

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" or "the Group")

PROVISIONAL CONDENSED AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 30 JUNE 2016

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	AUDITED Year ended 30 June		AUDITED Year ended 30 June
	2016		2015
	R		R
Revenue	105 426 236		98 115 619
Cost of sales	(68 306 865)		(68 845 119)
Gross profit	37 119 371		29 270 500
Other income	503 496		1 780 131
Operating expenses	(34 884 564)		(27 532 236)
Operating profit	2 738 303		3 518 395
Investment revenue	452 318		399 743
Finance costs	(377 537)		(244 331)
Profit before tax	2 813 084		3 673 807
Taxation	(799 827)		(921 641)
Profit for the year	2 013 257		2 752 166
Other comprehensive income for the year	-		-
Total comprehensive income for the year	2 013 257		2 752 166
Profit and total comprehensive income attributable to the owners of the Group	2 013 257		2 752 166
EARNINGS PER SHARE			
Basic earnings per share (cents)	4.79		6.55
Dilutive earnings per share (cents)	4.79		6.55
Headline earnings per share (cents)	4.82		6.54
Dilutive headline earnings per share (cents)	4.82		6.54
The earnings per share/ dilutive earnings per share and headline earnings per share were determined using the following information:			

Basic and dilutive earnings - used in the calculation of basic and dilutive earnings per share			
Earnings attributable to owners of the Group	2 013 257		2 752 166
HEADLINE EARNINGS:			
Earnings attributable to owners of the Company	2 013 257		2 752 166
Adjusted for:			
(Gain)/ loss on disposal of property plant and equipment – net of tax	12 187		(5 969)
Headline earnings for the period	2 025 444		2 746 197
Weighted number of ordinary shares	Number of shares issued		Number of shares issued
Shares as at 30 June 2016	42 000 000		42 000 000
Shares as at 30 June 2015	42 000 000		42 000 000
Dividends declared per share (cents)	3.00		6.00

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			
	AUDITED		AUDITED
	As at 30 June		As at 30 June
	2016		2015
ASSETS	R		R
Non-current assets			
Property, plant & equipment	21 449 451		16 696 294
Goodwill	2 686 779		2 686 779
Intangible assets	962 532		894 170
Deferred tax	845 879		1 612 581
	25 944 641		21 844 824
Current assets			
Inventories	633 165		384 888
Current tax receivable	-		33 126
Trade and other receivables	21 212 291		14 731 290
Cash and cash equivalents	3 614 713		7 180 029
	25 460 169		22 329 333
Total assets	51 404 810		44 174 157
EQUITY AND LIABILITIES			
Total equity			
Issued capital	48 059		48 059
Retained earnings	33 032 313		32 279 057
	33 080 372		32 327 116
Non-current liabilities			
Finance lease liabilities	2 651 125		585 775
Deferred income	722 541		-
	3 373 666		585 775
Current liabilities			
Other financial liabilities	2 494 721		3 600 000
Finance lease liabilities	2 434 603		1 075 518
Trade and other payables	9 689 878		6 526 869
Deferred income	260 329		-
Bank overdraft	71 241		58 879
	14 950 772		11 261 266
Total liabilities	18 324 438		11 847 041
Total equity and liabilities	51 404 810		44 174 157
Number of shares in issue	42 000 000		42 000 000
Net asset value per share (cents)	78.76		76.97
Net tangible asset value per share (cents)	70.07		68.44

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS			
	AUDITED		AUDITED
	Year ended 2016		Year ended 2015
			Restated
	R		R
Cash flows from operating activities			
Cash generated from operations	2 953 991		8 452 620
Finance cost	(377 537)		(244 332)
Net cash from operating activities	2 576 454		8 208 288
Cash flow from investing activities			
Additions to plant and equipment	(3 746 505)		(3 497 790)
Proceeds on disposal of plant and equipment	188 333		212 551
Additions to intangible assets	(360 000)		-
Investment revenue received	452 318		399 743
Net cash used in investing activities	(3 465 854)		(2 885 496)
Cash flow from financing activities			
Repayment of other financial liabilities	(500 000)		(1 000 000)
Repayment of finance leases	(719 187)		(2 422 102)
Proceeds from finance leases and other financial liabilities	-		703 706
Dividends paid	(1 469 091)		(2 520 000)
Net cash used in financing activities	(2 688 278)		(5 238 396)
Total cash movement for the period	(3 577 678)		84 396
Cash and cash equivalents at the beginning of year	7 121 150		7 036 754
Cash and cash equivalents at the end of year	3 543 472		7 121 150

