STRUCTURED CONNECTIVITY SOLUTIONS PROPRIETARY LIMITED

(Registration number 2002/001640/07)

Historical Financial Information

for the year ended 31 August 2013

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The reports and statements set out below comprise the historical financial information presented to the shareholder:

Introduction to historical financial information

The historical financial information of Structured Connectivity Solutions Proprietary Limited ("Historical Financial Information"), set out below, has been derived from the audited Annual Financial Statements of Structured Connectivity Solutions Proprietary Limited for the year ended 31 August 2013. The audited Annual Financial Statements of Structured Connectivity Solutions Proprietary Limited were prepared in accordance with International Financial Reporting Standards.

The Annual Financial Statements of Structured Connectivity Solutions Proprietary Limited for the year ended 31 August 2013 were reported on by PricewaterhouseCoopers Inc. without qualification.

Commentary on historical financial information

The company was incorporated on 28 January 2002 and obtained its certificate to commence on the same day.

The company is engaged in full turnkey IT infrastructure and operates principally in South Africa.
The operating results and state of affairs of the company are fully set out in the attached historical financial information and do not in our opinion require any further comment.
Net loss of the company was R 2,218,256 (2012: R 3,924,475 loss), after taxation of R 939,748 (2012: R 2,445,648).

The fact that the total liabilities exceed the assets has not hindered (and the director believes that it will not hinder) the company's ability to pay its short-term debts as they become due in the normal course of business.

ConvergeNet Holdings Limited has subordinated its loan of R10,087,914 to the company in favour of the creditors of the company until such time as the assets, as fairly valued, exceed its liabilities. Additionally, ConvergeNet Holdings Limited will provide financial support for future operations (refer note 5 and 30).

ConvergeNet Holdings Limited is in the process of disposing of its entire interest in the company to Tellumat Proprietary Limited for R 5 million, pending shareholder approval.

This will result in a controlling interest and 100% shareholding by Tellumat Proprietary Limited in Structured Connectivity Solutions Proprietary Limited.

Structured Connectivity Solutions Proprietary Limited

(Registration number 2002/001640/07)
Historical Financial Information for the year ended 31 August 2013

Statement of Financial Position as at 31 August 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Non-Current Assets			
Property, plant and equipment	3	300,206	309,763
Intangible assets	4	15,307	2
Other financial assets	6	145,000	435,000
Deferred tax asset	8	6,790,813	5,851,065
		7,251,326	**6,595,830**
Current Assets			
Inventories	9	1,420,230	-
Trade and other receivables	10	6,270,998	2,441,801
Cash and cash equivalents	11	671,382	689,166
		8,362,610	**3,130,967**
Total Assets		**15,613,936**	**9,726,797**
Equity and Liabilities			
Equity			
Share capital	12	100	100
Equity contribution from parent	14	3,840,000	3,840,000
Accumulated loss		(7,836,981)	(5,618,725)
		(3,996,881)	**(1,778,625)**
Liabilities			
Non-Current Liabilities			
Share based payment liability	15	96,667	145,001
Current Liabilities			
Subordinated loan from holding company	5	10,087,914	8,737,914
Trade and other payables	16	9,407,440	2,611,811
Bank overdraft	11	18,796	10,696
		19,514,150	**11,360,421**
Total Liabilities		**19,610,817**	**11,505,422**
Total Equity and Liabilities		**15,613,936**	**9,726,797**

Statement of Comprehensive Income

Figures in Rand	Note(s)	2013	2012
Revenue	18	31,205,929	19,703,527
Cost of sales	19	(24,434,834)	(18,289,124)
Gross profit		**6,771,095**	**1,414,403**
Other income		21,188	2,613,093
Selling, admin and distribution expenses	19	(9,753,012)	(10,527,196)
Operating loss		**(2,960,729)**	**(6,499,700)**
Finance income	20	7,938	48,345
Other gains/(losses)	21	(193,333)	101,500
Finance costs	22	(11,880)	(20,268)
Loss before taxation		**(3,158,004)**	**(6,370,123)**
Taxation	23	939,748	2,445,648
Loss for the period		**(2,218,256)**	**(3,924,475)**
Other comprehensive income		-	-
Total comprehensive loss for the period		**(2,218,256)**	**(3,924,475)**

Structured Connectivity Solutions Proprietary Limited

(Registration number 2002/001640/07)
Historical Financial Information for the year ended 31 August 2013

Statement of Changes in Equity

Figures in Rand	Share capital	Equity contribution from parent	Accumulated loss	Total equity
Balance at 01 September 2011	**100**	**3,840,000**	**(1,694,250)**	**2,145,850**
Loss for the year	-	-	(3,924,475)	(3,924,475)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**-**	**(3,924,475)**	**(3,924,475)**
Balance at 01 September 2012	**100**	**3,840,000**	**(5,618,725)**	**(1,778,625)**
Loss for the period	-	-	(2,218,256)	(2,218,256)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	**-**	**-**	**(2,218,256)**	**(2,218,256)**
Balance at 31 August 2013	**100**	**3,840,000**	**(7,836,981)**	**(3,996,881)**
Note(s)	12	14		

Structured Connectivity Solutions Proprietary Limited

(Registration number 2002/001640/07)
Historical Financial Information for the year ended 31 August 2013

