
(Increase) decrease in inventories	(183 151)	(86 572)	(193 955)	(45 605)
Decrease (increase) in trade and other receivables	(159 291)	25 079	(345 051)	63 837
Increase (decrease) in deferred income	5 891	1 972	6 107	1 573
(Decrease) increase in trade and other payables	314 637	(115)	177 651	(16 308)
Net cash from (used in) operations	119 931	125 471	(271 049)	90 833

25. PROCEEDS ON DISPOSAL OF SUBSIDIARIES

On 1 January 2011, the Group disposed of Corex IT Distribution Dynamics (Pty) Limited.

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

	GROUP	
	2012 R000	2011 R000
Property, plant and equipment	—	5 304
Deferred tax asset	—	9
Inventories	—	15 028
Trade and other receivables	—	12 606
Tax asset	—	507
Bank balances and cash	—	4 694
Long-term borrowings	—	(15 000)
Goodwill	—	—
Trade and other payables	—	(6 830)
Non-controlling interest	—	(6 527)
Net asset value disposed	—	9 791
Loss on disposal	—	—
Total consideration	—	9 791
Cash and cash equivalents disposed	—	(4 694)
Net cash inflow	—	5 097

26. ACQUISITION OF SUBSIDIARIES

Mustek Lesotho (Pty) Limited was incorporated in Lesotho on 8 July 2011. Mustek Limited acquired a 99% shareholding at the date of incorporation at a total consideration of R99.

The Group acquired a further 25% of Digital Surveillance Systems (Pty) Limited on 1 December 2010. This company was consolidated in previous years.

	GROUP	
	2012 R000	2011 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	—	—
Total purchase consideration	—	1 391
Decrease in non-controlling interest	—	506
Total consideration satisfied by cash	—	1 897
Satisfied by cash	—	(1 897)
Bank balances and cash acquired	—	—
Net cash outflow on acquisition	—	(1 897)

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

27. OPERATING LEASE ARRANGEMENTS

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:				
Cash due:				
During the ensuing year	24 777	8 522	21 220	4 523
In the second year	25 861	7 014	22 888	4 908
In the third to fifth year inclusive	23 723	11 958	21 191	9 622
Thereafter	27 847	—	23 356	—
	102 208	27 494	88 655	19 053
Operating lease (asset) liability	3 028	(1 712)	2 997	(1 786)
To be expensed:				
During the ensuing year	26 622	11 199	22 769	7 156
In the second year	25 837	7 034	22 713	4 927
In the third to fifth year inclusive	22 348	10 973	19 820	8 756
Thereafter	24 373	—	20 356	—
	102 208	27 494	88 655	19 053

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

28. GUARANTEES AND CONTINGENT LIABILITIES

Unlimited guarantees

Banking facilities of certain South African subsidiary companies.

Limited guarantees

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

Legal dispute

- The Group has no significant legal matters pending.

29. RETIREMENT BENEFIT PLANS

The Mustek Group Retirement Fund, a defined contribution fund, was established with effect from 1 January 1998. The Fund has been registered by the Registrar of Pension Funds and is governed by the Pension Funds Act No 24 of 1956 as amended. The majority of the Group's employees belong to this Fund.

30. INTERESTS OF DIRECTORS IN CONTRACTS

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

31. ASSETS CLASSIFIED AS HELD-FOR-SALE

Management is of the intention to dispose land in KwaZulu-Natal, as well as the Group's share in Comztek Holdings (Pty) Limited and Rectron Australia BV within the next12 months. The aforementioned asset and companies were treated as discontinued operations (refer note 8) and their assets and liabilities classified as available-for-sale, as management is committed to a plan to sell the companies and an active programme to locate buyers and complete the plan have been initiated.

The major classes of assets and liabilities of the discontinued operations and vacant plot held-for-sale at the end of the reporting period, are as follows:

	TOTAL	COMZTEK	RECTRON AUSTRALIA	VACANT PLOT
	2012 R000	2012 R000	2012 R000	2012 R000
ASSETS				
Non-current assets				
Property, plant and equipment	36 350	2 249	22 208	11 893
Intangible assets	4 352	4 352	—	—
Other investments and loans	328	328	—	—
Deferred tax assets	7 743	6 137	1 606	—
Current assets				
Inventories	55 555	28 959	26 596	—
Trade and other receivables	118 978	105 137	13 841	—
Tax assets	1 374	615	759	—
Bank balances and cash	43 984	30 595	13 389	—
TOTAL ASSETS	268 664	178 372	78 399	11 893
LIABILITIES				
Non-current liabilities				
Long-term borrowings	79 941	53 500	20 651	5 790
Current liabilities				
Trade and other payables	109 293	87 830	21 463	—
Provisions	3 532	2 044	1 488	—
Foreign currency liabilities	514	514	—	—
Deferred income	292	292	—	—
Tax liabilities	659	659	—	—
TOTAL LIABILITIES	194 231	144 839	43 602	5 790
TOTAL NET ASSET VALUES	74 433	33 533	34 797	6 103

Notes to the Annual Financial Statements

(continued)

for the year ended 30 June 2012

32. RELATED PARTY TRANSACTIONS

During the 2012 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	—	(7 960)
Makeshift 1000 (Pty) Limited[4]	Loan	—	43 142
Mustek Capital (Pty) Limited[1]	Discounting fees	(17 951)	—
	Management fees	90	—
	Interest	16 464	—
	Loan	(268 959)	(10 520)
Mustek East Africa Limited[1]	Sales	4 585	2 381
	Loan	3 101	16 746
Mustek Limited Company Limited[2]	Loan	245	3 382
Mustek Middle East FZCO[1, 5]	Loan	—	1 118
Quickstep 94 (Pty) Limited[3]	Purchases	770	—
	Management fees	120	—
	Loan	(867)	18 146
Rectron Holdings Limited[1]	Sales	14 246	—
	Purchases	(201 878)	—
Tradeselect 38 (Pty) Limited	Loan	—	(11 910)

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.*

32. RELATED PARTY TRANSACTIONS *(continued)*

ASSOCIATES

Related party	Type of transaction	Amount of transaction received (paid) R000	Amount receivable R000
Preworx (Pty) Limited[1]	Loan	(2 168)	—
Khauleza IT Solutions (Pty) Limited[1]	Loan	195	5 053
Continuous Power Systems (Pty) Limited[1]	Loan	435	1 735

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	(7 551)	(653)
	Sales	5 721	1 341

[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 receivable R000
Columbus Technologies (Pty) Limited[1]	Previous associate	Loan	164	2 013
Mustek Electronics Properties (Pty) Limited[2]	Common directorship	Prepaid lease compensation	400	—
		Current account	(303)	243

[1]*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.*

[2]*Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

32. RELATED PARTY TRANSACTIONS *(continued)*

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	5 2713	(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.*

32. RELATED PARTY TRANSACTIONS *(continued)*

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	(1300)	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.

