

TELE **Masters**

Annual Report

2010

Registration number 2006/015734/06

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VISION AND VALUES

Our **VISION** is to become the undisputed and premier investment entity in the telecommunications sector, delivering sustainable, frequent and above-average returns to shareholders and business partners.

Our **MISSION** is to meet our esteemed customers' telecommunication strategy and connectivity needs with innovative, business relevant and customer urgent solutions. We will do so in a sustainable way as an ever-evolving, 21st Century company.

CORPORATE VALUES:

CANI –

Constant and Never ending Improvement – Continuous improvement to our Intellectual Property (of internal and external partners) enabling TeleMasters to stay 2 steps ahead of our competition in innovation and execution.

NO MISTAKES –

We treasure the experience of learning from our mistakes but abhor mistakes that go unattended and unresolved.

EXCELLENCE ONLY IN RESULTS –

Effort alone doesn't guarantee results/performance – excuses are never accepted and commitment to achieve and excel, is tantamount.

HIGH VALUES AND HIGH PERFORMANCE –

High focus and high energy leads to impressive execution of the TeleMasters way.

DO IT TODAY –

Execute all tasks daily and escalate those that require more urgent attention. We do not allow the Important to become the Urgent.

LONG TERM RELATIONSHIPS –

Provides sustainability and durability to our business. We value customers-for-life, and believe that people buy from people. Our integrity and transparency is critical to all our internal and external dealings.

MEASURE AND REPORT DAILY –

Within the pre-defined competencies and executing primary measurable objectives above all.

RESPONSIBILITY AND ACCOUNTABILITY –

Inherent dislike of surprises – even good ones. All actions are mature and delegation, not abdication, is the watchword in our very flat corporate structure.

UNCONCIOUSLY COMPETENT –

All tasks are well defined, optimally structured with the view of doing business, not just doing.

CASH IS KING –

Good business practices and a tight grip on risk mean that we are able to reward all contributors and shareholders appropriately.



THE COMPANY WAS RANKED 4TH IN THE TOP 500 OF SOUTH AFRICA'S BEST MANAGED COMPANIES IN THE TELECOMMUNICATIONS SOLUTION CATEGORY

We are optimistic about our market positioning and have continued to manage the business conservatively in the continuing current market uncertainties closing with a positive revenue growth of 6,9% in our traditional least-cost routing market. This excludes the Mobile Operator's Connection Incentive Bonus income, which declined by 65,3% as compared to the past financial year. Our earnings have declined, due largely to the continued ultra-conservative approach we adopted concerning the hotly debated and continuing uncertainty surrounding the Interconnect regulatory structure and the proposed three-year price positioning reduction plan.

TeleMasters' cash flow remains strong with reserves closing on R30 million. Our net asset value ("NAV") of 71.6 cents per share increased by 6,9%. We intend to continue declaring quarterly dividends after taking into account working capital, capital expenditure and acquisitions.

The arrival of the numerous international submarine fibre-optic cables in South Africa has brought down the cost of international bandwidth dramatically, thus marking a fundamental change in the local telecommunications landscape and creating numerous opportunities for well positioned organisations like TeleMasters to capitalise on.

During the period under review, we acquired Skycall Networks (Pty) Limited, thus gaining access to its i-ECS and i-ECNS licences and enabling TeleMasters to enter the broadband market. We will continue to focus on organic growth in our least-cost routing market and capitalise on the rapid growth in the broadband market. This recent diversification will position TeleMasters as a carrier-neutral mobile service provider with access to Tier 1 and 2 Carriers enabling delivery of a broader suite of mobile products and services, thereby enhancing our ability to better service our clients' requirements, as well as enhancing our future earnings capability.

With respect to our point-of-presence routing and switching solution, we selected specialised equipment with built-in capability to allow significant scalability with limited additional capital investment. This will enable the development and introduction of a wide range of new IP based services ranging from SIP Trunking through to Virtual PBX and Hosted Call Centre type solutions. We need to ensure a solid continuing differentiated value proposition.

The Board of Directors (the Board) unanimously approved to proceed with the de-listing of the Company from the Alternative Exchange ("AltX") of the JSE Limited in the coming financial year in terms of paragraph 1.13 of the JSE Listings Requirements, subject to the conditions precedent as required by said JSE Listings Requirements. The rationale for pursuing this option was based on a number of factors, namely: continuous low levels of share trading as the free float is 15% with many shareholders being inactive plus our limited requirement to raise capital in the medium term.

We have continued to strengthen our corporate governance adherence over the past year and aim to improve consistently over time in accordance with the recommendations of the King 111 Report and the new Companies Act which is expected to be implemented by mid-2011.

I extend my wholehearted gratitude to all my fellow directors for their passion, dedicated service and creative strategic thinking. On behalf of the Board, I congratulate our Chief Executive Officer Mario Pretorius, our management teams and employees for their dedicated service, enthusiasm, loyalty and teamwork throughout a very testing, but exciting year.

Daniel Stephen van der Merwe

CHIEF EXECUTIVE OFFICER'S REPORT



This was the last year of TeleMasters' participation as an agency of an agent; in the next financial year we will start selling services as a full telecommunications operator. The market segment of fixed mobile communication is rapidly shrinking and we are poised to make the transition to sustainable and profitable telecommunications services.

In anticipation of this transition, we managed the business conservatively and minimised risk and disruption. We foresaw the elimination of Connection Incentive Bonuses, which in the previous year exceeded R16 million and compensated by concentrating on the most important part of the business – generating cash.

Although some investors live and die by the earnings per share (“EPS”) numbers, it is my belief that the cash generated is not only a far better indicator of the health of the business, but is a real figure too. The cash generated is up 23.1% on a flat turnover for the year, notwithstanding a 45.7% drop in profit attributable to the Company's shareholders.

Investment in equipment for the full telecommunications switchover was substantial, at almost R3 million. TeleMasters also purchased 100% of Skycall Networks (Pty) Ltd with its i-ECS and i-ECNS licences. This company has an attractive assessed tax loss with future benefits for the group's profitability.

During the year under review, we promoted Magda van der Walt to GM: Operations and Gavin Parsons to GM: Development. Both exceeded their Key Performance indicators for the year. The review of performance, suitability and effectiveness of staff is ongoing and during the year we conducted 22 training sessions on life relevant and user urgent issues. The talent of our people remains the cornerstone of our success.

TeleMasters will endure in its objective of providing voice services to all destinations at the best possible quality at guaranteed better prices than whoever is market leader by size. It differentiates its offering by (still) offering the only guaranteed savings product in the industry.

I am confident that our imminent transition will provide the sustainability that the fixed mobile sector never had. We look forward to increased margins and the challenge ahead is to convert existing and new clients to our full telecommunications platform.

Mario Brönn Pretorius

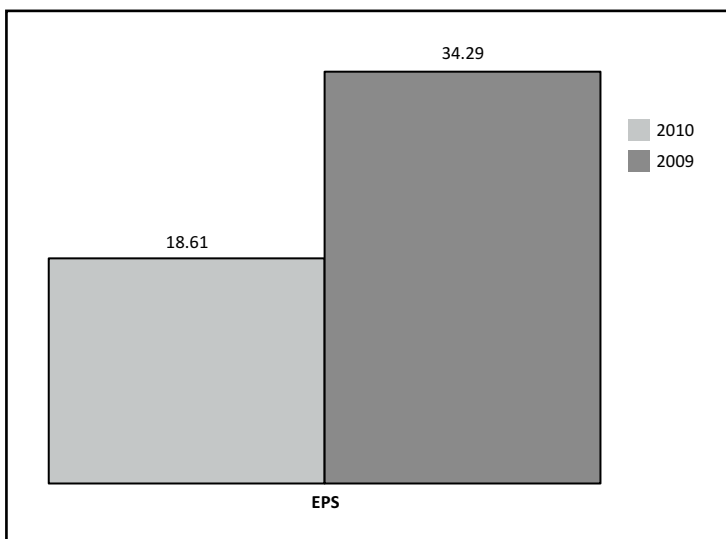
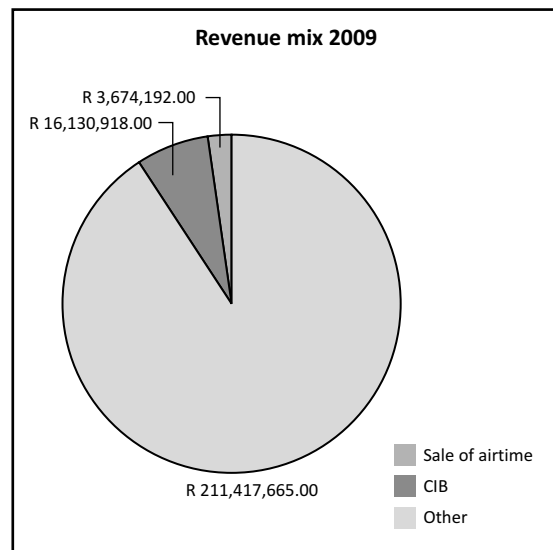
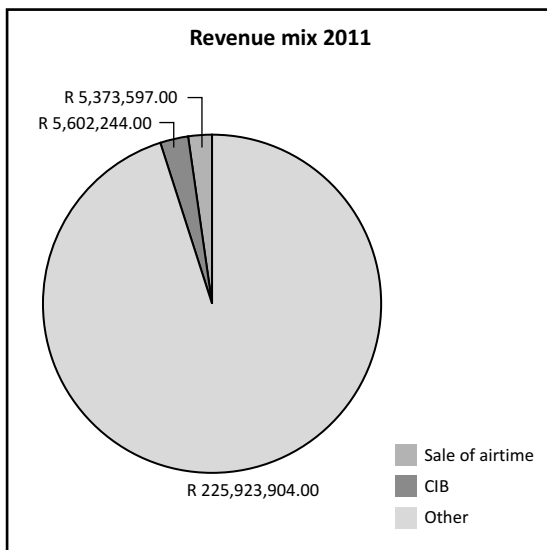
CHIEF FINANCIAL OFFICER'S REPORT



The changes in the regulatory environment of the telecommunications industry have had a dramatic impact on the group's results over the past financial year. The group's cash reserves remain strong with a high pay-out of dividends and capital distributions to shareholders.

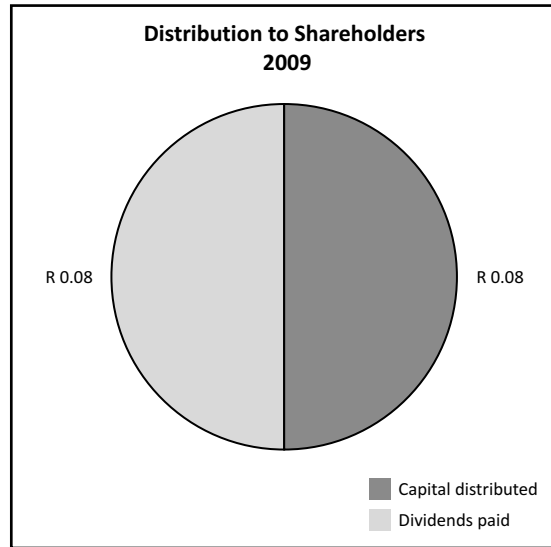
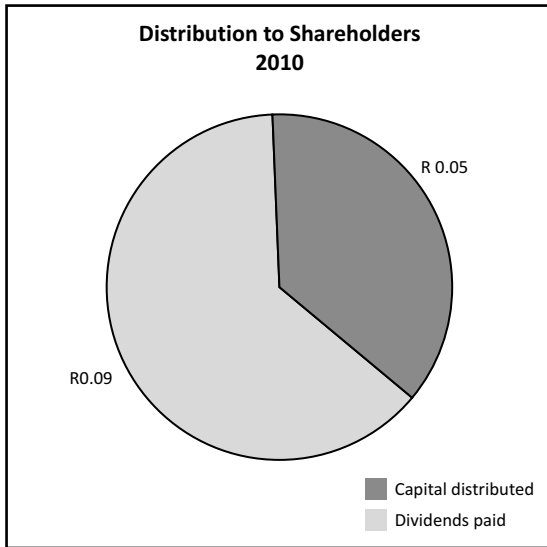
In order for the Company to be free of any long-term commitments to suppliers with the expectant lowering of inter-connect rates, the Board took a strategic decision not to renew contracts with major cellular suppliers which resulted in a loss of revenue of R10,528,674 in Connection Incentive Bonuses being waived due to a 24 month lock-in. Despite this loss of revenue the group managed to maintain organic growth and revenue grew by 2.45%.

The Connection Incentive Bonus revenue, however, is very profitable and its loss reduced the group's gross profit percentage, substantially. The group made alternative plans to increase the profitability of the core business which partially offset this drop in margin. The overall effect of this strategic decision was a reduction of the EPS from 34.29 cents per share in the prior year to 18.61 cents per share in the current year.



The cash generation of the business remained positive which culminated in capital distributions to shareholders of 5 cents per share and dividends to shareholders of 9 cents per share. A total distribution to shareholders of 14 cents per share was paid which compares with the total distribution to shareholders of 16 cents per share paid in the prior year.

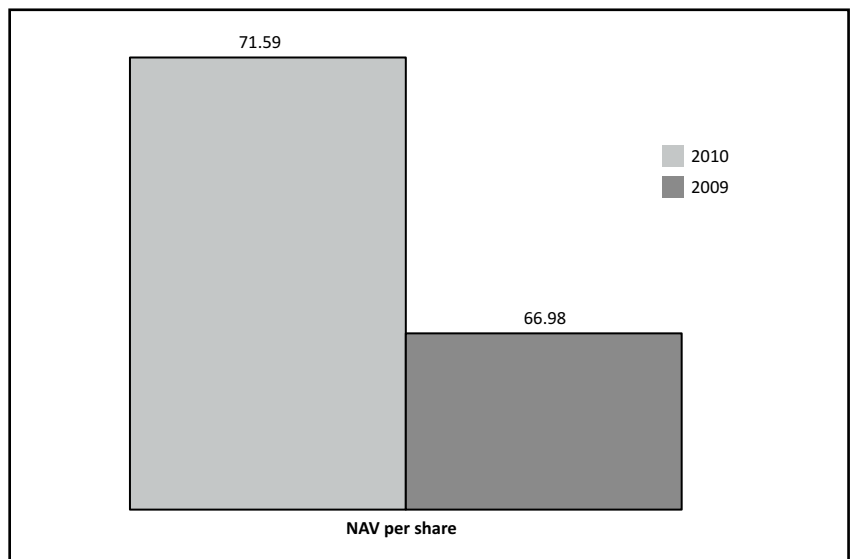
CHIEF FINANCIAL OFFICER'S REPORT



The consolidated statement of cash flows reveals that the total cash movement for the year improved from a negative cash flow of R835 075 in the prior financial year to a positive inflow of R3 906 346 in the current financial year. This positive cash flow was achieved after the acquisitions of a business and property, plant and equipment of R5 174 880 compared to R7 947 610 in the prior year with substantially lower proceeds from borrowings in the current year in comparison with the prior year.

The Company's NAV per share increased to 71.59 cents per share from 66.98 cents after having distributed 14 cents per share to shareholders.

We are confident that the conservative approach taken in the current financial year has reduced the Company's commitments to suppliers and will, together with the investment in new telecommunications licences, pay off for shareholders in the medium to long term. Our core business together with the new developments in our telecommunications solution will place the group in an ideal position to utilise our strong relationships with our clients to provide profitable new business for the group which will be cost effective and efficient for our customers in the coming years.



Brandon Rodney Topham

DIRECTORS' AND EXECUTIVE MANAGERS' PROFILES



Mr Daniel Stephen van der Merwe ***Independent Non-executive Chairman (57)***

Stephen matriculated at St Alban's College, Pretoria, in 1972 and completed his accountancy articles in 1979 at Pim, Whately & Close, and strategic planning at Hendley Management College in 1996. In the 1980s and 90s Stephen held numerous financial positions, namely Financial Manager at Non Ferrous Refineries (Pty) Limited, Mintex Don (Pty) Ltd and Punchline Computers (Pty) Ltd, Chief Financial Controller of Landlock Limited and Finance Director of Advance Promotions (Pty) Ltd, amongst others.

Stephen moved into general management in the early 1990s holding a General Manager position within the sales division at National Data Systems (Pty) Ltd and then as Acting Managing Director of Unique Executive Solutions (Pty) Ltd, a software development company, before moving to MTN (Pty) Ltd in 1996. Stephen successfully re-aligned and restructured numerous divisions of M-Tel (Pty) Ltd as Head of the Dealer and Corporate Sales divisions. He held the position of General Manager Sales, as well as being the Chief Executive Officer of the Mobile Phone Store chain before being appointed as the General Manager Service Provision at MTN (Pty) Ltd. During his tenure at MTN, he was also a Non-executive of I-Talk (Pty) Ltd and before leaving MTN in 2008 he held the position of Executive of the Third Party Sales Business Unit.