Statement of Cash Flows

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Cash utilised in operations	24	(1,246,453)	(1,267,722)
Interest income	20	7,938	48,345
Finance costs	22	(11,880)	(20,268)
Tax received	25	-	61,778
Net cash utilised in operating activities		**(1,250,395)**	**(1,177,867)**
Cash flows from investing activities			
Additions to property, plant and equipment	3	(105,523)	(41,430)
Proceeds on disposal of property, plant and equipment	3	440	3,509
Purchase of other intangible assets	4	(20,407)	-
Proceeds from loans from group companies		1,350,000	956,000
Purchase of financial assets		-	(66,675)
Net cash from investing activities		**1,224,510**	**851,404**
Cash flows from financing activities			
Proceeds from share based payment liability		-	51,251
Net cash (utilised in)/generated from financing activities		**-**	**51,251**
Total cash movement for the period		**(25,885)**	**(275,212)**
Cash at the beginning of the period		678,470	953,682
Total cash at end of the period	11	**652,585**	**678,470**

Accounting Policies

1. Presentation of Historical Financial Information

The historical financial information has been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB) and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and the Companies Act 71 of 2008.

The historical financial information has been prepared on the historical cost basis, except for certain financial instruments that have been measured at fair value and incorporate the principal accounting policies set out below. They are presented in South African Rands.

Going concern

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within their current funding levels (refer note 30).

The directors have a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future. The company therefore continue to adopt the going concern basis in preparing the historical financial information.

These accounting policies are consistent with those applied in the previous period, except for the changes set out in note 2, new and revised standards and interpretations.

1.1 Critical accounting estimates and judgement

In preparing the historical financial information, management is required to make judgements, estimates and assumptions that affect the amounts represented in the historical financial information and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates.

The estimates and the underlying assumptions are reviewed on an on-going 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.

The following are the key assumptions concerning the future, and other key areas of estimation included in the company's historical financial information, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- Estimates in determining the probability of future taxable income thereby justifying the recognition of deferred tax assets included in the statement of financial position. Judgement is required in determining the provision of deferred tax on the benefit of tax losses available for set-of against future taxable profits;

- Estimates regarding the fair value of other financial instruments. Details of the assumptions made are provided (refer note 6);

- The company assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset; and

- An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating profit note.
  No such allowance was deemed necessary to be accounted for during the current year (2012: R-).

Accounting Policies

1.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it when relevant to major refurbishment of a component resulting in derecognition of existing component and recognition of refurbishment costs.

If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is charged to profit or loss for each component of an asset on a straight-line basis over its expected useful lives to estimated residual values. Land is not depreciated. The current estimated useful lives for the current and comparative periods are as follows:

Item	Average useful life
Furniture and fixtures	10 years
Office equipment	5 years
IT equipment	3 years
Loose tools	3 years
Leasehold improvments	2 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period.

Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

Intangible assets include those assets acquired and identified as part of a business combination including marketing related items such as patents, trademarks and trade names; technology related items like computer software and customer related items amongst other items.

An intangible asset is recognised when:
- it is identifiable;
- the entity has control over it;
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost except for those acquired in business combinations which are measure at fair value at acquisition date.

Expenditure on research or on the research phase of an internal project is recognised as an expense when it is incurred.

An intangible asset arising from development or from the development phase of an internal project shall be recognised if, and only if, an entity can demonstrate all of the following:
- it is technically feasible to complete the asset so that it will be available for use or sale;

Accounting Policies

1.3 Intangible assets (continued)

- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

The amortisation period and the amortisation method for intangible assets are reviewed at the end of each reporting period.

Reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable amount, determined in accordance with IAS 36, with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount as an impairment loss.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

The gain or loss arising from the derecognition of an intangible asset is recognised in profit or loss and is determined as the difference between the net proceeds, if any, and the carrying amount of the asset.

1.4 Financial instruments

Classification

The company classifies financial assets and financial liabilities into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- financial liabilities measured at amortised cost; and
- financial liabilities at fair value through profit or loss.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments.

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Accounting Policies

1.4 Financial instruments (continued)

Fair value estimation

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Financial assets

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held-for-trading unless they are designated as hedges.

A financial asset other than a financial asset held-for-trading may be designated as at fair value through profit or loss 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 company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value 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 such.

Assets in this category are classified as current assets if they are either held-for- trading or are expected to be realised within 12 months of the statement of financial position date.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income. These assets are subsequently measured at fair value. All related realised and unrealised gains and losses arising from changes in fair value are recognised in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category does not include those loans and receivables that the company intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. These assets are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets.

Financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method, less any provision for impairment.

Loans and receivables comprise trade and other receivables (excluding prepayments and VAT) and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Accounting Policies

1.4 Financial instruments (continued)

Trade and other receivables

Trade receivables and other receivables are measured at initial recognition at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate computed at initial recognition. The carrying amount of trade receivables is reduced through the use of a provision for impairment and the amount of the loss is recognised in profit or loss. When a trade receivable is uncollectable it is written off against a provision account for trade receivables.

Financial liabilities

Bank overdraft and borrowings

Bank overdrafts and borrowings, which include loans from subsidiaries, associates and other related parties are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company’s accounting policy for borrowing costs.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method. Payables are classified as current liabilities if payment is due within a year or less. If not, they are presented as non-current liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprises of derivatives and is initially recognised at fair value on the date a derivative contract is entered into and is subsequently re-measured at its fair value through profit or loss. Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. The company derecognises financial liabilities when and only when the company’s obligations are discharged, cancelled or they expire.