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
Continental Technology Enterprise[1]	Company owned by father of Mustek Limited CEO	Sales	—	—

[1]*Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.*

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

Key management personnel compensation

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

	GROUP		COMPANY	
	2012 R000	2011 R000	2012 R000	2011 R000
Short-term benefits	11 521	11 200	7 491	8 217
Share-based payments	1 981	410	1 736	410
	13 502	11 610	9 227	8 627

33. CAPITAL EXPENDITURE

At 30 June 2012, Rectron Holdings Limited, a Group subsidiary, was in the process of acquiring properties in Midrand to the cost of R9,6 million.

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

Shareholder Information

Notice of Annual General Meeting

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

Notice is hereby given that the Annual General Meeting of the Company's shareholders will be held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand on Friday, 14 December 2012 at 10:00 ("the Annual General Meeting").

Purpose

The purpose of the meeting is to transact the business set out in this notice of Annual General Meeting ("AGM notice") by considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions hereunder. For the avoidance of doubt, the memorandum and articles of association of the Company are referred to as the memorandum of incorporation in accordance with the terminology used in the new Companies Act 2008 (Act 71 of 2008), as amended ("the Companies Act"), which became effective on 1 May 2011.

Agenda

1. Presentation and consideration of the annual financial statements of the Company, including the reports of the directors and the Audit and Risk Committee for the year ended 30 June 2012 as set out in the Company's Integrated Annual Report 2012 of which this AGM notice forms part; and
2. To consider and, if deemed fit, approve, with or without modification, the following special and ordinary resolutions:

Note: For any of the ordinary resolutions numbers 1 to 10 and 12 to be adopted, more than 50% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

For any of the special resolutions numbers 1 to 5 to be adopted, more than 75% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

For ordinary resolution number 11 to be adopted, more than 75% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

1. Ordinary business

1.1 Re-election of directors

1.1.1 Ordinary resolution number 1: Re-election of ME Gama

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

An abbreviated *curriculum vitae* in respect of ME Gama may be viewed on page 64 of the Annual Integrated Report of which this notice forms part.

1.1.2 Ordinary resolution number 2: Re-election of D Konar

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

An abbreviated *curriculum vitae* in respect of D Konar may be viewed on page 64 of the Integrated Annual Report of which this notice forms part.

Reason for ordinary resolutions numbers 1 and 2

The reason for ordinary resolutions numbers 1 and 2 is that article 65 of the memorandum of incorporation of the Company and, to the extent applicable, the Companies Act, requires that a component of the non-executive directors rotate at the Annual General Meeting and, being eligible may offer themselves for re-election as directors.

1.2 Re-appointment of auditors

1.2.1 Ordinary resolution number 3: Confirmation of the re-appointment of the auditors

"Resolved that the re-appointment of Deloitte & Touche as independent auditors of the Company for the ensuing year (the designated auditor being Mr BE Greyling) on the recommendation of the Company's Audit and Risk Committee be hereby ratified."

Reason for ordinary resolution number 3

The reason for ordinary resolution number 3 is that the Company, being a public listed Company, must have its financial results audited and such auditor must be appointed or re-appointed each year at the Annual General Meeting of the Company as required by the Companies Act.

1.3 Auditors' remuneration

1.3.1 *Ordinary resolution number 4: Confirmation of the auditors' remuneration*

"Resolved that the auditors' remuneration for the year ended 30 June 2012 as determined by the Audit and Risk Committee of the Company be and is hereby confirmed."

Reason for ordinary resolution number 4

The reason for ordinary resolution number 4 is that the memorandum of incorporation of the Company requires that the remuneration of the auditor be considered at the Annual General Meeting.

1.4 Election of members to the Audit and Risk Committee

1.4.1 *Ordinary resolution number 5: Appointment of RB Patmore as a member to the Audit and Risk Committee*

"Resolved that RB Patmore be elected a member of the Audit and Risk Committee, with effect from the conclusion of this Annual General Meeting in terms of section 94(2) of the Companies Act."

An abbreviated *curriculum vitae* in respect of RB Patmore may be viewed on page 64 of the Integrated Annual Report of which this notice forms part.

1.4.2 *Ordinary resolution number 6: Appointment of T Dingaan as a member to the Audit and Risk Committee*

"Resolved that T Dingaan be elected a member of the Audit and Risk Committee, with effect from the conclusion of this Annual General Meeting in terms of section 94(2) of the Companies Act."

An abbreviated *curriculum vitae* in respect of T Dingaan may be viewed on page 64 of the Integrated Annual Report of which this notice forms part.

1.4.3 *Ordinary resolution number 7: Appointment of ME Gama as a member to the Audit and Risk Committee*

"Resolved that ME Gama be elected a member of the Audit and Risk Committee, with effect from the conclusion of this Annual General Meeting in terms of section 94(2) of the Companies Act."

An abbreviated *curriculum vitae* in respect of ME Gama may be viewed on page 64 of the Integrated Annual Report of which this notice forms part.

Reason for ordinary resolutions number 5 to 7

The reason for ordinary resolution numbers 5 to 7 (inclusive) is that the Company, being a public listed company, must appoint an audit committee as prescribed by sections 66(2) and 94(2) of the Companies Act, which also requires that the members of such audit committee be appointed, or re-appointed, as the case may be, at each Annual General Meeting of a company.

1.5 Ordinary resolution number 8: Endorsement of Remuneration Philosophy

To endorse the Company's remuneration philosophy, as set out in the Remuneration Report on pages 60 and 61 of the Integrated Annual Report, by way of a non-binding advisory note.

Reason for ordinary resolution number 8

The reason for ordinary resolution number 8 is that King III recommends that the remuneration policy of the company be endorsed through a non-binding advisory vote by shareholders at the annual general meeting of a company.

1.6 Unissued shares placed under control of the directors

1.6.1 *Ordinary resolution number 9: Placing unissued shares under directors' control*

"Resolved that the unissued shares in the company, limited to 5% of the number of shares in issue at 14 December 2012, be and are hereby placed under the control of the directors until the next Annual General Meeting and that they be and are hereby authorised to issue any such shares as they may deem fit, subject to the Companies Act, the memorandum of incorporation of the Company, and the provisions of the Listings Requirements of the JSE Limited (JSE), save that the aforementioned 5%

Notice of Annual General Meeting (continued)

limitation shall not apply to any shares issued in terms of a rights offer."

