

## COMMENTARY

### 1. Statement of compliance

The unaudited condensed consolidated financial information has been prepared by the Financial Director, DF Bisschoff CA(SA), in accordance with International Financial Reporting Standards (“IFRS”), IAS 34 – Interim financial reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Listings Requirements of the JSE Limited, and the South African Companies Act 71 of 2008, as amended for the six months ended 28 February 2013.

### 2. Accounting policies

The unaudited results for the six months ended 28 February 2013 have been prepared in accordance with the Group’s accounting policies which comply with IFRS as issued by the International Accounting Standards Board. 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 2012.

### 3. Comparative figures

The unaudited results for the six months ended 29 February 2012 has been restated as a result of a prior year adjustment made on the future utilisation of Deferred Tax on the available Secondary Tax on Companies (“STC”) credits as a result of the new Dividends Tax which became effective 1 April 2012. This interim period adjustment was announced on SENS on 2 November 2012.

### 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 period under review Mr NG Nika was appointed as an independent non-executive director with effect from 23 November 2012. There have been no other changes to the board. At the AGM held on 25 January 2013, directors who were eligible for re-election, were re-elected.

### 6. Operating results

Revenue increased by 16% from R416.5 million to R483.3 million for the period under review. The Group has however made an operating loss of R28.6 million compared to an operating loss of R8.3 million for the corresponding period.

The IT infrastructure segment has incurred an operating loss of R16.0 million (2012: R11.5 million) primarily as a result of a once off cost of R13.9 million. The once off cost is resulting from a guarantee provided in favour of a subcontractor who subsequently went into business rescue.

The Telecom infrastructure segment has recovered well in line with expectations, generating an operating profit of R4.6 million compared to an operating loss of R5.0 million in the corresponding period.

The African operations incurred an operating loss of R8.7 million (2012: Not operational) as a result of higher than anticipated start-up costs.

The Group loss after taxation for the six months ended 28 February 2013 was R23.2 million (2012: R11.1 million) and the attributable loss for Equity holders of the parent was R16.6 million (2012: R6.1 million), representing a basic loss per ordinary share of 1.97 cents (2012: 0.69 cents) and headline loss per ordinary share of 1.70 cents (2012: 2.36 cents).

As a result of the losses incurred, the net tangible asset value per share decreased by 21% to 23 cents per share (2012: 29 cents per share).

### 7. Corporate Activities

Effective 1 September 2012, Sizwe Africa IT Group (Pty) Ltd sold its 51% interest in Interface Networking Technology (Pty) Ltd to the non-controlling shareholder.

ConvergeNet has sold its remaining 15% interest in Future Cell for R40 million in cash on 27 November 2012 and the related put and call option agreement was cancelled.

In addition to the above, ConvergeNet Management Service (Pty) Ltd, a wholly owned subsidiary, on 27 November 2012 purchased 71 478 594 ConvergeNet ordinary shares from Titan Share Dealers (Pty) Ltd, representing 7.8% of the issued share capital of ConvergeNet, at 29.7 cents per share, amounting to R21.2 million.

Effective 1 January 2013, ConvergeNet sold its 70% shareholding in NetXcom ICT Solutions (Pty) Ltd for a minimal amount to the non-controlling shareholder.

At the AGM held on 25 January 2013 the shareholders approved the conversion of the authorised and issued ordinary share capital of the company at par value of R0.001 to ordinary shares of no par value as well as the increase of the authorised share capital of the company from 1 000 000 000 no par value shares to 2 000 000 000 no par value shares.

### 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.

No dividend has been proposed for the period under review.

### 9. Industry and Group outlook

The Group has progressed its strategy for the next five years and increased revenues. The Group is streamlining its operations into key technologies and vertical markets. We have adopted a more cautious approach in expanding our African operations in order to reduce our risks and ensuring acceptable and sustainable returns on our investments. A more aggressive approach is also being formulated to enhance our annuity revenue base, as well as a review of our sub-contracting and supply chain procedures to reduce our risks and increase efficiencies. We are also strengthening our position in the optic fibre rollout space to grow sustainable infrastructure business over the next two to three years. Eighty per cent of our subsidiaries are showing very promising results going into the second half of 2013 while the balance is subject to robust management initiatives. ConvergeNet will also continue to prudently invest in identified strategic growth areas in the next six months and beyond.