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY					
	Share capital	Share premium	Total share capital	Retained Earnings	Total equity
	R	R	R	R	R
Balance at 30 June 2014	4 200	43 859	48 059	32 046 891	32 094 950
Comprehensive income					
- Profit for the period	-	-	-	2 752 166	2 752 166
Total comprehensive income	-	-	-	2 752 166	2 752 166
Transaction with owners					
- Dividends	-	-	-	(2 520 000)	(2 520 000)
Total transactions with owners					
Balance at 30 June 2015	4 200	43 859	48 059	32 279 057	32 327 116
Comprehensive income					
- Profit for the period	-	-	-	2 013 257	2 013 257
Total comprehensive income	-	-	-	2 013 257	2 013 257
Transaction with owners					
- Dividends	-	-	-	(1 260 000)	(1 260 000)
Total transactions with owners				(1 260 000)	(1 260 000)
Balance at 30 June 2016	4 200	43 859	48 059	33 032 313	33 080 372

SEGMENT REPORT

IFRS8 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 Chief Executive Officer is the chief operating decision maker of the Group.

The Group 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.

All revenues from external customers originate in South Africa.

LCR and Digital Direct+, our main technologies, are two technologies which are fully integrated to provide one telecommunications solution to our customers and are not separately managed.

No single customer makes up more than 10% of the Group's Revenue.

Related Party Relationships

Subsidiary SkyCall Networks (Pty) Ltd

Members of key management BR Topham
MB Pretorius
M van der Walt

Non-executive directors MG Erasmus
J Voigt
DS Van Der Merwe

Entities in which a member of key management and/ or non-executive directors have a beneficial interest

BR Topham SEESA (Pty) Ltd
TAG Consulting (Pty) Ltd
BRAT Trust
TAG Business Advisors (Pty) Ltd

MB Pretorius Snowy Owl Properties 82 (Pty) Ltd
Maison D' Obsession Trust
Telemasters (Pty) Ltd

MG Erasmus Arbor Capital Corporate Finance (Pty) Ltd
Arbor Capital Company Secretarial (Pty) Ltd

J Voigt PerfectWorx Consulting (Pty) Ltd
Contineo Virtual Communications (Pty) Ltd

	30 June 2016	30 June 2015
<u>Related party balances</u>		
Loan accounts - Owning (to) by related parties		
Maison D' Obsession Trust	(2 494 721)	(3 600 000)
Amounts included in Trade receivable regarding related parties		
Telemasters (Pty) Ltd	-	808 104
Snowy Owl Properties 82 (Pty) Ltd	130 995	130 995
Amounts included in Trade Payable regarding related parties		
SEESA (Pty) Ltd	-	3 979
TAG Business Advisors (Pty) Ltd	-	36 822
TAG Consulting (Pty) Ltd	5 000	-
<u>Related party transactions</u>		
Cost of Sales from related parties		
PerfectWorx Consulting (Pty) Ltd	2 055 878	1 800
Contineo Virtual Communications (Pty) Ltd	3 662 583	70 543
Telemasters (Pty) Ltd	210 526	842 149
Rent paid to related parties		
Snowy Owl Properties 82 (Pty) Ltd	1 378 895	1 378 895
Consulting fees paid to related parties		
SEESA (Pty) Ltd	-	108 342
TAG Business Advisors (Pty) Ltd	133 663	375 369
BRAT Trust	33 465	2 100
Arbor Capital Company Secretarial (Pty) Ltd	120 000	250 800
TAG Consulting (Pty) Ltd	317 750	-
Sales to related parties		
TAG Business Advisors (Pty) Ltd	20 215	25 388
Telemasters (Pty) Ltd	380 417	-

Compensation to key management		
M van der Walt	864 000	920 846
Short-term employee benefits – Directors	1 463 396	1 463 396

1. COMPANY PROFILE

TeleMasters is licensed to provide voice, data and cloud based corporate communication. It supplies fixed-line, fixed cellular, fixed data and virtual PBX services countrywide.

