Foneworx Holdings

ANNUAL REPORT 2007

FONEWORX HOLDINGS LIMITED

(Reg No 1997/010640/06)

ANNUAL REPORT

for the year ended 30 June 2007

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DIRECTORS AND ADMINISTRATION

Company registration number
1997/010640/06

Share code
FWX

ISIN code
ZAE000086237

Website
www.foneworx.co.za

Directors
Ronald Graver
Ashvin Govan Mancha B Proc* – Chairman
Gaurang Mooney BA* (Botswana)
Robert Russell
Mark Smith BA LLB – Chief Executive Officer
Gareth Tudor CA (SA) – Financial Director
(* Independent non-executive)

Business address and registered office
Corner Bram Fischer Drive and Will Scarlet Road, Ferndale, Randburg, 2193
PO Box 3386, Pinegowrie, 2123
Telephone +27 11 293 0000
Fax 086 610 1000, +27-11 787 2137

Transfer secretaries
Computershare Investor Services 2004 (Pty) Limited
Ground Floor, 70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107
Telephone +27 11 370 7700, Fax +27 11 688 7716
Website www.computershare.com

Auditors
G Cambanis Inc

Attorneys
De Wet Wrigglesworth Inc

Bankers
Absa Bank Limited
Investec Bank Limited
Standard Bank of SA Limited

Secretary
G H Tudor CA (SA)
PO Box 3386, Pinegowrie, 2123

Designated advisor
Deloitte and Touche Sponsor Services (Pty) Limited

PROFILE

The group, via its wholly owned subsidiary FoneWorx (Pty) Limited, is a telecommunications value-added service provider. It has clearly defined divisions, namely: Infotainment, Business, Content and Switching – the latter two having been introduced during the year under review as per the CEO's report.

FoneWorx offers clients a range of business and infotainment services, hosted on FoneWorx's own platform. It has service provider agreements with Telkom, MTN, Vodacom and Cell C. The platform currently comprises in excess of 1 200 channels of digital voice and data, which is the largest independent platform in South Africa.

FoneWorx provides infotainment services to the FMCG market, broadcasters and publishers as well as business services such as Conference Call, Auto Receptionist, Voice over Internet Protocol ("VoIP"), Voice and Text Storage Services, Fax2Email, PC2Fax, Fax on Demand, Fax2Web, International Fax and bespoke business services incorporating financial switching for credit cards.

The FoneWorx platform has been designed to operate either as a bureau-based or an application service provider model, which enables clients to select from a suite of services. These range from basic and complex infotainment services to more intricate business services. FoneWorx has a dynamic and expanding technology capability which caters for the diverse requirements of large and small organisations.

It supplies stand-alone solutions deployed at clients' premises, and designs bespoke services on behalf of clients which incorporate a number of the bearer technologies adopted by the group. These services include fax, SMS, USSD, WAP, GPRS, voice services and internet service provision.

The intellectual property of FoneWorx resides in the ability to integrate various bearer technologies, which allow clients access to other technologies through one portal, being the FoneWorx platform.

FoneWorx also runs services within Africa through correspondent cellular networks, mainly within the SMS and IVR environment, by hosting services from various countries in Africa on its platform in Randburg, South Africa. The company is therefore well positioned to conduct campaigns in association with electronic media and advertising agencies for products and services offered and sold throughout Africa.

The group has a 51% equity interest in SurveyOnline (Pty) Limited, which is a solution-based market research company that offers research using the latest methodologies including internet, SMS and IVR. SurveyOnline management are members of the South African Research Association and provide innovative and actionable market research solutions. The group also has a 40% equity interest in ALTONet (Alto Network Communications (Pty) Limited), an Internet Service Provider ("ISP").

I am pleased to present the audited annual financial statements for the year ended 30 June 2007.

Revenue increased by 75% from R33 million to R58 million.

Earnings before net interest, tax, depreciation and amortisation ("EBITDA") improved to R13,1 million (2006 – R3,8 million) which is an increase of 249%, and net profit before tax was R11,9 million (2006 – R2,5 million), an increase of 376% against the previous year.

Earnings increased by 252% from 2,24 cents per share to 7,89 cents per share and headline earnings increased by 223% from 2,54 cents per share to 8,20 cents per share.