Impairment of financial assets

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. Impairment losses are recognised in profit or loss. The amount of the provision is the difference between the carrying amount and the recoverable amount of the assets being the present value of expected cash flows discounted at the original effective interest rate. The amount of the provision is recognised as a charge to profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised. Reversals of impairment losses are recognised in profit or loss.

Accounting Policies

1.5 Taxation

Current taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, in other comprehensive income;
- a transaction or event which is recognised, in the same or a different period, directly in equity; or
- a business combination.

Current tax assets and current tax liabilities are offset when the group has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred taxation

Deferred taxation is provided using the balance sheet method based on temporary differences. Temporary differences are differences between carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit/(tax loss). A deferred tax liability is recognised for all taxable temporary differences arising from investments in subsidiaries, branches and associates, and interest in joint ventures, to the extent that the ability to control the timing of the reversal of the temporary difference exists and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interest in joint ventures, to the extent that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and deferred tax liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probably that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, in other comprehensive income;
- a transaction or event which is recognised, in the same or a different period, directly in equity; or
- a business combination.

Deferred tax assets and deferred tax liabilities are offset when the company has a legally enforceable right to offset the current tax assets and current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Accounting Policies

1.5 Taxation (continued)

Withholding tax paid or payable to taxation authorities on dividends paid to shareholders is charged to equity as part of the dividends.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Items acquired in terms of finance leases are initially recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased items or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Subsequently the minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. Depreciation relating to assets subject to finance leases is consistent with that of depreciable assets which are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating leases which have a fixed or determinable escalation are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability/asset which is not discounted. Any contingent payments are expensed in the period in which they are incurred.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.7 Inventories

The company measures inventories at the lower of cost and net realisable value on the first-in first-out basis, except for inventories relating to ICT support Services, which are measured on the weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of non-financial assets

The company assesses at each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset which is the higher of it fair value less costs to sell and its value in use.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

Accounting Policies

1.8 Impairment of non-financial assets (continued)

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and is recognised immediately in profit or loss. An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first to reduce the carrying amount of any goodwill allocated to the cash generating 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.

The company assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.9 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the company reacquires its own equity instruments, those instruments are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company’s own equity instruments. Consideration paid or received, including any directly attributable incremental costs (net of income taxes) shall be recognised directly in equity.

1.10 Provisions and contingencies

Provisions are recognised when:

- the company has a present obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period. Where the effect of time value of money is material, the provision shall be measured as the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. The expense relating to a provision may be presented net of the amount recognised for a reimbursement.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

1.11 Revenue

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

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company 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 company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.11 Revenue (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Revenue relating to goods that are sold subject to the installation and inspection is recognised when the buyer accepts delivery and the installation and inspection are complete. Installation fees are recognised as revenue by reference to the stage of completion unless they are incidental to the product's sale in which case they are recognised when the goods are sold.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest is recognised, in profit or loss, using the effective interest rate method.

Dividends are recognised, in profit or loss, when the company's right to receive payment has been established.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to industry managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.13 Share-based payments transactions

Company share-based payment transactions

The company enters into share-based payment transactions with employees, whereby treasury shares in the holding company are transferred to employees on fulfillment of the vesting conditions over a vesting period.
Employee costs are recognised in profit or loss at the fair value of the treasury shares at the end of each period over the vesting period based on the number of employees still falling within the vesting conditions.
A corresponding liability is recognised for the obligation to supply treasury shares to employees at the fair value of the treasury shares at year end.
The liability is remeasured to the fair value of the treasury shares annually and the movement is recognised in profit or loss in the Statement of Comprehensive Income.

Accounting Policies

Notes to the Historical Financial Information

2. New Standards and Interpretations

2.1 Adoption of new and revised standards and interpretations

During the current financial year, the company has adopted all the new, revised or amended accounting standards and interpretations as issued by the IASB, that are relevant to its operations, which were effective for the company from 1 September 2012.

The adoption of the new and revised accounting standards and interpretations which had no material impact on the results of the company, are as follows:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IAS 1 Presentation of Financial Statements	01 July 2012	Not material
• IAS 12 Income Taxes: Amendment: Deferred Tax: Recovery of Underlying Assets	01 January 2012	Not material

IAS 1 Presentation of Financial Statements: Amendment: Presentation of Items of OCI

The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

The effective date of the amendment is for years beginning on or after 01 July 2012.

The company has adopted the amendment for the first time in the 2013 historical financial information.

The impact of the amendment is not material.

IAS 12 Income Taxes: Amendment: Deferred Tax: Recovery of Underlying Assets

The amendment now provides that for investment property measured at fair value, the recovery of the carrying amount is assumed to be through sale, with the result that deferred tax arising on the valuation is measured using the prevailing tax rate for capital gains.

The effective date of the amendment is for years beginning on or after 01 July 2012.

The company has adopted the amendment for the first time in the 2013 historical financial information.

The impact of the amendment is not material.