Stephen has held the following directorships over the past five years:

Company	Nature of business
Mertech Telecommunications (Pty) Ltd	Telecommunications
New Generation SMS (Pty) Ltd	Telecommunications
iTalk (Pty) Ltd	Telecommunications

Mr Mario Brönn Pretorius ***Chief Executive Officer (53)***

Mario matriculated at Afrikaans Hoër Seunskool, Pretoria, in 1974 and obtained a Bachelor of Commerce degree in 1979 from Potchefstroom University. He was later appointed Marketing Manager at Artos Engineering, Oslo, Norway. In 1981 Mario was appointed International Development Manager of Domino's Pizza International in Ann Arbor, Michigan, USA.

In 1984 Mario obtained his MBA from the University of Cape Town and in 1985 he joined Traditional Beer Investments, the development division of the SAB Group Limited, as Marketing Manager and also became a director of Avens Investments (Pty) Ltd. Mario was also appointed Managing Director of Aida National Franchises (Pty) Ltd and Director of Aida Holdings Limited which he helped list in 1987. In 1988 he joined Okifax, a division of MALBAK Limited as Managing Director and a Non-executive Director of Nimbus Holdings Limited. Mario established various telecommunications support companies and Zero Plus Developments. He has been a pioneer in the LCR industry and the driving force behind the expansion of TeleMasters.

Mario has held the following directorships over the past five years:

Company	Nature of business
Bitflow Investments 266 (Pty) Ltd	Investment company
Bunker Hills Investments 483 (Pty) Ltd	Investment company
Catwalk Investments 266 (Pty) Ltd	Investment company
Credit Excellence (Pty) Ltd	Credit consulting
Delos Investments (Pty) Ltd	Investment company
Dualco Investments 162 (Pty) Ltd	Investment company
Dursley Properties CC	Investment company
Expectra 51 (Pty) Ltd	Telecommunications
Expectra Connectivity (Pty) Ltd	Investment company
Expectra Direct (Pty) Ltd	Telecommunications
Expectra Online (Pty) Ltd	Telecommunications
Expectra Telephony Audits (Pty) Ltd	Telecommunications
Initiative SA Investments 114 (Pty) Ltd	Investment company
Intrax Investments 212 (Pty) Ltd	Investment company

DIRECTORS' AND EXECUTIVE MANAGERS' PROFILES



Liberty Moon Investments 15 (Pty) Ltd	Investment company
Lifehouse Investments 58 (Pty) Ltd	Commodity trading
Limosa Investments 287 (Pty) Ltd	Property development
Maison Du Cap Properties (Pty) Ltd	Property development
Orcom Trading 136 (Pty) Ltd	Investment company
Ontrak Investments 178 (Pty) Ltd	Investment company
Snowy Owl Properties 82 (Pty) Ltd	Investment company
Snowy Owl Properties 90 (Pty) Ltd	Property development
Simplicate Solutions (Pty) Ltd	Investment company
TeleMasters (Pty) Ltd	Telecommunications
Telenext (Pty) Ltd	Telecommunications
Trifecta Trading 449 (Pty) Ltd	Investment company
Vazmasters (Pty) Ltd	Administrative services
Zero Plus Trading 194 (Pty) Ltd	Property development

Mr Brandon Rodney Topham

Chief Financial Officer (39)

Brandon is a qualified Chartered Accountant and an admitted attorney of the High Court of South Africa. He was the auditor of TeleMasters (Pty) Ltd prior to its listing and joined the Board to consolidate his business interests in lieu of his professional practice. He is also an elected councillor in the City of Tshwane Metropolitan Municipality.

Brandon has held the following directorships over the past five years:

Company	Nature of business
Brandon Topham Inc	Chartered Accountants
PPS Holdings Ltd	Insurance Holding
Tax Gurus CC	Tax consulting
Seesa Consulting Ltd	Labour law & BEE consulting
Seesa (Pty) Ltd	Labour law & BEE consulting
Girls Best Friend Jewellery (Pty) Ltd	Diamond & Jewellery retail
TAG Forensic Services (Pty) Ltd	Forensic accounting
1 Time Airlines Ltd	Airline
Southern Reinsurance Company South Africa Ltd	Reinsurance company

Mr Jaco Voigt

Independent Non-executive (36)

Jaco matriculated at Outeniqua High School George in 1992 and obtained a Bachelor of Social Sciences degree in 1996 from the University of the Orange Free State. He started his career in the communications industry at DataPro in 1998 and held various management positions in the organization – the last one being founder and MD of VoxTelecom. VoxTelecom was the pioneer of VoIP service provision in South Africa.

Jaco left VoxTelecom in 2007 to start PerfectWorx Consulting, a specialist consulting outfit providing professional services to operators entering the Next Generation Network realm. PerfectWorx Consulting currently provides services to a wide range of players in the telecommunications industry, ranging from incumbent operators to various VANS operators.

Jaco held the following directorships over the past five years:

Company	Nature of business
Bizcall (Pty) Ltd	Telecommunications
Orion Ltd	Telecommunications
PerfectWorx Consulting (Pty) Ltd	Telecommunications
VoxTelecom Ltd	Telecommunications

DIRECTORS' AND EXECUTIVE MANAGERS' PROFILES

Mr Vernon Ivor Beck

Independent Non-executive (39)

Vernon trained and qualified as a Chartered Accountant at an international accounting firm. He has held management positions at Nissan South Africa (Pty) Ltd, Renault South Africa and Combined Motor Holdings Ltd. He currently practises as a management and corporate finance consultant and serves as the Chairman of the Audit Committees of the Retail Motor Industry and Moto Health Care.

Vernon has held the following directorships over the past five years:

Company	Nature of business
Titan Strategic Business Optimization (Pty) Ltd	Financial consulting
Lacuna Investments 1029 CC	Dormant
Savage Corporate Advisors (Pty) Ltd	Dormant

The Board hereby confirms its commitment to the principles of fairness, accountability, responsibility and transparency. Through this process, shareholders and other stakeholders may derive assurance that the group is being managed ethically according to prudently determined risk parameters and in compliance with generally accepted corporate practices. The Board has examined the principles and requirements of the King III Report and the JSE Listings Requirements with regard to corporate governance. Due consideration has been given as to how best to implement the recommendations within the group and as a minimum the Board has complied with the following:

1. COMPOSITION AND INDEPENDENCE OF THE BOARD

The directors bring a wide range of experience, diversity, insight and independence of judgement on issues of strategy, performance, resources and standards of conduct to the Board.

The group has a unitary Board with a Chairman who is elected from the Board. The roles of Chairman and Chief Executive Officer ("CEO") are separated. The Board currently consists of three non-executive directors and two executive directors. The non-executive directors are not appointed under service contracts. All three current non-executive directors are independent.

The directors' terms of office are as follows:

Director	Date appointed	Date resigned
Brandon Rodney Topham	7 September 2006	
Igenatius Godtlieb Bekker	2 October 2006	7 February 2011
Masetumo Elizabeth Moji	2 October 2006	29 April 2009
Mario Brönn Pretorius	2 November 2006	
Jaco Voigt	12 May 2008	
Vernon Ivor Beck	24 February 2009	
Daniel Stephen van der Merwe	29 April 2009	
Nolene Owen	20 January 2010	24 December 2010

The resignation of Ms N Owen was due to her family relocating to the North West Province which would render her unable to fulfil her duties as Executive Director.

Due to required rotation of directors, Mr MB Pretorius and Mr J Voigt will retire as directors. Both will offer themselves for re-election at the annual general meeting of shareholders. Their curriculum vitae are set out under the Directors' and Executive Managers' Profiles section of this report.

None of the directors' remuneration is tied to the group's financial performance.

All directors' interests in terms of Section 234 of the Companies Act, No. 61 of 1973 ("the Companies Act"), as amended, have been disclosed and all directors are aware of their duty to make full disclosure of any interest involving the Group.

The Board meetings are attended by representatives from the Company's Designated Advisor in accordance with the JSE Listings Requirements for companies listed on the AltX.

The Board sits at least four times per annum, but meets more regularly due to the group's decision to release quarterly

results and pay quarterly dividends which necessitates more regular meetings than originally anticipated. The directors are properly briefed in respect of special business prior to Board meetings and information is timeously provided to enable them to give full consideration to all the issues being dealt with. The directors do make further enquiries where necessary.

The attendance of directors at Board meetings during the year, taking into account their dates of appointment and/or resignation, was as follows:

Name	# of meetings	# of meetings attended
Daniel Stephen van der Merwe	7	6
Mario Brönn Pretorius	7	7
Igenatius Godtlieb Bekker	7	7
Nolene Owen	6	6
Brandon Rodney Topham	7	7
Jaco Voigt	7	7
Vernon Ivor Beck	7	7

1.1 CHAIRMAN OF THE BOARD

The Chairman is elected by the Board. The Chairman is an independent, non-executive director. The Chairman is not a member of the Audit Committee and does not chair the Remuneration Committee.

The roles and responsibilities of the Chairman include:

- ▶ Setting the ethical tone for the Board and the group;
- ▶ Providing overall leadership to the Board;
- ▶ Managing relationships with shareholders and stakeholders to ensure trust and confidence;
- ▶ Meeting with the CEO and/or CFO and/or Company Secretary before board meetings to discuss important issues and agree on the agenda;
- ▶ Setting the agenda for board meetings;
- ▶ Ensuring that complete, timely, relevant and accurate information is placed before the Board for informed decisions;
- ▶ Presiding over board meetings and ensuring productive board meetings;
- ▶ Presiding over shareholders' meetings;
- ▶ Formulating a work plan for the Board against its set objectives;
- ▶ Ensuring that the Board's decisions are executed;
- ▶ Managing directors' conflicts of interest with a register of interest and a process for recusal from voting;
- ▶ Evaluating the independence of the independent non-executive directors annually;
- ▶ Acting as the link between the Board, the CEO and management;
- ▶ Mentoring, developing and encouraging directors;
- ▶ Conducting a formal annual performance evaluation of the Board, the directors and the sub-Committees;
- ▶ Identifying training needs of the directors;
- ▶ Tailoring an induction programme for new directors to familiarise incoming directors with operations, the business environment and the sustainability of the group, to define their duties and responsibilities and to brief them on risks, legislative changes, accounting standards and policies;
- ▶ Adopting a program of continuing professional education of the directors;
- ▶ Identifying and participating in the selection of Board members in the absence of the Nomination Committee;
- ▶ Overseeing the succession plan for the Board and Senior Management; and
- ▶ Removing non-performing or unsuitable directors.



1.2 CHIEF EXECUTIVE OFFICER

The CEO is appointed by the Board. The CEO has the ultimate responsibility for all management functions, but may delegate these to management.

The CEO is not a member of the Remuneration or Audit Committees.

The roles and responsibilities of the CEO include:

- ▶ Establishing the organisational structure for the group;
- ▶ Recommending or appointing the executive team;
- ▶ Doing succession planning for the executive team;
- ▶ Conducting performance appraisals for the executive team;
- ▶ Developing the group's strategy over the short and long term for approval by the Board;
- ▶ Developing and recommending business plans and budgets;
- ▶ Monitoring and reporting on the group's performance to the Board;
- ▶ Monitoring and reporting on the group's compliance with laws and corporate governance to the Board; and
- ▶ Creating a corporate culture that promotes sustainable ethical practices, encourages integrity and fulfils the group's social responsibility.

2. APPOINTMENT AND RE-ELECTION OF THE BOARD

The directors bring a wide range of experience, diversity, insight and independence of judgement on issues of strategy, performance, resources and standards of conduct to the Board. Directors are appointed based on the needs of the group and the nature of its business and to ensure diversity in terms of qualifications, technical expertise, industry knowledge, experience, nationality, age, race and gender.

The following procedures are followed regarding any changes to the Board:

- ▶ Any new appointment will be considered by the Board as a whole; and
- ▶ The Company Secretary will ensure that the new director attends the JSE Alt-X Requirement of Directors and the WITS Business School's Directors Induction Programme, and will provide the new director with an induction session to ensure that the new Board member understands the group, the business environment and his/her role and responsibilities as a director of the Company. All the executive directors have attended this course and arrangements have been made for the remaining directors to attend.

In accordance with the JSE Listings Requirements, a Nomination Committee is not required, neither does the size of the group warrant the establishment of a Nomination Committee.

3. ROLE AND FUNCTION OF THE BOARD

The Articles of Association of the Company is the charter which governs the directors' roles and responsibilities. The day-to-day management of the group is vested in the executive directors.

The Board's main responsibilities include:

- ▶ Setting and monitoring strategy and operations based on the economical, social and environmental sustainability of the group over the short and long term;
- ▶ Aligning group strategy and performance with the interests and expectations of shareholders;
- ▶ Establishing a proper corporate governance framework;
- ▶ Setting the ethical foundation for the group through setting and adhering to a Code of Conduct and an ethics



- management programme;
- ▶ Examining opportunities and implementing measures to ensure that all opportunities are seized;
- ▶ Maintaining governance of risk;
- ▶ Maintaining governance of Information Technology;
- ▶ Establishing a framework for the delegation of authority;
- ▶ Setting a formal process for the appointment of directors in the absence of a Nomination Committee;
- ▶ Appointing a competent, suitably qualified and experienced Company Secretary;
- ▶ Establishing an effective and independent Audit Committee and approving its formal charter, agenda and work plan;
- ▶ Establishing a Remuneration Committee to ensure that directors and executives are remunerated fairly and responsibly;
- ▶ Ensuring that the group complies with all applicable laws and considers adherence to rules, codes and standards;
- ▶ Ensuring the necessity of the establishment of an effective risk-based Internal Audit;
- ▶ Ensuring the integrity of the group's integrated report; and
- ▶ Reporting on the effectiveness of the group's system of internal controls.

Three of the Board members are involved in the group's operations on a daily basis. While retaining overall accountability and subject to matters reserved to itself, the Board has delegated authority to run the group's day-to-day affairs to the CEO.

Directors all have unfettered access to the Company Secretary. Directors are entitled to ask questions of any personnel and have unrestricted access to all company documentation, information and property.

4. BOARD COMMITTEES

Although the JSE Listings Requirements only provide for the establishment of an Audit Committee, the group has furthermore established a Remuneration Committee. These committees report to the Board.

4.1 AUDIT COMMITTEE

The Board has established an Audit Committee as part of the Board's commitment to ensure a sound system of internal control to safeguard stakeholders' interests and the group's assets.

The Audit Committee consists of at least three independent non-executive directors. The Chief Financial Officer ("CFO"), the External Audit Partner and a representative of the Company's Designated Advisor are invited to attend all meetings but have no votes. The majority of the members of the Audit Committee are financially literate.

The Board appointed Mr V Beck as Chairman of the Audit Committee. The members of the Audit Committee collectively have the required qualifications and experience appropriate for the size, circumstance and industry of the group with regards to integrated reporting, internal financial controls, external and internal audit procedures, corporate law, risk management, sustainability issues and governance of processes within the group.

The Audit Committee convened four times during the financial period under review. The Audit Committee did not meet separately with the External Auditors during the year.

The primary objective of the Audit Committee is to promote the overall effectiveness of corporate governance within the group, and includes:

- ▶ Ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- ▶ Ensuring the integrity of the group's integrated report, accounting and financial reporting systems;
- ▶ Reviewing financial reports such as the Annual Financial Statements, Interim results announcements, integrated information, price-sensitive financial information, trading statements, circulars, etc.;
- ▶ Evaluating significant judgements and reporting decisions, including changes in accounting policies, significant unusual items, materiality, etc.;



- ▶ Recommending the Annual Financial Statements to the Board for approval;
- ▶ Reviewing the statement on going concern after taking into consideration the group's future working capital requirements;
- ▶ Reviewing budgets and forecasts;
- ▶ Reporting on sustainability issues;
- ▶ Performing an annual review of the expertise, resources and experience of the group's finance function including the CFO;
- ▶ Monitoring all contracts entered into by the group in which any of the directors are either beneficially or indirectly beneficially interested so as to ensure that all such contracts are fair and reasonable and in the best interest of the group;
- ▶ Recommending the re-appointment or removal of the External Audit firm and designated auditor, who is independent of the group, to the Board on a 5-year rotation basis;
- ▶ Approving the External Audit terms of engagement;
- ▶ Approving the External Audit remuneration;
- ▶ Reviewing, monitoring and reporting on the independence and objectivity of the External Audit;
- ▶ Assessing the effectiveness of the External Audit process annually;
- ▶ Defining a policy for the nature, extent and terms of non-audit services that may be performed by the External Audit, which is approved by the Board;
- ▶ Handling disagreements between management and the external auditors;
- ▶ Engaging external audit to provide an assurance report on any summarised financial information;
- ▶ Addressing concerns raised by the External Audit;
- ▶ Receiving notice of reportable irregularities in terms of the Auditing Profession Act, from the External Audit;
- ▶ Advising on monitoring or enforcement actions against the group;
- ▶ In the absence of a Risk Committee, overseeing the implementation of a risk management process by management;
- ▶ Ensuring that the appropriate systems are in place for monitoring risk, financial control and compliance with the law and codes of conduct;
- ▶ Performing an annual review of the design, implementation and effectiveness of internal financial controls;
- ▶ Reviewing arrangements made by the group for "Whistle blowing";
- ▶ Approving amendments to the group's Code of Conduct;
- ▶ Reporting to shareholders at the annual general meeting and internally to the Board on how the Audit Committee carried out its functions, reviewing the External Audit and commenting on the Annual Financial Statements, policies and internal control;
- ▶ Ensuring compliance with the Code of Corporate Practices and Conduct; and
- ▶ Ensuring compliance with the group's Code of Ethics.

