TeleMasters Holdings Limited
(Incorporated in the Republic of South Africa)
Registration number: 2006/015734/06
Share code: TLM
ISIN: ZAE000093324
("TeleMasters" or "Group" or "Company")

Un-audited condensed consolidated financial statements for the six months ended 31 December 2019 and dividend declaration

HIGHLIGHTS

- 191% increase in earnings per share 3,90 cents from 1,34 cents in previous six months period
- 12,81% reduction in operating expenses adjusted to exclude benefit of once-off settlement
- 42,64% increase in cash and cash equivalents on hand
- 1,50 cent dividend declared and payable on 28 April 2020
- Shift to cloud-based services and diversification of routes to market yielding results
- Rebranding of principal operating subsidiary as Catalytic Connections commenced in trading period

1. Commentary on operating results

The market is evolving rapidly with many new offerings and entrants creating noise and confusion for customers that are increasingly spoilt for choice. Although some of it is good, it is becoming more difficult (and complicated) for customers to make decisions.

Revenue decreased as a result of TeleMasters wanting to ensure spend management and an element of predictability for our customers, by moving away from the traditional variable billing type service we offered in the past and shifting our focus to subscription-based services. This gives us and our customers the opportunity to budget for, and plan communication expenses throughout the year, thus providing a clear Return on Investment (ROI) benefit.

The gross profit percentage increased to 38,53% compared with 36,28% in the prior year. The Group incurred an additional R247k depreciation charge during the current financial period as a result of a re-assessment of the useful lives of various assets. A settlement was reached with Huge Group Limited (Huge) in respect of a long-standing dispute, this had a once-off positive earnings and cash flow impact of R1,72million. The Group managed to reduce the operating expenditure by 12,81%, which excludes the settlement amount with Huge. The operating results benefited from a positive tax charge of R352k relating to assessed losses in one of the operating subsidiaries. This resulted in a profit for the period of R1,64million compared to R564k for the comparative period. The earnings per share increased from 1,34 cents per share to 3,90 cents, an increase of 191%.

Whilst the profits are impacted by substantial amounts in respect of non-cash flow expenses like depreciation and amortisation, the Group continued to generate strong operating cash flows. Prepayments decreased to R3,26million from R7,34million for the prior year as the Group no longer pay term dealer commissions upfront for signed agreements. The increase in trade and other payables is attributable to a focus on working capital management as well as the dividend declared in December 2019. The cash and cash equivalents at the end of the period increased from a positive R14,24million in the comparative period to a positive R18,53million. Cash was used to repay lease liabilities of R202k, to acquire additional assets to the amount of R2.13million for expansion of new services to customers as well as provide a loan of R970k to Conexlink, which specialises in Secure Disaster Recovery Data Centre services for complex environments, from large high -power density facilities to smart edge data centres. These new assets are expected to generate additional revenue in subsequent periods and bode well for the future operations of the Group. The positive cash generation remains a key component of our business focus and is a result of our focus on building an annuity-based business model.

The current working capital ratio is 3,21 to 1 thus reflecting a positive working capital position. The non-current assets are R15,05million compared with non-current liabilities of only R705k.

The net asset value has decreased from 83,34 cents per share to 82,88 cents per share, this was influenced by dividends of 4,50 cents per share which were paid during the period.

2 Dividends declared and paid

The Board does not link the payment of dividends primarily to the current year's operating results, but considers the dividends in relation to the Group's reserves of R34,76 million in 2019 (R34,95 million in 2018). 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 the Group and hence regards the principle of paying quarterly dividends as important.

The following dividends were declared during the period under review:

- Dividend number 44 of 1,50 cents per share was declared on 26 July 2019 and paid to all shareholders recorded in the share register of the Company at the close of business on 8 August 2019;
- Dividend number 45 of 1,50 cents per share was declared on 1 October 2019 and payable to all shareholders recorded in the share register of the Company at the close of business on 1 November 2019;
- Dividend number 46 of 1,50 cents per share was declared on 10 December 2019 and payable to all shareholders recorded in the share register of the Company at the close of business on 3 January 2020.

3. Dividend declaration

Notice is hereby given that a gross interim cash dividend (Number 47) of 1.50 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, 24 April 2020.