Reason for ordinary resolution number 9

The reason for ordinary resolution number 9 is that the Board requires authority from shareholders in terms of article 3 of its memorandum of incorporation to issue shares in the Company. This general authority, once granted, allows the Board from time to time, when it is appropriate to do so, to issue ordinary shares as may be required *inter alia* in terms of capital raising exercises, and to maintain a healthy capital adequacy ratio that may be required from time to time. This general authority is subject to the restriction that it is limited to 5% of the number of shares in issue at 14 December 2012 on the terms more fully set out in ordinary resolution number 9 and subject to the further restrictions set out in ordinary resolution number 11 below.

1.6.2 Ordinary resolution number 10: Placing a specific number of unissued shares under directors' control in terms of the Mustek Executive Share Trust

"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."

Reason for ordinary resolution number 10

The reason for ordinary resolution number 10 is that the Board requires authority from shareholders in terms of the Rules of the Mustek Executive Share Trust to execute the share options, previously issued in terms of this Trust.

1.7 General Authority to issue shares for cash

1.7.1 Ordinary resolution number 11: General authority to issue shares for cash

"Resolved that the directors of the Company be and are hereby authorised by way of a general authority, to allot and issue any of its unissued shares for cash placed under their control as they in their discretion may deem fit, without restriction, subject to the provisions of the Listings Requirements of the JSE, and subject to the provision that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution, shall be limited to 5% of the issued share capital at 14 December 2012, provided that:

- the approval shall be valid until the date of the next Annual General Meeting of the Company, provided it shall not extend beyond 15 months from the date of this resolution;
- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published after any issue representing, on a cumulative basis within any one financial year, 5% or more of the number of shares in issue prior to such issue;
- the general issues of shares for cash in the aggregate in any one financial year may not exceed 5% of the Company's issued share capital (number of securities) of that class. For purposes of determining whether the aforementioned 5% has been or will be reached, the securities of a particular class will be aggregated with the securities that are compulsorily convertible into securities of that class and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible. The number of securities of a class which may be issued shall be based on the number of securities of that class in issue at the date of such application less any securities of the class issued during the current financial year, provided that any securities of that class to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were securities in issue at the date of application;

- in determining the price at which an issue of shares will be made in terms of this authority the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over the 30 trading days prior to the date that the price of the issue is agreed between the Company and the party subscribing for the securities. The JSE should be consulted for a ruling if the securities have not traded in such 30 business day period;
- any such issue will only be made to public shareholders as defined in paragraphs 4.25 to 4.27 of the Listings Requirements of the JSE and not to related parties; and
- any such issue will only be securities of a class already in issue or, if this is not the case, will be limited to such securities or rights that are convertible into a class already in issue."

The reason for ordinary resolution number 11

For listed entities wishing to issue shares, it is necessary for the Board not only to obtain the prior authority of the shareholders as may be required in terms of their memorandum of incorporation contemplated in ordinary resolution number 11 above but it is also necessary to obtain the prior authority of shareholders in accordance with the Listings Requirements of the JSE. The reason for this resolution is accordingly to obtain a general authority from shareholders to issue shares in compliance with the Listings Requirements of the JSE. The authority granted in terms of this resolution number 9 must accordingly be read together with authority granted in terms of ordinary resolution number 11 above and any exercise thereof will be subject to the conditions contained in ordinary resolution number 11.

Note: This resolution requires the approval of not less than 75% of the votes cast by shareholders present or represented by proxy and entitled to vote at this Annual General Meeting.

1.8 Authorised directors and /or the Company Secretary

1.8.2 Ordinary Resolution Number 12: Authority to action

"Resolved that any one director of the Company and/or the Company Secretary is hereby authorised to do all such things and sign all such documents as deemed necessary to implement the ordinary and special resolutions as set out in this notice convening the Annual General Meeting at which these resolutions will be considered."

The reason for ordinary resolution number 12

The reason for ordinary resolution number 12 is to ensure that the resolutions voted favourably upon is duly implemented through the delegation of powers provided for in terms of article 52 of the Company's memorandum of incorporation.

2. Special business

2.1 Special resolution number 1: Remuneration of non-executive directors

"Resolved that the remuneration payable to the non-executive directors be approved on the following basis with effect from this Annual General Meeting until the next Annual General Meeting held in 2013:

Shareholder Information *(continued)*

Notice of Annual General Meeting (continued)

Category	Recommended remuneration
Chairman	R256 000 annual retainer
Board member	R73 000 annual retainer R10 000 per meeting attended
Audit and Risk Committee	
Chairman	R55 000 annual retainer R13 000 per meeting attended
Member	R32 000 annual retainer R8 000 per meeting attended
Remuneration and Nomination Committee	
Chairman	R54 000 annual retainer R13 000 per meeting attended
Member	R35 000 annual retainer R11 000 per meeting attended
Employment Equity Committee	
Chairman	R15 000 per meeting attended
Member	R10 000 per meeting attended
Social and Ethics Committee	
Chairman	R20 000 annual retainer R10 000 per meeting attended
Member	R10 000 annual retainer R6 000 per meeting attended

Reasons for and effect of special resolution number 1

The reason for the proposed special resolution, is to comply with section 66(9) of the Companies Act, which requires the approval of directors' fees prior to the payment of such fees.

The effect of special resolution number 1 is that the Company will be able to pay its non-executive directors for the services they render to the Company as directors without requiring further shareholder approval until the next Annual General Meeting.

2.2 *Special resolution number 2: Financial assistance to related and inter-related companies*

"Resolved that the Board of directors of the Group be and is hereby authorised in terms of section 45(3)(a)(ii) of the Companies Act, as a general approval (which approval will be in place for a period of two years from the date of adoption of this special resolution number 2), to authorise the Group to provide any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to such term in section 45(1) of the Companies Act) that the Board may deem fit to any related or inter-related Company of the Group ("related" and "inter-related" will herein have the meanings attributed to those terms in section 2 of the Companies Act), on the terms and conditions and for the amounts that the Board of directors may determine."

Reason for and effect of special resolution number 2

The reason for and the effect of special resolution number 2 is to provide a general authority to the Board of directors of the Group for the Group to grant direct or indirect financial assistance to any Company forming part of the Group, including in the form of loans or the guaranteeing of their debts.