Profit before tax, expressed as a percentage to revenue, improved to 20,5% (2006 – 7,5%). This is essentially due to the automated systems being able to accommodate more transactions with minimal need for additional capital or human resource. Gross profit was R30,5 million (2006 – R17,4 million), which as a percentage of revenue was constant at 52%. Direct operating costs, which consist primarily (95%) of payments to dealers and service providers, totalled R27,7 million (2006 – R15,8 million).

Assessable losses for tax purposes were used up during the year, resulting in an effective tax rate for the year of 24,5%. It is anticipated that tax will be paid at the full current rate of 29% in the future.

The group's cash position improved substantially to R14,6 million (2006 – R4,5 million). The group remains debt free save for short-term finance for vehicles and capital equipment, which amounts to R2,9 million in aggregate.

As a group we are constantly trying to reinvent our business by developing new concepts, services and products. During the year under review, R700 000 was expensed on developing new products incorporating the Virtual Business Centre ("VBC") as well as a FICA/RICA enrolment and authentication service.

I am pleased to report that during the year, FoneWorx purchased a 50% share in a building in Randburg at a cost of R4,25 million, which now comprises the new Head Office for the group. Our 50% share entitles us to use 50% of the property, and the purchase price was fully financed by a bank. In February 2007, we moved to our new offices which were completely refurbished to accommodate our future growth. I am also proud to report that we have developed a state-of-the-art innovation and hosting centre which ensures that we provide our clients with up-to-date hosting facilities and caters for our anticipated growth incorporating our new products and services. The cost of refurbishment of our share of the building as well as the investment in the innovation centre amounted to R1,25 million.

FoneWorx has four defined divisions which comprise: **Infotainment Services, Business Services, Content Services and Switching Services**. Each of these divisions is in a different stage of development. Infotainment and Business Services are more mature and within these divisions we constantly refine, add new layers of value and leverage volumes via system sophistication.

Content and Switching are in their early life cycle phase. Earnings are expected to start small, yet there is substantial upside in these new divisions. Content and Switching Services will require upfront investment and more of management's time. We are excited by the potential of these services which are essential to the growth of the group.

Infotainment

FoneWorx has developed its own proprietary data and voice platform which currently operates over 1 200 channels and hosts a broad range of services. The platform offering was enhanced during the year with the development of a user interface or "dashboard" which enables our clients to initiate, script and manage their own services remotely. This development enhances the intellectual property of the platform and the service offering.

FoneWorx has established itself as one of the few service providers that can manage services in Africa, which is done from our Randburg offices. FoneWorx has established relationships in 27 countries in Africa and interfaced with over 52 cellular networks. A number of well-known campaigns were managed throughout Africa, including Idols West Africa and Big Brother Africa II. FoneWorx has been appointed as the preferred service provider to MultiChoice ("MMobile") for services in Africa. In addition, FoneWorx is the preferred service provider to the SABC and is currently involved in a number of new projects with the SABC.

The primary services provided by FoneWorx in the Infotainment division include: promotions, competitions, voting and information services. The client base includes a broad range of advertising agencies and fast moving consumer goods companies. Dedicated sales personnel service this division.

Business Services

Business Services incorporates fifteen services which include:

Address Book	Fax2Email
PC2Fax	Data Storage
SMS	Auto Receptionist (PBX)
Business and Legal Forms	Telco Service and Products
Accounting	SurveyOnline
Credit Card Processing	VoIP Call
Diary Service	Conference Call
Email	

These services are either sold discretely as individual offerings or in aggregate via our Virtual Business Centre ("VBC") which is a combination of the fifteen services in one portal, and which has a prepaid back-end billing engine. VBC embraces the convergence of technology and is aimed at the SMME market. It allows subscribers to access cutting-edge technology on a true "pay-to-use" basis.

The range of business services is sold to the market via a focused dealer network which has now grown to 140 dealers (2006 – 108). Dealers are fully trained and are provided with a fully integrated web-based administration interface to enable them to remotely sign on and manage new clients.

FoneWorx has also received firm interest for the deployment of the Virtual Business Centre in Nigeria and Kenya. In addition, interest has also been shown in Ghana for the deployment of a FoneWorx voice and data switch. These initiatives clearly reflect that the FoneWorx platform offering and services are well placed for export potential, particularly within Africa.

The phenomenal growth in Business Services contributed strongly to the group's strong earnings during the period under review.