Notes to the Historical Financial Information

2. New Standards and Interpretations (continued)

2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 September 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRS 9 Financial Instruments	01 January 2015	Not material
• IFRS 10 Consolidated Financial Statements	01 January 2013	Not material
• IAS 27 Separate Financial Statements	01 January 2013	Not material
• IFRS 11 Joint Arrangements	01 January 2013	Not material
• IFRS 12 Disclosure of Interests in Other Entities	01 January 2013	Not material
• IFRS 13 Fair Value Measurement	01 January 2013	Not material
• IAS 19 Employee Benefits Revised	01 January 2013	Not material
• Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	01 January 2013	Not material
• Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	01 January 2014	Not material
• IFRS 1 – Annual Improvements for 2009 – 2011 cycle	01 January 2013	Not material
• IAS 1 – Annual Improvements for 2009 – 2011 cycle	01 January 2013	Not material
• IAS 16 – Annual Improvements for 2009 – 2011 cycle	01 January 2013	Not material
• IAS 28 – Investments in Associates	01 January 2013	Not material
• IAS 32 – Annual Improvements for 2009 – 2011 cycle	01 January 2013	Not material
• IAS 34 – Annual Improvements for 2009 – 2011 cycle	01 January 2013	Not material

The impact of these standards are currently being assessed, however based on the evaluation, management does not expect these standards, amendments and interpretations to have significant impact on the company's results and disclosures.

Notes to the Historical Financial Information

Figures in Rand	2013	2012

3. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Leasehold improvements	87,604	(50,815)	36,789	39,975	(38,453)	1,522
Furniture and fixtures	533,153	(372,228)	160,925	533,153	(325,519)	207,634
Office equipment	75,413	(60,978)	14,435	75,413	(56,462)	18,951
IT equipment	324,871	(246,237)	78,634	329,763	(278,722)	51,041
Loose tools	91,587	(82,164)	9,423	91,187	(60,572)	30,615
Total	**1,112,628**	**(812,422)**	**300,206**	**1,069,491**	**(759,728)**	**309,763**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold improvements	1,522	47,629	-	(12,362)	36,789
Furniture and fixtures	207,634	-	-	(46,709)	160,925
Office equipment	18,951	-	-	(4,516)	14,435
IT equipment	51,041	57,494	(6,229)	(23,672)	78,634
Loose tools	30,615	400	-	(21,592)	9,423
	309,763	**105,523**	**(6,229)**	**(108,851)**	**300,206**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold improvements	7,609	-	-	(6,087)	1,522
Furniture and fixtures	265,389	438	-	(58,193)	207,634
Office equipment	23,469	-	-	(4,518)	18,951
IT equipment	37,435	40,992	(4,362)	(23,024)	51,041
Loose tools	51,809	-	-	(21,194)	30,615
	385,711	**41,430**	**(4,362)**	**(113,016)**	**309,763**

Computer software has been reclassified from property, plant and equipment to intangible assets in the prior year in order that the comparatives are comparable to the current year.

Buildings have been reclassified to leasehold improvements in the current and prior periods.
These improvements are not stipulated by the lease agreement, but were incurred by the company for purposes of carrying on business in the leased premises.

4. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, acquired	143,913	(128,606)	15,307	123,506	(123,504)	2

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software, acquired	2	20,407	(5,102)	15,307

4. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software, acquired	3,912	(3,910)	2

Computer software has been reclassified from property, plant and equipment to intangible assets in the prior year.

5. Subordinated loan from holding company

	2013	2012
Convergenet Holdings Limited	(10,087,914)	(8,737,914)
This loans is unsecured, bears interest at rates determined from time to time and is repayable when funds become available to the company. ConvergeNet Holdings Limited has subordinated its loan of R10 087 914 to the company in favour of the creditors of the company until such time as the assets, as fairly valued, exceed its liabilities.		
Current liabilities	(10,087,914)	(8,737,914)

Fair value of loans to and from group companies

Fair value of these loans are as indicated above, as the loans are interest bearing and repayable as funds become available.

6. Other financial assets

	2013	2012
At fair value through profit or loss - designated		
Listed shares in ConvergeNet Holdings Limited	145,000	435,000

The above represents a shareholding of 1 450 000 (2012: 1 450 000) shares in ConvergeNet Holdings Limited. These shares are held for the purpose of the share based payment scheme entered into with Structured Connectivity Solutions Proprietary Limited's employees. Under the Forfeitable Share Plan the employees were granted the voting rights, and the rights to dividends on these shares from date of grant. However the shares vested in Structured Connectivity Solutions Proprietary Limited until the vesting conditions of the Forfeitable Share Plan were met. The employees at year end did not have the right to sell the shares until the vesting date of 1 September 2014 and the other vesting conditions were met (Refer note 13).

No shares were purchased or sold during the current year.

	2013	2012
Non-current assets		
At fair value through profit or loss - designated	145,000	435,000

Fair value information

The fair values of the financial assets were determined as follows:

- The fair value of listed or quoted investments are based on the quoted market price.

  Fair values are determined annually at the balance sheet date.

Fair values are determined annually at the balance sheet date.

The company has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior period.

Notes to the Historical Financial Information

Figures in Rand	2013	2012

6. Other financial assets (continued)

Reconciliation of financial assets at fair value through profit or loss measured at level 1 - 2013

	Opening balance	Gains (or losses) due to adjustment to fair value	Total
Shares held in ConvergeNet Holdings Limited	435,000	(290,000)	145,000

Gains and losses due to adjustments to fair value of financial assets is included Other gains and losses (note 21) in the statement of comprehensive income.

7. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2013

	Loans and receivables	Fair value through profit or loss - designated	Total
Listed shares	-	145,000	145,000
Trade and other receivables	6,216,870	-	6,216,870
Cash and cash equivalents	671,381	-	671,381
	6,888,251	**145,000**	**7,033,251**

2012

	Loans and receivables	Fair value through profit or loss - designated	Total
Listed shares	-	435,000	435,000
Trade and other receivables	2,203,087	-	2,203,087
Cash and cash equivalents	689,166	-	689,166
	2,892,253	**435,000**	**3,327,253**

Notes to the Historical Financial Information

Figures in Rand	2013	2012

8. Deferred tax asset

Deferred tax asset

Leave pay accrual	71,931	56,039
Fair value adjustments	-	(28,420)
Share based payments	17,593	9,473
Straight lining of leases	4,737	615
Tax losses available for set off against future taxable income	6,664,641	5,813,358
Provision for doubtful debts	31,911	-
	6,790,813	**5,851,065**

Reconciliation of deferred tax asset

At beginning of the year	5,851,065	3,405,416
Reversing temporary difference on leave pay accrual	15,892	11,456
(Originating)/Reversing temporary difference on straight lining of lease	4,122	(2,365)
(Originating)/Reversing temporary difference on share-based payments	36,540	18,224
(Originating)/Reversing temporary difference on fair value adjustments	-	(40,321)
Increase in tax losses available for offset againts future taxable income	851,283	2,458,655
Originating/(Reversing) temporary difference on provision for doubtful debts	31,911	-
	6,790,813	**5,851,065**

Recognition of deferred tax

The tax effect of temporary differences of the company resulted in deferred tax assets and liabilities.
The company has shown an increase in profits in the period subsequent to the current year end up to the date of publishing of the historical financial information. Management has placed emphasis on the restructuring and turnaround in the profitibility of operations and has secured long term customers that have given their commitment of business over the next two years.
There is probable assurance that future taxable income will be sufficient to allow the tax benefit as the company expects an increase in the taxable profits for the next 12 months and beyond, as per company forecasts.

Full utilisation of the assessed tax loss is expected to occur in 3-5 years or more.

9. Inventories

Work in progress	1,420,230	-
Inventories included in purchases expense	23,855,786	17,368,094

Work in progress relates to the cost of work performed and not yet completed at year end. Customers had not yet been invoiced for these amounts at year end.

Notes to the Historical Financial Information

Figures in Rand	2013	2012

10. Trade and other receivables

Trade receivables	6,146,400	1,520,117
Trade receivables from related parties	182,124	253,510
Impairment on trade receivables	(151,956)	-
Net trade receivables*	6,176,568	1,773,627
Deposits**	54,128	54,128
VAT**	-	238,714
Project specific receivables*	-	370,157
Other receivables*	40,302	5,175
	6,270,998	**2,441,801**

As of 31 August 2013, trade and related party receivables of R 4,001,637 (2012: R 1,043,774) were fully performing.

As of 31 August 2013, trade and related party receivables of R 151,956 (2012: R nil) were impaired.

The carrying values of trade receivables approximate their fair values.

* Financial instruments classified as financial liabilities at amortised cost
** Non-financial instruments

Trade and other receivables past due but not impaired

Trade and other receivables are considered individually for impairment. At 31 August 2013, R 2,174,931 (2012: R 729,853) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1,754,167	51,750
2 months past due	349,000	115,463
3 months or more past due	71,764	562,640
	2,174,931	**729,853**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	12,205	8,969
Bank balances	659,176	680,197
Bank overdraft	(18,796)	(10,696)
	652,585	**678,470**
Current assets	671,381	689,166
Current liabilities	(18,796)	(10,696)
	652,585	**678,470**

The company has a credit card facility of R 100,000 at an interest rate of 14% per annum.

Notes to the Historical Financial Information

Figures in Rand	2013	2012

12. Share capital

Authorised		
2,000 Ordinary shares of R 1 each.	2,000	2,000
Issued		
100 Ordinary shares of R1 each	100	100

13. Share based payments

There is a forfeitable share plan that has been made by the ultimate holding company - ConvergeNet Holdings Limited - to certain employees of the subsidiaries in the group.
In terms of the scheme, Structured Connectivity Solutions Proprietary Limited has the obligation to supply its employees with equity instruments, in the form of ordinary shares, in ConvergeNet Holdings Limited at the fair value of the shares awarded on date of vesting to the employees. The fair value of the liability is measured at the fair value of the shares awarded. The vesting period is 36 months and employees are required to provide services for the full period to become unconditionally entitled to the equity instruments. The share awards in the company's financials are treated as cash settled. The restructuring of the Convergenet Holdings Limited group will have no impact on the company's forfeitable share plan. The shares will vest on 1 September 2014. The remaining vesting period at the current year end is 12 months.

Forfeitable share plan	**Number of shares**	**Number of shares**
Number of shares awarded at beginning of year	1,450,000	1,450,000
Granted during the year	-	-
Forfeited during the year	-	-
Vested during the year	-	-
Outstanding at the end of the year	1,450,000	1,450,000

The total expense in the current year as a result of the unwinding of the share awards over the vesting period is	(48,334)	(48,251)
The carrying value of the liability relating to the forfeitable share awards is (refer note 15)	(96,667)	(145,001)
Total fair value adjustments recognised in profit and loss to remeasure the share award liability recognised in the prior year	96,667	-

Information on share-based payments recognised during the year

Total expenses of R (48,334) (2012: R (48,251)) related to cash-settled share based payments transactions were recognised in 2013 and 2012 respectively for the company.

Total fair value adjustment of R 96,667 (2012: R nil) related to cash-settled share based payments transactions was recognised in profit and loss in 2013 and 2012 respectively.

Shares under the share based payment scheme were held at a fair value of 10 cents per share during the current year (2012: 30 cents per share).

14. Equity contribution by parent

The company received an equity contribution by ConvergeNet Holdings Limited, the ultimate holding company, to fund the share-based payments to be made in terms of the group incentive scheme.