2.3 *Special resolution number 3: Authority to repurchase shares by the Company*

"Resolved that as a special resolution the Company and its subsidiaries be and are hereby authorised, as a general approval, to repurchase any of the shares issued by the Company, upon such terms and conditions and in such amounts as the directors may from time to time determine, but subject to the provisions of section 46 and 48 of the Companies Act, the memorandum of incorporation of the Company, the Listings Requirements of the JSE and the requirements of any other stock exchange on which the shares of the Company may be quoted or listed, namely that:

- the general repurchase of the shares may only be implemented on the open market of the JSE and done without any prior understanding or arrangement between the Company and the counterparty;
- this general authority shall only be valid until the next Annual General Meeting of the Company, provided that it shall not extend beyond 15 months from the date of this resolution;
- an announcement must be published as soon as the Company has acquired shares constituting, on a cumulative basis, 3% of the number of shares in issue prior to the acquisition, pursuant to which the aforesaid 3% threshold is reached, containing full details thereof, as well as for each 3% in aggregate of the initial number of shares acquired thereafter;
- the general authority to repurchase is limited to a maximum of 20% in the aggregate in any one financial year of the Company's issued share capital at the time the authority is granted;
- a resolution has been passed by the Board of directors approving the purchase, that the Company has satisfied the solvency and liquidity test as defined in the Companies Act and that since the solvency and liquidity test was applied there have been no material changes to the financial position or required shareholder spread of the Group;
- the general repurchase is authorised by the Company's memorandum of incorporation;
- repurchases must not be made at a price more than 10% above the weighted average of the market value of the shares for five business days immediately preceding the date that the transaction is effected. The JSE should be consulted for a ruling if the applicant's securities have not traded in such five business day period;
- the Company may at any point in time only appoint one agent to effect any repurchase(s) on the Company's behalf;
- the Company and its subsidiaries may not effect a repurchase during any prohibited period as defined in terms of the Listings Requirements of the JSE unless there is a repurchase programme in place as contemplated in terms of 5.72(g) of the Listings Requirements of the JSE; and
- the Company must ensure that its sponsor provides the JSE with the required working capital letters before it commences the repurchase of any shares."

Reason and effect of special resolution number 3

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

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

2.4 Special resolution number 4: Conversion of authorised share capital

"Resolved that, in terms of regulation 31 of the Companies Act Regulations 2011, all the ordinary shares in the share capital of the Company, comprising 250 000 000 authorised and 109 547 165 issued ordinary shares having a par value of R0,008 each, are without altering the substance of the specific rights and privileges associated therewith, converted into ordinary shares having no par value on the basis that each ordinary no par value share shall have the same value, rights and privileges as the value, rights and privileges which attached to such shares immediately prior to the passing of this special resolution number 4 and that the whole of the amounts standing to the credit of the share capital account and the share premium account of the Company be transferred to the stated capital account of the Company."

Note: The Companies Act has abolished with the maintenance of capital rule and prescribes that all

Notice of Annual General Meeting *(continued)*

shares to be issued henceforth shall have no par value. In order to bring the Company's share capital structure into harmony with the provisions of the Companies Act the Board proposes a conversion of the current authorised shares into shares of no par value. The preferences, rights, limitations and other terms attaching to the no par value shares in the Company will be the same as the preferences, rights, limitations and other terms which are attached to the current authorised shares, immediately prior to their conversion into no par value shares.

In accordance with regulation 31(7) of the Companies Act Regulations 2011, the Board has prepared a report as set out in Appendix 1 forming part of and attached to this AGM notice which will be submitted to the Companies and Intellectual Property Commission (CIPC) and the South African Revenue Services (SARS) prior to the Annual General Meeting.

Reason for and effect of special resolution number 4

The reason for special resolution number 4 is to convert the ordinary shares in the Company's authorised share capital from ordinary par value shares into ordinary shares of no par value.

The effect of special resolution number 4 is that the authorised and issued ordinary share capital of the Company shall be converted to shares of no par value.

2.5 Special resolution number 5: Adoption of new memorandum of incorporation

"Resolved that subject to the passing of special resolution number 4 and in terms of section 16(1)(c)(ii) of the Companies Act, and item 4(2) of Schedule 5 to the Companies Act, the existing memorandum and articles of association of the Group be and are hereby amended and substituted in its entirety by the new memorandum of incorporation signed by the Chairman of the Annual General Meeting on the first page thereof for identification purposes, with effect from the date of filing of the required notice of amendment with CIPC."

Reason for and effect of special resolution number 5

Special resolution number 5 is proposed in order to adopt a new memorandum of incorporation in substitution for the existing memorandum and articles of association of the Group which contains provisions which are in conflict with the provisions of the Companies Act, but which conflicting provisions generally override the provisions of the Companies Act, which became effective on 1 May 2011, for a period of two years after the effective date of the Companies Act, in order to bring the Group's constitutional documents in harmony with the provisions of the Companies Act. In terms of Item 4(2) of Schedule 5 to the Companies Act, a Company that existed prior to the effective date of the Companies Act may at any time within two years immediately following the effective date file, without charge, an amendment to its memorandum and articles of association to bring it in harmony with the Companies Act.

Copies of the new memorandum of incorporation will be available for inspection by any person who has a beneficial interest in any securities of the Group at the registered office of the Group at 322 15th Road, Randjespark, Midrand, during normal office hours from the date of issue of this AGM notice up to and including the date of the Annual General Meeting or any adjourned meeting. Alternatively shareholders may view or download the new memorandum of incorporation at the Company's website address www.mustek.co.za.

3. Other business

To transact such other business as may be transacted at an Annual General Meeting or raised by shareholders with or without advance notice to the Company.

INFORMATION RELATING TO THE SPECIAL RESOLUTIONS

1. The directors of the Company or its subsidiaries will only utilise the general authority to purchase shares of the Company and/or the subsidiary as set out in special resolutions numbers 3 and 4 to the extent that the directors, after considering the maximum shares to be purchased, are of the opinion that the Group position would not be compromised as to the following:
   - The Group's ability in the ordinary course of business to pay its debts for a period of 12 months after the date of this Annual General Meeting and for a period of 12 months after the purchase;

- The consolidated assets of the Group will at the time of the Annual General Meeting and at the time of making such determination be in excess of the consolidated liabilities of the Group. The assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements of the Group;
- The ordinary capital and reserves of the Group after the purchase will remain adequate for the purpose of the business of the Group for a period of 12 months after the Annual General Meeting and after the date of the share purchase; and
- The working capital available to the Group after the purchase will be sufficient for the Group's requirements for a period of 12 months after the date of the notice of the Annual General Meeting,

and the directors have passed a resolution authorising the repurchase, resolving that the Company has satisfied the solvency and liquidity test as defined in the Companies Act and resolving that since the solvency and liquidity test had been applied, there have been no material changes to the financial position of the Group.