Any forward looking statements in this announcement have not been audited or reviewed by the Company’s auditors.

### 10. Post balance sheet events

On 12 March 2013, at a general meeting of ConvergeNet shareholders, the acquisition of the remaining 25% non-controlling interest in Sizwe Africa IT Group (Pty) Ltd (“Sizwe”) for an aggregate purchase price of R45.0 million and the remaining 26% non-controlling interest in Chrystalpine Investments No 9 (Pty) Ltd for an aggregate purchase price of R20.0 million was approved.

The Sizwe acquisition was however conditional on the Takeover Regulation Panel (“TRP”) granting the sellers exemption in respect of their obligation to make a mandatory offer to minorities. The TRP made a ruling on 18 March 2013 that the transaction is exempted from the requirements to make a mandatory offer but two shareholders have appealed against the TRP ruling. A hearing before the TRP has been scheduled for 30 April 2013.

### 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  
25 April 2013

#### Corporate Information:

#### Directors:

DD Tabata\* (Chairman), S Swana (CEO), DF Bisschoff (CFO), T Modise, H van Dyk, L Mangope\*^, C Pettit\*, NG Nika\*^  
(\* Non-Executive, ^ Independent)

#### Company secretary:

Juba Statutory Services Proprietary Limited, No 1 Carlsberg, 430 Nieuwenhuyzen Street, Erasmuskloof, 0174

#### Registered office:

272 West Avenue, Lakefield Office Park, Block D, Centurion, 0157

#### Postal Address:

P.O. Box 10709, Centurion, 0046

#### Transfer Secretaries:

Computershare Investor Services Proprietary Limited, 70 Marshall Street, Johannesburg, 2001

#### Sponsor:

Deloitte & Touche Sponsor Services Proprietary Limited, Deloitte & Touche Place, The Woodlands, 20 Woodlands Drive, Woodmead, 2196

Email:  
arlenet@convergenet.co.za

Web:  
[www.convergenet.com](http://www.convergenet.com)



ConvergeNet Holdings Limited is a leading supplier of Information and Communication Technology products and services, servicing both the local and African markets, released its results for the six months ended 28 February 2013.

