

## TLM

### TLM - TeleMasters – Unaudited Interim Results For The Six Month Period Ended 31 March 2010

TELEMASTERS HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2006/015734/06)

Share code: TLM & ISIN Number: ZAE000093324

("TeleMasters" or "the Company")

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#### UNAUDITED INTERIM RESULTS FOR THE SIX MONTH PERIOD ENDED 31 MARCH 2010

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<b>CONDENSED STATEMENT OF COMPREHENSIVE INCOME</b>	<b>Unaudited 6 months ended 31 March 2010 R</b>	<b>Restated and Unaudited 6 months ended 31 March 2009 R</b>
Revenue	117 466 515	113 769 858
Cost of sales	(98 082 181)	(92 559 249)
<b>Gross profit</b>	<b>19 384 334</b>	<b>21 210 609</b>
Loss on disposal of assets	(43 298)	-
Auditors' remuneration	(317 500)	(300 000)
Depreciation and Amortisation	(2 433 940)	(2 972 361)
Directors' remuneration	(1 553 139)	(1 214 499)
Operating lease	(360 380)	(250 981)
Employee costs	(5 133 283)	(4 634 491)
Bad debt written off	(1 688 992)	-
Operating expenses	(2 413 471)	(2 318 825)
<b>Operating profit</b>	<b>5 440 331</b>	<b>9 519 452</b>
Investment income	426 591	661 076
Finance costs	(325 625)	(306 918)
<b>Profit before taxation</b>	<b>5 541 297</b>	<b>9 873 610</b>
Taxation	(1 894 601)	(2 965 948)
<b>Profit for the period</b>	<b>3 646 696</b>	<b>6 907 662</b>
<b>Total comprehensive income for the period</b>	<b>3 646 696</b>	<b>6 907 662</b>
Basic earnings per share (cents)	8.68	16.45
Diluted earnings per share (cents)	8.68	16.45

**Headline earnings reconciliation:**

<b>Profit for the period</b>	<b>3 646 696</b>	<b>6 907 662</b>
<u>Adjustments:</u>		
Loss on disposal of assets	43 298	-
<b>Headline earnings for the period</b>	<b>3 689 994</b>	<b>6 907 662</b>
Headline earnings per share (cents)	8.79	16.45
Diluted Headline earnings per share (cents)	8.79	16.45
Weighted average shares in issue ('000)	42 000 000	42 000 000
Dividends declared per share (cents)	8.0	4.0
Dividends paid per share (cents)	4.0	4.0
Capital distributions declared per share (cents)	-	4.0
Capital distributions paid per share (cents)	-	-

**CONDENSED STATEMENT OF FINANCIAL POSITION**

	<b>Unaudited at 31 March 2010 R</b>	<b>Restated and Unaudited at 31 March 2009 R</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property plant and equipment	18 175 099	15 443 814
Intangible assets	3 925 804	4 875 702
Deferred tax assets	-	256 610
	<b>22 100 903</b>	<b>20 576 126</b>
<b>Current assets</b>		
Trade and other receivables	10 629 093	23 932 654
Cash and cash equivalents	17 239 925	7 312 499
	<b>27 869 018</b>	<b>31 245 153</b>
<b>Total assets</b>	<b>49 969 921</b>	<b>51 821 279</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity and reserves</b>		
Issued capital	2 148 059	3 828 059
Retained earnings	24 372 405	20 169 200
	<b>26 520 464</b>	<b>23 997 259</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	1 611 452	-
Finance lease liabilities	2 803 292	3 425 328
	<b>4 414 744</b>	<b>3 425 328</b>

**Current liabilities**

Trade and other payables	14 971 614	17 862 207
Current portion of finance lease liabilities	2 222 758	1 996 793
Current tax payable	101 692	2 821 956
Dividend payable	1 685 883	1 680 000
Bank overdraft	52 766	37 736
	<b>19 034 713</b>	<b>24 398 692</b>
<b>Total equity and liabilities</b>	<b>49 969 921</b>	<b>51 821 279</b>

Number of shares in issue	42 000 000	42 000 000
Net asset value per share (cents)	<b>63.14</b>	<b>57.14</b>
Net tangible asset value per share (cents)	<b>53.80</b>	<b>45.53</b>