2. For the purposes of considering special resolution number 3, and in compliance with paragraph 11.26 of the Listings Requirements, the information listed below has been included in the Integrated Annual Report, in which this notice of Annual General Meeting is included, at the places indicated:
   - Directors and management (page 64);
   - Major shareholders (page 75);
   - Directors' interests in securities (page 69);
   - Share capital of the Company (page 133);
   - Contingent liabilities (page 156);
   - Responsibility statement (page 169);
   - Litigation statement (page 169); and
   - Material changes (page 169).
3. For purposes of special resolution number 2, the Board of Directors of the Company will only utilise the general authority bestowed upon them to provide direct or indirect financial assistance related to inter related companies to the extent that the directors, after considering the amount of financial assistance to be granted, are of the opinion that:
   - immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test (as defined in the Companies Act, 2008);
   - the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company; and
   - all conditions or restrictions regarding the granting of financial assistance as set out in the Company's memorandum of incorporation have been satisfied and that the Board of directors has passed a resolution authorising the grant of the said financial assistance (the Board resolution) under their general authority so granted, the Company which will then provide written notice of the Board resolution to all shareholders:
   - within 10 days after adoption of the Board resolution, if the total value of all loans, debts, obligations or assistance contemplated in that resolution, together with any previous such resolution(s) during the financial year, exceeds one-tenth of 1% of the Company's net worth at the time of the Board resolution; or
   - within 30 business days after the end of the financial year, in any other case.
4. The Company is not involved in any legal or arbitration proceedings, nor are any proceedings pending or threatened of which the Company is aware that may have or have had in the previous 12 months, a material effect on the Company's financial position.
5. The directors, whose names are reflected in this Integrated Annual Report of which this notice forms part, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts that have been made and that the notice contains all information required by the Listings Requirements of the JSE.
6. Other than the facts and developments reported on in the Integrated Annual Report, there have been no material changes in the financial or trading position of the Company and its subsidiaries since the date of signature of the audit report up to the date of this notice.

Shareholder Information *(continued)*

Notice of Annual General Meeting *(continued)*

Record date, attendance and voting

1. The date on which shareholders must be recorded as such in the share register maintained by the transfer secretaries of the Company ("the Share Register") for purposes of being entitled to receive this notice is Friday, 2 November 2012.
2. The date on which shareholders must be recorded in the Share Register for purposes of being entitled to attend and vote at this meeting is Friday, 7 December 2012 with the last day to trade being Friday, 30 November 2012.
3. Meeting participants will be required to provide proof of identification to the reasonable satisfaction of the Chairman of the Annual General Meeting and must accordingly bring a copy of their identity document, passport or drivers' licence. If in doubt as to whether any document will be regarded as satisfactory proof of identification, meeting participants should contact the transfer secretaries for guidance.
4. Shareholders entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the Company. A form of proxy, in which is set out the relevant instructions for its completion, is enclosed for the use of a certificated shareholder or own-name registered dematerialised shareholder who wishes to be represented at the Annual General Meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the Annual General Meeting.
5. The instrument appointing a proxy and the authority (if any) under which it is signed must reach the transfer secretaries of the Company at the address given below by not later than 10:00 on Wednesday, 12 December 2012.
6. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who wish to attend the Annual General Meeting in person will need to request their Central Securities Depository Participant (CSDP) or broker to provide them with the necessary authority in terms of the custody agreement entered into between such shareholders and the CSDP or broker.
7. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who are unable to attend the Annual General Meeting and who wish to be represented thereat, must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between them and the CSDP or broker in the manner and time stipulated therein.
8. Shareholders present in person, by proxy or by authorised representative shall, on a show of hands, have one vote each and, on a poll, will have one vote in respect of each share held.
9. In terms of the Companies Act, any shareholder or proxy who intends to attend or participate at the Annual General Meeting must be able to present reasonably satisfactory identification at the meeting for such shareholder or proxy to attend and participate at the Annual General Meeting. A green bar-coded identification document issued by the South African Department of Home Affairs, a driver's licence or a valid passport will be accepted at the Annual General Meeting as sufficient identification.

By order of the Board

S van Schalkwyk
Company Secretary

Johannesburg
13 November 2012

Appendices

Appendix 1

Report in terms of regulation 31(7) of the companies regulations, 2011

In accordance with Regulation 31(7), it is the opinion of the Board of Directors of Mustek Limited (Mustek or the Company) that:

a) the value of the Mustek shareholders will be unaffected by the conversion of its ordinary share capital to shares of no par value;
b) the Company's issued share capital consists of one class of ordinary shares and would therefore be unaffected;
c) there will be no material effect on the rights of Mustek shareholders; and
d) there will be no material adverse effects of the proposed arrangement due to any compensations.

Appendix 2

Salient dates and times in respect of the conversion of the authorised share capital

Salient dates and times	
Record date in order to be eligible to receive the Notice of Annual General Meeting	**Friday, 2 November 2012**
Notice of Annual General Meeting posted to shareholders	**Tuesday, 13 November 2012**
Last date to trade in order to be eligible to vote at the Annual General Meeting	**Friday, 30 November 2012**
Record date in order to be eligible to vote at the Annual General Meeting	**Friday, 7 December 2012**
Last day to lodge forms of proxy for the Annual General Meeting (by 10:00)	**Wednesday, 12 December 2012**
Annual General Meeting (at 10:00)	**Friday, 14 December 2012**
Results of the Annual General Meeting released on SENS	**Friday, 14 December 2012**
Submission of special resolutions to CIPC	**Monday, 17 December 2012**
Anticipated date for registration of the special resolutions by the CIPC by no later than[1]	**Friday, 18 January 2013**
Publication of date that shares will trade as no par value shares on or about	**Friday, 18 January 2013**

Notes:

All times indicated above and below are local times in South Africa.

The dates and times indicated in the table above are subject to change. Any such changes will be released on SENS and published in the press.

[1]Anticipated dates are dependent on the date of registration of the special resolutions at CIPC.

