

# AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31 AUGUST 2012



ConvergeNet Holdings Limited  
(Registration number 1998/015580/06)  
JSE code: CVN ISIN: ZA000102067  
("ConvergeNet" or "the Group" or "the Company")

## SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited year ended 31 Aug 2012 R'000	Audited year ended 31 Aug 2011 R'000
Revenue	1 017 357	1 029 363
Cost of sales	(758 192)	(782 987)
<b>Gross profit</b>	<b>259 165</b>	<b>246 376</b>
Other income	20 296	1 749
Operating expenses	(286 602)	(220 805)
<b>Operating (loss)/profit</b>	<b>(7 141)</b>	<b>27 320</b>
Investment income	2 252	4 293
Share of profit of associates	3 392	9 360
Fair value adjustments	(2 808)	-
Impairment of goodwill and other financial assets	(30 151)	(77)
Finance costs	(3 378)	(2 284)
(Loss)/profit before taxation	(37 834)	38 612
Taxation	(8 505)	(7 720)
<b>(Loss)/profit for the period</b>	<b>(46 339)</b>	<b>30 892</b>
<b>Attributable to:</b>		
Equity holders of the parent	(43 740)	23 557
Non-controlling interests	(2 599)	7 335
Other comprehensive loss	(391)	-
Total comprehensive (loss)/profit for the year	(46 730)	30 892
<b>Attributable to:</b>		
Equity holders of the parent	(43 940)	23 557
Non-controlling interests	(2 790)	7 335
<b>(Loss)/earnings per share</b>		
Basic (loss)/earnings per ordinary share (cents)	(4.92)	2.66
Diluted basic (loss)/earnings per ordinary share (cents)	(4.90)	2.65
Weighted average number of shares	888 730 243	885 225 634
Diluted weighted average number of shares	893 143 576	889 353 185
Total number of shares in issue	921 285 941	915 115 941
<b>Headline (loss)/earnings per share (cents)</b>	<b>(5.01)</b>	<b>2.70</b>
Diluted (loss)/headline earnings per share (cents)	(4.98)	2.68
<b>Reconciliation between basic and headline (losses)/earnings</b>		
Basic (loss)/earnings attributable to equity holders of parent	(43 740)	23 557
Loss on disposal of property, plant and equipment	176	528
Profit on disposal of associates	(16 363)	-
(Profit)/loss on disposal of subsidiaries	(2 126)	74
Loss on sale of other financial asset	1 891	-
Impairment of goodwill	13 617	77
Tax effect of adjustments	2 026	-
Portion of adjustments attributable to non-controlling interests	-	(363)
Headline (loss)/earnings	(44 519)	23 873
Net asset value per share (cents)	46.3	52.7
Net tangible asset value per share (cents)	26.9	30.9

## SUMMARISED SEGMENTAL ANALYSIS

Information regarding the Group's reportable segments is presented below.

	IT Infrastructure Technology Solutions		Telecom Infrastructure Technology Solutions		Corporate, Consolidation and Other		Total	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Revenue	788 654	827 260	228 703	202 103	-	-	1 017 357	1 029 363
(Loss)/profit from operations	(3 212)	30 743	(2 966)	2 629	(3 771)	(6 129)	(9 949)	27 243
Investment income	1 521	1 842	315	260	416	2 191	2 252	4 293
Share of profits of associates	1 040	1 065	2 352	8 295	-	-	3 392	9 360
Impairment of goodwill and other financial assets	(7 866)	-	-	-	(22 285)	-	(30 151)	-
Finance costs	(2 052)	(987)	(1 326)	(1 181)	-	(116)	(3 378)	(2 284)
(Loss)/profit before tax	(10 569)	32 663	(1 625)	10 003	(25 640)	(4 054)	(37 834)	38 612
Income tax (expense) benefit	1 103	(8 485)	453	(2 327)	(10 061)	3 092	(8 505)	(7 720)
(Loss)/profit for the year	(9 466)	24 178	(1 172)	7 676	(35 701)	(962)	(46 339)	30 892
Other comprehensive loss	(391)	-	-	-	-	-	(391)	-
Total comprehensive (loss)/income for the year	(9 857)	24 178	(1 172)	7 676	(35 701)	(962)	(46 730)	30 892

## SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital and premium R'000	Treasury shares R'000	Share based payment reserve R'000	Foreign currency translation reserve R'000	Revaluation reserve R'000	Retained earnings R'000	Transactions with non-controlling shareholders R'000	Total attributable to equity holders of the parent R'000	Non-controlling interests R'000	Total equity R'000
<b>Balance at 01 September 2010</b>	435 532	(36 884)	19 603	-	137	96 686	(59 001)	456 073	56 992	513,065
Total comprehensive income for the year	-	-	-	-	-	23 557	-	23 557	7 335	30 892
Equity settled share based payments	-	-	6 445	-	-	-	-	6 445	-	6 445
Shares vested in terms of forfeitable share plan	-	16 128	(16 128)	-	-	-	-	-	-	-
Shares forfeited in terms of forfeitable share plan	-	-	(2 540)	-	-	-	-	(2 540)	-	(2 540)
Transactions with non-controlling shareholders	-	-	-	-	-	-	(797)	(797)	(171)	(968)
Own shares acquired by subsidiaries, held as treasury shares	-	(500)	-	-	-	-	-	(500)	-	(500)
<b>Balance at 31 August 2011</b>	435 532	(21 256)	7 380	-	137	120 243	(59 798)	482 238	64 156	546 394
Total comprehensive loss for the year	-	-	-	(200)	-	(43 740)	-	(43 940)	(2 790)	(46 730)
Equity settled share based payments	-	-	2 180	-	-	-	-	2 180	-	2 180
Shares vested in terms of forfeitable share plan	-	8 260	(8 260)	-	-	-	-	-	-	-
Issue of treasury shares in terms of forfeitable share plan	1 419	-	-	-	-	-	-	1 419	-	1,419
Shares issued in terms of forfeitable share plan not yet vested	-	(1 350)	-	-	-	-	-	(1 350)	-	(1 350)
Shares forfeited in terms of forfeitable share plan	-	(144)	-	-	-	-	-	(144)	-	(144)
Dividends paid	-	-	-	-	-	(13 516)	-	(13 516)	-	(13 516)
Transactions with non-controlling shareholders	-	-	-	-	-	-	(238)	(238)	(2)	(240)
<b>Balance at 31 August 2012</b>	436 951	(14 490)	1,300	(200)	137	62 987	(60 036)	426 649	61 364	488 013

## SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited as at 31 Aug 2012 R'000	Audited as at 31 Aug 2011 R'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	54 455	35 424
Goodwill	171 199	184 816
Intangible assets	7 926	14 467
Investments in associates	6 001	36 155
Other financial assets	500	42 385
Deferred taxation	24 802	26 002
	<b>264 883</b>	<b>339 249</b>
<b>Current assets</b>		
Inventories	96 240	85 981
Loans to group companies	2 273	332
Other financial assets	7 336	6 168
Current tax receivable	1 394	3 410
Trade and other receivables	262 281	252 566
Cash and cash equivalents	66 998	66 961
	<b>436 522</b>	<b>415 418</b>
Non-current assets held for sale	43 499	-
	<b>480 021</b>	<b>415 418</b>
<b>TOTAL ASSETS</b>	<b>744 904</b>	<b>754 667</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>		
Shareholders' equity	426 649	482 238
Non-controlling interest	61 364	64 156
	<b>488 013</b>	<b>546 394</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Other financial liabilities	16 730	21 124
Finance lease obligation	6 975	1 039
Operating lease liability	1 806	1 738
Deferred taxation	5 309	6 165
	<b>30 820</b>	<b>30 066</b>
<b>Current liabilities</b>		
Other financial liabilities	9 638	1 652
Current tax payable	6 119	4 794
Finance lease obligation	6 968	841
Provisions	3 101	976
Trade and other payables	190 598	169 504
Bank overdraft	502	440
	<b>216 926</b>	<b>178 207</b>
Non-current liabilities held for sale	9 145	-
	<b>226 071</b>	<b>178 207</b>
<b>Total liabilities</b>	<b>256 891</b>	<b>208 273</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>744 904</b>	<b>754 667</b>

## SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

	Audited year ended 31 Aug 2012 R'000	Audited year ended 31 Aug 2011 R'000
<b>Operating activities</b>		
Cash (used in)/from operations	(602)	25 277
Investment income	2 252	3 148
Finance costs	(3 378)	(2 186)
Tax paid	(4 820)	(13 704)
<b>Net cash (used in)/from operating activities</b>	<b>(6 548)</b>	<b>12 535</b>
<b>Net cash used in investing activities</b>	<b>(9 514)</b>	<b>(1 009)</b>
<b>Net cash from/(used in) financing activities</b>	<b>16 428</b>	<b>(7 694)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>366</b>	<b>3 832</b>
Cash at the beginning of the year	66 521	62 689
Exchange losses	(391)	-
<b>Total cash at end of the year</b>	<b>66 496</b>	<b>66 521</b>

## COMMENTARY

### 1. Statement of compliance

The summarised consolidated financial information has been prepared in accordance with IAS 34 – Interim financial reporting and is a summary of the audited financial statements of the Group for the year ended 31 August 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the AC 500 standards as issued by the Accounting Practices Board, the Listings Requirements of the JSE Limited, and the South African Companies Act 71 of 2008.