Notes to the Historical Financial Information

Figures in Rand	2013	2012

14. Equity contribution by parent (continued)

Equity contribution by parent	3,840,000	3,840,000

15. Share based payment liability

At fair value through profit or loss		
Share based payment liability	96,667	145,001

The share based payment liability is based on the closing rate at year end (2013: 10 cents; 2012: 30 cents) of 1 450 000 shares and then realised (refer note 13) over the vesting period of 36 months (Remaining: 12 months; 2012: 24 months).

Non-current liabilities		
Fair value through profit or loss	96,667	145,001

16. Trade and other payables

Trade payables*	4,169,299	1,259,349
Trade payables to related parties*	2,137,484	990,281
VAT **	250,109	-
Accruals related to projects*	2,373,773	-
Accrued leave pay**	256,896	200,140
Salary-related accruals**	200,763	156,633
Other accrued expenses**	19,116	5,408
	9,407,440	**2,611,811**

* Financial instruments classified as financial liabilities at amortised cost
** Non-financial instruments

The accrued leave pay has been reclassified from provisions to trade and other payables in the prior year.
Payroll related liabilities has been reclassified from trade payables to other payables in the prior year.

17. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2013

	Financial liabilities at amortised cost	Total
Loans from group companies	10,087,914	10,087,914
Trade and other payables	8,680,556	8,680,556
Bank overdraft	18,796	18,796
	18,787,266	**18,787,266**

Notes to the Historical Financial Information

Figures in Rand	2013	2012

17. Financial liabilities by category (continued)

2012

	Financial liabilities at amortised cost	Total
Loans from group companies	8,737,914	8,737,914
Trade and other payables	2,249,630	2,249,630
Bank overdraft	10,696	10,696
	10,998,240	**10,998,240**

18. Revenue

	2013	2012
Sale of goods	31,205,929	19,703,527

19. Expenses by nature

	2013	2012
Consumables used	23,855,786	17,715,543
Employee cost	7,086,882	7,025,391
Administration and management fees	218,000	1,536,000
Bad debts	151,956	-
Consulting, audit and professional fees	417,785	111,304
Impairment losses	-	-
Depreciation and amortisation	113,954	116,924
Lease rentals on operating lease	665,748	785,133
Other expenses	1,677,735	1,526,025
Total cost of sales, distribution cost and administative expenses	**34,187,846**	**28,816,320**

20. Finance income

	2013	2012
Interest income		
Bank	7,650	46,051
Other interest	288	2,294
	7,938	**48,345**

21. Other gains/(losses)

	2013	2012
(Loss)/Gain on remeasurement of listed shares in ConvergeNet Holdings Limited	(290,000)	101,500
Gain on remeasurement of share-based payment liability	96,667	-
	(193,333)	**101,500**

22. Finance costs

	2013	2012
Bank	11,880	20,268

Notes to the Historical Financial Information

Figures in Rand	2013	2012

23. Taxation

Major components of the tax income

Current		
Local income tax - current period	-	-
Deferred		
Reversing temporary difference on leave pay provision	(15,892)	(11,454)
Originating/(Reversing) temporary difference on straight lining of lease	(4,122)	2,364
Originating/(Reversing) temporary difference on share-based payments	(36,540)	(18,223)
Increase in tax losses available for offset againts future taxable income	(851,283)	(2,458,655)
Originating/(Reversing) temporary difference on provisions for doubtful debts	(31,911)	40,320
	(939,748)	**(2,445,648)**

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

Accounting loss	(3,158,004)	(6,370,123)
Tax at the applicable tax rate of 28% (2012: 28%)	(884,241)	(1,783,634)
Tax effect of adjustments on taxable income		
Disallowable charges	-	(709,567)
Tax losses carried forward	-	3,360
Prior period adjustment	(55,507)	44,194
	(939,748)	**(2,445,647)**

No provision has been made for 2013 tax as the company has an estimated tax loss available for offset against future taxable income is R 23,802,289 (2012: R 20,761,991).
It is expected that profits, against which the tax losses can be utilised, will be available within the next 12 months.
Full utilisation of the assessed tax loss is expected to occur in 3-5 years or more.

24. Cash used in operations

Loss before taxation	(3,158,004)	(6,370,123)
Adjustments for:		
Depreciation and amortisation	113,954	116,924
Loss on sale of assets	5,789	53,853
Interest received	(7,938)	(48,345)
Finance costs	11,880	20,268
Fair value adjustments (refer note 21)	193,333	(101,500)
Share-based payments - cash settled (note 13)	48,334	-
Changes in working capital:		
Inventories	(1,420,230)	282,607
Trade and other receivables	(3,829,200)	7,708,522
Trade and other payables	6,795,629	(2,929,928)
	(1,246,453)	**(1,267,722)**

25. Tax refunded

Balance at beginning of the period	-	61,778

Notes to the Historical Financial Information

Figures in Rand	2013	2012

26. Commitments

Operating leases – as lessee (expense)

Minimum lease payments due		
- within one year	599,655	128,090
- in second to fifth year inclusive	321,940	-
	921,595	**128,090**

Operating lease payments represent rentals payable by the company for certain of its office properties. No contingent rent is payable. Operating lease agreements have an average remaining period of 1 year with average optional renewal periods of 1 year. Average monthly rentals payable over the remaining lease period in terms of these arrangements is R42,925 with no escalation clause. Electricity consumption, maintenance and running costs are charged additional to the monthly rental.