**CONDENSED STATEMENT OF CASH FLOWS**

	<b>Unaudited at 31 March 2010 R</b>	<b>Restated and Unaudited at 31 March 2009 R</b>
Cash flows from operating activities		
Cash generated from operations	17 596 388	6 325 039
Finance costs	(325 625)	(306 918)
Tax paid	(9 248 436)	(6 383 200)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>8 022 327</b>	<b>(365 078)</b>
Cash flows from investing activities		
Interest received	279 068	427 496
Dividends received	147 523	233 580
Property, plant and equipment acquired	(2 132 193)	(6 068 759)
Proceeds from the sale of property, plant and equipment	261 966	-
Intangible assets acquired	(915 233)	(2 812 442)
<b>Net cash outflow from investing activities</b>	<b>(2 358 869)</b>	<b>(8 220 124)</b>
Cash flows from financing activities		
Dividends paid	(3 354 710)	(2 940 000)
Repayment of borrowings	-	(185 000)
Repayment of instalment sale agreements	(1 287 268)	-
Proceeds from instalment sale agreements	-	1 984 210
<b>Net cash outflow from financing activities</b>	<b>(4 641 978)</b>	<b>(1 140 790)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1 021 479</b>	<b>(9 725 992)</b>
Cash and cash equivalents at the beginning of the period	16 165 680	17 000 755
<b>Cash and cash equivalents at the end of the period</b>	<b>17 187 159</b>	<b>7 274 763</b>

**CONDENSED STATEMENT OF CHANGES IN EQUITY**

	<b>Issued capital</b>	<b>Share premium</b>	<b>Total share capital</b>	<b>Retained income</b>	<b>Total Equity</b>
<b>Balance at 30 September 2008</b>	<b>4 200</b>	<b>5 503 859</b>	<b>5 508 059</b>	<b>14 941 538</b>	<b>20 449 597</b>
Profit for the period ended 31 March 2009	-	-	-	6 907 662	6 907 662
Dividends declared	-	-	-	(1 680 000)	(1 680 000)
Capital distributions	-	(1 680 000)	(1 680 000)	-	(1 680 000)
<b>Balance at 31 March 2009</b>	<b>4 200</b>	<b>3 823 859</b>	<b>3 828 059</b>	<b>20 169 200</b>	<b>23 997 259</b>
Profit for the period ended 30 September 2009	-	-	-	7 495 766	7 495 766
Dividends declared	-	-	-	(1 680 000)	(1 680 000)
Capital distributions	-	(1 680 000)	(1 680 000)	-	(1 680 000)
<b>Balance at 30 September 2009</b>	<b>4 200</b>	<b>2 143 859</b>	<b>2 148 059</b>	<b>25 984 966</b>	<b>28 133 025</b>
Profit for the period ended 31 March 2010	-	-	-	3 646 696	3 646 696
Prior year correction of Deferred tax	-	-	-	(1 899 257)	(1 899 257)
Dividends declared	-	-	-	(3 360 000)	(3 360 000)
<b>Balance at 31 March 2010</b>	<b>4 200</b>	<b>2 143 859</b>	<b>2 148 059</b>	<b>24 372 405</b>	<b>26 520 464</b>

**SEGMENT REPORT**

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

	<b>Unaudited 6 months Ended 31 March 2010 R</b>	<b>Restated and Unaudited 6 months ended 31 March 2009 R</b>
<b>Revenue by Nature</b>		
Sale of airtime	110 021 464	104 598 587
Connection incentive bonuses	4 567 237	7 221 630
Other	2 877 814	1 949 641
	<b><u>117 466 515</u></b>	<b><u>113 769 858</u></b>

## Major customers

Revenues from transactions with a single external customer amounting to 10 percent or more of the Company's revenue, are disclosed below:

- Customer 1	28 456 200	27 095 837
- Other customers	89 010 315	86 674 021
	<u>117 466 515</u>	<u>113 769 858</u>

## 1. COMPANY PROFILE

TeleMasters is a specialist tele-management and business communication strategy player operating exclusively in the South African market focussing on the corporate market. The company provides current and future clients access to the most efficient and effective telecommunication technologies.

## 2. FINANCIAL RESULTS

### 2.1 Statement of compliance and basis of preparation

The interim financial statements for the six months ended 31 March 2010 have been presented in accordance with IAS 34, *Interim Financial Reporting*, and in the manner required by the Companies Act of South Africa and the JSE Listings Requirements. The results have been prepared in accordance with accounting policies of the Company that are consistent with the prior period and comply with International Financial Reporting Standards. These results have not been reviewed or audited by the Company's auditors.

### 2.2 Commentary

During the last quarter, the regulatory changes in the interconnect rates have had a direct impact on the profitability of the company. Due to this and expected changes in Mobile Termination Rates, the company has decided not to renew expired SIMs and did not earn Connection Incentive Bonuses. This directly contributed to a decrease in gross profit of 11%.

Other factors that contributed to the drop in EPS of 7.77 cents per share to 8.68 cents per share, are as follows:

- Directors' remuneration increased with 28% due to the appointment of two additional directors to ensure the independence of the board of directors;
- The higher staff complement resulted in an increase in Employee costs of 11%. This was due to additional salaries as well as the company policy to pay full medical aid contribution for all staff with service in excess of 5 years;
- Since the beginning of the current period, the Company rented additional office space to accommodate the increased staff complement and operations. This led to a total increase in occupancy costs of R207 520;
- A total amount of R1 688 992 (1.5% of Revenue) was written off and / or provided for bad debts. R1.5 million thereof related to amounts owed by the subsidiary of a listed financial company which stopped trading, as previously disclosed in the 2009 Annual Report. No further effects on earnings are expected; and
- Investment income and Finance costs are linked to the prime lending rate and fluctuated according to the amendments reported by the Regulator.