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 20%;
- the gross local dividend is 1,50 cents per share for shareholders exempt from Dividends Tax;
- the net local dividend is 1,20 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 9683/978/14/3.

The following dates are applicable to the dividend: The last day to trade in order to be eligible for the dividend will be Tuesday, 21 April 2020. Shares will trade ex-dividend from Wednesday, 22 April 2020. The record date will be Friday, 24 April 2020 and payment will be made on Tuesday, 28 April 2020.

Share certificates may not be dematerialised / re-materialised between Wednesday, 22 April 2020 and Friday, 24 April 2020, both days inclusive.

4. Company focus

TeleMasters is the premier Managed Solutions Service Provider to medium and small businesses in South Africa. We work with business owners who seek solutions to their ICT challenges.

We are a trusted advisor to our customers, as we lead them on a solution-focused journey to simplify and future-proof their businesses' digital future.

Business owners look to TeleMasters when:

- Seeking to optimise productivity and to maximise ROI in respect of their digital investments;
- Seeking a solution provider that truly understands their business and future ambitions;
- Frustrated that their current system is not performing as expected when sold to them;

- Seeking a trusted advisor, that understands their business needs and is able to seamlessly remove their pain points;
- Searching for a truly integrated solution that can future-proof their business needs;
- Seeking peace of mind that they are dealing with a Solution Provider that has “skin in the game” and will always seek to walk the extra mile for them;
- Seeking a solution provider that not only understands, but is fanatical about the “human connection”.

Our solution-focused customer journey is made up of 4 key solution pillars namely:

With extensive best-of-breed solutions within these pillars, we are able to provide our customers with peace of mind that we have their ICT needs and ambitions covered.

It is not about the link; but rather the connection that matters to us. Our unique service-obsessed approach differentiates us from other alternatives in the market and influences our customers’ choices when deciding on a connectivity solutions partner. We have become the connection of choice because:

- We are a trusted advisor to our customers — once we start on the journey, we remain there to drive the shared vision with our customers;
- We offer easy to understand, business friendly solutions;
- We have already identified key pain and growth points for business that we can help solve;
- We are service-focused and always accessible — no one handles crisis situations better than we do — we live an all-hands-on-deck philosophy;
- We are honest and ethical and will always do what is best for our customers;
- We regularly check-in with our customers and walk their journey with them;
- With us it’s personal — we believe that we play a key part in our customers’ business success.

Our enhanced solutions portfolio simplifies decision making processes for our customers, knowing that they can use TeleMasters as a first-port-of-call for all their ICT requirements. This deeper engagement creates opportunities for TeleMasters to play a more prevalent role in our customers’ ICT spend while mapping out a journey that will see the engagement grow for many years to come.

5. Prospects

Our product strategy is centred around driving customers to the Cloud thereby enabling them to unlock business value and drive efficiency and productivity. We have a brand new, world-class Unified Communications product suite which will change the way that our customers do business.

With this strategy, we have diversified our route to market. We now have direct and indirect routes to market, which we believe will enable better market penetration.

We will continue to investigate opportunities for diversification and growth within the sector. In the coming year we will focus on the identification and acquisition of complementary businesses to aid in a more unified and competitive product offering to customers as well as improved profitability. As part of our new direction, we are also placing renewed focus on our marketing strategy. As a first step, we successfully rebranded our principal operating subsidiary as Catalytic Connections (Pty) Ltd – known in the market as Catalytic. We are ensuring that with the new brand identity we communicate the message of "it's the connection that matters". We are aligning our marketing efforts with the sales activities as we build a stronger sales force to engage on all levels within the business sphere. We are excited at what the future holds, as we morph into the Next Generation player we believe ourselves to be.

6. 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.

7. Changes to the Board of Directors

Subsequent to the period end, Dr David Bate was appointed to the Board in the capacity of Independent Non-executive director. Dr Bate has over 25 years of experience making an impact as an investment banker, entrepreneur and educator and is the founder of an investment banking firm that specializes in Africa, the Middle East and Asia across M&A, privatizations, PPP's, debt finance and private equity.