The Audit Committee has explicit authority to investigate any matter under its terms of reference and has access to all the resources and information it requires in order to act on this authority.

The attendance of committee members at Audit Committee meetings during the year, taking into account their dates of appointment and/or resignation, was as follows:

Name	# of meetings	# of meetings attended
Vernon Ivor Beck (Chairman)	5	5
Brandon Rodney Topham	5	5
Jaco Voigt	5	5
Nolene Owen (Chief Financial Officer) – By invitation	4	4
Designated Advisor – By invitation		
External Audit – By invitation		



4.2 REMUNERATION COMMITTEE

Although a Remuneration Committee is not a JSE Listings Requirement, this was established in the interest of good corporate governance. The Remuneration Committee is appointed by the Board and its terms of reference are reviewed annually.

The Remuneration Committee consists of three non-executive directors. The Chairman is an independent non-executive director.

The Remuneration Committee met once during the year. The attendance of committee members at the Remuneration Committee meeting during the year, taking into account their dates of appointment and/or resignation, was as follows:

Name	# of meetings held	# of meetings attended
Jaco Voigt (Chairman)	1	1
Brandon Rodney Topham	1	1
Daniel Stephen van der Merwe	1	1

The primary objective of the Remuneration Committee is to set the remuneration of the directors of the Company, including:

- ▶ Setting and administering remuneration policies;
- ▶ Reviewing benefits to ensure that they are justified, correctly valued and properly disclosed;
- ▶ Setting directors' fees for non-executive directors and Committee members for approval by the shareholders at the annual general meeting;
- ▶ Negotiating contracts; and
- ▶ Ensuring proper disclosure on the remuneration of each individual director and certain senior executives.

The remuneration paid to directors is determined on a cost-to-company basis and consists solely of a basic salary and certain fringe benefits for both executive and non-executive directors with the amounts being based on each director's level of day-to-day responsibility and activity. These packages are not linked to performance and directors do not participate in any share incentive schemes.

Contracts do, however, allow for balloon payments on termination or severance compensation due to any change in control.

The remuneration of each individual director and certain senior executives is as follows:

CORPORATE GOVERNANCE REPORT



30/09/10	Basic salary	Company contribution	Fringe benefits	Total
	R		R	R
For service as directors				
Executive				
MB Pretorius	1 294 200	16 490	60 537	1 371 227
IG Bekker	456 750	6 356	86 793	549 899
N Owen	513 295	6 139	800	520 234
	2 264 245	28 985	148 130	2 441 360
Non-executive				
DS van der Merwe	305 000	3 866	-	308 866
BR Topham	220 000	3 459	-	223 459
J Voigt	155 000	2 866	-	157 866
VI Beck	155 000	2 866	-	157 866
	835 000	13 057	-	848 057
Total	3 099 245	42 042	148 130	3 289 417
For service as employees				
GC Parsons	669 542	6 816	23 849	700 207
M van der Walt	682 158	8 338	51 831	742 327
	1 351 700	15 154	75 680	1 442 534

The prior year's comparative figures for the directors' remuneration are disclosed in note 14 to the Annual Financial Statements.

5. INTERESTS OF DIRECTORS AND OFFICERS

The register of interests of directors in contracts in terms of Section 234 of the Companies Act is available to members of the public on request.

The interests of directors and officers in the group's securities as at 30 September 2010 are as follows:

Number of shares	2010	2009
Shareholding at year end:		
Direct:		
IG Bekker	593 942	575 910
Indirectly and non beneficially:		
BR Topham	34 285	34 285
Indirectly and beneficially:		
BR Topham	473 173	473 173
MB Pretorius	35 700 000	35 700 000



Number of shares	2010	2009
Share dealings during the financial year:		
Shares acquired directly:		
IG Bekker	18 032	-
Shares acquired indirectly and beneficially:		
BR Topham	-	10 000

There were no changes to the directors' interests in the share capital of the group between 30 September 2010 and the date of this report.

6. COMPANY SECRETARY

The appointment and removal of the Company Secretary is a matter for the Board as a whole. The roles and responsibilities of the Company Secretary include:

- ▶ Assisting in setting the procedure for the appointment of directors;
- ▶ Assisting in the proper induction, orientation, ongoing training and education of directors;
- ▶ Assessing individual training needs of directors and executive management in their fiduciary and governance responsibilities;
- ▶ Providing guidance on duties and responsibilities of the Board and the individual directors;
- ▶ Providing guidance and advice to the Board on governance and legislation;
- ▶ Formulating the Board and committee charters;
- ▶ Compiling and circulating Board packs;
- ▶ Assisting the chairmen of the Board and committees with work plans;
- ▶ Obtaining responses and feedback on agenda items and matters arising;
- ▶ Ensuring proper recordal of Board and committee meetings;
- ▶ Circulating the minutes timeously; and
- ▶ Assisting the Chairman with the annual evaluation of the Board, the directors and senior management.

The Company Secretary remained unchanged during the year under review. The Company Secretary is:

Brandon Topham Incorporated
Represented by Brandon Topham
100A Club Avenue
Waterkloof Ridge
Pretoria
0181

The Company Secretary is a related party to one of the non-executive directors.

All directors have access to the advice and services of the Company Secretary. The Board is of the opinion that the management of the Company Secretary has the requisite attributes, experience and qualifications to fulfil its commitments effectively. Brandon Topham Incorporated also performs the company secretarial duties for the subsidiary in the group.

7. ACCOUNTING AND AUDITING

The Board is committed to complying with International Financial Reporting Standards ("IFRS"), the Companies Act and the JSE Listings Requirements.

The external auditors observe the highest level of business and professional ethics and their independence is not impaired



in any way. The external auditors are given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders and of the Board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The external auditors provide an independent assessment of systems of internal financial control to the extent necessary for the audit, and express an independent opinion on whether the financial statements are fairly presented.

The auditors do not perform any non-audit services.

8. INTERNAL AUDIT

The group has not established an internal audit function to evaluate to group's governance processes and ethics as the Board is of the opinion that the costs thereof will outweigh the benefits derived therefrom. Furthermore, the size of the business and the established internal control system does not warrant a full time internal audit function. The Board will, in consultation with the Audit Committee, outsource certain work to external consultants as and when the need arises. The Board is satisfied that there is an ongoing process for identifying, evaluating and managing the significant risks.

In the absence of an internal audit function, the responsibility of monitoring risks and establishing a formal risk management policy and plan has been delegated to the Audit Committee. This committee must ensure that effective controls are in place to mitigate identified risks and ensure an effective internal control framework.

During the year, the Audit Committee has compiled a risk matrix and addressing these risks has been delegated to management. The Audit Committee will report to the Board on the matters in due course.

9. COMMUNICATION WITH STAKEHOLDERS

The Board has adopted a policy of effective communication and engagement with all stakeholders. The group seeks to provide a secure, healthy and participative social and working environment for its staff and associates.

The Board encourages its stakeholders to attend the group's general meetings where they will be provided with the opportunity to ask questions of the Board, the Audit Committee and the group's auditors. Shareholders will be informed at the annual general meeting of the results of all voting which may have taken place.

10. CLOSED AND PROHIBITED PERIODS

The Company enforces a restricted period for dealing in shares, in terms of which the Board disallows all directors any dealings in shares from the time that the reporting period has elapsed to the time that the results are released and at any time that the Company is trading under a cautionary announcement or is considered to be in a prohibited period. A procedure for directors to deal in shares has been introduced and all affected persons have access to the Company Secretary and the Designated Advisor should they have any doubt as to whether or not they may trade.

11. CODE OF ETHICS

The Board subscribes to the highest level of professionalism and integrity in conducting its business and dealing with all its stakeholders.

In adhering to its Code of Ethics, the Board is guided by the following broad principles:

- ▶ Businesses should operate and compete in accordance with the principles of free enterprise;
- ▶ Free enterprise will be constrained by the observance of relevant legislation and generally accepted principles regarding ethical behaviour in business;
- ▶ Ethical behaviour is predicated on the concept of utmost good faith and characterised by integrity, reliability and a



- commitment to avoid harm;
- ▶ Business activities will benefit all participants through a fair exchange of value or satisfaction of need; and
- ▶ Equivalent standards of ethical behaviour are expected from individuals and companies with whom business is conducted.

The Board has not approved a formal ethics management programme nor a Social and Ethics Committee.

12. GOVERNANCE OF INFORMATION TECHNOLOGY

During the current financial year, the expenditure on Information Technology (IT) (including hardware and software) amounted to 0.34% of Revenue (2009: 0.18%). This included a charge of R384 290 for software development done over the past two years.

The Board has not adopted a formal charter and policies setting out the decision making rights and accountability in relation to IT. The effective and efficient management of the IT resources is currently controlled by the CEO and any expenditure is aligned with the performance and sustainability objectives set by the Board.

The Audit Committee has, in the absence of an IT Steering Committee, included IT risks and the measures to mitigate these risks as part of its risk management process and matrix. Measures have been implemented to address issues such as disaster recovery plans, privacy and security concerns.

13. SUSTAINABILITY REPORTING

The group is not reporting on sustainability in terms of the G3 guidelines and this report has not been independently assured.

During the year under review, the regulatory changes in the interconnect rates have had a direct impact on the group's profitability. The number of clients decreased by 4%. However, the number of lines increased by 11%.

Due to the above and expected changes in Mobile Termination Rates, the group had to revise its strategy to ensure the sustainability of profits in the future. To this effect the group implemented the following strategies:

- ▶ Negotiated a further 1% commission from its main supplier in February 2010;
- ▶ Concluded a wholesale agreement in March 2010 with iBurst in which it agreed preferential prices and commission for its new product line TeleMasters Business;
- ▶ Purchased a subsidiary in March 2010 that owns ECS and iECNS Licenses. This will facilitate the expansion of the group to a full telecoms supplier. As at the reporting date, the group had invested R552 188 in assets in terms of this strategy;
- ▶ Expanded its product offering to include Fax-2-email, ADSL, Fibre and VoIP alternatives;
- ▶ Identified 265 savings sensitive clients that will be approached to offer them discount to ensure their annuity income to the group;
- ▶ Revised its current client management processes and in the event increased the average rate per unit ("ARPU") by 5%;
- ▶ Classified all dealers within the dealer channel according to performance and managed and rewarded them accordingly. This reduced commission and awards by 14%;
- ▶ Amended its policy to require our medium to high-risk clients to pay a deposit upon commencement of the agreement. At year end the group held R2.7 million in client deposits;
- ▶ Achieved a resounding success in the implementation of the Regulation of Interception of Communications and Provision of Communication Related Information Act, No. 70 of 2002 (RICA). 57% of the client base and 65% of all lines have complied with the RICA requirements. Only 9% of new clients that have complied with the Act have cancelled in subsequent months. This emphasizes the fact that clients that comply with the Act are less probable to default on their obligations in future.



The Board believes that the group has adhered to its ethical standards during the year under review.

The overall well-being of our employees is regarded as very important and the group encourages its employees to raise any issue with the executive directors.

The group's office environment systems which are aimed at reducing resource consumption over time are in place and the directors are continuously exploring ways in which to reduce paper, energy and water usage. The Company recently moved into new premises where the use of natural light and heating is optimised. This will reduce the Company's electricity consumption.

The staff formed a Social Committee during the year. The purpose of the Committee is to hold social drives to raise money for charitable events or programmes. The Committee selected to sponsor Dolphin House in Mountain View, which forms part of the Manger Care Centre non-profit organisation. This is a house that cares for abused, abandoned and orphaned children between the ages of 11 and 18 years. The Company provided linen, curtains, blinds and bathroom accessories to the establishment. A washing line was installed and computers were repaired at the Company's cost. Staff were encouraged to donate any clothing or household items.

A spring day was organised at a nearby school, where TeleMasters staff played cricket, netball and rugby with the children and had a picnic. It was well supported by staff who made a family day of it. Staff members "adopted" a child as part of the Christmas wish list drive and bought them Christmas gifts to fulfil their immediate needs.

Several ad hoc charities were supported throughout the year, including The Down Syndrome Association, Aids Day and Roodepark School's golf day.

14. TRANSFER OFFICE

Computershare Investor Services (Pty) Ltd acts as the Company's transfer secretaries.

15. DESIGNATED ADVISOR

Arcay Moela Sponsors (Pty) Ltd acts as the Company's Designated Advisor in compliance with the JSE Listings Requirements.

DECLARATION BY COMPANY SECRETARY

The Company Secretary certifies that the group has lodged with the Registrar of Companies, all such returns as are required by a public company, in terms of Section 268G(d) of the Companies Act, as amended, and that all such returns are true, correct and up to date to the extent that the Company Secretary has been informed.



Brandon Topham Incorporated

REPORT BY THE AUDIT COMMITTEE

This report of the Audit Committee for the year ended 30 September 2010 is presented as required by King III and Sections 269A and 270A of the Companies Act, as part of the measures contained in the Corporate Laws Amendment Act.

1. FUNCTIONS AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

The role of the Audit Committee is to assist the Board by performing an objective and independent review of the functioning of the organisation's finance and accounting control mechanisms. It exercises its functions through close liaison and communication with corporate management and the external auditors.

The Audit Committee is guided by its formal charter, approved by the Board, dealing with membership, structure and levels of authority. The roles and responsibilities of the Committee have been fully addressed in paragraph 4.1 of the Corporate Governance Report.

The Committee addressed its responsibilities properly in terms of its charter during the financial year ending 30 September 2010. No changes to the charter were adopted during the financial year. The Audit Committee has complied with its legal and regulatory responsibilities.

2. MEMBERS OF THE AUDIT COMMITTEE

Membership of the Audit Committee has been fully disclosed in paragraph 4.1 of the Corporate Governance Report.

The members of the Audit Committee have at all times acted in an independent manner.

3. FREQUENCY OF MEETINGS

The frequency of and attendance at Audit Committee meetings have been fully disclosed in paragraph 4.1 of the Corporate Governance Report.

Provision is made for additional meetings to be held, when and if, necessary.

4. INDEPENDENCE OF EXTERNAL AUDIT

One of the responsibilities of the Audit Committee is the assessment of the independence of the auditor. The Committee is satisfied that the auditor is independent of the group. The auditor has also confirmed that its personnel are independent of the group.

5. PERFORMANCE OF INTERNAL AUDIT

The Audit Committee cannot report on the activities, scope, adequacy and effectiveness of the internal audit function and audit plans, as no such function has been established. The Audit Committee did therefore not consider or recommend an internal audit charter for board approval. A Chief Audit Executive was not appointed to lead this function.

6. EXPERTISE, RESOURCES AND EXPERIENCE OF THE FINANCIAL FUNCTION

As required by the JSE Listing Requirements 3.84(h), the Audit Committee has satisfied itself that the financial director has appropriate expertise and experience.

The Audit Committee is assured that the finance function has the appropriate resources to perform its functions effectively and efficiently.



7. RISK MANAGEMENT PROCESS

The Board has assigned the implementation of a risk management process to the Audit Committee in the absence of a Risk Committee. During the year, the Audit Committee has compiled a risk matrix and addressing these risks has been delegated to management. The Audit Committee will report to the Board on the matters in due course:

- ▶ Key risks;
- ▶ Effectiveness of risk management process and risk responses;
- ▶ Significant risk response failings or weaknesses and its impact on the group;
- ▶ Corrective action taken;
- ▶ Integration of the risk management process into the group;
- ▶ Unexpected risks that the Board took during the reporting period; and
- ▶ Material losses and its causes and interventions to prevent material losses in the future.

The Audit Committee is satisfied that there is an ongoing process for identifying, evaluating and managing the significant risks and that effective controls are in place to mitigate identified risks.

8. FINANCIAL STATEMENTS

Management has reviewed the financial statements with the Audit Committee, and the committee has, in turn, reviewed them without management or external auditors being present. The quality of the accounting policies are discussed with the external auditors. The Audit Committee considers the financial statements of TeleMasters Holdings Limited to be a fair presentation of its financial position on 30 September 2010 and of the results of the operations, changes in equity and cash flows for the period then ended, in accordance with IFRS and the Companies Act.