Shareholder Information *(continued)*

Appendices *(continued)*

Appendix 3

Salient features of the memorandum of incorporation

1. The new Companies Act, 2008 ("the Companies Act" or "the new Companies Act") became effective on 1 May 2011. The Companies Act differs substantially from the Companies Act, 1973 ("the 1973 Companies Act") and the memorandum and articles of association of companies need to be amended to bring it into harmony with the new Companies Act. In future a company will only have one constitutional document, being a memorandum of Incorporation. In terms of the transitional provisions of the new Companies Act, a company has until 30 April 2013 to bring its memorandum and articles of association into harmony with the new Companies Act. In this transitional two-year period, provisions of a company's existing memorandum and articles of association that are in conflict with the provision of the new Companies Act, will, to the extent of the conflict, prevail, subject however to a few exceptions. A company that existed prior to the effective date of the new Companies Act may at any time within the two-year transitional period file, without charge, an amendment to its memorandum and articles of association to bring it in harmony with the new Companies Act.
2. The new memorandum of Incorporation of Mustek Limited ("Mustek or "the Company") to be considered and if, approved, adopted at the Annual General Meeting of 2012 to be held on Friday, 14 December 2012 is consistent with the provisions of the new Companies Act and is proposed to replace the existing memorandum and articles of association of Mustek.
3. The approach adopted in preparing the memorandum of incorporation, was to, as far as possible, retain the provisions of the existing articles of association of Mustek that are not inconsistent with the new Companies Act (and to the extent that there were material deviations from this approach, details of such deviations are set out below). The memorandum of incorporation was prepared with a view to such document serving as a manual to the officers of Mustek and others when dealing with the day-to-day corporate issues affecting the Company, without the need to consult the Companies Act and Regulations to the Companies Act on each and every point.
4. The following matters contained in the proposed memorandum of incorporation should be noted in particular:
   - 4.1 The share capital of Mustek is not affected by the new memorandum of incorporation and in particular its shares will remain no par value shares [clause 2.1 and Schedule 1].
   - 4.2 The power to amend the authorisation (including increasing or decreasing the number) and classification of shares (including determining rights, limitations, preferences and other terms), is subject to the approval of the shareholders by way of a special resolution [clause 1.3.1].
   - 4.3 Subject to the provisions of the Companies Act and the JSE Listings Requirements where a special resolution is required for the approval of an issue of shares, the Board may issue shares at any time, and/or grant options to subscribe for shares but only to the extent that such issue or option has been approved by an ordinary resolution of shareholders, either by way of a general or specific authority. Such authority shall endure for the period provided in the resolution in question but may be revoked by ordinary resolution at any time [clause 2.1.4]
   - 4.4 The Board may authorise the Company to issue secured or unsecured debt instruments [e.g. debentures], but no special privileges associated with any such debt instruments, such as voting rights or right to appoint directors may be granted [clause 2.2].
   - 4.5 The Company may by special resolution and subject to the JSE Listings Requirements buy back its share capital [clause 2.1.10].
   - 4.6 The Company may provide financial assistance to any person for the purpose of the subscription of any option, or any securities, issued or to be issued by the Company, or for the purchase of any such securities, subject to a general or specific approval by special resolution [clause 2.1.8].

4.7 The quorum for a shareholders' meeting to begin or for a matter to be considered, will be at least three shareholders entitled to attend and vote and present at the meeting, and in addition, a shareholders' meeting may not begin until persons are present at the meeting to exercise, in aggregate, at least 25% of the voting rights, and a matter to be decided at a shareholders' meeting may not begin to be considered unless sufficient persons are present at the meeting to exercise, in aggregate, at least 25% of all of the voting rights [clause 4.8].

4.8 Subject to the provisions of the JSE Listings Requirements, if determined by the Board in its discretion, the Company may conduct a shareholders' meeting entirely by electronic communication or provide for participation in a meeting by electronic communication [clause 4.7].

4.9 The minimum number of directors will be four and the composition of the Board will be subject to the provisions of the Listings Requirements [clause 5.1].

4.10 There are no general qualifications prescribed by the Company for a person to serve as a director in addition to the requirements of the Companies Act.

4.11 The appointment and retirement of directors by rotation are as provided for in [clauses 5.1.1, 5.1.8 and 5.1.9].

4.12 Subject to the provisions of the JSE Listings Requirements, the Board may elect a Chairman of their meetings and determine the period for which he is to hold office [clause 5.4.8].

4.13 A director authorised by the Board may, at any time, call a meeting of the Board, and must call a meeting of the Board if required to do so by at least two directors and in any other case any director may call a meeting if there is good reason to do so [clauses 5.4.1 and 5.4.2].

4.14 A round robin Board resolution will be as valid and effectual as if it had been passed at a meeting of the Board duly called and constituted, provided that each director who is able to receive notice, has received notice of the matter to be decided upon [clause 5.4.4].

4.15 The Board may determine the period of notice to be given of meetings of the Board and may determine the means of giving such notice which may include telephone, telefax or electronic communication [clause 5.4.5].

4.16 The quorum necessary for the transaction of the business of the directors will be a majority of the then appointed directors and each director has one vote on a matter before the Board [clause 5.4.7].

4.17 A majority of the votes cast in favour of a Board resolution is sufficient to approve that resolution. In the case of a tied vote the Chairman will not have a second or casting vote and the resolution will fail [clauses 5.4.7 and 5.4.8].

4.18 The Company may pay remuneration to the directors for their services as directors in accordance with a special resolution approved by the shareholders within the previous two years [clause 5.6]. This approval is not required for the salaries of executive directors.

4.19 Subject to any limitation placed on the Company in this regard in terms of the Companies Act and/or the JSE Listings Requirements, the Company will be entitled to indemnify any director against any liability which such director may incur in exercising his duties, to advance expenses to a director in the circumstances contemplated in section 78(4) of the Companies Act, and to purchase insurance in this regard in accordance with section 78(7). The Company is entitled to claim restitution from a director or of a related company for any money paid directly or indirectly by the Company to or on behalf of that director in any manner inconsistent with section 75 [clause 5.7].

Shareholder Information *(continued)*

Appendices (continued)

4.20 The business and affairs of the Company will be managed by the Board, which has the authority to exercise all of the powers and perform any of the functions of the Company, except to the extent that the Companies Act provides otherwise [clause 5.3.1].

4.21 Subject to the provisions of the Companies Act, the Board may, from time to time, at its discretion, raise or borrow or secure the payment of any sum or sums of money for the purposes of the Company [clause 5.5]. This provision is required in terms of the JSE Listings Requirements.

4.22 The Board may appoint any number of Board committees and delegate to such committees any authority of the Board [clause 5.8]. The Board must appoint an Audit Committee and a Social and Ethics Committee [clause 5.8.1, 5.10 and 5.11].

4.23 The Board must appoint a Company Secretary [clause 5.12].

4.24 The Company may make distributions from time to time, provided that it will comply with section 46 of the Companies Act and the JSE Listings Requirements (to the extent applicable) in respect of each distribution to be made. A dividend may be declared by the Board or by the Company in general meeting, provided that the Company in general meeting will not be entitled to declare a dividend greater that that recommended by the Board [clause 6.1.1].