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

## UNAUDITED INTERIM RESULTS for the six months ended 28 February 2013

Revenue ↑ 16% to R483.3m

Loss for the period ↑ 109% to R23.2m

Headline loss per share ↓ 28% to 1.70 cents per share

Loss per share ↑ 185% to 1.97 cents per share

Net Asset value per share ↓ 16% to 42.2 cents per share

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2013

R'000	Unaudited 6 months ended 28 Feb 2013	Restated 6 months ended 29 Feb 2012	Audited year ended 31 Aug 2012
Revenue	483 344	416 522	1 017 357
Cost of sales	(354 074)	(310 312)	(758 192)
<b>Gross profit</b>	<b>129 270</b>	<b>106 210</b>	<b>259 165</b>
Other income	2 492	19 706	20 296
Operating expenses	(160 403)	(134 255)	(286 602)
<b>Operating loss</b>	<b>(28 641)</b>	<b>(8 339)</b>	<b>(7 141)</b>
Finance income	2 277	1 321	2 252
Share of (loss)/profit of associates	(45)	2 982	3 392
Fair value adjustments	5 646	(5 140)	(2 808)
Impairment of goodwill and other financial assets	(2 985)	-	(30 151)
Finance costs	(2 853)	(899)	(3 378)
<b>Loss before taxation</b>	<b>(26 601)</b>	<b>(10 075)</b>	<b>(37 834)</b>
Taxation	3 358	(1 064)	(8 505)
<b>Loss for the period</b>	<b>(23 243)</b>	<b>(11 139)</b>	<b>(46 339)</b>
Other comprehensive loss:			
Translation of foreign currency reserve	(1 146)	-	(391)
Other comprehensive loss	(24 389)	(11 139)	(391)
Total comprehensive loss for the period	(24 389)	(11 139)	(46 730)
<b>Loss attributable to:</b>			
Equity holders of the parent	(16 640)	(6 141)	(43 740)
Non-controlling interests	(6 603)	(4 998)	(2 599)
	(23 243)	(11 139)	(46 339)
<b>Total comprehensive loss for the period attributable to:</b>			
Equity holders of the parent	(17 224)	(6 141)	(43 940)
Non-controlling interests	(7 165)	(4 998)	(2 790)
	(24 389)	(11 139)	(46 730)
Loss per ordinary share (cents)	(1.97)	(0.69)	(4.92)
Diluted basic loss per ordinary share (cents)	(1.97)	(0.69)	(4.90)
Weighted average number of shares	842 829 240	890 644 784	888 730 243
Fully diluted weighted average number of shares	844 785 906	896 148 185	893 143 576
Total number of shares in issue	921 285 941	921 285 941	921 285 941
Headline loss per share (cents)	(1.70)	(2.36)	(5.01)
Diluted headline loss per share (cents)	(1.60)	(2.35)	(4.98)
<b>Reconciliation between basic and headline loss</b>			
Basic loss attributable to equity holders of parent	(16 640)	(6 141)	(43 740)
(Profit)/loss on disposal of assets	(40)	86	176
(Profit)/loss on disposal of associates	-	(16 363)	(16 363)
(Profit)/loss on disposal of subsidiaries	(2 097)	-	(2 126)
Loss/(profit) on sale of other financial asset	4 959	-	1 891
Impairment of goodwill	-	-	13 617
Tax effect on adjustments	(575)	1 374	2 026
Portion of adjustments attributable to non- controlling interests	79	-	-
<b>Headline loss</b>	<b>(14 314)</b>	<b>(21 044)</b>	<b>(44 519)</b>
Net asset value per share (cents)	42.2	50.4	46.3
Net tangible asset value per share (cents)	23.0	29.1	26.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2013

R'000	Unaudited as at 28 Feb 2013	Restated as at 29 Feb 2012	Audited as at 31 Aug 2012
<b>ASSETS</b>			
Non-Current Assets			
Property, plant and equipment	54 378	46 317	54 455
Goodwill	171 199	184 816	171 199
Intangible assets	5 442	10 884	7 926
Investments in associates	5 956	5 590	6 001
Other financial assets	500	58 610	500
Deferred taxation	36 660	29 296	24 802
	274 135	335 513	264 883
<b>CURRENT ASSETS</b>			
Inventories	81 223	94 824	96 240
Loans to related parties	673	332	2 273
Other financial assets	17 889	8 263	7 336
Current tax receivable	709	1 187	1 394
Trade and other receivables	270 437	275 545	262 281
Cash and cash equivalents	31 663	36 758	66 998
	402 594	416 909	436 522
Non-current assets held for sale	-	-	43 499
	402 594	416 909	480 021
<b>TOTAL ASSETS</b>	<b>676 729</b>	<b>752 422</b>	<b>744 904</b>
<b>EQUITY AND LIABILITIES</b>			
<b>TOTAL EQUITY</b>			
Shareholders equity	388 364	464 141	426 649
Non-controlling interest	53 096	59 155	61 364
	441 460	523 295	488 013
<b>LIABILITIES</b>			
Non-Current liabilities			
Other financial liabilities	11 299	20 878	16 730
Finance lease obligation	8 099	10 617	6 975
Operating lease liability	1 529	1 734	1 806
Deferred taxation	6 891	4 773	5 309
	27 818	38 002	30 820
<b>CURRENT LIABILITIES</b>			
Other financial liabilities	21 111	1 639	9 638
Current tax payable	12 252	9 666	6 119
Finance lease obligation	7 911	776	6 968
Provisions	2 611	10 219	3 101
Trade and other payables	162 583	157 381	190 598
Bank overdraft	983	11 444	502
	207 451	191 125	216 926
Non-current liabilities held for sale	-	-	9 145
	207 451	191 125	226 071
<b>Total liabilities</b>	<b>235 269</b>	<b>229 127</b>	<b>256 891</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>676 729</b>	<b>752 422</b>	<b>744 904</b>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2013