9. INTERNAL FINANCIAL CONTROL ENVIRONMENT

The Audit Committee places considerable importance on maintaining a strong control environment. This includes the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

No material weaknesses in internal control were reported during the year by management or external audit. The Audit Committee is of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements and has recommended this integrated report to the Board for approval.

VI Beck
Chairman

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required by the Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with IFRS and in the manner required by the Companies Act. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with IFRS and in the manner required by the Companies Act and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. Those standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring that the group's business is conducted in a manner that in all reasonable circumstance is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group's cash flow forecast for the year to 30 September 2011 and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the Board is primarily responsible for the group's financial affairs, it is supported by the group's external auditors.

The external auditors are responsible for independently reviewing and reporting on the group's financial statements. The financial statements have been examined by the group's external auditors and their report is presented on page 24.

The financial statements set out on pages 25 to 66, which have been prepared on the going concern basis, were approved by the Board on the date stated below and were signed on its behalf by:

10 February 2011



MB Pretorius



BR Topham

INDEPENDENT AUDITORS' REPORT



To the Shareholders of TeleMasters Holdings Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual consolidated financial statements of TeleMasters Holdings Limited group, which comprise the consolidated statement of financial position as at 30 September 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, and the Directors' Report as set out on pages 25 to 66.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The group's directors are responsible for the preparation and fair representation of these consolidated financial statements in accordance with IFRS, and the AC500 Standards issued by the Accounting Practices Board and its successor and in the manner required by the Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the annual consolidated financial statements fairly present, in all material respects, the financial position of the group as at 30 September 2010 and the results of its financial performance and cash flows for the year then ended in accordance with IFRS and in the manner required by the Companies Act.

BDO South Africa Inc.

BDO SOUTH AFRICA INCORPORATED

Registered Auditor Block C, Riverwalk Office Park
41 Matroosberg Avenue
Ashlea Gardens, Pretoria

Per: B Bosman - Partner
10 February 2011

The directors have pleasure in presenting their report on the activities of the group for the year ended 30 September 2010.

1. REVIEW OF ACTIVITIES

Main business and operations

TeleMasters is a specialist tele-management and business communication strategy player operating exclusively in the South African Corporate market. The group will not commit funds to building infrastructure in competition to its current and future suppliers but will take on a senior role in providing current and future clients access to the most efficient and effective connectivity technologies. This is consistent with that of the prior year.

General overview

The operating results and state of affairs of the group are fully set out in the attached consolidated financial statements and do not, in our opinion, require any further comment other than to note the following:

The net profit of the group is R7 814 357 (2009: R14 403 430), after taxation expense of R4 726 509 (2009: R7 116 860) and reflects an earnings per share of 18.61 cents (2009: 34.29 cents). Headline earnings per share is 19.36 cents (2009: 36.56 cents).

The decrease in earnings is mostly contributed to the regulatory changes in the interconnect rates that were promulgated during the period. As a result, Connection Incentive Bonuses decreased by R10.5 million (65%) from the prior year.

Other factors that contributed to the drop in earnings are as follows:

- ▶ Equipment and motor vehicles were disposed of during the period, resulting in a loss of R318 187;
- ▶ Depreciation increased by R2.9 million due to the majority of the assets being in the latter part of their useful lives as well as the current year additions of R3.4 million;
- ▶ An impairment test was performed on the client base and calculations indicated that the intangible asset is not impaired. Therefore, no impairment was recognised during the current financial year;
- ▶ Directors' remuneration increased by 19% (R524 412) due to the addition of a non-executive director and a full-time CFO;
- ▶ Since the beginning of the year, the group rented additional office space. This led to an increase in the operating lease cost of R231 670;
- ▶ Employee costs increased by 16.4% due to individual salary increases and a policy to pay full medical aid contribution for all staff with service in excess of five years;
- ▶ A total amount of R1 310 892 (0.55% of Revenue) was written off and/or provided for bad debts;
- ▶ The acquisition of the subsidiary resulted in goodwill of R2 686 779. An impairment test was performed on the goodwill and calculations indicated that it is not impaired. Therefore, no impairment was recognised;
- ▶ Total finance cost is linked to the lower prime lending rate and decreased as the asset base under instalment sale agreements matured;
- ▶ Investment income is linked to the lower prime lending rate and fluctuated according to the amendments reported by the Regulator.

Despite the challenges facing the industry, the group has managed to achieve a Return on Equity ("ROE") of 26% and a Return on Assets ("ROA") of 12.05%. This shows that the group remains profitable and is managed successfully by the Board and all managers and staff despite the challenging economic climate.

The NAV per share increased to 71.59 cents from 66.98 cents. The NTAV per share was 58.42 cents (58.63 cents) after the total dividends and capital distributions to shareholders of 9 cents and 5 cents respectively per share.

The group has increased its net cash position substantially notwithstanding pressure on margins and expenses. It remains cash positive with a very good liquidity position. The group currently has 47 employees (2009: 41).

2. NON-CURRENT ASSETS

No changes were made in the nature of the group's plant and equipment or in the policy regarding their use during the year under review. All changes to the composition of the group's plant and equipment are set out fully in the attached financial statements.

3. SHARE CAPITAL

The Company's authorised and issued share capital as at 30 September 2010 is set out in note 8 of the financial statements. As at 30 September 2010, there were 42 000 000 issued ordinary shares and 458 000 000 unissued ordinary shares. The unissued ordinary shares are under the control of the directors subject to the provisions of the Companies Act and the JSE Listings Requirements.

No changes to the share capital occurred during the financial year other than the capital distribution from share premium of 5 cents per share to shareholders in terms of a Special Resolution passed at the last annual general meeting.

4. ACQUISITION OF SUBSIDIARY

With effect from 1 March 2010, the Company acquired 100% of the voting equity shares and claims in the subsidiary, Skycall Networks (Pty) Ltd, for R1.8 million. The purchase consideration was paid in cash.

Fair value of assets and liabilities	At acquisition R
<i>Non-current assets</i>	
Intangible assets	300 000
Deferred tax	3 785 944
<i>Current liabilities</i>	
Trade and other payables	(4 972 723)
Total net liabilities	(886 779)
Consideration paid	
Equity	-
Cash	1 800 000
Goodwill	2 686 779

A loss of R83 575 since date of acquisition has been included in the group profit for the period.

Had the acquisition occurred at the beginning of the financial period, the group's revenue would have been R237 462 954 and the profit before tax would have been R7 480 259.

The subsidiary's indebtedness to the holding company, TeleMasters Holdings Ltd, amounted to R10 265 296 at year end.

The subsidiary's country of incorporation is South Africa and the nature of its business is the provision of telecommunications services in general.

The subsidiary's financial year end is currently February, and subsequently it was changed to September to agree with the Company's financial year end.

5. DIVIDENDS AND DISTRIBUTIONS

The following cash dividends and capital distributions were declared during the year:

- ▶ First quarter cash dividend of 4 cents per share paid to all shareholders recorded in the Company's share register at the close of business on Friday, 15 January 2010;
- ▶ Second quarter cash dividend of 4 cents per share paid to all shareholders recorded in the Company's share register at the close of business on Friday, 23 April 2010;
- ▶ Third quarter capital distribution from share premium of 2 cents per share paid to all shareholders recorded in the Company's share register at the close of business on Friday, 23 July 2010;
- ▶ Fourth quarter capital distribution from share premium of 3 cents per share plus a cash dividend of 1 cent per share paid to all shareholders recorded in the Company's share register at the close of business on Friday, 22 October 2010.

The Board will continue with its policy of declaring quarterly dividends.

During the comparative period ended 30 September 2009, the Company declared two quarterly cash dividends of 4 cents each and made two capital distributions of 4 cents each during the second and third quarters.

6. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to the reporting date, it came to the attention of the directors that a claim could possibly be instituted against the subsidiary, Skycall Networks (Pty) Ltd, by Telkom SA Ltd. The directors launched an investigation into the claim and have received statements from Telkom SA Ltd to the value of R5 430 017. These claims relate to the period prior to May 2008 and therefore the "at acquisition" value of the subsidiary was adjusted to give effect to this possible claim.

In addition, shareholders are reminded of the potential delisting of the Company as announced on 2 December 2010.

The directors are unaware of any other significant events that have occurred between the end of the financial year and the date of this report that may materially affect the results of the group for the period under review or its financial position as at 30 September 2010. The directors would, however, like to bring attention to the following:

Acquisitions of plant and equipment

During the normal course of business operations, the group acquired additional plant and equipment details of which are set out in note 2 of the financial statements.

Dividends declared

On 24 December 2010, the Board declared an interim cash dividend of 4 cents per share which was paid to shareholders on 14 January 2011 (STC: R157 524).

7. GOING CONCERN

The annual financial statements have 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.



The group's ability to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations of the group.

8. LITIGATION

There are currently no legal or arbitration proceedings against the group (including any proceedings which are pending or threatened) of which the group is aware which may have, or have had in the 12 months preceding the date of this report, a material effect on the position of the group, other than the matter disclosed under paragraph 6 above.

9. SPECIAL RESOLUTIONS

At the Company's annual general meeting held on 1 April 2010, the following special resolutions were passed:

- ▶ The directors were authorised to repurchase ordinary shares in the issued share capital of the Company. As at the date of the report no repurchase in terms of the special resolution had been made.
- ▶ The directors were authorised to distribute on a pro-rata basis, to all shareholders of the Company, any share capital and reserves. An amount of 8 cents per share was distributed from share premium during the year.

10. MAJOR SHAREHOLDERS

Details of the major shareholders are provided in the unaudited Shareholder Analysis on page 68 of the Annual Report.

11. DIRECTORS' INTERESTS IN SHARE CAPITAL

The directors' interests in the Company's share capital are fully disclosed under paragraph 5 of the Corporate Governance Report.

12. COMPANY SECRETARY

The Company Secretary remained unchanged during the year under review. See paragraph 6 of the Corporate Governance Report.

13. COMPOSITION OF BOARD AND BOARD COMMITTEES

The directors of the Company, as well as the classification of each director, are fully disclosed under paragraph 1 of the Corporate Governance Report.

The composition of the Board Committees, as well as the attendance of directors at the committee meetings, was fully disclosed under paragraph 4 of the Corporate Governance Report.

14. AUDITORS

BDO South Africa Incorporated, with Mr Berton Bosman as the designated audit partner, acted as the group's auditors for the year ended 30 September 2010 and will continue in office in accordance with Section 270(2) of the Companies Act, as amended. The independence and remuneration of the auditors were confirmed by the group's Audit Committee.

15. REGISTERED ADDRESS

The Company is incorporated in the Republic of South Africa as a public company and has its registered and domiciled address at:

90 Regency Drive, Route 21 Office Park, Irene, 0157



16. POWER TO AMEND THE ANNUAL FINANCIAL STATEMENTS

The entity's owners or others do not have the power to amend the annual consolidated financial statements after issue.

17. BORROWING LIMITATIONS

In terms of the Articles of Association of the Company, the directors may exercise all the powers of the Company to borrow money as they consider appropriate.

18. SEPARATE FINANCIAL STATEMENTS

The financial results, position and cash flows of the holding company are not presented separately in these annual financial statements. These financial statements include only the consolidated results, position and cash flows of the group. The holding company's financial statements are available separately.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30/09/10 R	30/09/09 R
Assets			
<i>Non-current assets</i>			
Plant and equipment	2	16 600 971	17 977 899
Intangible assets	3	2 842 631	3 509 518
Goodwill	4	2 686 779	-
Deferred tax assets	5	3 860 944	394 675
Total non-current assets		25 991 325	21 882 092
<i>Current assets</i>			
Trade and other receivables	6	18 726 561	23 040 606
Cash and cash equivalents	7	20 144 204	16 210 438
Total current assets		38 870 765	39 251 044
Total assets		64 862 090	61 133 136
Equity and Liabilities			
<i>Capital and reserves</i>			
Issued capital	8	48 059	2 148 059
Retained earnings		30 019 324	25 984 966
Total equity		30 067 383	28 133 025
<i>Non-current liabilities</i>			
Finance lease liabilities	9	2 096 728	3 984 781
Total non-current liabilities		2 096 728	3 984 781
<i>Current liabilities</i>			
Trade and other payables	10	28 155 260	19 405 264
Finance lease liabilities	9	2 426 455	2 002 913
Current tax liabilities		2 044 085	7 562 395
Bank overdraft	7	72 179	44 758
Total current liabilities		32 697 979	29 015 330
Total liabilities		34 794 707	33 000 111
Total equity and liabilities		64 862 090	61 133 136

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 30/09/10	Year ended 30/09/09
		R	R
Revenue	11	236 899 745	231 222 775
Cost of sales		(200 721 228)	(191 287 718)
Gross profit		36 178 517	39 935 057
Investment revenue	12	880 159	1 103 108
Other gains and losses	13	(318 187)	(47 046)
Auditors' remuneration		(325 020)	(293 000)
Depreciation	2	(3 973 114)	(1 064 644)
Amortisation	3	(996 991)	(1 041 138)
Impairment of intangible assets	3	-	(905 829)
Directors' emoluments	14	(3 289 417)	(2 765 005)
Operating lease rentals		(738 313)	(506 643)
Employee costs		(6 989 196)	(6 004 472)
Bad debt written off		(1 310 892)	(942 821)
Professional fees		(1 241 451)	(1 068 742)
Other expenses		(4 561 532)	(3 751 272)
Finance cost	15	(773 697)	(1 127 263)
Profit before tax		12 540 866	21 520 290
Income tax expense	17	(4 726 509)	(7 116 860)
Profit for the year		7 814 357	14 403 430
Total comprehensive income for the period		7 814 357	14 403 430
Profit and total comprehensive income attributable to the shareholders of the company		7 814 357	14 403 430
Earnings per share			
Basic earnings (cents per share)	18	18.61	34.29
Diluted earnings (cents per share)	18	18.61	34.29

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Total share capital	Retained earnings	Total equity
	R	R	R	R	R
Balance at 1 October 2008	4 200	5 503 859	5 508 059	14 941 536	20 449 595
Comprehensive income					
- Profit	-	-	-	14 403 430	14 403 430
- Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	14 403 430	14 403 430
Transactions with owners					
- Distribution of share premium	-	(3 360 000)	(3 360 000)	-	(3 360 000)
- Dividends	-	-	-	(3 360 000)	(3 360 000)
Total transactions with owners	-	(3 360 000)	(3 360 000)	(3 360 000)	(6 720 000)
Balance at 30 September 2009	4 200	2 143 859	2 148 059	25 984 966	28 133 025
Comprehensive income					
- Profit	-	-	-	7 814 357	7 814 357
- Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	7 814 357	7 814 357
Transactions with owners					
- Distribution of share premium	-	(2 100 000)	(2 100 000)	-	(2 100 000)
- Dividends	-	-	-	(3 780 000)	(3 780 000)
Total transactions with owners	-	(2 100 000)	(2 100 000)	(3 780 000)	(5 880 000)
Balance at 30 September 2010	4 200	43 859	48 059	30 019 324	30 067 383

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	30/09/10	30/09/09
		R	R
<i>Cash flows from operating activities</i>			
Profit for the year		7 814 357	14 403 430
Income tax expense	17	4 726 509	7 116 860
Interest received	12	(565 360)	(687 563)
Dividends received	12	(314 799)	(415 545)
Loss on disposal of plant and equipment		318 187	47 046
Depreciation	2	3 973 114	1 064 644
Adjustment to plant and equipment	2	102 442	-
Amortisation	3	996 991	1 041 138
Adjustment to intangible assets	3	2 870	-
Impairment of customer base	3	-	905 829
Finance cost	15	773 697	1 127 263
		<u>17 822 268</u>	<u>24 603 102</u>
Movements in working capital:			
Decrease/(Increase) in trade and other receivables		4 314 045	(8 127 069)
Increase in trade and other payables		4 050 518	2 643 482
Cash generated by operations		<u>26 186 831</u>	<u>19 119 515</u>
Finance cost	15	(773 697)	(1 127 263)
Income taxes paid		(9 925 144)	(5 931 738)
Net cash generated from operating activities		<u>15 487 990</u>	<u>12 060 514</u>
<i>Cash flows from investing activities</i>			
Interest received	12	565 360	687 563
Dividends received	12	314 799	415 545
Acquisition of subsidiary	20	(1 800 000)	-
Additions to plant and equipment	2	(3 374 881)	(7 947 610)
Proceeds from disposal of plant and equipment		358 066	739 200
Additions to intangible assets	3	(27 234)	(2 926 988)
Net cash used in investing activities		<u>(3 963 890)</u>	<u>(9 032 290)</u>
<i>Cash flows from financing activities</i>			
Capital reduction of share premium		(2 100 000)	(3 360 000)
Dividends paid		(3 743 538)	(3 360 000)
Proceeds from borrowings		1 214 451	3 976 366
Repayment of borrowings		(2 988 667)	(1 119 665)
Net cash used in financing activities		<u>(7 617 754)</u>	<u>(3 863 299)</u>
Total cash movement for the period		3 906 346	(835 075)
Cash and cash equivalents at the beginning of year		16 165 680	17 000 755
Cash and cash equivalents at the end of year	7	<u>20 072 026</u>	<u>16 165 680</u>



1. STATEMENT OF COMPLIANCE

The financial statements have been prepared in compliance with IFRS, the Companies Act and the JSE Listings Requirements.

2. BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis, except for the measurement of certain non-current assets and financial instruments at fair value or amortised cost. The accounting policies applied are consistent with the prior year, except for the changes as set out below. All new interpretations and standards were assessed and adopted with no material impact, except for IAS 1: Presentation of Financial Statements that required some modified disclosures and terminology.

3. BASIS OF CONSOLIDATION

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

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

Where necessary, adjustments are made to the subsidiary's financial statements to bring its accounting policies into line with those used by the holding company. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of the consolidated subsidiary are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of its interest in the subsidiary's equity are allocated against the non-controlling interest.

4. STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE NOR ADOPTED

In the current year, the group has adopted all of the new and revised standards and interpretations that are relevant to its operations. The adoption of these new and revised standards and interpretations has resulted in changes to the group's accounting policies in the following areas that have affected the amounts and/or disclosures reported for the current or prior years:

► *IAS 1 – Presentation of Financial Statements*

This amendment deals with amendments to the structure of financial statements and current/non-current classification of derivatives. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009. A further amendment has been made to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. This further amendment is effective for annual periods beginning on or after 1 January 2010 with earlier application permitted. A more recent amendment provides clarification on the statement of changes in equity. This amendment is effective for annual periods beginning on or after 1 January 2011. The group does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.

▶ *IFRS 1 – First-time Adoption of International Financial Reporting Standards*

This amendment deals with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRS for the first time. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009. A further amendment was made relating to oil and gas assets and determining whether an arrangement contains a lease. This amendment to the standard is effective for annual periods beginning on or after 1 January 2010. A further amendment has been made that relieves first time adopters of IFRS from providing the additional disclosures introduced through the amendment of IFRS 7 – Financial Instruments: Disclosures in March 2009. This amendment to the standard is effective for annual periods beginning on or after 1 July 2010.

More recently, amendments were made to further clarify that changes in accounting policies in the year of adoption fall outside the scope of IAS 8, the use of revaluation carried out after the date of transition as a basis for deemed cost is now permitted and the use of carrying amount under previous GAAP as deemed cost for operations subject to rate regulation is also now permitted. These more recent amendments are effective for annual periods beginning on or after 1 January 2011. The group does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.

▶ *IFRS 2 – Share-based Payments*

This amendment deals with vesting conditions and cancellations. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009. A further amendment confirms that in addition to business combinations as defined in IFRS 3 – Business Combinations (2008), contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2. This amendment is effective for annual periods beginning on or after 1 July 2009. A further amendment was made relating to the accounting for group cash-settled share based payment transactions and provides more guidance on the definition of the term “group”. This amendment is effective for annual periods beginning on or after 1 January 2010. The group does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.

▶ *IFRS 3 – Business Combinations*

This amendment deals with the accounting for business combinations. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009. Further amendments have been made that deal with the transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS 3, provide clarity on the measurement of non controlling interest and provides additional guidance on un-replaced and voluntary replaced share based payment awards. These amendments are effective for annual periods beginning on or after 1 January 2011. The group does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.

▶ *IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations*

This amendment deals with plans to sell the controlling interest in a subsidiary. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009. A further amendment has been made to clarify that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. This further amendment to the standard is effective for annual periods beginning on or after 1 January 2010 and is to be applied prospectively with earlier application permitted. A further amendment was made resulting from IFRIC 17 for assets held for distribution to owners. This amendment is effective for annual periods beginning on or after 1 July 2009. The group does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.



▶ *IFRS 7 – Financial Instruments: Disclosures*

This amendment deals with presentation of finance costs. A further amendment has been made that deals with enhanced disclosures about fair value measurements and liquidity risk as well as dealing with improving disclosures about financial instruments. These amendments to the standard are effective for annual periods beginning on or after 1 January 2009. Further amendments were made that clarify the intended interaction between qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments and removed disclosure items which were seen to be superfluous or misleading. These amendments are effective for annual periods beginning on or after 1 January 2011. The group does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.

▶ *IFRS 9 – Financial Instruments*

This standard forms part of the first phase of the three phase project to replace IAS 39 – Financial Instruments: Recognition and Measurement. This standard is effective for annual periods beginning on or after 1 January 2013. The group does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the consolidated financial statements.

▶ *IAS 17 – Leases*

This amendment resulted in the deletion of specific guidance regarding the classification of leases of land so as to eliminate inconsistency with the general guidance on lease classification. As a consequence, the classification of land as finance or operating lease should be established by the application of the general principles of IAS 17. This amendment is effective for annual periods beginning on or after 1 January 2010 with earlier application permitted. The group does not intend to adopt this amendment early. Management is of the opinion that the adoption of this amendment will not have a significant impact on the consolidated financial statements.

▶ *IAS 21 – The Effects of Changes in Foreign Exchange Rates*

This is a consequential amendment that arose from changes to IFRS 3 – Business Combinations. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009. A further amendment arose as a consequence from amendments to IAS 27 which provides clarity on the transitional rules in respect of the disposal or partial disposal of an interest in a foreign operation. This further amendment is effective for annual periods beginning on or after 1 July 2010. The group does not intend to adopt this amendment early. Management is of the opinion that the adoption of this amendment will not have a significant impact on the consolidated financial statements.

▶ *IAS 24 – Related Party Disclosures*

This amendment simplifies the disclosure requirements for entities that are controlled jointly. This amendment deals with the simplification of the disclosure requirements for government related entities and the clarification of the definition of a related party. This amendment to the standard is effective for annual periods beginning on or after 1 January 2011. The group does not intend to adopt this amendment early. Management is of the opinion that the adoption of this amendment will not have a significant impact on the consolidated financial statements.

▶ *IAS 27 – Consolidated and Separate Financial Statements*

This amendment deals with the measurement of the cost of investments when adopting IFRS for the first time, consequential amendments from changes to IFRS 3 – Business Combinations and measurement of a subsidiary held for sale in the separate financial statements. The first amendment to the standard is effective for annual periods beginning on or after 1 January 2009. The latter two amendments are effective for annual periods beginning on or after 1 July 2009. A more recent amendment has been made that deals with the transition requirements for previous amendments arising from changes to IAS 27. This amendment is effective for annual periods beginning on or after 1 July 2010.

The group does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.

▶ *IAS 32 – Financial Instruments: Presentation*

This amendment deals with certain financial instruments that will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009. A further amendment deals with accounting for rights issues (including rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. This amendment to the standard is effective for annual periods beginning on or after 1 February 2010. The group does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.

▶ *IAS 34 – Interim Financial Reporting*

This amendment deals with earnings per share disclosures in interim financial reports. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009. A more recent amendment has been made that deals with the clarification of disclosure requirements around significant events and transactions including financial instruments. This amendment is effective for annual periods beginning on or after 1 January 2011. The group does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.

▶ *IAS 36 – Impairment of Assets*

This amendment deals with disclosure of estimates used to determine the recoverable amount. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009. A further amendment was made to clarify that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8 – Operating Segments (i.e. before the aggregation of segments with similar economic characteristics permitted by IFRS 8.12). This amendment is effective for annual periods beginning on or after 1 January 2010. The group does not intend to adopt this amendment early. Management is of the opinion that the adoption of this amendment will not have a significant impact on the consolidated financial statements.

5. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgements are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

▶ *Deferred tax*

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realize the net deferred tax assets recorded at the year end date could be impacted. Deferred tax is provided for on a basis that is reflective of management's intention at year end relating to the expected manner of recovery of the carrying amount of the asset, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Trade receivables – The group determines at each reporting date whether an impairment loss should be recognised in respect of certain trade receivables. In determining whether an impairment loss should be recognised in the Consolidated Statement of Comprehensive Income, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from the financial asset.

Goodwill impairment – The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 7 for Goodwill. The recoverable amounts of the cash generating unit have been determined based on value in use calculations. These calculations require the use of estimates in relation to the projections of future cash flows, the projected growth rate, the terminal value of the business and the discount rate derived from the weighted average cost of capital specific to the group.

► *Trade receivables*

The group assesses its trade receivables for impairment at each balance sheet date. The impairment for trade receivables is assessed for impairment on an individual debtor basis, based on historical data and future factors. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the group makes judgements as to whether there is objective evidence indicating a measurable decrease in the estimated future cash flows from a financial asset. Where objective evidence of impairment exist, future cash flows expected to be collected are projected after taking into account market conditions and credit risk profile of the trade debtors. The present value of these cash flows, determined using an appropriate discount rate, is compared to the carrying amount of the trade receivable and, if lower, the trade receivables are impaired to the present value.

► *Plant and equipment*

Fixed assets are reviewed annually on an individual basis to determine their useful life and residual value. Useful life is determined taking into account technological advances impacting the industry. Residual value is determined with reference to current market prices.

Depreciation is provided on all plant and equipment to write down the cost, less residual value, by equal instalments over their useful lives as follows:

Item	Useful life
Furniture and fixtures	6 years
Motor vehicles	5 years
Office equipment	6 years
IT equipment	3 years
Routers and handsets	3 years

▶ *Intangible assets*

Intangible assets are reviewed annually on an individual basis to determine their useful life and residual value. Useful life is determined after taking into account the period of time from which the group will earn revenue from the intangible asset. 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. For all other intangible assets amortisation is provided on a straight line basis over their useful lives as follows:

Item	Useful life
Computer software	3 years
Customer base	6 years

▶ *Impairment of tangible and intangible assets*

The group assesses at each reporting date whether there is any indication that an asset may be impaired by applying internal and external impairment indicators. Determining whether tangible and intangible assets are impaired requires an estimation of the recoverable amount of the individual assets, or otherwise the recoverable amount of the cash-generating unit to which the asset belongs. In assessing value in use the group is required to estimate the future cash flows expected to arise from the individual asset or its cash generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of the customer base at the reporting date was R2 448 079 (2009: R3 309 551) after no impairment loss (2009: R905 829). Management used the fair value less cost to sell to determine the recoverable amount of the intangible asset that may have been impaired.

▶ *Goodwill impairment*

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 7 for Goodwill. The recoverable amounts of the cash generating unit have been determined based on value in use calculations. These calculations require the use of estimates in relation to the projections of future cash flows, the projected growth rate, the terminal value of the business and the discount rate derived from the weighted average cost of capital specific to the group

6. BUSINESS COMBINATIONS

Initial recognition and measurement

All business combinations are accounted for by applying the acquisition method. The cost of the business combination is the fair value at the date of exchange of the assets given, liabilities incurred or assumed and equity instruments issued by the group, in exchange for control in the acquiree. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised at the effective interest rate and the costs to issue equity are included in the cost of equity. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the acquisition date, irrespective of the extent of the non-controlling interest.

Contingent consideration is included in the cost of the business combination at the fair value determined at the date of acquisition. Subsequent changes to the assets, liabilities or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments.

The interest of the non-controlling shareholders may be measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis.



When business combinations are achieved in stages, the group's previously held interest in the acquired entity is remeasured to the fair value on the date the group attains control and the resulting gain or loss is recognised in profit or loss.

Where the previously held interest was classified as a held for sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

At acquisition date, the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill in accordance with the group's accounting policy for goodwill. The acquisition date is the date on which the group effectively obtains control of the acquiree.

The excess of the fair value of the net identifiable assets and contingent liabilities of the entity acquired over the cost of the acquisition results in a bargain purchase gain which is recognised immediately in profit or loss.

7. GOODWILL

Initial recognition and measurement

Goodwill arising on the acquisition of subsidiaries and joint ventures represents the excess of the business combination over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill acquired as an asset is initially measured at its cost.

Subsequent measurement

Goodwill is subsequently measured at cost less any accumulated impairment.

Derecognition

When goodwill forms part of a cash-generating unit that is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation in determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment

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

8. PLANT AND EQUIPMENT

Plant and equipment held for use in the production of income, or for administration purposes, are recognised as an asset when:

- ▶ It is probable that future economic benefits associated with the item will flow to the group; and
- ▶ The cost of the item can be measured reliably.



Plant and equipment are stated in the Consolidated Statement of Financial Position at their cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Costs include costs incurred initially to acquire or construct an item of plant and equipment and costs incurred subsequently to add to, replace part of, or service it if they are not day to day servicing costs. If a replacement cost is recognised in the carrying amount of an item of plant and equipment, the carrying amount of the replaced part is derecognised.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

Each part of an item of plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately if it has a useful life or depreciation method that differs from the remainder of the asset.

Assets held under finance leases are depreciated over the expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising from the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss when the item is derecognised.

9. INTANGIBLE ASSETS

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- ▶ It is technically feasible to complete the asset so that it will be available for use or sale;
- ▶ There is an intention to complete and use or sell it;
- ▶ There is an ability to use or sell it;
- ▶ It will generate probable future economic benefits;
- ▶ There are available technical, financial and other resources to complete the development and to use or sell the asset;
- ▶ The expenditure attributable to the asset during its development can be measured reliably.

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

Intangible assets other than goodwill are reported at cost less accumulated amortisation and accumulated impairment losses. The amortisation period, residual value and the amortisation method for intangible assets are reviewed every period-end.

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives, using the straight-line method. Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

10. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

At each reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.



A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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;
- ▶ Then, to the other assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit.

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

If the recoverable amount of any asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

11. FINANCIAL INSTRUMENTS

The group 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.

Financial assets and financial liabilities are recognised on the group's Consolidated Statement of Financial Position on the trade date, which is the date when the group becomes party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value, net of transaction costs.

▶ *Financial assets*

Financial assets are classified depending on the nature and purpose of the financial assets and are determined at the time of initial recognition.

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market and cash and cash equivalents are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.



For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets is reduced directly by the impairment loss with the exception of trade receivables. The carrying amount of trade receivables is reduced directly when the facts about the trade debtor indicate that liquidation has occurred or has been applied for thereby indicating uncollectibility, and the debt has not been previously impaired. In all other cases impairment is recognised through an allowance account. Amounts charged to the allowance account are written off against the trade receivables balance when the group becomes aware that a debt previously impaired, is no longer recoverable and would remain uncollectible.

Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For trade receivables the following objective evidence should be considered in determining when an impairment loss has been incurred:

- ▶ Significant financial difficulty of the debtor, e.g. whether the debtor has been liquidated or has closed down the business or if provisional liquidation has been sought against the debtor;
- ▶ A breach of contract such as a default or delinquency in interest or principal repayments, e.g. the number of days that the debt is in arrears;
- ▶ It is becoming probable that the debtor will enter bankruptcy or other financial re-organisation such as a communication from the debtor indicating an inability to pay with the agreed credit terms.

Trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables is based on the group's past experience of collecting payments, and includes an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk in change in value. Cash and cash equivalents are measured at amortised cost.

The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the asset and substantially all the risk and rewards of ownership of the asset to another entity.

▶ *Financial liabilities*

Financial liabilities are classified in accordance with the substance of the contractual agreement. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, are cancelled or expire.



▶ *Equity instruments issued by the group*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs. If the group re-acquires 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 group's own equity instruments.

12. TAXATION

▶ *Current tax assets and liabilities*

Current tax for the current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

▶ *Secondary tax on companies*

Secondary tax on companies (STC) is provided for at a rate of 10% on the amount by which the dividends declared by the group exceed dividends received. Deferred taxation on unutilized STC credits is recognised to the extent that STC payable on future dividend payments is likely to be available for setoff.

▶ *Deferred tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the Consolidated Statement of Financial Position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.



► *Tax expenses*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates applicable at the reporting date.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

13. LEASES AS LESSEE

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

Assets held under finance leases are initially recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as a finance lease liability.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability.

Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

14. 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, bonuses, and non-monetary benefits such as medical care), is recognised in the period in which the service is rendered and is 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.



15. PROVISIONS

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Consolidated Statement of Financial Position date, taking into account the risks and uncertainties surrounding 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.

Provisions are not recognised for future operating losses.

16. REVENUE RECOGNITION

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.

Revenue is recognised when all the following conditions are satisfied:

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

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

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

17. COST OF SALES

The related cost of providing airtime recognised as revenue in the current period is included in cost of sales.

18. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.



19. DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are declared, i.e. no longer at the discretion of the group but solely as approved by the group's Board.

20. RELATED PARTIES

Related parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the party in making financial and operational decisions. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning.