8. Approval of the financial statements

The un-audited condensed consolidated financial statements were approved by the Board of Directors on 31 March 2020 and are signed on its behalf by:

J Voigt
Chief Executive Officer

JM Vosloo
Chief Financial Officer

Condensed consolidated statement of comprehensive income

for the six months ended 31 December 2019

	31 Dec 19 Un-audited R	31 Dec 18 Un-audited R
Revenue	**42 297 937**	**53 630 736**
Cost of Sales	(26 002 055)	(34 172 109)
Gross profit	**16 295 882**	**19 458 627**
Other Income	58 089	217 889
Operating expenses	(14 937 401)	(19 110 547)
Operating profit	**1 416 570**	**565 969**
Investment revenue	425 831	406 157
Finance costs	(53 853)	(188 884)
Profit before income tax	**1 788 548**	**783 242**
Income tax	(148 651)	(219 307)
Profit for the period	**1 639 897**	**563 935**
Other comprehensive income for the period	**0**	**0**
Total comprehensive income for the period	**1 639 897**	**563 935**
Earnings and dividends per share		
Basic earnings per share (cents)	**3,90**	**1,34**
Diluted earnings per share (cents)	**3,90**	**1,34**
Dividends declared per share (cents)	**4,50**	**3,00**

Condensed consolidated statement of financial position

as at 31 December 2019

	31 Dec 19 Un-audited R	30 Jun 19 Audited R	31 Dec 18 Un-audited R
Assets			
Non-current assets	**16 016 150**	**17 550 748**	**20 621 458**
Property, plant and equipment	8 523 761	10 169 568	12 766 502
Intangible assets	2 549 219	2 719 997	1 702 674
Goodwill	3 286 779	3 286 779	3 286 779
Loans receivable	970 074	0	0
Deferred tax	559 674	206 899	0
Prepayments	126 643	1 167 505	2 865 503
Current assets	**28 756 518**	**23 370 374**	**24 899 861**
Inventories	790 358	366 321	507 251
Trade and other receivables	6 340 713	6 019 602	5 582 392

Prepayments	3 099 864	3 971 623	4 565 883
Current tax receivable	0	25 368	0
Cash and cash equivalents	18 525 583	12 987 460	14 244 335
Total assets	**44 772 668**	**40 921 122**	**45 521 319**
Equity and liabilities			
Total equity	**34 811 263**	**35 061 366**	**35 002 318**
Issued capital	48 059	48 059	48 059
Retained earnings	34 763 204	35 013 307	34 954 259
Non-current liabilities	**705 148**	**815 797**	**1 503 403**
Finance lease liabilities	655 907	766 556	665 562
Deferred income	49 241	49 241	0
Deferred tax	0	0	837 841
Current liabilities	**9 256 257**	**5 043 959**	**9 015 598**
Finance lease liabilities	300 230	391 569	1 655 470
Trade and other payables	8 327 326	4 499 747	6 827 703
Deferred income	152 643	152 643	201 884
Bank overdraft	0	0	51 343
Current tax payable	476 058	0	279 198
Total equity and liabilities	**44 772 668**	**40 921 122**	**45 521 319**
Number of shares in issue	**42 000 000**	**42 000 000**	**42 000 000**
Net asset value per share (cents)	82,88	83,48	83,34
Net tangible asset value per share (cents)	68,99	69,18	71,46

Condensed consolidated statement of changes in equity

for the six months ended 31 December 2019

	Share capital	Share premium	Total share capital	Retained earnings	Total equity
	R	R	R	R	R
Balance at 1 July 2018	**4 200**	**43 859**	**48 059**	**35 650 324**	**35 698 383**
Other comprehensive income	-	-	-	-	-
Profit for the period	-	-	-	563 935	563 935
Total comprehensive income	**-**	**-**	**-**	**563 935**	**563 935**
Transaction with owners:					
Dividends	-	-	-	(1 260 000)	(1 260 000)
Total transactions with owners	**-**	**-**	**-**	**(1 260 000)**	**(1 260 000)**
Balance at 31 December 2018	**4 200**	**43 859**	**48 059**	**34 954 259**	**35 002 318**
Other comprehensive income	-	-	-	-	-

