

TLM

TLM - TeleMasters – Unaudited Interim Results For The Nine Month Period Ended 30 June 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")

UNAUDITED INTERIM RESULTS FOR THE NINE MONTH PERIOD ENDED 30 JUNE 2010

CONDENSED STATEMENT OF COMPREHENSIVE INCOME	Unaudited 9 months ended 30 June 2010 R	Restated and Unaudited 9 months ended 30 June 2009 R
Revenue	174 719 213	170 379 404
Cost of sales	(146 512 449)	(138 776 061)
Gross profit	28 206 764	31 603 343
Loss on disposal of assets	(375 188)	-
Auditors' remuneration	(313 500)	(473 400)
Depreciation and Amortisation	(3 694 091)	(4 013 753)
Directors' remuneration	(2 420 535)	(1 600 531)
Operating lease	(551 980)	(378 344)
Employee costs	(7 816 094)	(7 489 160)
Operating expenses	(4 395 931)	(3 984 652)
Operating profit	8 639 445	13 663 503
Investment income	621 064	882 534
Finance costs	(422 498)	(394 885)
Profit before taxation	8 838 011	14 151 152
Taxation	(3 818 774)	(4 242 543)
Profit for the period	5 019 237	9 908 608
Total comprehensive income for the period	5 019 237	9 908 608
Basic earnings per share (cents)	11.95	23.59
Diluted earnings per share (cents)	11.95	23.59

Headline earnings reconciliation:

Profit for the period	5 019 237	9 908 608
<u>Adjustments:</u>		
Loss on disposal of assets	375 188	-
Headline earnings for the period	5 394 425	9 908 608
Headline earnings per share (cents)	12.84	23.59
Diluted Headline earnings per share (cents)	12.84	23.59
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)	8.0	4.0
Capital distributions declared per share (cents)	2.0	8.0
Capital distributions paid per share (cents)	-	4.0

CONDENSED STATEMENT OF FINANCIAL POSITION

	Unaudited at 30 June 2010 R	Restated and Unaudited at 30 June 2009 R
ASSETS		
Non-current assets		
Property plant and equipment	16 996 146	14 805 312
Intangible assets	2 791 485	4 778 937
Investments	1 800 000	-
Deferred tax	183 831	814 767
	21 771 462	20 399 016
Current assets		
Trade and other receivables	12 439 242	19 773 708
Cash and cash equivalents	20 270 173	13 514 598
	32 709 415	33 288 306
Total assets	54 480 877	53 687 322
EQUITY AND LIABILITIES		
Equity and reserves		
Issued capital	1 308 059	2 148 059
Retained earnings	27 644 203	23 170 146
	28 952 262	25 318 205
Non-current liabilities		
Finance lease liabilities	2 715 520	3 283 175
	2 715 520	3 283 175

Current liabilities

Trade and other payables	17 704 939	16 894 631
Current portion of finance lease liabilities	2 435 303	1 806 435
Current tax payable	1 602 258	4 656 710
Dividend payable	1 003 333	1 684 241
Bank overdraft	67 262	43 925
	22 813 095	25 085 942
Total equity and liabilities	54 480 877	53 687 322

Number of shares in issue	42 000 000	42 000 000
Net asset value per share (cents)	68.93	60.28
Net tangible asset value per share (cents)	62.29	48.90

CONDENSED STATEMENT OF CASH FLOWS

	Unaudited at 30 June 2010 R	Restated and Unaudited at 30 June 2009 R
Cash flows from operating activities		
Cash generated from operations	22 962 189	15 513 790
Finance costs	(422 498)	(394 885)
Tax paid	(9 568 066)	(6 383 200)
Net cash inflow from operating activities	12 971 625	8 735 705
Cash flows from investing activities		
Interest received	399 332	548 500
Dividends received	221 732	334 034
Property, plant and equipment acquired	(2 710 543)	(6 388 512)
Proceeds from the sale of property, plant and equipment	1 019 091	96 131
Intangible assets acquired	(27 215)	(2 926 988)
Investments acquired	(1 800 000)	-
Net cash outflow from investing activities	(2 897 603)	(8 336 835)
Cash flows from financing activities		
Dividends and capital distributions paid	(4 877 260)	(4 615 759)
Borrowings received	1 800 000	-
Repayment of borrowings	(1 700 162)	(876 926)
Repayment of instalment sale agreements	(1 959 717)	(4 090 924)
Proceeds from instalment sale agreements	700 348	5 654 657
Net cash outflow from financing activities	(6 036 791)	(3 928 952)
Net increase / (decrease) in cash and cash equivalents	4 037 231	(3 530 082)

Cash and cash equivalents at the beginning of the period	16 165 680	17 000 755
Cash and cash equivalents at the end of the period	20 202 911	13 470 673