21. OPERATING SEGMENTS

Segment accounting policies are consistent with those adopted for the preparation of the financial statements. Segment information is determined on the same basis as the information used by the chief operating decision maker for the purposes of allocating resources to segments and assessing segments' performance. All intersegment transactions are eliminated.

22. EARNINGS PER SHARE

The group presents basic earnings per share ("EPS") for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Headline earnings per share ("HEPS") is calculated using the weighted average number of ordinary shares in issue during the period and is based on the earnings attributable to ordinary shareholders, after excluding those items as required by Circular 3/2009 issued by the South African Institute of Chartered Accountants ("SAICA").

23. OFFSETTING

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are offset and the net amount reported only when a legally enforceable right to set off the amounts exists and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORT

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specific criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker.

The group does not have different operating segments. The business is conducted in South Africa and is managed centrally and has no branches. The group is managed as one operating unit. Accordingly, there is no meaningful segmental information to report other than the following:

	Year ended 30/09/10	Year ended 30/09/09
	R	R
Revenue by nature		
Sale of airtime	225 923 904	211 417 665
Connection incentive bonuses	5 602 244	16 130 918
Other	5 373 597	3 674 192
Total	236 899 745	231 222 775

Major customers

Revenue from transactions with a single external customer amounting to 10% or more of the group's revenue are disclosed below:

Customer A	57 544 438	62 460 544
Other	179 355 307	168 762 231
Total	236 899 745	231 222 775

2. PLANT AND EQUIPMENT

	Furniture and fixtures	Motor vehicles	Office equipment	IT equipment	Routers and handsets	Total
	R	R	R	R	R	R
Cost	119 674	1 647 563	91 717	322 641	21 371 304	23 552 899
Accumulated depreciation	(33 264)	(418 926)	(11 743)	(159 909)	(4 951 158)	(5 575 000)
Net carrying amount 30 September 2009	86 410	1 228 637	79 974	162 732	16 420 146	17 977 899
Adjustments	1 211	18 880	-	17 899	(140 432)	(102 442)
Additions	28 227	380 714	14 165	106 701	2 845 074	3 374 881
Disposals	-	(187 251)	-	-	(489 002)	(676 253)
Depreciation	(19 316)	(271 036)	(13 515)	(86 421)	(3 582 826)	(3 973 114)
Cost	147 901	1 841 026	105 882	429 342	23 727 376	26 251 527
Accumulated depreciation	(51 369)	(671 082)	(25 258)	(228 431)	(8 674 416)	(9 650 556)
Net carrying amount 30 September 2010	96 532	1 169 944	80 624	200 911	15 052 960	16 600 971

NOTES TO THE FINANCIAL STATEMENTS



	Furniture and fixtures	Motor vehicles	Office equipment	IT equipment	Routers and handsets	Total
	R	R	R	R	R	R
Cost	96 210	1 711 023	60 527	251 147	14 688 168	16 807 075
Accumulated depreciation	(17 541)	(351 412)	(3 341)	(83 593)	(4 470 009)	(4 925 896)
Net carrying amount 30 September 2008	78 669	1 359 611	57 186	167 554	10 218 159	11 881 179
Additions	23 464	613 285	31 190	71 495	7 208 176	7 947 610
Disposals	-	(427 746)	-	-	(358 500)	(786 246)
Depreciation	(15 723)	(316 513)	(8 402)	(76 317)	(647 689)	(1 064 644)
Cost	119 674	1 896 562	91 717	322 642	21 537 844	23 968 439
Accumulated depreciation	(33 264)	(667 925)	(11 743)	(159 910)	(5 117 698)	(5 990 540)
Net carrying amount 30 September 2009	86 410	1 228 637	79 974	162 732	16 420 146	17 977 899

Carrying value of plant and equipment pledged as security

	30/09/10	30/09/09
	R	R
Motor vehicles	1 123 924	1 172 977
Routers and handsets	3 182 239	3 869 845
Total	4 306 163	5 042 822

These items are pledged as security in terms of finance lease liabilities as set out in note 9.

Change in estimate

The residual value of routers and handsets was estimated in 2008 to be R300 each (Total of R4 649 990). In the prior period, management revised their estimate to R750 per router (Total R9 777 130). The effect of this revision has decreased the depreciation charge for the prior period by R3 664 882.

Impairments

During the period under review, the group carried out a review of the recoverable amounts of its plant and equipment. The recoverable amount has been determined on the basis of the assets' fair value less cost to sell. Fair value less cost to sell was determined based on a market related price in an arm's length transaction between knowledgeable, willing parties. No impairment was recognised.

3. INTANGIBLE ASSETS

Intangible assets include customer base contracts and ECN and ESCN licences acquired from external parties. The customer base contracts are for the provision of least-cost routing services on terms similar to those provided by the group. They have expected remaining amortisation periods of five to six years.

NOTES TO THE FINANCIAL STATEMENTS

	Finite life		Infinite life	Total
	Customer base	Computer software	Licences	
	R	R	R	
Cost	2 270 500	627 493	-	2 897 993
Accumulated amortisation	(127 840)	(240 656)	-	(368 496)
Net carrying amount 30 September 2008	2 142 660	386 837	-	2 529 497
Additions	2 900 000	26 988	-	2 926 988
Amortisation	(827 280)	(213 858)	-	(1 041 138)
Impairments	(905 829)	-	-	(905 829)
Cost	5 170 500	654 481	-	5 824 981
Accumulated amortisation	(1 860 949)	(454 514)	-	(2 315 463)
Net carrying amount 30 September 2009	3 309 551	199 967	-	3 509 518
Additions	-	27 234	-	27 234
Additions through business combinations	-	-	300 000	300 000
Amortisation	(861 750)	(135 241)	-	(996 991)
Adjustments	278	2 592	-	2 870
Cost	5 170 500	681 715	300 000	6 152 215
Accumulated amortisation & impairments	(2 722 421)	(587 163)	-	(3 309 584)
Net carrying amount 30 September 2010	2 448 079	94 552	300 000	2 842 631

Impairments

During the period under review, the group carried out a review of the recoverable amounts of its intangible assets. The recoverable amount was determined on the basis of the assets' fair value less cost to sell. Fair value less cost to sell was determined based on the subscription income over the remaining contract period. No impairment loss was recognised during the current year.

During the prior year, the group had to write off a large debt of a client that was liquidated. This client formed part of the customer base that was acquired during 2007. An impairment of R905 829 was processed through profit or loss in the prior year.

NOTES TO THE FINANCIAL STATEMENTS

4. GOODWILL

The goodwill arose on 1 March 2010 with the acquisition of the subsidiary, Skycall Networks (Pty) Ltd.

	<u>Goodwill</u>	<u>Total</u>
	R	R
Cost	-	-
Accumulated impairment charges	-	-
Net carrying amount 30 September 2009	-	-
Additions through business combination	2 686 779	2 686 779
Impairments	-	-
Cost	2 686 779	2 686 779
Accumulated impairment charges	-	-
Net carrying amount 30 September 2010	2 686 779	2 686 779

During the financial year, the group assessed the recoverable amount of goodwill, and determined that goodwill allocated to Skycall Networks (Pty) Ltd was not impaired. No impairment was recognised.

A discounted cash flow method was used to determine the present value of the future cash flows from Skycall Networks (Pty) Ltd. A discount rate of 9.5%, equal to the group's current lending rate, was used in discounting the projected cash flows over a 5-year period. The net present value of the discounted cash flows was R2 863 547.

The key assumptions of the cash flow forecast were based on:

- Current number of ports in use with a 24% increase yearly
- Average number of minutes, charges per minutes and fixed monthly charges are kept constant, no increase applied
- Estimated cost of sales increases in line with the number of port increases

The above approach was based on current exposure.

5. DEFERRED TAX

	<u>30/09/10</u>	<u>30/09/09</u>
	R	R
Assessed losses		
Licences acquired	3 888 519	-
Billing cut off	(84 000)	-
Accrual for leave pay	(115 415)	(35 384)
Allowance for doubtful debts	82 599	69 648
	89 241	360 411
Total	3 860 944	394 675

NOTES TO THE FINANCIAL STATEMENTS



Reconciliation of deferred tax	30/09/10	30/09/09
	R	R
At the beginning of the year	394 675	248 440
Originating temporary difference on Assessed losses	3 888 519	-
Originating temporary difference on Licences acquired	(84 000)	-
Originating temporary difference on Billing cut off	(80 031)	28 450
Originating temporary difference on Accrual for leave pay	12 951	25 723
Reversing temporary difference on the Allowance for doubtful debt	(271 170)	92 062
Total	3 860 944	394 675

Tax consequence of undistributed reserves

STC on remaining reserves	3 001 932	2 362 270
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6. TRADE AND OTHER RECEIVABLES

Trade receivables	18 687 204	23 199 586
Allowance for doubtful debt	(424 958)	(1 029 747)
Prepayments	396 021	847 884
Other receivables	68 294	22 883
Total	18 726 561	23 040 606

The average credit period for trade receivables is 25.8 (2009: 36.6) days. No interest is charged on trade receivables.

7. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts.

Bank balances	20 144 204	16 210 438
Bank overdraft	(72 179)	(44 758)
Total	20 072 025	16 165 680

Current assets	20 144 204	16 210 438
Current liabilities	(72 179)	(44 758)
Total	20 072 025	16 165 680

NOTES TO THE FINANCIAL STATEMENTS

8. SHARE CAPITAL	30/09/10	30/09/09
	R	R
Authorised		
500 000 000 ordinary shares with a par value of R0.0001. Each share carries one vote per share and carries the right to dividends.	50 000	50 000
Issued		
Share capital	4 200	4 200
Share premium	5 966 262	5 966 262
Share issue costs written off against Share premium	(462 403)	(462 403)
Capital distribution of Share premium	(5 460 000)	(3 360 000)
Total	48 059	2 148 059
Reconciliation of the number of shares issued		
At the beginning of the year	42 000 000	42 000 000
Issue of shares	-	-
At the end of the year	42 000 000	42 000 000

458 000 000 unissued ordinary shares are under the control of the directors subject to the provisions of the Companies Act and the JSE Listings Requirements. Shares in issue are fully paid up.

9. FINANCE LEASE LIABILITIES	Current		Non-current	
	30/09/10	30/09/09	30/09/10	30/09/09
	R	R	R	R
Minimum lease payments due				
Within one year	2 712 931	2 454 196	-	-
In second to fifth year	-	-	2 185 005	4 280 070
Total	2 712 931	2 454 196	2 185 005	4 280 070
Less: Future finance charges	(286 476)	(451 283)	(88 277)	(295 289)
Present value of minimum lease payments	2 426 455	2 002 913	2 096 728	3 984 781

It is company policy to acquire motor vehicles and certain larger telephony routers under finance lease liabilities. The average finance lease agreement term is 3 – 5 years and the average effective borrowing rate is 9% to 9.5% (2009: 8.5% to 10%). Interest rates are linked to prime at the contract date. All finance lease liabilities have fixed repayments and no arrangements have been entered into for contingent rent. The Company's obligations under finance lease liabilities are secured by the lessor's charge over the financed assets. Refer to note 2 above.

NOTES TO THE FINANCIAL STATEMENTS

10. TRADE AND OTHER PAYABLES	30/09/10	30/09/09
	R	R
Trade payables	22 809 071	16 048 091
Deposits received	3 106 817	443 500
Shareholders for dividends	1 717 055	1 680 593
Accrual for leave pay	294 996	248 742
Value Added Tax payable	128 794	318 687
Accrual and other payables	98 527	665 650
Total	28 155 260	19 405 263

The average credit period for trade payables is 38.7 (2009: 28.7) days.

11. REVENUE	Year ended 30/09/10	Year ended 30/09/09
	R	R
Sale of airtime	225 923 904	211 417 665
Connection incentive bonuses	5 602 244	16 130 918
Other	5 373 597	3 674 192
Total	236 899 745	231 222 775

12. INVESTMENT REVENUE		
Interest received on loans and receivables measured at amortised cost		
Banks – Local	565 360	687 563
Dividend revenue		
Financial institutions – Local	314 799	415 545
Total	880 159	1 103 108

13. OTHER GAINS AND LOSSES		
Loss on the disposal of plant and equipment	318 187	47 046
Total	318 187	47 046

NOTES TO THE FINANCIAL STATEMENTS

14. DIRECTORS' EMOLUMENTS

Year ended 30/09/10

	Basic Salary	Company contribution and benefits	Total
	R	R	R
<i>For service as directors</i>			
Executive			
MB Pretorius	1 294 200	77 027	1 371 227
IG Bekker	456 750	93 149	549 899
N Owen	513 295	6 939	520 234
	<u>2 264 245</u>	<u>177 115</u>	<u>2 441 360</u>
Non-executive			
DS van der Merwe	305 000	3 866	308 866
BR Topham	220 000	3 459	223 459
J Voigt	155 000	2 866	157 866
VI Beck	155 000	2 866	157 866
	<u>835 000</u>	<u>13 057</u>	<u>848 057</u>
Total	<u>3 099 245</u>	<u>190 172</u>	<u>3 289 417</u>

Year ended 30/09/09

For service as directors

Executive

MB Pretorius	1 343 160	193 868	1 537 028
BR Topham	363 511	-	363 511
IG Bekker	493 296	112 189	605 485
	<u>2 199 967</u>	<u>306 057</u>	<u>2 506 024</u>

Non-executive

ME Moji	60 481	-	60 481
J Voigt	122 000	-	122 000
VI Beck	76 500	-	76 500
	<u>258 981</u>	<u>-</u>	<u>258 981</u>
Total	<u>2 458 948</u>	<u>306 057</u>	<u>2 765 005</u>

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCE COSTS

	Year ended 30/09/10	Year ended 30/09/09
	R	R
Interest paid on other financial liabilities measured at amortised cost		
Bank	5 906	5 696
Trade payables	64 998	-
Finance lease liabilities	481 719	670 105
	552 623	675 801
South African Revenue Service	221 074	451 462
Total	773 697	1 127 263

16. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

Impairment of Customer Base	-	905 829
Directors' emoluments	3 289 417	2 765 005
Employee costs	6 989 196	6 004 472
Auditors' remuneration	325 020	293 000
Operating leases	738 313	506 643
Depreciation	3 973 114	1 064 644
Amortisation	996 991	1 041 138
Legal fees	82 627	71 337
Consulting fees	1 241 451	1 068 742

17. TAXATION

Tax expense comprises:

Current tax

Income tax	4 085 400	6 941 334
Secondary Tax on Companies	321 434	321 761

Deferred tax

Deferred tax relating to the origination and reversal of temporary differences	319 675	(146 235)
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Total	4 726 509	7 116 860
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The promulgated effective tax rate is 28% (2009: 28%).

NOTES TO THE FINANCIAL STATEMENTS

Reconciliation between the applicable tax rate and the average effective tax rate:

	Year ended 30/09/10	Year ended 30/09/09
	R	R
Applicable tax rate	28.00%	28.00%
Secondary Tax on Companies	2.56%	1.50%
Origination and reversal of temporary differences	0.91%	(7.14%)
Exempt income	(2.51%)	(1.93%)
Disallowed expenses	8.73%	12.64%
Average effective tax rate	37.69%	33.07%

18. EARNINGS AND HEADLINE EARNINGS PER SHARE

	Year ended 30/09/10	Year ended 30/09/09
	Cents	Cents
Earnings per share ("EPS")	18.61	34.29
Diluted earnings per share	18.61	34.29
Headline earnings and diluted headline earnings per share ("HEPS")	19.36	36.56

The EPS and HEPS were determined using the following information:

	R	R
Earnings – used in the calculation of earnings per share and diluted earnings per share		
Profit attributable to shareholders of the Company	7 814 357	14 403 430
Headline earnings		
Profit attributable to shareholders of the Company	7 814 357	14 403 430
Adjusted for:		
Loss on the disposal of plant and equipment	318 187	47 046
Impairment of customer base	-	905 829
Total	8 132 544	15 356 305

Weighted number of ordinary shares outstanding

	Number of shares issued	Weighted average number of shares issued
Shares as at 30 September 2010	42 000 000	42 000 000
Shares as at 30 September 2009	42 000 000	42 000 000

19. DIVIDEND PER SHARE

	R	R
Dividends declared	3 780 000	3 360 000
Capital distributions from Share premium	2 100 000	3 360 000
Total Dividends	5 880 000	6 720 000
Shares in issue	42 000 000	42 000 000
Dividend per share ("DPS")	0.14	0.16

NOTES TO THE FINANCIAL STATEMENTS

20. ACQUISITION OF BUSINESSES

With effect from 1 March 2010 the Company acquired 100% of the voting equity shares and claims in the subsidiary, Skycall Networks (Pty) Ltd, for R1 800 000. The purchase consideration was paid in cash.

Skycall Networks (Pty) Ltd is the owner of telecommunication licenses required by the Company in order to utilise the new technologies available in the industry.