27. Related parties

Relationships

Holding company	ConvergeNet Holdings Limited
Fellow subsidiaries	Andrews Kit (Pty) Ltd t/a Contract Kitting
	Chrystalpine Investments 9 (Pty) Ltd
	ConvergeNet Management Services (Pty) Ltd
	ConvergeNet Networks (Pty) Ltd
	ConvergeNet SA (Pty) Ltd
	CSI Thabile Networking Solutions (Pty) Ltd
	EQ Tickets (Pty) Ltd
	Intelligent Facilities Management (Pty) Ltd
	Inzuzu IT Consulting (Pty) Ltd
	Isiqina Computer Services (Pty) Ltd
	Koba IT Solutions (Pty) Ltd
	Leboa IT Solutions (Pty) Ltd
	Navix Distributions (Pty) Ltd
	Northbound Communication Solutions (Pty) Ltd
	Nectere Networks (Pty) Ltd
	NetXcom (Pty) Ltd
	Techno Imple-Medica (Pty) Ltd
	PG Computer Services (Pty) Ltd
	Mantella Trading 634 (Pty) Ltd
	Simat Management Company SA (Pty) Ltd
	Sizwe Africa IT Group (Pty) Ltd
	Setsibi IT Support Services (Pty) Ltd
	Telesto Communications (Pty) Ltd
	Tekanyo IT Solutions (Pty) Ltd
	X-DSL Networking Solutions (Pty) Ltd
Directors	A.F. Scheepers
	S. Swana (Resigned 1 August 2013)
	D.F. Bisschoff (Resigned 18 December 2013)

The company considers directors to be the only key management personnel.

Notes to the Historical Financial Information

Figures in Rand	2013	2012

27. Related parties (continued)

Related party balances

Loan accounts - Owing (to)/by related parties		
ConvergeNet Holdings Limited	(10,087,914)	(8,737,914)
	(10,087,914)	**(8,737,914)**

Amounts included in trade receivable/(trade payable) regarding related parties		
Andrews Kit (Pty) Ltd t/a Contract Kitting	(381,808)	-
CSI Thabile Networking Solutions (Pty) Ltd	102,144	-
ConvergeNet Management Services (Pty) Ltd	-	(735,669)
Inzuzu IT Consulting (Pty) Ltd	(23,493)	-
Isiqina Computer Services (Pty) Ltd	(70,174)	-
Mantella Trading 634 (Pty) Ltd	(90,964)	-
Navix Distribution (Pty) Ltd	79,980	209,221
Navix Distribution (Pty) Ltd	-	(254,612)
Sizwe Africa IT Group (Pty) Ltd	-	44,289
Sizwe Africa IT Group (Pty) Ltd	(1,566,716)	-
X-DSL Networking Solutions (Pty) Ltd	(4,329)	-
	(1,955,360)	**(736,771)**

Total trade payables owed to related parties	(2,137,484)	(990,281)
Total trade receivables owed by related parties	182,124	253,510
	(1,955,360)	**(736,771)**

Notes to the Historical Financial Information

Figures in Rand	2013	2012

27. Related parties (continued)

Related party transactions

Purchases from/(sales to) related parties		
Andrews Kit (Pty) Ltd t/a Contract Kitting	1,957,906	84,720
CSI Thabile Networking Solutions (Pty) Ltd	63,130	-
CSI Thabile Networking Solutions (Pty) Ltd	(89,600)	-
Inzuzu IT Consulting (Pty) Ltd	22,010	-
Isiqina Computer Services (Pty) Ltd	436,428	-
Isiqina Computer Services (Pty) Ltd	(108,360)	-
Mantella Trading 634 (Pty) Ltd	549,213	897
Mantella Trading 634 (Pty) Ltd	(128,881)	-
Navix Distribution (Pty) Ltd	265,498	779,035
Navix Distribution (Pty) Ltd	(97,866)	(3,515,384)
NetXcom (Pty) Ltd	(13,123)	-
Sizwe Africa IT Group (Pty) Ltd	1,411,276	-
Sizwe Africa IT Group (Pty) Ltd	(121,979)	(947,449)
X-DSL Networking Solutions (Pty) Ltd	(9,626)	-
	4,136,026	**(3,598,181)**

Assets purchased from/(sold to) related parties		
Sizwe Africa IT Group (Pty) Ltd	13,189	-
Navix Distribution (Pty) Ltd	1,929	-
	15,118	**-**

Other operating expenses paid to/(recovered from) related parties		
X-DSL Networking Solutions (Pty) Ltd	64,508	-
Rent paid to/(recovered from) related parties		
Mantella Trading 634 (Pty) Ltd	40,000	-
Management fees paid to/(received from) related parties		
ConvergeNet Management Services (Pty) Ltd	220,000	1,536,000

28. Directors' emoluments and remuneration of key management personnel

Paid by the company

Executive directors

	Basic salary	Total 2013	Total 2012
A.T. Scheepers	1,078,102	1,078,102	444,365

The above costs are included in employee costs (refer note 19).

Notes to the Historical Financial Information

Figures in Rand	2013	2012

29. Risk management

Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the company consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 5 and cash and cash equivalents disclosed in note 11, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

Financial risk management

The company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk).

The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated annual financial statements.

The board of directors provides principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company ensures it has sufficient cash on demand or access to facilities to meet expected operational expenses, by maintaining adequate reserves, banking facilities and reserve borrowing facilities; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The company finance monitors rolling forecasts of the company's liquidity requirements to ensure it has sufficient cash to meet operational meets.