4.25 All unclaimed dividends or other distributions must be held by the Company in trust until claimed, provided that any dividend (but not any other distribution which shall be held by the Company until lawfully claimed) remaining unclaimed for a period of not less than three years from the date on which it became payable may be forfeited by resolution of the Board for the benefit of the Company [clause 6.1.5].

4.26 Save for correcting errors substantiated as such from objective evidence or which are self-evident errors in the memorandum of incorporation, which the Board is empowered to do, all amendments of the memorandum of incorporation should be effected by a special resolution of shareholders [clauses 1.3.1 and 1.4.1].

4.27 In terms of the JSE Listings Requirements the Company is prohibited from making rules [clause 1.3.5].

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")

FORM OF PROXY – for use by certificated and "own name" dematerialised shareholders only at the Annual General Meeting of shareholders to be held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand on Friday, 14 December 2012 at 10:00 ("the Annual General Meeting").

I/We (please print name in full) ______________________________

of ______________________________

(address)

being a shareholder/s of Mustek Limited, holding ______________ shares in the Company hereby appoint:

1. ______________________________ or failing him/her,

2. ______________________________ or failing him/her,

3. the Chairman of the Annual General Meeting,

as my proxy to vote for me/us and on my/our behalf at the Annual General Meeting and at any adjournment thereof and to speak and act for me/us and, on a poll, vote on my/our behalf.

My/our proxy shall vote as follows:

	Number of shares		
	For	Against	Abstain
To consider the presentation of the Annual Financial Statements for the year ended 30 June 2012			
Ordinary resolution number 1: To re-elect ME Gama as director			
Ordinary resolution number 2: To re-elect D Konar as director			
Ordinary resolution number 3: Confirmation of auditors' reappointment			
Ordinary resolution number 4: Confirmation of auditors' remuneration			
Ordinary resolution number 5: Appointment of RB Patmore to Audit and Risk Committee			
Ordinary resolution number 6: Appointment of T Dingaan to Audit and Risk Committee			
Ordinary resolution number 7: Appointment of ME Gama to Audit and Risk Committee			
Ordinary resolution number 8: Endorsement of remuneration philosophy			
Ordinary resolution number 9: Placing of shares under the directors' control			
Ordinary resolution number 10: Placing unissued shares under directors' control in terms of the Mustek Executive Share Trust			
Ordinary resolution number 11: General authority to issue shares for cash			
Ordinary resolution number 12: Authority to action			
Special resolution number 1: Remuneration of non-executive directors			
Special resolution number 2: Financial assistance to related and inter-related companies			
Special resolution number 3: General authority to the Company to repurchase shares			
Special resolution number 4: Conversion of share capital			
Special resolution number 5: Approval of memorandum of incorporation			

(indicate instruction to proxy by way of a cross in the space provided above)

Unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

Signed at ______________________ on ______________________ 2012

Signature ______________________________

Assisted by (where applicable) ______________________________

Please read the notes on the reverse side hereof.

Shareholder Information *(continued)*

Form of proxy *(continued)*

Notes

1. This form or proxy should only be used by certificated shareholders or shareholders who have dematerialised their shares with own name registration.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the Chairman of the meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to those whose names follow.
3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the meeting as he/she deemed fit in respect of all of the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
4. Dematerialised shareholders who wish to attend the meeting or to vote by way of proxy, must contact their CSDP or broker who will furnish them with the necessary authority to attend the meeting or to be represented thereat by proxy. This must be done in terms of the agreement between the member and his/her CSDP or broker.
5. Forms of proxy must be lodged at the Company's Transfer Secretaries, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) so as to be received by not later than 10:00 on Wednesday, 12 December 2012.
6. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
7. Documentary evidence establishing the authority of the person signing this form of proxy in a representative or other legal capacity must be attached to this form of proxy unless previously recorded by the Transfer Secretaries of the Company or waived by the Chairman of the meeting.
8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
9. The Chairman shall be entitled to reject the authority of a person signing the form of proxy:
   - under a power of attorney, or
   - on behalf of a Company,

   unless that person's power of attorney or authority is deposited at the registered office of the Transfer Secretaries not less than 24 hours before the meeting.
10. Where shares are held jointly, all joint holders are required to sign the form of proxy.
11. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretaries.
12. On a show of hands, every shareholder present in person or represented by proxy shall have only one vote, irrespective of the number of shares he/she holds or represents.
13. On a poll, every shareholder present in person or represented by proxy shall have one vote for every share held by such shareholder.
14. A resolution put to the vote shall be decided by a show of hands, unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the Annual General Meeting.

Shareholders' rights regarding proxies in terms of section 58 of the Act are as follows:

(1) At any time, a shareholder of a company may appoint any individual, including an individual who is not a shareholder of that company, as a proxy to –
  (a) participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder; or
  (b) give or withhold written consent on behalf of the shareholder to a decision contemplated in section 60.

(2) A proxy appointment –
  (a) must be in writing, dated and signed by the shareholder; and
  (b) remains valid for –
    (i) one year after the date on which it was signed; or
    (ii) any longer or shorter period expressly set out in the appointment, unless it is revoked

  in a manner contemplated in sub-section (4)(c), or expires earlier as contemplated in sub-section (8)(d).

(3) Except to the extent that the memorandum of incorporation of a company provides otherwise –
  (a) a shareholder of that company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder;
  (b) a proxy may delegate the proxy's authority to act on behalf of the shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
  (c) a copy of the instrument appointing a proxy must be delivered to the company, or to any other person on behalf of the company, before the proxy exercises any rights of the shareholder at a shareholders meeting.

(4) Irrespective of the form of instrument used to appoint a proxy –
  (a) the appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
  (b) the appointment is revocable unless the proxy appointment expressly states otherwise; and
  (c) if the appointment is revocable, a shareholder may revoke the proxy appointment by –
    (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and
    (ii) delivering a copy of the revocation instrument to the proxy, and to the company.

(5) The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of –
  (a) the date stated in the revocation instrument, if any; or
  (b) the date on which the revocation instrument was delivered as required in sub-section (4)(c)(ii).

(6) A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction, except to the extent that the instrument appointing the proxy otherwise provides.