Profit for the period	-	-	-	479 048	479 048
Total comprehensive income for the period	**-**	**-**	**-**	**479 048**	**479 048**
Transaction with owners:					
Dividends	-	-	-	(420 000)	(420 000)
Total transactions with owners	**-**	**-**	**-**	**(420 000)**	**(420 000)**
Balance at 30 June 2019	**4 200**	**43 859**	**48 059**	**35 013 307**	**35 061 366**
Other comprehensive income	-	-	-	-	-
Profit for the period	-	-	-	1 639 897	1 639 897
Total comprehensive income for the period	**-**	**-**	**-**	**1 639 897**	**1 639 897**
Transaction with owners:					
Dividends	-	-	-	(1 890 000)	(1 890 000)
Total transactions with owners	**-**	**-**	**-**	**(1 890 000)**	**(1 890 000)**
Balance at 31 December 2019	**4 200**	**43 859**	**48 059**	**34 763 204**	**34 811 263**

Condensed consolidated statement of cash flows

for the six months ended 31 December 2019

	31 Dec 2019 Un-Audited R	31 Dec 2018 Un-Audited R
Cash flows from operating activities		
Cash generated by operations	10 359 136	7 291 835
Finance costs	(53 853)	(188 884)
Income tax paid	0	(340 000)
Net cash generated from operating activities	**10 305 283**	**6 762 951**
Cash flow from investing activities		
Additions to property, plant and equipment	(2 130 927)	(1 372 386)
Loan advanced	(970 074)	0
Additions to intangible assets	0	(270 000)
Investment revenue received	425 831	406 157
Net cash used in investing activities	**(2 675 170)**	**(1 236 229)**
Cash flow from financing activities		
Dividends paid	(1 890 000)	(1 177 350)
Repayment of borrowings	0	(920 278)
Repayment of leases liabilities	(201 991)	0
Net cash used in financing activities	**(2 091 991)**	**(2 097 628)**
Total cash movement for the period	5 538 123	3 429 094
Cash and cash equivalents at the beginning of period	12 987 460	10 763 899
Cash and cash equivalents at the end of period	**18 525 583**	**14 192 992**

Notes to the condensed consolidated financial statements
for the six months ended 31 December 2019

1. Statement of compliance and the basis of preparation

The condensed consolidated interim financial statements of TeleMasters Holdings Limited, have been prepared in accordance with the framework concepts and the measurement and recognition requirements of the International Financial Reporting Standards ("IFRS"), the information required by IAS 34: *Interim Financial Reporting,* the South African Companies Act 2008 (as amended), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and the JSE Listings Requirements.

These results were prepared under the supervision of Michael Vosloo CA (SA) and have not been audited or reviewed by the Auditors of the Group.

2. Going concern

Whilst the effect of COVID-19 on the South African and world economic environment cannot yet be determined, the Board of Directors are 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 for the immediate future.

3. Financial instruments

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

4. 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 2019.

5. Earnings, headline earnings and dividend per share

Earnings per share	31 Dec 19 Un-audited	31 Dec 18 Un-audited
Earnings and diluted earnings per share (cents)	**3,90**	1,34
Earnings used in the calculation of earnings and diluted earnings per share	**1 639 897**	563 935
Headline and diluted headline earnings per share (cents)	**3,90**	1,34
Reconciliation between earnings and headline earnings		
Earnings attributable to shareholders of the group	**1 639 897**	563 935
Adjust for:		
Profit on disposal of plant and equipment	**0**	0
Tax effect of profit on disposal of plant and equipment	**0**	0
Headline earnings for the year	**1 639 897**	**563 935**
Issued number of shares	**42 000 000**	42 000 000

Dividends per share		
Dividends per share (cents)	**4,50**	3,00
Total dividends declared	**1 890 000**	1 260 000
Issued number of shares	**42 000 000**	42 000 000

6. Change in accounting policies

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 June 2019. The accounting policies adopted in the preparation of the interim condensed consolidated interim financial statements are consistent with those followed in the Group's annual consolidated financial statements for the year ended 30 June 2019, except for the adoption of new standards effective as of 1 January 2019.

<u>IFRS16: Leases – Effective date: 1 January 2019</u>

The IFRS 16 replaces IAS 17 Leases. IFRS 16 has one model for lessees which will result in almost all the leases being included on the Statement of Financial Position.

The amendments did not have a material impact on the Group's financial statements.

7. Segment reporting

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 Chief Executive Officer is the Chief Operating Decision Maker of the Group.

Based on a consideration of the above, it can be concluded that 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.