R'000	Unaudited as at 28 Feb 2013	Restated as at 29 Feb 2012	Audited as at 31 Aug 2012
<b>Operating activities</b>			
Cash utilised in operations	(37 850)	(49 636)	(602)
Finance income	2 277	1 321	2 252
Finance costs	(2 853)	(899)	(3 378)
Tax paid	(1 153)	1 345	(4 820)
<b>Net cash utilised in operating activities</b>	<b>(39 579)</b>	<b>(47 869)</b>	<b>(6 548)</b>
<b>Net cash generated from/(utilised in) investing activities</b>	<b>5 392</b>	<b>(2 574)</b>	<b>(9 514)</b>
<b>Net cash (utilised in)/generated from financing activities</b>	<b>(483)</b>	<b>9 236</b>	<b>16 428</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(34 670)</b>	<b>(41 207)</b>	<b>366</b>
Cash at the beginning of the year	66 496	66 521	66 521
Foreign currency translation	(1 146)	-	(391)
<b>Total cash at the end of the period</b>	<b>30 680</b>	<b>25 314</b>	<b>66 496</b>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2013

R'000	Unaudited as at 28 Feb 2013	Restated as at 29 Feb 2012	Audited as at 31 Aug 2012
Balance at the beginning of the year	488 013	546 394	546 394
Total comprehensive income for the period	(24 389)	(11 139)	(46 730)
Equity settled share-based payments	397	1 796	2 180
Dividends paid	-	(13 516)	(13 516)
Issue of treasury shares in terms of forfeitable share plan	-	-	1 419
Shares forfeited in terms of forfeitable share plan not yet vested	-	-	(1 350)
Shares forfeited in terms of forfeitable share plan	-	-	(144)
Transactions with non-controlling shareholders	(2 146)	(240)	(240)
Own shares acquired by subsidiaries, held as treasury shares	(20 415)	-	-
Balance at the end of the period	441 460	523 295	488 013

CONDENSED SEGMENTAL INFORMATION FOR THE SIX MONTHS ENDED 28 FEBRUARY 2013

	IT Infrastructure Technology Solutions		Telecom Infrastructure Technology Solutions		Africa Site Maintenance Solutions		Corporate, Consolidation and Other		Total	
	Feb 2013	Feb 2012	Feb 2013	Feb 2012	Feb 2013	Feb 2012	Feb 2013	Feb 2012	Feb 2013	Feb 2012
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Revenue	350 202	323 634	123 983	92 888	9 159	-	-	-	483 344	416 522
<b>(Loss)/profit from operations</b>	<b>(16 026)</b>	<b>(11 459)</b>	<b>4 568</b>	<b>(5 024)</b>	<b>(8 712)</b>	<b>-</b>	<b>(8 471)</b>	<b>(8 144)</b>	<b>(28 641)</b>	<b>(8 339)</b>
Finance income	1 641	747	326	32	87	-	223	542	2 277	1 321
Share of (loss)/profit of associate	(45)	629	-	2 353	-	-	-	-	(45)	2 982
Fair value adjustments	-	-	-	-	-	-	5 645	(5 140)	5 645	(5 140)
Impairment of goodwill and other financial assets	(1 385)	-	-	-	-	-	(1 600)	-	(2 985)	-
Finance costs	(2 043)	(263)	(295)	(636)	(597)	-	82	-	(2 853)	(899)
<b>(Loss)/profit before tax</b>	<b>(17 858)</b>	<b>(10 346)</b>	<b>4 600</b>	<b>(3 275)</b>	<b>(9 222)</b>	<b>-</b>	<b>(4 121)</b>	<b>3 546</b>	<b>(26 601)</b>	<b>(10 075)</b>
Income tax benefit/ (expense)	4 905	3 475	(1 414)	517	(800)	-	667	(5 056)	3 358	(1 064)
<b>(Loss)/profit for the period</b>	<b>(12 953)</b>	<b>(6 871)</b>	<b>3 186</b>	<b>(2 758)</b>	<b>(10 022)</b>	<b>-</b>	<b>(3 454)</b>	<b>(1 510)</b>	<b>(23 243)</b>	<b>(11 139)</b>
Other comprehensive loss	-	-	-	-	(1 146)	-	-	-	(1 146)	-
<b>Total comprehensive (loss)/ profit for the period</b>	<b>(12 953)</b>	<b>(6 871)</b>	<b>3 186</b>	<b>(2 758)</b>	<b>(11 168)</b>	<b>-</b>	<b>(3 454)</b>	<b>(1 510)</b>	<b>(24 389)</b>	<b>(11 139)</b>