Despite the challenges in the industry, the company has managed to achieve a Return on Equity ("ROE") of 13.8 % and a Return on Assets ("ROA") of 7.3%. This shows that the company is still profitable and successfully managed by the board of directors and all managers and staff.

The Net Asset Value (NAV) per share increased by 10.5% since the end of the comparative quarter. Net Tangible Asset per share is up 18%. This was after the total dividends to shareholders of 8 cents per share.

The Company remains cash positive with a good liquidity position. The Company improved its cash flows from operating activities compared to the previous period.

### **2.3. Dividends**

During the first quarter the board declared a first quarterly dividend of 4 cents per share, which was paid to all shareholders recorded in the share register of the Company at the close of business on Friday, 15 January 2009. The board has recently declared a second quarterly dividend of 4 cents per share, which was paid to all shareholders recorded in the share register of the Company at the close of business on Friday, 23 April 2010. The board will continue with the policy of declaring quarterly dividends and, over the course of the year, intends maintaining a high dividend policy.

During the comparative period ended 31 March 2009, the Company declared a first quarterly dividend of 4 cents and did a capital distribution of 4 cents during the second quarter.

### **2.4. Reclassification of comparative period figures**

The following restatements and reclassifications were made to the comparative figures:

- The prior year Revenue as previously reported included deposits received from clients to the value of R167 500. This was reclassified to Trade and other payables on the Statement of Financial Position to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- The prior year Cost of Sales as previously reported included commission paid to employees of R1 751 847. This was reclassified to employee costs to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- The prior year Cost of Sales as previously reported included the depreciation charge on Routers and handsets of R2 112 375. This was reclassified to Depreciation & Amortisation to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- The prior year Operating expenses as previously reported included agent call out fees to the value of R241 829. This was reclassified to Cost of Sales to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- The prior year Finance cost as previously reported included Bank charges to the value of R59 749. This was reclassified to Operating expenses to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- The prior year Operating expenses as previously reported included the Petty cash balance to the value of R5 403. This was reclassified to Cash and cash equivalents on the Statement of Financial Position to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- Incidental Loans receivable was reclassified from Trade and other payables to Trade and other receivables on the Statement of Financial Position to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- During the previous year no deferred tax liability on Routers and handsets was raised. This fundamental error was corrected during the current six month period and resulted in a restatement of prior year net profit of R1,9 million.

### **3. LITIGATION**

There are currently no legal or arbitration proceedings against the Company (including any proceedings which are pending or threatened) of which the Company is aware which may have, or have had in the 12 months preceding the date of this report, a material effect on the consolidated position of the Company

### **4. SUBSEQUENT EVENTS**

The directors are not aware of any matter or circumstance arising since the reporting date which would have an effect on the Company.

### **5. SHARE CAPITAL**

No changes to Share capital occurred during the period.

### **6. OPERATIONAL REVIEW AND PROSPECTS**

Uncertainties in the market concerning rates and supply have negatively impacted sales growth, which increased only 3.2%. The Company thought it prudent to hold back commitments until rates and interconnect clarifications have been confirmed. There is an ongoing, but not excessive liquidation of smaller clients as a result of the economic downturn. The loss of a single large client lost at year-end has been taken to book with the resulting impact on bad debts. Cash generation remains strong at a 136% increase and a 18% increase in the tangible NAV is encouraging. The company is optimistic about its new product roll-out and the subsequent positive impact on its performance.

## **7. CHANGES IN THE COMPOSITION OF THE BOARD**

On 18 January 2010, Ms Nolene Owen was appointed as Financial Director. The role of Mr Brandon Topham changed from Financial Director to non-executive director on this same date.

For and on behalf of the Board:

MB Pretorius  
Chief Executive Officer

N Owen  
Chief Financial Officer

11 May 2010

### **Corporate information**

Directors: DS van Der Merwe\*, MB Pretorius, IG Bekker, N Owen, BR Topham\*, J Voigt\*, VI Beck\*  
(\* non-executive)

Registered address: Equity Estate Building 2, Masters House, Charles de Gaulle Crescent, Highveld Park Ext 9, Centurion, (P.O. Box 68255, Highveld Park, 0169)

Company secretary: Brandon Topham Inc.

Auditors: BDO, Block C, Riverwalk Office Park, 41 Matroosberg Avenue, Ashlea Gardens, Pretoria

Transfer secretaries: Computershare Investor Services Limited, 70 Marshall Street, Johannesburg, 2001 (P.O. Box 61051, Marshalltown, 2107)

Designated Advisor: Arcay Moela Sponsors (Proprietary) Limited

Website: [www.telemasters.co.za](http://www.telemasters.co.za)