The recognised goodwill is a result of synergies expected from the availability to convert existing lines.

Fair value of assets and liabilities	At acquisition
	R
Non-current assets	
Intangible assets	300 000
Deferred tax	3 785 944
Current liabilities	
Trade and other payables	(4 972 723)
Total net liabilities	(886 779)
Consideration paid	
Equity	-
Cash	1 800 000
Goodwill	2 686 779

A loss of R83 575 since acquisition date has been included in the group's profit for the period. Had the acquisition occurred at the beginning of the financial period, the group's revenue would have been R237 462 954 and the profit before tax would have been R7 480 259.

21. FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT

The group is exposed to risks from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes to the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note. Information disclosed has not been disaggregated as the financial instruments used by the group share the same economic characteristics and market conditions.

The principal financial instruments used by the group, from which financial risk arises, are as follows:

- ▶ Trade and other receivables;
- ▶ Cash and cash equivalents;
- ▶ Finance lease liabilities;
- ▶ Trade and other payables;
- ▶ Bank overdraft.

NOTES TO THE FINANCIAL STATEMENTS

The group is currently exposed to credit risk, liquidity risk and market risk (which comprises cash flow interest rate risk). The group is not exposed to foreign exchange rate risk as the group does not have any direct dealings with suppliers or customers where an exchange rate risk may occur.

Risk management is carried out by management under policies approved by the Board. The Board provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and the use of derivative financial instruments. The directors monitor their collections from the group's receivables, movement in prime lending rates and the risks that the group is exposed to based on current market conditions, on a monthly basis.

The directors are of the opinion that the carrying amount of all current financial assets and financial liabilities approximate their fair values due to the short-term maturities of these financial instruments. Remaining long-term borrowings bear interest at market related interest rates which allow for the current carrying amount to be equivalent to its current fair value. The fair value of other financial liabilities and financial assets are determined in accordance with generally accepted pricing models comprising discounted cash flow analysis. Where the effects of discounting are immaterial, short term receivables and short term payables are measured at the original invoice amount.

The main purpose of financial liabilities is to raise finance to fund the acquisition of plant and equipment and intangible assets, working capital and future acquisitions.

Procedures for avoiding excessive concentration of risk include:

- ▶ Maintaining a wide customer base;
- ▶ Continually looking for opportunities to expand the customer base;
- ▶ Reviewing current developments in technology in order to identify any product line which may increase margins in the future;
- ▶ Subjecting all customers to a credit verification procedure before agreements are entered into;
- ▶ Reviewing the trade debtors' age analysis weekly with the intention of minimising the group's exposure to bad debts;
- ▶ Maintaining cash balances and agreed facilities with reputable financial institutions;
- ▶ Effecting necessary price increases as and when required; and
- ▶ Reviewing the group's bank accounts daily and transferring excess funds from the main current account to other facilities in order to increase the interest earnings to the group.

Financial assets by category

30/09/10	Loans & Receivables	Total
	R	R
Trade and other receivables	18 726 561	18 726 561
Cash and cash equivalents	20 144 204	20 144 204
Total	38 870 765	38 870 765

30/09/09	Loans & Receivables	Total
	R	R
Trade and other receivables	23 040 606	23 040 606
Cash and cash equivalents	16 210 438	16 210 438
Total	39 251 044	39 251 044

NOTES TO THE FINANCIAL STATEMENTS



Financial liabilities by category

30/09/10	Amortised cost	Total
	R	R
Finance lease liabilities	4 523 183	4 523 183
Trade and other payables	28 155 260	28 155 260
Bank overdraft	72 179	72 179
Total	32 750 622	32 750 622

30/09/09	Amortised cost	Total
	R	R
Finance lease liabilities	5 987 694	5 987 694
Trade and other payables	19 405 264	19 405 264
Bank overdraft	44 758	44 758
Total	25 437 716	25 437 716

Credit risk

Credit risk arises from trade receivables. The credit quality of customers is assessed by taking into account their financial position, past experience and other factors. Individual risk limits are set internally and are regularly monitored. It is the group's policy that all customers be subjected to a credit verification procedure before agreements are entered into. In addition, the trade debtors' age analysis is reviewed weekly with the intention of minimising the group's exposure to bad debts.

When a customer is identified as having cash flow problems, the credit manager will take the following steps:

- ▶ Confirm the situation with the customer;
- ▶ Advise the director of the situation during the monthly meeting at which outstanding debtors balances are reviewed;
- ▶ Place the customer on hold to mitigate further risks;
- ▶ Issue letters of demand and decide whether to proceed with further legal action.

Should the need arise it would be the group's policy to take collateral. To date no collateral has been taken or obtained. Trade receivables that are neither past due nor impaired are considered to be of high credit quality accompanied by an insignificant default rate.

The group does not provide for impairment losses on a general basis. Debts that are past due are impaired based on evidence of the factors cited above and in the accounting policy.

Reconciliation of the movement of the Allowance for doubtful debt	30/09/10	30/09/09
Balance brought forward	1 029 747	1 277 851
Decrease in the allowance	(107 698)	940 000
Debts written off against the allowance	(497 091)	(1 188 104)
Balance carried forward	424 958	1 029 747

NOTES TO THE FINANCIAL STATEMENTS

The maximum exposure of financial assets to credit risk equates to the carrying amounts as presented on the Statement of Financial Position. The carrying amount of financial assets that are passed due at reporting date but not impaired:

30/09/10	Total receivable before impairment	Impairment provision	Net receivable after impairment provision
	R	R	R
Current & less than 30 days	16 160 850	(67 586)	16 093 264
Less than 60 days	1 257 047	(50 511)	1 206 536
Less than 90 days	332 278	(23 580)	308 698
Greater than 90 days	937 029	(283 281)	653 748
Total	18 687 204	(424 958)	18 262 246

30/09/9	Total receivable before impairment	Impairment provision	Net receivable after impairment provision
	R	R	R
Current & less than 30 days	19 999 259	(18 005)	19 981 254
Less than 60 days	1 747 876	(271 758)	1 476 118
Less than 90 days	335 712	(125 195)	210 517
Greater than 90 days	1 116 739	(614 789)	501 950
Total	23 199 586	(1 029 747)	22 169 839

The directors consider the time bands used above as most reflective in assessing the performance and operations of the group.

The group's maximum exposure to credit risk in light of concentration with regard to trade receivables can be classified per significant customer as follows:

	Year ended 30/09/10	Year ended 30/09/09
	R	R
Customer A	2 778 102	3 255 168
Customer B	7 030 229	6 423 301
Customer C	130 530	4 104 946
Other customers	8 748 343	9 416 171
Liquidity risk	18 687 204	23 199 586

Liquidity risk is the risk that the group will experience financial difficulty in meeting its financial obligations as they fall due. The group's policy is to ensure that it will always have sufficient cash to allow it to meet its obligations when they fall due. To achieve this it seeks to maintain cash balances and agreed facilities with reputable financial institutions. This is also achieved by monitoring the economy to ensure that necessary price increases are effected. There have been no defaults or breaches on finance lease liabilities and Trade payables during the course of the financial year. Furthermore, security has been provided for Finance lease liabilities, which is disclosed in note 9 above.

Management of liquidity risk in regard to financial liabilities includes a daily review of the group's bank accounts and transfer of excess funds from the main current account to other facilities in order to increase the interest earnings to the group.

NOTES TO THE FINANCIAL STATEMENTS

Contractual maturity analysis

30/09/10

	Payable within one year or on demand	Payable within 2 to 5 years	Payable after 5 years
	R	R	R
<i>Non derivative financial instruments:</i>			
Trade and other payables	28 155 260	-	-
Bank overdraft	72 179	-	-
Finance lease liabilities	2 712 931	2 185 005	-
	30 940 370	2 185 005	-

30/09/09

	Payable within one year or on demand	Payable within 2 to 5 years	Payable after 5 years
	R	R	R
<i>Non derivative financial instruments:</i>			
Trade and other payables	19 405 263	-	-
Bank overdraft	44 758	-	-
Finance lease liabilities	2 454 196	4 280 070	-
	21 904 217	4 280 070	-

Market risk

Market risk arises from the group's use of variable interest rate finance lease liabilities and bank balances that are carried at amortised cost. It is the risk that the future cash flow of a financial instrument will fluctuate because of changes in interest rates. Future changes to the prime lending rates will have a direct impact on the future cash payments towards the settlement of the financial obligation. The risk remains un hedged at the reporting date. Exposure to cash flow interest rate risk on financial assets and liabilities is monitored on a continuous basis. The group does not carry any fixed interest bearing financial instruments and is therefore not exposed to fair value interest rate risk.

Interest rates on finance lease liabilities are linked to the overdraft rate. The prime rate as at year end was 9.5% (2009: 10.5%). The interest rates on finance lease liabilities vary from 8% to 9% (2009: 8.5% to 10%).

The group also holds cash and cash equivalents, which earns interest at variable rates. Consequently, the group is exposed to cash flow interest rate risk. Cash and cash equivalents comprise cash in hand and bank balances. Excess funds are deposited with reputable financial institutions on a rate quotation basis. This ensures that the group earns the most advantageous rates of interest available.

The group has used a sensitivity analysis technique that measures the estimated change to the Consolidated Statement of Comprehensive Income of an instantaneous increase or decrease in market interest rates on financial instruments from the applicable rate as at 30 September 2010, for each class of financial instrument with all other variables remaining constant. The calculations were determined with reference to the outstanding financial liability and financial asset balances for the year. This represents no change from the prior period in the method and assumptions used. This analysis is for illustrative purposes only and represents management's best estimate.

NOTES TO THE FINANCIAL STATEMENTS

After tax effect on profit or loss of a 1% change (increase or decrease) in the South African lending rate:

	30/09/10	30/09/09
	R	R
Trade and other receivables	-	-
Cash and cash equivalents	201 442	162 104
Bank overdraft	(722)	(448)
Variable rate finance lease liabilities	(41 738)	(169 570)

Capital management

The group's capital structure consists of debt which includes interest-bearing borrowings, cash and cash equivalents and equity attributable to equity holders of the Company which comprises issued share capital, share premium and accumulated earnings. The group's capital management objective is to achieve an effective weighted average cost of capital while continuing to safeguard the group's ability to meet its liquidity requirements, repay borrowings as they fall due and continue as a going concern, whilst concurrently ensuring that at all times its credit worthiness is considered to be at least investment grade. Management reviews the capital structure, analyses interest rate exposure and re-evaluates treasury management strategies in the context of economic conditions and forecasts regularly. This could lead to an adjustment to the dividend yield and/or an issue or repurchase of shares.

This policy is consistent with that of the comparative period. The group is not subject to any external capital requirements.

22. COMMITMENTS FOR EXPENDITURES

Operating lease payments represent rentals payable by the group for certain of its office properties. Leases are negotiated annually and rentals are fixed for 12 months. No contingent rate is payable.

	30/09/10	30/09/09
	R	R
Minimum operating lease payments under non cancellable leases due		
- Within one year	1 007 400	770 115
- Within two to five years	5 351 100	-
- After five years	10 001 295	

23. CONTINGENT LIABILITIES

The group has a general contingency in respect of Connection Incentive Bonuses received from the supplier in respect of new line activations. In terms of the contract with the supplier, in the event of cancellations by the group before the expiration date of the contract entered into between the group and its supplier, part of the Connection Incentive Bonus received must be repaid to the supplier. No material losses are expected under these arrangements as no amounts have been repaid in the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS



24. RELATED PARTIES

Related parties

Relationships

Subsidiary

Skycall Networks (Pty) Ltd

Entity in which a member of key management has a beneficial interest

DS van der Merwe

Ikamvi Family Trust

MS Family Trust

CD Family Trust

IG Bekker

Wilbek Properties CC

Expectra 51 (Pty) Ltd

Expectra Telephony Audits (Pty) Ltd

Expectra Online (Pty) Ltd

Expectra Direct (Pty) Ltd

N Owen

RE Owen Trust

J Voigt

PerfectWorx Consulting (Pty) Ltd

Contineo Virtual Communications (Pty) Ltd

BR Topham

Brat Trust

Brandon Topham Inc

SEESA Ltd

ME Moji

TeleMasters (Pty) Ltd

MB Pretorius

Isabella Trust

Snowy Owl Properties 82 (Pty) Ltd

Snowy Owl Properties 90 (Pty) Ltd

Simplicate Solutions (Pty) Ltd

Vazmasters (Pty) Ltd

Zero Plus Trading 194 (Pty) Ltd

Maison D'Obsession Trust

Bitflow Investments 266 (Pty) Ltd

Bunker Hills Investments 483 (Pty) Ltd

Catwalk Investments 266 (Pty) Ltd

Credit Excellence (Pty) Ltd

Delos Investments (Pty) Ltd

Dualco Investments 162 (Pty) Ltd

Dursley Properties (Pty) Ltd

Expectra 51 (Pty) Ltd

Expectra Telephony Audits (Pty) Ltd

Initiative SA Investments 114 (Pty) Ltd

Intrax Investments 212 (Pty) Ltd

Liberty Moon Investments 15 (Pty) Ltd

Lifehouse Investments 58 (Pty) Ltd

Limosa Investments 287 (Pty) Ltd

Maison Du Cap Properties (Pty) Ltd

Orcom Trading 136 (Pty) Ltd

Ontrak Investments 178 (Pty) Ltd

TeleMasters (Pty) Ltd

Telenext (Pty) Ltd

Trifecta Trading 449 (Pty) Ltd

Expectra Online (Pty) Ltd

Expectra Direct (Pty) Ltd

NOTES TO THE FINANCIAL STATEMENTS



Entity in which a member of key management is a director

<i>IG Bekker</i>	Expectra 51 (Pty) Ltd Expectra Telephony Audits (Pty) Ltd Expectra Online (Pty) Ltd Expectra Direct (Pty) Ltd
<i>J Voigt</i>	PerfectWorx Consulting (Pty) Ltd Contineo Virtual Communications (Pty) Ltd
<i>BR Topham</i>	Brandon Topham Inc SEESA Ltd
<i>ME Moji</i>	TeleMasters (Pty) Ltd
<i>MB Pretorius</i>	Snowy Owl Properties 82 (Pty) Ltd Snowy Owl Properties 90 (Pty) Ltd Simplicate Solutions (Pty) Ltd Vazmasters (Pty) Ltd Zero Plus Trading 194 (Pty) Ltd Bitflow Investments 266 (Pty) Ltd Bunker Hills Investments 483 (Pty) Ltd Catwalk Investments 266 (Pty) Ltd Credit Excellence (Pty) Ltd Delos Investments (Pty) Ltd Dualco Investments 162 (Pty) Ltd Dursley Properties (Pty) Ltd Expectra 51 (Pty) Ltd Expectra Telephony Audits (Pty) Ltd Initiative SA Investments 114 (Pty) Ltd Intrax Investments 212 (Pty) Ltd Liberty Moon Investments 15 (Pty) Ltd Lifehouse Investments 58 (Pty) Ltd Limosa Investments 287 (Pty) Ltd Maison Du Cap Properties (Pty) Ltd Orcom Trading 136 (Pty) Ltd Ontrak Investments 178 (Pty) Ltd Trifecta Trading 449 (Pty) Ltd Expectra Online (Pty) Ltd

Related party transactions

Details of transactions between the group and related parties are disclosed below:

	<u>30/09/10</u>	<u>30/09/09</u>
	R	R
<i>Rent paid to related parties</i>		
Snowy Owl Properties 82 (Pty) Ltd	474 600	421 683
Wilbek Properties CC	75 868	79 560

NOTES TO THE FINANCIAL STATEMENTS



	<u>30/09/10</u>	<u>30/09/09</u>
	R	R
<i>Commission paid to related parties</i>		
TeleMasters (Pty) Ltd	7 561 464	6 818 154
Expectra Telephony Audits (Pty) Ltd	73 251	29 875
Expectra 51 (Pty) Ltd	40 985	69 801
Orcom Trading 136 (Pty) Ltd	3 890	-
<i>Sales to related parties</i>		
TeleMasters (Pty) Ltd	57 110 550	53 370 046
<i>Purchases from related parties</i>		
PerfectWorx Consulting (Pty) Ltd	629 493	-
SEESA Ltd	64 684	-
Brandon Topham Inc	33 915	-
<i>Balances owing to related parties included in Trade and other payables</i>		
TeleMasters (Pty) Ltd	150 956	176 167
Maison D'Obsession Trust	52 410	-
Brandon Topham Inc	8 892	-
<i>Balances owing by related parties included in Trade and other receivables</i>		
TeleMasters (Pty) Ltd	7 030 229	6 423 301
Snowy Owl Properties 82 (Pty) Ltd	9 748	-
Zero Plus Trading 194 (Pty) Ltd	2 850	1 970

25. SUBSEQUENT EVENTS

Subsequent to the reporting date, it came to the attention of the directors that a claim could possibly be instituted against the subsidiary, Skycall Networks (Pty) Ltd, by Telkom SA Ltd. The directors launched an investigation into the claim and received statements from Telkom SA Ltd to the value of R5 430 017. These claims relate to the period prior to May 2008 and therefore the acquisition value of the subsidiary was adjusted to give effect to this possible claim.