2. FINANCIAL RESULTS

2.1 Statement of compliance and basis of preparation

The summary consolidated financial statements are prepared in accordance with the requirements of the Johannesburg Stock Exchange's Listings Requirements for provisional reports and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements from which the summary financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for the adoption of the new policy related to the sale and leaseback of equipment:

“Sale and lease back

A sale and leaseback transaction involves the sale of an asset and leasing back of the same asset. If a sale and leaseback transaction results in a finance lease for the Group, any excess of sales proceeds over the carrying value is amortised over the term of the new lease as deferred income.”

This summarized report is extracted from audited information, but is not itself audited. The consolidated annual financial statements were audited by Nexia SAB&T, who expressed an unmodified opinion thereon. The audited consolidated annual financial statements and the auditor's report thereon are available for inspection at the Company's registered office. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office. The directors take full responsibility for the preparation of the provisional report and that the financial information has been correctly extracted from the underlying consolidated annual financial statements

These results were prepared under the supervision of Brandon Topham CA (SA).

2.2 Commentary on operating results

The Company experienced growth in Revenue of a nett 7.45% in a very competitive pricing environment, reflecting only 26% of the increase in billing growth. The fall-off from disconnected and lost clients was substantially higher than previous periods, reflecting the tightening economic scenario affecting SME customers. The Company has a portfolio of R274 million future revenue in signed contracts to term.

The gross margin increased by 26.8% in the period. It moved from 29.8% to 35.2% primarily as a result of the migration and increase of customers on the fixed line platform as opposed to the legacy Least Cost Routing service. Newly introduced Data services contributed to the increase in the Revenue. The focus on data access to cloud services remains the strategic priority of the Company. Six new product and service offerings were introduced to a very good market response.

The gain made in margin increase was offset by the higher operating costs of additional sales rewards to the channel and additional offices opened as well as an increase in the technical support. The investment in added capacity is realising at a slower pace than expected and additional distribution channels are being rolled out to take up this capacity. The period's results have prompted the Company to reorganize internally for efficiency and market focus.

Finance costs increased from R244 331 in 2015 to R377 537 as a result of increased finance lease agreements entered into in order to provide the higher capital requirements of the Fixed Line platform to new customers. Additions to plant and equipment amounted to R8 386 099 for the year compared with R3 729 199 in the 2015 year. The borrowings of the Group remain very low in comparison with the assets of the Group.

Cash generated from operations reduced from R8 452 620 in 2015 to R2 953 991 primarily as a result of the increased operating expenditure and asset acquisitions referred to above. Dividends were reduced from the prior year's R2 520 000 to partially compensate for the lower cash generated.

2.3. Dividends paid and notice of declaration of a dividend

The board decreased the dividends paid from R2.52 million in the 2015 year to R1.26 million in the 2016 year. The board does not primarily link the payment of dividends to the current year's operating results, but considers the dividends in relation to the Groups' reserves of R33 million in 2016 (R32 million in 2015). The board considers the working capital requirements of the Group for the next 12 month period when determining a dividend. The board considers that dividends are an important reason why shareholders invest in a Company and hence hold the principle of paying quarterly dividends highly.

The following dividends were declared during the year to date:

- A dividend of 1 cents per share was declared and payable to all shareholders recorded in the share register of the Company at the close of business on 23 October 2015;
- A dividend of 1 cents per share was declared and payable to all shareholders recorded in the share register of the Company at the close of business on 29 January 2016;
- A dividend of 0.5 cent per share was declared and payable to all shareholders recorded in the share register of the Company at the close of business on 13 May 2016;
- A dividend of 0.5 cent per share was declared and payable to all shareholders recorded in the share register of the Company at the close of business on 22 July 2016.

Notice is hereby given that a dividend of 0.5 cents per share has been declared and is payable to all shareholders recorded in the share register of the Company at the close of business on Friday, 28 October 2016.

The dividend will be subject to the Dividends Tax that was introduced with effect from 1 April 2012. In accordance with the provisions of the Listings Requirements of the Johannesburg Stock Exchange, the following additional information is disclosed:

- the dividend has been declared out of retained earnings;
- the local Dividends Tax rate is 15%;
- the gross local dividend is 0.5 cents per share for shareholders exempt from Dividends Tax;
- the net local dividend is 0.425 cents per share for shareholders liable for Dividends Tax;
- the Company has 42 000 000 ordinary shares in issue;
- the Company's income tax reference number is: 9683978143.