### 2. Accounting policies

The audited results for the year ended 31 August 2012 have been prepared in accordance with the Group's accounting policies which comply with IFRS. The accounting policies adopted are consistent with those applied in the previous financial year except for the adoption of all new, revised or amended standard and interpretations which were effective for the Group from 1 September 2011.

### 3. Independent audit by the auditors

The consolidated financial statements for the year have been audited by Advoca Auditing Inc. and their unqualified audit report is available for inspection at the registered office of the Company.

### 4. Corporate governance

The directors of ConvergeNet endorse the Code of Corporate Practices and Conduct as embodied in the King III Report on Corporate Governance and recognise their responsibility to conduct the affairs of ConvergeNet with integrity and accountability in accordance with generally accepted corporate practices. This includes timely, relevant and meaningful reporting to its shareholders and other stakeholders, providing a proper and objective perspective of ConvergeNet.

### 5. Change in Board of Directors

During the year certain shareholders declared themselves to be in concert which resulted in a change of control and several board changes. Messrs Lester Peteni, Ben Kekana and Ross Macdonald resigned from the board with effect from 21 January 2012 and Mr Mpho Scott resigned on 2 April 2012. Pursuant to Mr Peteni's resignation, Mr Sandile Swana was appointed as interim chairman of the board until 20 June 2012. At the general meeting held on 20 June 2012 Mrs Michelle Krastanov resigned as director and Messrs Pieter Bouwer and Gordon Edwards were removed as directors with immediate effect. Mr Charles Pettit joined the board as a non-executive director on 20 June 2012. The role of Mr Sandile Swana, former chairman of the Company, changed to that of Chief Executive Officer, for a period of 12 months and Mr Dumisani Tabata, a non-executive director of the Company, was appointed as Chairman of the board. The CEO's appointment was subsequently extended with a five year contract.

### 6. Operating results

During the year revenue decreased slightly by 1% from R1 029.4 million to R1 017.4 million, whilst the gross profit margin increased from 23.9% to 25.5% compared to the corresponding period, primarily as a result of a change in the business mix. Operating expenditure has increased by 29.8% to R286.6 million compared to R220.8 million for the corresponding period. Included in operating expenditure is the cost of establishing Simat Management Company SA (Pty) Ltd ("Simat"), a site maintenance entity focused on Africa which is more fully described in section 7 below. As a result of the increase in operating expenses, the Group made an operating loss of R7.1 million compared to an operating profit of R27.3 million for the corresponding period. The tax charge for the year includes a once-off derecognising of deferred tax assets relating to STC and provisions against equity amounting to R4.8 million and R6.6 million respectively.

The Group loss for the year ended 31 August 2012 was R46.3 million (2011: profit of R30.9 million) and attributable loss was R43.9 million (2011: profit of R23.6 million), representing basic loss per ordinary share of 4.92 cents (2011: earnings of 2.66 cents) and headline loss per ordinary share of 5.01 cents (2011: earnings of 2.70 cents).

The financial position of the Group remains strong. During the year, ConvergeNet issued 6 170 000 new shares in terms of its Forfeitable Share Plan at an issue price of 23 cents per share.

Simat Group (see section 7 below), incorporated in Mauritius, has obtained a term loan from AfrAsia Bank Limited based in Mauritius of R18.5 million (US\$2.2 million). Proceeds from this loan were used to fund the initial set-up and related activities in Gabon and Congo Brazzaville.

As a result of the losses made and the maiden dividend paid in December 2011, the net tangible asset value per share decreased by 12.9% to 26.9 cents per share (2011: 30.9 cents per share).