In addition, shareholders are reminded of the potential delisting of the Company as announced on 2 December 2010.

The directors are unaware of any other significant events that have occurred between the end of the financial year and the date of this report that may materially affect the group's results for the period under review or its financial position as at 30 September 2010.

TELEMASTERS IN THE PRESS

TeleMasters spends to grow

IT Web 4 Feb 2010

“Listed least-cost routing business TeleMasters invested in more staff in the three months to December.”

TeleMasters delivers strong third quarter showing

IT Web 18 Sep 2009

“Telecommunications specialist, TeleMasters, one of the strongest performing listed players in the sector, has delivered another set of results, building effectively on its cash positive position to further its organic growth.”

TeleMasters invests to grow

IT Web 17 Sep 2009

“TeleMasters says it has 'shown remarkable tenacity during the recession and the effect of the strategies implemented by the board resulted in a growth of 32% in revenue'. It has also been successful in growing margins, it adds.

The Company focused on core customers and pursued new clients in growing industries. The belt-tightening programmes of customers also ensured our business offering found very fertile ground. As a result, it is confident of growth in the year ahead.”

Charging bull' keeps on coming

IT Web 7 May 2009

TeleMasters proves the worth of an aggressive anti-recession strategy, as its red-hot performance continues to defy the economic slump.

Specialist telecommunications company TeleMasters has taken a head-on approach to the global downturn, expanding its sales force and upping the performance culture across its operations, with great effect.

Since listing on the AltX in March 2007, the Company has delivered exceptionally strong results, much to the satisfaction of shareholders. Since listing, the Company has made six dividend distributions.”

Capital distributions take preference

Fin Week 16 Apr 2009

TeleMasters has joined the ranks of many JSE-listed companies that have changed their dividend policy to limit their exposure to secondary tax on companies (STC), rather preserving cash reserves or paying them out to shareholders.”

SHAREHOLDER ANALYSIS

Shareholders holding more than 5% – at September 2010

	% Holdings	No. of shareholders	No. of shares
Shareholder			
Maison D'Obsession Company – CEO beneficial interest	85%	1	35 700 000
Total	85%	1	35 700 000

Shareholder analysis

Directors	87.5%	3	36 767 115
Public and staff with no restrictions on dealings	12.5%	321	5 232 885
Total	100%	324	42 000 000

Shareholders holding more than 5% – at September 2009

	% Holdings	No. of shareholders	No. of shares
Shareholder			
Maison D'Obsession Company – CEO beneficial interest	85%	1	35 700 000
Total	85%	1	35 700 000

Shareholder analysis

Directors	88%	3	36 783 368
Public and staff with no restrictions on dealings	12%	307	5 216 632
Total	100%	310	42 000 000

NOTICE OF THE ANNUAL GENERAL MEETING

TELEMASTERS HOLDINGS LIMITED

Incorporated in the Republic of South Africa

Registration number 2006/015734/06

Share code: TLM ISIN: ZAE000093324

("TeleMasters" or "the Company")

Notice is hereby given

That the annual general meeting of shareholders of the Company will be held in the boardroom of TeleMasters Holdings Ltd, 90 Regency Drive, Route 21 Corporate Office Park, Irene, 0157, Pretoria, at 9h30 on 10 June 2011 to consider, and if deemed fit, to pass, with or without modifications the following resolutions:

1. Ordinary resolution number 1 – Annual financial statements

"RESOLVED THAT the annual consolidated financial statements of the group for the year ended 30 September 2010, together with the Directors' and Auditors' reports thereon be and are hereby received, considered and adopted."

2. Ordinary resolution number 2 – Director appointment

"RESOLVED THAT the appointment of Mr BR Topham as Financial Director with effect from 25 December 2010 be and is hereby approved."

A curriculum vitae for Mr BR Topham is set out under Directors' and Executive Managers' Profiles.

3. Ordinary resolution number 3 – Director retirement and re-election

"RESOLVED THAT Mr MB Pretorius, who retires in accordance with the provisions of the Company's Articles of Association, but being eligible, offers himself for re-election, be and is hereby re-elected as a director of the Company."

A curriculum vitae for Mr MB Pretorius is set out under Directors' and Executive Managers' Profiles.

4. Ordinary resolution number 4 – Director retirement and re-election

"RESOLVED THAT Mr J Voigt, who retires in accordance with the provisions of the Company's Articles of Association but being eligible offers himself for re-election, be and is hereby re-elected as a director of the Company."

A curriculum vitae for Mr J Voigt is set out under Directors' and Executive Managers' Profiles.

5. Ordinary resolution number 5 – Directors' remuneration

"RESOLVED THAT the remuneration paid to executive and non-executive directors for the financial year ending 30 September 2010 as disclosed in note 14 of the annual consolidated financial statements, be and is hereby approved."

6. Ordinary resolution number 6 – Non-executive directors' remuneration

"RESOLVED THAT the non-executive directors' remuneration for the year commencing 1 October 2010 as detailed below be and is hereby approved."

	Amount per annum R
Mr DS van der Merwe	240 000
Mr J Voigt	180 000
Mr VI Beck	180 000
Mr BR Topham	45 000

NOTICE OF THE ANNUAL GENERAL MEETING



7. Ordinary resolution number 7 – Re-appointment of auditors and remuneration

“RESOLVED THAT the reappointment of BDO South Africa Incorporated as the auditors, with Mr Berton Bosman as the designated auditor at partner status, be and is hereby approved and that the Audit Committee be and is hereby authorised to determine the remuneration of the auditors.”

Explanatory Note:

BDO South Africa Incorporated have indicated their willingness to continue as the group's auditors until the next annual general meeting. The Audit Committee has satisfied itself as to the independence of BDO South Africa Incorporated. The Audit Committee has the power in terms of the SA Corporate Laws Amendment Act, 2006 to approve the remuneration of the external auditors. The remuneration paid to the auditors during the year ended 30 September 2010 is contained in note 16 of the annual financial statements. The auditors have not received any remuneration for non-audit fees.

8. Ordinary resolution number 8 – Placing unissued shares under the control of the directors

“RESOLVED THAT the authorised, but unissued ordinary shares in the capital of the Company be placed under the control of the directors of the Company until the next annual general meeting of the Company and that the directors be and are hereby authorised and empowered to allot, issue and otherwise dispose of such shares, on such terms and conditions and at such times as the directors in their discretion deem fit, subject to Sections 221 and 222 of the Companies Act, the Articles of Association and the JSE Listings Requirements.”

9. Ordinary resolution number 9 – General authority to allot and issue shares for cash

“RESOLVED THAT subject to the approval of 75% of the members present in person and by proxy, and entitled to vote at the meeting, the directors of the Company be and are hereby authorised, by way of general authority, to allot and issue all or any of the authorised but unissued shares in the capital of the Company as they in their discretion deem fit, subject to the following limitations:

- ▶ The shares which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such equity securities or rights that are convertible into a class already in issue;
- ▶ This authority shall not endure beyond the next annual general meeting of the Company nor shall it endure beyond 15 months from the date of this meeting;
- ▶ There will be no restrictions in regard to the persons to whom the shares may be issued, provided that such shares are to be issued to public shareholders (as defined by the JSE Listings Requirements) and not to related parties;
- ▶ Upon any issue of shares which, together with prior issues during any financial year, will constitute 5% or more of the number of shares of the class in issue, the Company shall by way of an announcement on Securities Exchange News Service (“SENS”), give full details thereof, including the effect on the net asset value of the Company and earnings per share;
- ▶ The aggregate issue of a class of shares already in issue in any financial year will not exceed 15% of the number of that class of shares (including securities which are compulsorily convertible into shares of that class); and
- ▶ The maximum discount at which shares may be issued is 10% of the weighted average traded price of the Company's shares over the 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the applicant.”

10. Ordinary resolution number 10 – Authority to execute requisite documentation

“RESOLVED THAT any director of the Company or the Company Secretary be and hereby is authorised to do all such things and sign all such documents issued by the Company and required to give effect to the special resolutions and ordinary resolutions passed at the annual general meeting.”

NOTICE OF THE ANNUAL GENERAL MEETING

11. Ordinary resolution number 11 – Approval of dividends declared and paid

“**RESOLVED THAT** the interim dividends and capital distributions as disclosed in note 19 of the annual financial statements, totalling 14 cents per share declared and paid by the directors for the financial year ending 30 September 2010 be and is hereby approved as final.”

12. Special resolution number 1 – General authority to repurchase shares

“**RESOLVED THAT** the Company be and hereby is authorised, by way of general authority, to acquire ordinary shares issued by the Company, in terms of Sections 85(2), 85(3) and 89 of the Companies Act, the Articles of Association and in terms of the JSE Listings Requirements, being that:

- ▶ Any such acquisition of ordinary shares shall be implemented on the open market of the JSE;
- ▶ This general authority shall only be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 months from the date of the passing of this special resolution;
- ▶ An announcement will be published on SENS as soon as the Company has acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue prior to the acquisition, pursuant to which the aforesaid 3% threshold is reached, containing full details of such repurchases;
- ▶ Acquisitions in the aggregate in any one financial year may not exceed 10% of the Company's ordinary issued share capital nor may acquisitions in the aggregate, from the date of passing of this special resolution, exceed 20% of the Company's ordinary issued share capital at the date of passing of this special resolution;
- ▶ In determining the price at which ordinary shares issued by the Company are acquired by it in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% of the weighted average of the market value at which such ordinary shares are traded on the JSE, as determined over the five trading days immediately preceding the date of repurchase of such ordinary shares by the Company;
- ▶ At any point in time, the Company will only appoint one agent to effect any repurchase(s) on the Company's behalf;
- ▶ The Company may only undertake a repurchase of securities if, after such repurchase, it still complies with minimum shareholder spread requirements in accordance with JSE Listings Requirements; and
- ▶ The Company will not repurchase securities during a prohibited period in accordance with JSE Listings Requirements.”

Reason and Effect of Special Resolution number 1

The reason for special resolution number 1 is to grant the Company a general authority in terms of the Act for the acquisition by the Company of shares issued by the Company, which authority shall be valid until the earlier of the next annual general meeting of the Company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company, provided that the general authority shall not extend beyond 15 (fifteen) months from the date of this annual general meeting. The passing and registration of this special resolution will have the effect of authorising the Company to acquire shares issued by the Company.

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

- ▶ Directors and management – see page 6 of the annual report;
- ▶ Major beneficial shareholders – see page 68 of the annual report;
- ▶ Directors' interests in ordinary shares – see page 16 of the annual report;
- ▶ Share capital of the Company – see page 53 of the annual report.

Litigation statement

The directors, whose names appear under Board of Directors on page 10 of the Annual Report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the financial position of the Company other than those disclosed in the consolidated annual financial statements.

NOTICE OF THE ANNUAL GENERAL MEETING

Directors' responsibility statement

The directors, whose names appear under Board of Directors on page 10 of the Annual Report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information.

Material changes

Other than the facts and developments reported on in this Annual Report, there have been no material changes in the affairs or financial position of the Company and its subsidiaries since the date of signature of the Audit Report and up to the date of this notice.

Statement by the Board of Directors of the Company

The intention of the directors of the Company is to utilise the general authority to repurchase shares in the capital of the Company if, at some future date, the cash resources of the Company are in excess of its requirements or there are other good grounds for doing so. In this regard, the directors will take account of, inter alia, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company, and the interests of the Company.

In determining the method by which the Company intends to repurchase its securities, the maximum number of securities to be repurchased and the date on which such repurchase will take place, the directors of the Company will ensure that:

- ▶ The Company will, after the repurchase, be able to pay its debts as they become due in the ordinary course of business for the next 12 months after the date of notice of this annual general meeting;
- ▶ The assets of the Company fairly valued and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will, after the repurchase, be in excess of the liabilities of the Company for the next 12 months after the date of this notice of the annual general meeting;
- ▶ The issued share capital and reserves of the Company will, after the repurchase, be adequate for the ordinary business purposes of the Company for the next 12 months after the date of notice of this annual general meeting; and
- ▶ The working capital available to the Company will, after the repurchase, be sufficient for the ordinary business requirements of the Company for the next 12 months after the date of this notice of annual general meeting.

A form of proxy which sets out the relevant instructions for use is attached for those members who wish to be represented at the annual general meeting of members. Duly completed forms of proxy must be lodged with the transfer secretaries, Computershare Investor Services 2004 (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2170) by not later than 09h30 on 9 June 2011.

By order of the Board



Brandon Topham Inc.
Company Secretary
100A Club Avenue
Waterkloof Ridge, Pretoria

For use by certificated and “own name” registered dematerialised shareholders of the Company (“shareholders”) at the annual general meeting of shareholders of the Company to be held in the Boardroom of Telemasters Holdings Ltd, 90 Regency Drive, Route 21 Corporate Office Park, Irene 0157 (“the annual general meeting”) and at any adjournment thereof.

I/We (please print) _____

of (address) _____

being the holder of _____ ordinary shares in the Company, hereby appoint

1. _____ or failing him

2. _____ or failing him,

3. the chairman of the annual general meeting. _____

as my/our proxy to act for me/us and on my/our behalf at the annual general meeting which will be held for the purpose of considering, and if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s, in accordance with the following instructions:

	Number of votes (one vote per share)		
	For	Against	Abstain
Ordinary resolution number 1 – Adoption of annual financial statements			
Ordinary resolution number 2 – Appointment of Director – BR Topham			
Ordinary resolution number 3 – Director retirement and re-election (MB Pretorius)			
Ordinary resolution number 4 – Director retirement and re-election (J Voigt)			
Ordinary resolution number 5 – Directors' remuneration			
Ordinary resolution number 6 – Non-executive Directors' remuneration			
Ordinary resolution number 7 – Re-appointment of auditors and remuneration			
Ordinary resolution number 8 – Placing unissued shares under control of directors			
Ordinary resolution number 9 – General authority to allot and issue shares for cash			
Ordinary resolution number 10 – Authority to execute requisite documentation			
Ordinary resolution number 11 – Approval of dividends declared and paid			
Special resolution number 1 – General authority to repurchase shares			

Signed at _____ on _____ 2011

Signature _____

Assisted by me (where applicable) _____

Name _____ Capacity _____ Signature _____

(Please print in BLOCK LETTERS)



Voting and Proxies:

Certificated shareholders and dematerialised shareholders with “own name” registration

If you are unable to attend the annual general meeting of shareholders to be held at 9h30 on 10 June 2011 in the boardroom of TeleMasters Holdings Ltd, 90 Regency Drive, Route 21 Corporate Office Park, Irene, 0157, Pretoria, and wish to be represented thereat, you should complete and return the attached form of proxy in accordance with the instructions contained therein and lodge it with, or post it to, the transfer secretaries, Computershare Investor Services 2004 (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2170) to be received by not later than 09h30 on 9 June 2011.

Dematerialised shareholders other than those with “own name” registration

If you hold dematerialised shares through a CSDP or broker other than with an “own name” registration, you must timeously advise your CSDP or broker of your intention to attend and vote at the annual general meeting in order for your CSDP or broker to provide you with the necessary authorisation to do so, or should you not wish to attend the annual general meeting in person, you must timeously provide your CSDP or broker with your voting instruction in order for the CSDP or broker to vote in accordance with your instruction at the annual general meeting.

1. Each shareholder is entitled to appoint one or more proxies (who need not be members of the Company) to attend, speak and, on a poll, vote in place of that shareholder at the annual general meeting.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder’s choice in the space provided, with or without deleting "the chairman of the annual general meeting". The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder’s instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box/es provided. Failure to comply with the above will be deemed to authorise the chairperson of the annual general meeting, if he/she is the authorised proxy, to vote in favour of the resolutions at the annual general meeting, or any other proxy to vote or to abstain from voting at the annual general meeting as he deems fit, in respect of all the shareholder’s votes exercisable thereat.
4. A shareholder or his proxy is not obliged to vote in respect of all the ordinary shares held or represented by him but the total number of votes for or against the resolutions and in respect of which any abstention is recorded may not exceed the total number of votes to which the shareholder or his/her proxy is entitled.
5. Forms of proxy must be lodged with the transfer secretaries of the Company by no later than on 9 June 2011.
6. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
7. Any alterations or corrections to this form of proxy must be initialled by the signatory/ies.
8. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the Company's transfer office or waived by the chairperson of the annual general meeting.
9. The chairperson of the annual general meeting may reject or accept any proxy form which is completed and/or received other than in accordance with these instructions and notes, provided that he is satisfied as to the manner in which a shareholder wishes to vote.

NOTES