Content Services

FoneWorx concluded agreements with all the major music labels (Sony/BMG, Universal, Gallo/Warner, EMI) and independent labels in order to acquire access to full track music content for downloads to personal computers and mobile devices, in digital format. FoneWorx also concluded an agreement with Telkom to host and manage the Telkom music portal within DO Broadband. This new development puts FoneWorx in a strong position to provide similar services to other media companies who wish to provide content services to their clients.

This division is an enhancement to the FoneWorx technical platform and opens up some new and innovative revenue streams for the group.

FoneWorx will continue to grow the breadth and depth of content so as to provide a comprehensive offering to media players both in South Africa and particularly throughout Africa.

Switching Services

FoneWorx has developed an exciting and innovative authentication service for compliance with the Financial Intelligence Centre Act, 2001 ("FICA") and Regulation of Interception of Communications and Provision of Communication Related Information Act, 2002 ("RICA"). This application is aimed at natural and juristic persons and will provide invaluable assistance to accountable institutions. This new concept, as well as early tests to banks, attorneys and retail outlets, has shown promising response, and it is hoped to launch this product commercially during the latter part of 2007.

FoneWorx will earn revenue on an initial subscription and thereafter on a transaction basis. The market for FICA/RICA compliance, particularly within the financial and cellular markets, is enormous. Stringent and conservative regulation will increase the market for this product.

FoneWorx has also presented and conceptualised the launch of a debit card in association with the FICA/RICA application. This card, whilst it is aimed at a broad living standards measurement ("LSM") profile, will also focus on the unbanked and incorporate mobile applications.

Prospects

I am confident about the outlook for the ensuing year to June 2008 and look positively to the growth of our new divisions.

The group is well positioned for sustainable organic growth, whilst management will constantly look at acquisitive opportunities to either enhance or fast-track any of our operating divisions.

The group has a stronger balance sheet, coupled with improved cash flows, which will assist in our future growth.

I believe that there is tremendous opportunity in digital media, particularly with cellphones, the "third television screen", outnumbering both television and PC screens worldwide.

Our content division will thus be well placed to provide relevant content to a new and emerging market who can now receive content on their handsets. I also believe there is tremendous opportunity within our switching division to provide solid solutions for FICA/RICA and services to the currently unbanked markets.

I would once again like to express my appreciation to my co-directors, staff, dealers and network suppliers for the part they have played over the past year. I would also like to express my appreciation to our shareholders for their continued support.

Mark Smith
Chief Executive Officer

20 September 2007

DIRECTORS' RESPONSIBILITY AND APPROVAL

The annual financial statements set out on pages 7 to 30 are the responsibility of the directors.

The directors are responsible for selecting and adopting sound accounting practices, for maintaining an adequate and effective system of accounting records, for the safeguarding of assets, and for developing and maintaining a system of internal controls that, among other things, will ensure the preparation of financial statements that achieve fair presentation. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year.

The directors believe that the company and group have adequate resources to continue operations as a going concern in the foreseeable future, based on forecasts and available cash resources. The financial statements support the viability of the company and group.

The financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the South African Companies Act.

The annual financial statements for the year ended 30 June 2007 set out on pages 7 to 30 were approved by the Board of Directors on 20 September 2007 and are signed on their behalf by

Mark Smith
Chief Executive Officer

Gareth Tudor
Financial Director

DECLARATION BY SECRETARY

at 30 June 2007

In terms of Section 268G(d) of the Companies Act, 1973, as amended ("the act"), I hereby certify that, to the best of my knowledge and belief, all returns that are required by the act to be lodged with the Registrar of Companies have been lodged for the year ended 30 June 2007 and that all such returns were true, correct and up to date.

Gareth Tudor CA (SA)
Secretary

20 September 2007

AUDIT REPORT

To the members of FONEWORX HOLDINGS LIMITED
(formerly Interconnective Solutions Limited)

We have audited the accompanying Group Annual Financial Statements of FONEWORX HOLDINGS LIMITED (formerly Interconnective Solutions Limited) and its subsidiaries, which comprise the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditor's 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 of 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 misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 management, 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 financial statements present fairly, in all material respects, the financial position of the company as at 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Cambani's Inc.

Chartered Accountants (SA)
Registered Accountants and Auditors

20 September 2007

DIRECTORS' REPORT

for the year ended 30 June 2007 to the members of Foneworx Holdings Limited (*formerly Interconnective Solutions Limited*)

The directors have pleasure in submitting their report for the year ended 30 June 2007.