### 7. Corporate activities

Effective 1 September 2011, ConvergeNet acquired the remaining 10% interest in Structured Connectivity Solutions (Pty) Ltd ("SCS") for a purchase consideration of R0.240 million paid in cash. Following the above, ConvergeNet now has a 100% interest in SCS. The SCS business has shown a positive turnaround over the past few months and has a solid pipeline of new projects. Effective 1 December 2011, ConvergeNet sold 5% of its 20% shareholding in FutureCell, an associate Company, for an amount of R11.812 million paid in cash. ConvergeNet lost significant influence and its remaining 15% interest has been classified as an investment in financial instruments at Fair Value through profit and loss. Profit on disposal has been calculated in terms of IAS 28. The remaining 15% shareholding is valued at R38.229 million at 31 August 2012 and shareholders are reminded that the Company has entered into a put and call option agreement in relation to the shareholding, which agreement is exercisable over the next three years. Shareholders are also referred to Subsequent Events in relation to the disposal of the remaining 15% interest in FutureCell. As a result of the proposed disposal of the investment in FutureCell and the relating put and call options were reclassified as non-current assets and non-current liabilities held for sale at 31 August 2012.

During the year ConvergeNet established Simat, a site maintenance entity to service the mobile operators in Africa in partnership with Matta Group (Pty) Ltd. ConvergeNet has a 51% interest in Simat. Simat has in turn established wholly-owned entities in Mauritius, Gabon and Congo Brazzaville. Operations commenced in March 2012 after being awarded a contract by one of the leading mobile operators in Africa.

### 8. Dividend

The declaration of cash dividends will continue to be considered by the board in conjunction with an evaluation of current and future funding requirements and will be adjusted to levels considered appropriate at the time of declaration. A cash dividend of 1.5 cents per share was paid to shareholders on 28 December 2011. No dividend has been proposed for the year under review.

### 9. Industry and Group outlook

Following the restructuring of the board, the Group has progressed its strategy for the next five years, which includes a focus on expanding its activities into more than 12 identified African countries and streamlining of its operations. We expect our performance to improve in the next year and beyond and through growing our African footprint, new innovative service offerings, strong sales force and proven technical abilities. ConvergeNet will also continue to prudently invest in identified strategic growth areas such as a NOC, Cloud Computing, Hosted and ICT Managed Services. This general outlook has not been reviewed nor reported on by the Company's auditors.

### 10. Post balance sheet events

ConvergeNet had entered into a sale agreement with Pepkor Limited on 7 September 2012 for the sale of ConvergeNet's remaining 15% interest in FutureCell for R40 million in cash and the cancellation of the put and call agreement subject to the fulfilment of suspensive conditions.

In addition to the above, ConvergeNet Management Services (Pty) Ltd, a wholly owned subsidiary had entered into a share purchase agreement with Titan Share Dealers (Pty) Ltd ("Titan") on 7 September 2012 to repurchase 71 478 594 ConvergeNet ordinary shares, representing 7.759% of the issued share capital of ConvergeNet, at 29.675 cents per share, amounting to R21 211 110 from Titan in terms of section 48 of the Companies Act 71 of 2008, as amended, subject to the fulfilment of suspensive conditions. A circular providing further information on the FutureCell Transaction and the Titan Share Purchase Transaction, was posted to shareholders on 17 October 2012.

### 11. Conclusion

ConvergeNet thanks all our stakeholders. We are grateful for the continued commitment and support of our customers, employees, suppliers and shareholders.

For and on behalf of the board

**D Tabata** Chairman  
**S Swana** Chief Executive Officer

Centurion  
23 November 2012

### Corporate Information:

**Directors:** DD Tabata\* (Chairman), S Swana(CEO), DF Bisschoff (CFO), T Modise, H van Dyk, L Mangope\*^, C Pettit\*

(\* Non-Executive, ^ Independent)  
**Company secretary and registered office:** Arcay Client Support (Pty) Ltd, Arcay House II, Number 3 Anerley Road, Parktown, 2193

**Business Address:** 272 West Avenue, Lakefield Office Park, Block D, Centurion, 0157

**Postal Address:** P.O. Box 10709, Centurion, 0046

**Transfer Secretaries:** Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001

**Sponsor:** Deloitte & Touche Sponsor Services (Pty) Ltd, Deloitte & Touche Place, The Woodlands, 20 Woodlands Drive, Woodmead, 2196

Responsibility for financial statement preparation: Mr DF Bisschoff CA(SA), the Chief Financial Officer is responsible for the financial statements and has supervised the preparation thereof in conjunction with the Group Financial Manager, Ms M van Heerden CA(SA).

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