GRI Index

Strategy and analysis		Page number(s)
1.1	Statement by the Chairman about the relevance of sustainability to the organisation and its strategy.	19, 49
1.2	Description of key impacts, risks, and opportunities.	11, 12, 13
Organisational profile		
2.1	Name of the organisation.	3
2.2	Primary brands, products, and/or services. The reporting organisation should indicate the nature of its role in providing these products and services, and the degree to which it utilises outsourcing.	6, 7
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	3
2.4	Location of organisation's headquarters.	6
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	9 countries
2.6	Nature of ownership and legal form.	Limited liability company
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/ beneficiaries).	
2.8	Scale of the reporting organisation.	
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	
2.10	Awards received in the reporting period.	6
Report parameters		
REPORT PROFILE		
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	IFC
3.2	Date of most recent previous report (if any).	IFC
3.3	Reporting cycle (annual, biennial, etc.)	IFC
3.4	Contact point for questions regarding the report or its contents.	1
REPORT SCOPE AND BOUNDARY		
3.5	Process for defining report content, including:	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	IFC
3.7	State any specific limitations on the scope or boundary of the report.	IFC
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	IFC
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	

GRI Index *(continued)*

Strategy and analysis		Page number(s)
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	None
GRI CONTENT INDEX		
3.12	Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the following can be found:	177
ASSURANCE		
3.13	Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organisation and the assurance provider(s).	IFC
Governance, commitments, and engagement		
GOVERNANCE		
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	45, 46, 47
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement).	44
4.3	For organisations that have a unitary Board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	42
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	48
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	60, 61
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics.	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	14, 20
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	55, 56
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	

Strategy and analysis		Page number(s)
COMMITMENTS TO EXTERNAL INITIATIVES		
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations.	
STAKEHOLDER ENGAGEMENT		
4.14	List of stakeholder groups engaged by the organisation.	10
4.15	Basis for identification and selection of stakeholders with whom to engage.	10
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	10, 17
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	17
Environmental		
MATERIALS		
EN1	Materials used by weight or volume.	34
EN2	Percentage of materials used that are recycled input materials.	
ENERGY		
EN3	Direct energy consumption by primary energy source.	35
EN4	Indirect energy consumption by primary source.	35
EN5	Energy saved due to conservation and efficiency improvements.	35
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.	35
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	
WATER		
EN8	Total water withdrawal by source.	35
EN9	Water sources significantly affected by withdrawal of water.	35
EN10	Percentage and total volume of water recycled and re-used.	35

GRI Index *(continued)*

Strategy and analysis		Page number(s)
BIODIVERSITY		
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	35
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	35
EN13	Habitats protected or restored.	35
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	35
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	n/a
EMISSIONS, EFFLUENTS AND WASTE		
EN16	Total direct and indirect greenhouse gas emissions by weight.	37
EN17	Other relevant indirect greenhouse gas emissions by weight.	37
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	37
EN19	Emissions of ozone-depleting substances by weight.	38
EN20	NO_x SO_x and other significant air emissions by type and weight.	38
EN21	Total water discharge by quality and destination.	38
EN22	Total weight of waste by type and disposal method.	38
EN23	Total number and volume of significant spills.	38
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	38
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation’s discharges of water and runoff.	35
PRODUCTS AND SERVICES		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	
COMPLIANCE		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	33

Strategy and analysis		Page number(s)
TRANSPORT		
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	39
OVERALL		
EN30	Total environmental protection expenditures and investments by type.	
Human rights		
INVESTMENT AND PROCUREMENT PRACTICES		
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	26
NON-DISCRIMINATION		
HR4	Total number of incidents of discrimination and actions taken.	
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING		26
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	
CHILD LABOUR		
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	None
FORCED AND COMPULSORY LABOUR		
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour.	None
SECURITY PRACTICES		
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	28
INDIGENOUS RIGHTS		
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	26
ASSESSMENT		
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	26
REMEDIATION		
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	26

GRI Index *(continued)*

Strategy and analysis		Page number(s)
Labour practices and decent work		
EMPLOYMENT		
LA1	Total workforce by employment type, employment contract, and region.	29 – 32
LA2	Total number and rate of employee turnover by age group, gender, and region.	30
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	26
LABOUR/MANAGEMENT RELATIONS		
LA4	Percentage of employees covered by collective bargaining agreements.	26
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	26
OCCUPATIONAL HEALTH AND SAFETY		
LA6	Percentage of total workforce represented in formal joint management/worker health and safety committees that help monitor and advise on occupational health and safety programmes.	26
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	26
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	26
LA9	Health and safety topics covered in formal agreements with trade unions.	26
TRAINING AND EDUCATION		
LA10	Average hours of training per year per employee by employee category.	10
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	27
LA12	Percentage of employees receiving regular performance and career development reviews.	12
DIVERSITY AND EQUAL OPPORTUNITY		
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	29 – 32
LA14	Ratio of basic salary of men to women by employee category.	No difference
LA15	Return to work and retention rates after parental leave, by gender.	26
Society		
COMMUNITY		
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes.	39

Strategy and analysis		Page number(s)
CORRUPTION		
SO2	Percentage and total number of business units analysed for risks related to corruption.	
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	
SO4	Actions taken in response to incidents of corruption.	None needed
PUBLIC POLICY		
SO5	Public policy positions and participation in public policy development and lobbying.	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	R250 000 (SA)
ANTI-COMPETITIVE BEHAVIOUR		
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	None
COMPLIANCE		
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	None
SO9	Operations with significant potential or actual negative impacts on local communities.	39
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	39
Product responsibility		
CUSTOMER HEALTH AND SAFETY		
PR1	Life-cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	41
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	41
PRODUCT AND SERVICE LABELLING		
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	41
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	41
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	

GRI Index *(continued)*

Strategy and analysis		Page number(s)
MARKETING COMMUNICATIONS		
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Routine compliance
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	None
CUSTOMER PRIVACY		
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	None
COMPLIANCE		
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	None
Economic		
ECONOMIC PERFORMANCE		
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	24
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	
EC3	Coverage of the organisation's defined benefit plan obligations.	
EC4	Significant financial assistance received from government.	None
MARKET PRESENCE		
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Significantly above minimums
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	
INDIRECT ECONOMIC IMPACTS		
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	39
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	39

Corporate Information

COMPANY SECRETARY

Sirkien van Schalkwyk

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Limited

70 Marshall Street

Johannesburg, 2001

PO Box 61051

Marshalltown, 2107

South Africa

Telephone: +27 (0) 11 370 5000

SPONSOR

Deloitte & Touche Sponsor Services (Pty) Limited

REGISTERED OFFICE

322 15th Road

Randjespark

Midrand, 1685

POSTAL ADDRESS

PO Box 1638

Parklands, 2121

CONTACT NUMBERS

Telephone: +27 (0) 11 237 1000

Facsimile: +27 (0) 11 314 5039

Email: ltd@mustek.co.za

BASTION GRAPHICS

www.mustek.co.za

www.mustek.co.za