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Share premium	Total share capital	Retained income	Total Equity
Balance at 30 September 2008	4 200	5 503 859	5 508 059	14 941 538	20 449 597
Profit for the period ended 30 June 2009	-	-	-	9 908 608	9 908 608
Dividends declared	-	-	-	(1 680 000)	(1 680 000)
Capital distributions	-	(3 360 000)	(3 360 000)	-	(3 360 000)
Balance at 30 June 2009	4 200	2 143 859	2 148 059	23 170 146	25 318 205
Profit for the period ended 30 September 2009	-	-	-	4 494 820	4 494 820
Dividends declared	-	-	-	(1 680 000)	(1 680 000)
Balance at 30 September 2009	4 200	2 143 859	2 148 059	25 984 966	28 133 025
Profit for the period ended 30 June 2010	-	-	-	5 019 237	5 019 237
Dividends declared	-	-	-	(3 360 000)	(3 360 000)
Capital distributions	-	(840 000)	(840 000)	-	(840 000)
Balance at 30 June 2010	4 200	1 303 859	1 308 059	27 644 203	28 952 262

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:

	Unaudited 9 months Ended 30 June 2010 R	Restated and Unaudited 9 months ended 30 June 2009 R
Revenue by Nature		
Sale of airtime	165 187 814	156 649 934
Connection incentive bonuses	5 602 737	10 828 638
Other	3 928 662	2 900 832
	<u>174 719 213</u>	<u>170 379 404</u>

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	42 895 056	48 818 265
- Other customers	131 824 157	121 561 139
	<u>174 719 213</u>	<u>170 379 404</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 nine months ended 30 June 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 period, 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 11.64 cents per share to 11.95 cents per share are as follows:

- Legacy equipment and Motor vehicles were disposed during the period, resulting in a loss of R375 188.
- Directors' remuneration increased with 51% due to the addition of two directors to ensure the independence of the board of directors;
- An efficient staff policy resulted in an increase in Employee costs of only 4% after adding staff and a new 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 R173 636;
- A total amount of R1 767 011 (1.01% 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;
- Total Finance cost increased by 7% as a result of the larger asset base under instalment sale agreements;
- Investment income is linked to the lower prime lending rate and fluctuated according to the amendments reported by the Regulator; and
- Income tax is a function of taxable profit. Secondary Tax on Companies ("STC") increased as a result of two dividend declarations in the current period compared to one in the prior period. In the previous period 2 capital distributions could be made versus a single distribution for the current period. Capital distribution of share premium were approved at the respective Annual General Meetings;

Despite the challenges in the industry, the company has managed to achieve a Return on Equity ("ROE") of 17.3 % and a Return on Assets ("ROA") of 15.9%. This shows that the company remains profitable and is successfully managed by the board of directors and all managers and staff.

The Net Asset Value (NAV) per share increased by 14.4% since the end of the comparative period. Net Tangible Asset per share is up by 27.4% after the total dividends and capital distributions to shareholders of 8 cents and 4 cents respectively 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 and Capital distributions

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 2010.

During the second quarter the board 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 has recently declared a third quarterly capital distribution from share premium of 2 cents per share, which was payable to all shareholders recorded in the share register of the Company at the close of business on Friday, 23 July 2010.

Due to the flux in the market and the cessation of Commission Incentive Bonuses, the board of directors deemed it to be prudent to decrease the distribution per share by 2 cents per share compared to the previous quarter to see the Company through its transition to a full telecommunications provider. However, 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 30 June 2009, the Company declared a first quarterly dividend of 4 cents and did two capital distributions of 4 cents each during the second and third quarters.

2.4. Reclassification of comparative period figures

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

- The prior year Cost of Sales as previously reported included commission paid to employees of R2 718 868. 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 asset category of Routers and handsets of R3 063 668. 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 R648 864. This was reclassified to Cost of Sales to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- The prior year Operating expenses as previously reported included a portion of Finance cost to the value of R168 323. This was reclassified to Finance cost to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- The prior year Petty cash balance of R4 526 was incorrectly included with Bank overdraft on the Statement of Financial Position. This was reclassified to Cash and cash equivalents to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- Incidental Loans receivable to the value of R113 259 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;

- The Allowance for doubtful debt was incorrectly shown separately under Provisions on the Statement of Financial Position as previously reported. This was reclassified to Trade and other payables to be in line with the 2009 Annual Report and subsequent quarterly reporting;
- During the current period the company acquired a 100% interest in a subsidiary Skycall Networks (Pty) Ltd for R1.8 million. The subsidiary was not consolidated as the purchase price allocation has not been finalised.

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

During the third quarter the Company declared a Capital distribution from Share premium of 2 cents per share, which was payable to all shareholders recorded in the share register of the Company at the close of business on Friday, 23 July 2010.

No further changes to share capital occurred during the period.

6. OPERATIONAL REVIEW AND PROSPECTS

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

As previously announced, 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 August 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 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P.O. Box 61051, Marshalltown, 2107)

Designated Advisor: Arcay Moela Sponsors (Proprietary) Limited

Website: www.telemasters.co.za