The following dates are applicable to the dividend:

The last day to trade in order to be eligible for the dividend will be Tuesday, 25 October 2016. Shares will trade ex-dividend from Wednesday, 26 October 2016. The record date will be Friday, 28 October 2016 and payment will be made on Monday, 31 October 2016.

Share certificates may not be dematerialised/ re-materialised between Wednesday, 26 October 2016 and Friday, 28 October 2016, both days inclusive.

2.4. Acquisition of property plant and equipment

Property, plant and equipment acquired during the year was comprised mostly of investments in IT equipment and routers and handsets to assist with the expansion of the Digital Direct product.

2.5 Reclassification

The comparative period cash flow statement has been reclassified as follows:

	Restated	Previously stated	Difference
Additions to plant & equipment	(3 497 790)	(3 729 199)	231 409
Proceeds from finance leases	703 706	935 115	(231 409)

The restatement of the 2015 consolidated annual financial statement were identified following the Johannesburg Stock Exchange ("JSE") pro-active monitoring process whereby the 2015 AFS were selected for review. This restatement is as a result of an error in the interpretation of IAS 7 relating to the cash flows of instalment sale agreements classified as capitalised finance leases.

No changes to the statement of Financial Position, Statement of Comprehensive Income or to the total cash movement for the period as a result of the above restatement, occurred.

3. SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the reporting date which would have a material effect on the consolidated results or the consolidated financial position of the Group as reported.

4. LITIGATION

There are currently no legal proceedings 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 consolidated position of the Group, other than as disclosed below:

- The Company is currently involved in litigation with a previous client pertaining to outstanding receivables to the value of R4.1 million. These receivables are, however, adequately secured through a cession of shares held against the debt owed to the Company in excess of the R4.3 million outstanding receivable. The previous client has lodged a counter claim against the Company for a similar amount to the claim the Company has against them. The matter has been referred for arbitration, which is in process. Due to the technical nature of the claim, progress has been slow.
- The Company is currently involved in litigation with a previous supplier relating to contractual disputes over amounts billed by the supplier to the value of R1.4 million.

The estimated legal fees to continue pursuing these legal matters are approximately R600 000.

5. GOING CONCERN

The board of directors is of the opinion that, having regard to the current status and the future strategy of the Group, the Group has sufficient resources to continue as a going concern.

6. SHARE CAPITAL

No changes to share capital occurred during the past financial year.

7. CORPORATE GOVERNANCE

The Group subscribes to the values of good corporate governance at all levels and is committed to conducting business with discipline, integrity and social responsibility.

8. FINANCIAL INSTRUMENTS

The carrying amount of all significant financial instruments approximates the fair value.

9. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

There has been no material change in the Group's financial risk management objectives and policies compared to those disclosed in the consolidated annual financial statements as at and for the year ended 30 June 2015 and the interim period ended 31 December 2015.

The Group does not currently carry any assets or liabilities at fair value which required any disclosure on its fair value measurement.

8. FUTURE PROSPECTS

Telecoms, data and cloud services remain an exciting and profitable market with enormous potential in which to market the company services. As this market matures, the uptake of new generation digital voice services is becoming the norm and the Group will continue to market high quality voice services as its mainstay product.

The focus on increasing data access to cloud services remains the strategy priority of the Group. Six new product and service offerings were introduced to a very good market response. Mobile integration with fixed line services will be launched in the next quarter. Unique and innovative features continue to define the company's services. The re-focus on expansion of services to current clients whilst maintaining momentum in new customer acquisition is expected to keep its growth at the pace the Board expects.

For and on behalf of the Board:

MB Pretorius
Chief Executive Officer
30 September 2016

BR Topham
Chief Financial Officer

Corporate information

Directors: DS van Der Merwe[#], MB Pretorius, BR Topham, J Voigt* MG Erasmus*
(* non-executive [#] independent)

Registered address: 90 Regency Drive, Route 21 Corporate Office Park, Irene, 0157 Pretoria
(P.O.Box 68255 Highveld Park 0169)

Company secretary: TAG Consulting (Pty) Ltd

Auditors: Nexia SAB&T, 119 Witch-Hazel Avenue, Highveld Technopark, Centurion

Transfer secretaries: Link Market Services Proprietary Limited, 13th Floor, Rennie House,
19 Ameshoff Street, Braamfontein, 2017

Designated Advisor: Arbor Capital Sponsors Proprietary Limited

Website: www.telemasters.co.za