At 31 August 2013	**Less than 1 year**
Loans from group companies	10,087,914
Trade and other payables	8,680,556
Bank overdrafts	18,796

At 31 August 2012	**Less than 1 year**
Loans from group companies	8,737,914
Trade and other payables	2,249,630
Bank overdrafts	10,696

29. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers, cash and cash equivalents, loans and receivables and derivative financial instruments from continueing operations.

The company has a general credit policy of only dealing with creditworthy counterparties that includes credit policies under which new customers are analysed for creditworthiness before the operation's standard payment and delivery terms and conditions are offered and setting of credit limits for individual customers based on their references and credit ratings. Operational management is also held responsible for monitoring the operations' credit exposure.

Quality of outstanding debtors is assessed on an ongoing basis by evaluating the recoverability of long outstanding debt. A provision for impairment of debtors is raised on debts that are not deemed recoverable of such evaluations. The current remaining balance of trade receivables is net of such impairment and management does not expect any losses from non-performance by these counterparties.

Carrying amount of financial assets recorded in the statement of financial position which is net of impairment losses represents the maximum exposure to credit risk:

Financial instrument	**2013**	**2012**
Trade and other receivables	6,216,870	2,203,087
Cash and cash equivalents	671,381	689,166
	6,888,251	2,892,253

Loans and receivables

The company assesses the credit worthiness of any party that a loan or advance is granted to and where considered appropriate, or where necessary an impairment allowance is made against the loan receivable. Collateral security is obtained for these loans where deemed necessary.

Trade receivables and other receivables

Trade receivables consist primarily of invoiced amounts from normal trading activities. A portion of the Group's customer base is made up of major retailers, with the balance of the customer base being widely dispersed. Policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly by operational management. Customers cannot exceed their set credit limit, without specific senior management approval. Such approval is assessed and granted on a case-by-case basis. Operational management regularly reviews the debtors age analysis and follows up on long outstanding debtors. Where necessary, a provision for impairment is made.

Cash and cash equivalents

The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Credit rating range from BBB. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates and interest rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Notes to the Historical Financial Information

Figures in Rand	2013	2012

30. Going concern

We draw attention to the fact that at 31 August 2013, the company had accumulated losses of R (7,836,981) and that the company's total liabilities exceed its assets by R (3,996,881).

ConvergeNet Holdings Limited has subordinated its loan of R10 087 914 to the company in favour of the creditors of the company until such time as the assets, as fairly valued, exceed its liabilities. Additionally, ConvergeNet Holdings Limited will provide financial support for future operations.

It is further noted that the company has an assessed tax loss, available for set-off against future taxable profits, of R23,802,289 (2012: R20,761,991), resulting in the recognition of a deferred tax asset of R6,664,641 (2012: R5,813,358) (refer note 23 & note 8)
Management expects that profits, against which the tax losses can be utilised, will be available within the next 12 months.
Full utilisation of the assessed tax loss is expected to occur in 3-5 years or more.
The fact that the total liabilities exceed the assets has not hindered (and the director believes that it will not hinder) the company's ability to pay its debts as they become due in the normal course of business.

The directors have reviewed the company’s cash flow forecast for the year to 31 August 2014 and, in the light of this review they are satisfied that the company has access to adequate resources to continue in operational existence for the foreseeable future. Furthermore, based on review of management reports for the interim period ended 28 February 2014, the directors feel that the company has experienced a convincing turnaround in profitibility and cash flow to enable the company to sustain operations for at least the next year.
Management has secured long term customers that have given their commitment of business over the next two years.
The company has shown an increase in profits in the period subsequent to the current year end up to the date of publishing of the financial statements. Management has placed emphasis on the restructuring and turnaround in the profitibility of operations.

The historical financial information has been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

31. Events after the reporting period

ConvergeNet Holdings Limited is in the process of disposing of its entire interest in the company to Tellumat Proprietary Limited for R 5 million, pending shareholder approval.

This will result in a controlling interest and 100% shareholding by Tellumat Proprietary Limited in Structured Connectivity Solutions Proprietary Limited.

Structured Connectivity Solutions Proprietary Limited

(Registration number 2002/001640/07)
Historical Financial Information for the year ended 31 August 2013

Supplementary Information

The earnings, diluted earnings, headline earnings, diluted headline earnings, net asset value and tangible net asset value per share and dividends per share in respect of each class of share is presented below in accordance with the requirements of paragraph 8.11 of the Johannesburg Stock Exchange Listings Requirements:

	2013	2012
Earnings per share		
Basic (loss)/earnings per share (cents)		
From continuing operations	(2,218,256)	(3,924,476)
Basic (loss)/earnings for the period	(2,218,256)	(3,924,476)
Earnings per share		
Diluted basic (loss)/earnings per share (cents)		
From continuing operations	(2,218,256)	(3,924,476)
Diluted basic (loss)/earnings for the period	(2,218,256)	(3,924,476)
Headline (loss)/earnings per share (cents)		
From continuing operations	(2,224,025)	(3,978,329)
Headline (loss)/earnings for the period	(2,224,025)	(3,978,329)
Diluted headline (loss)/earnings per share (cents)		
From continuing operations	(2,224,025)	(3,978,329)
Headline (loss)/earnings for the period	(2,224,025)	(3,978,329)
Net asset value per share (cents)	(1,778,626)	(3,996,881)
Net tangible asset value per share (cents)	(1,778,626)	(3,996,881)