- The requirements of an operating segment is that the results of the component of the entity is regularly reviewed by the CODM, however the nature of the services is such that the internal reporting thereof to the

CODM is allocated as a single operating segment due to the similarity in nature, process, clients, method of delivery and regulatory environment.

- The nature of Group's business is that of a service provider. The services provided, are performed from a single source technology basis. The services provided are billed to single customers, charged on the type of service provided. These range from fixed line services, to cellular services as well as to data and VOIP services. The services provided are not separately run segments or divisions and are managed from a single source, employee and asset base perspective.
- The asset and liabilities used in providing the services are indistinguishable from each other and the same technology platforms are used in providing all services to a customer. It is therefore impossible to obtain specific discernible financial information, except for the billing raised specific to the service which has been charged. This information is presented as such to the CODM.

All revenues from external customers originate in South Africa, thus our geographical locations of operations are restricted to a single area, 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.

8. Related party transactions

Members of Key Management	
J Voigt	Executive Director
BR Topham	Executive Director (resigned 31 January 2019)
JM Vosloo	Executive Director
Non-Executive Directors	MG Erasmus
	MB Pretorius
	WF Steinberg
	M Tappan

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

MG Erasmus	Arbor Capital Company Secretarial (Pty) Ltd
MB Pretorius	Snowy Owl Properties 82 (Pty) Ltd
	Conexlink (Pty) Ltd
	Telemasters (Pty) Ltd
	Zero Plus Trading 194 (Pty) Ltd
BR Topham	TAG Consulting (Pty) Ltd
	TAG Business Advisors (Pty) Ltd
J Voigt	Perfectworx Consulting (Pty) Ltd
	Contineo Virtual Communications (Pty) Ltd
JM Vosloo	JMV Business Solutions

Related party transactions and balances	31 December 2019 R	31 December 2018 R
Details of transactions and balances occurring between the company and the related parties are presented below:		
Sales to:		
Contineo Virtual Communications (Pty) Ltd	17 981	0
TAG Business Advisors (Pty) Ltd	0	3 689
Telemasters (Pty) Ltd	0	32 920
	17 981	**36 609**
Purchases from:		
Perfectworx Consulting (Pty) Ltd	1 447 611	736 718
Contineo Virtual Communications (Pty) Ltd	4 139 359	3 807 172
	5 586 970	**4 543 890**
Consulting fees paid to:		
TAG Consulting (Pty) Ltd	0	115 801
Arbor Capital Company Secretarial (Pty) Ltd	0	90 000
JMV Business Solutions	564 782	0
Zero Plus (Pty) Ltd	186 000	204 000
	750 782	**409 801**
Rentals on operating lease to:		
Snowy Owl Properties 82 (Pty) Ltd	1 046 473	1 046 473
Trade receivables:		
Telemasters (Pty) Ltd	0	301 234
TAG Business Advisors (Pty) Ltd	0	544
	0	**301 778**
Trade payables:		
PerfectWorx Consulting (Pty) Ltd	291 400	
Snowy Owl Properties 82 (Pty) Ltd	200 574	200 574
	491 974	**200 574**
Compensation to Key management		
Short-term employee benefits – Key Management non-directors	0	569 582
Short-term employee benefits – Directors	1 109 054	1 469 318

9. Litigation

There are currently no legal or related proceedings against the Group, of which the Board 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.

10. Subsequent events

The Board supports the actions taken by the South African Government with regards to the COVID-19 pandemic. Our objective during this time is to support our customers whilst safeguarding our employees. ICT and infrastructure support services are classified as essential business services and whilst no new installations will take place during the lockdown period, our customer support and sales staff will continue to work remotely, whilst our Solution Deployment Catalysts are able to attend to any equipment issues.

11. Corporate information

Directors:	DJ Bate*#, MG Erasmus*#, MB Pretorius*, WF Steinberg*#, M Tappan*#, J Voigt, JM Vosloo (* 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:	S Ramirez-Victor
Auditors:	Nexia SAB&T, 119 Witch-Hazel Avenue, Highveld Techno Park, Centurion
Transfer secretaries:	Link Market Services Proprietary Limited, 13th Floor, 19 Ameshoff Street, Braamfontein, 2017
Designated Advisor:	Arbor Capital Sponsors
Website:	www.telemasters.co.za