Nature of business

FoneWorx Holdings Limited (formerly Interconnective Solutions Limited) is an investment holding company whose subsidiaries provide interactive telecommunication, switching and content services, orientated around fixed and mobile networks. These include a broad range of services to the FMCG market, business community and media groups.

Authorised share capital

The authorised share capital of the company is unchanged and is made up of R250 000, divided into 250 000 000 ordinary shares of R0,001 each.

Issued share capital

As at 30 June 2007 the issued share capital is made up of R115 671, divided into 115 671 429 ordinary shares of R0,001 each. There were no changes to the issued share capital during the year under review. After the consolidation of the shares held by the Interconnective Solutions Share Incentive Trust, the issued share capital is reduced to 114 071 429 ordinary shares of R0,001 each. In the prior year, 3 571 429 ordinary shares were issued at a price of 21 cents each to the vendors of Alto Network Communications (Pty) Limited as consideration for the purchase of a 40% interest in that company.

The directors of the company for the year ended 30 June 2007 were:

Ronald Graver
Ashvin Govan Mancha* – Chairman
Gaurang Mooney* (Botswana)
Robert Russell
Mark Smith – Chief Executive Officer
Gareth Tudor – Financial Director

(*Independent)

Dividend

The directors have not recommended the payment of a dividend for the year ended 30 June 2007.

Share incentive scheme

The Interconnective Solutions Share Incentive Trust is the owner of 1 600 000 shares in the company. All of those shares were allocated to long-serving and/or senior staff during the period under review. In terms of prior commitments, 900 000 shares were allocated at 50 cents each to certain employees and 700 000 shares were allocated to certain employees at R1,04, being the volume weighted average price on the business day prior to the award. In terms of the rules of the trust, these shares only vest when paid for, which payment must be made within 10 years after the allocation of the shares. No options on further shares have been granted by trust in the past or in the year under review.

Directors' shareholdings as at 30 June 2007 (000's)

	30 June 2007			30 June 2006		
	Direct	**Indirect**		Direct	Indirect	
	Beneficial	**Beneficial**	**Non-beneficial**	Beneficial	Beneficial	Non-beneficial
R Graver	**14 260**	**30**		14 205	30	
A G Mancha			**10 454**			10 500
G Mooney	**24**		**15 219**	24		15 219
R Russell	**400**			400		
M A Smith	**16 471**	**30**		16 425	30	
G H Tudor	**14 710**			14 625		

There have been no changes to the directors' shareholdings between the end of the financial year and the date of this report.

Shareholder spread as at 30 June 2007

To the best of the knowledge of the directors, the spread of shareholders at 30 June 2007 was as follows:

	Number of shareholders	%	Number of shares ('000)	%
1 – 100 000	358	86,7	7 494	6,6
100 001 – 500 000	41	9,9	10 286	9,0
500 001 – 10 000 000	8	1,9	12 370	10,8
10 000 001 +	6	1,5	83 921	73,6
	413	100.0	114 071	100.0

Shareholdings of ordinary shares by category at 30 June 2007

	Number of shareholders	%	Number of shares ('000)	%
Public	405	98,0	29 612	26,0
Non-public				
– Directors	6	1,5	71 600	62,8
– Non-directors*	2	0,5	12 859	11,2
	413	100,0	114 071	100,0

Major shareholders

*Shareholders other than directors who, insofar as is known, were directly or indirectly interested in 5% or more of the company's issued share capital as at 30 June 2007 were as follows:

	Number of shares ('000)	%
Aubrey Nevill Bentel	6 429	5,6
Selwyn Michael Bentel	6 429	5,6

Special resolutions

A Special Resolution was passed at a Special General Meeting of shareholders on 10 November 2006 to change the name of the company from Interconnective Solutions Limited to FoneWorx Holdings Limited. No other special resolutions were passed by the company and no special resolutions were passed by any of its subsidiaries during the period under review or since the date of the previous directors' report.

Events subsequent to the financial year end

No material events have taken place since the year-end, being 30 June 2007, and the date of this report which should be reported to shareholders. In terms of a renewal notice published on the JSE Stock Exchange News Service (SENS) on 20 September 2007, the company is currently trading under a cautionary.

Corporate governance

The directors recognise the need to conduct the affairs of the company with integrity and in compliance with best practice, while recognising the practicalities of the environment in which it operates, and the need to take action as appropriate.

Corporate code of conduct

FoneWorx Holdings Limited is committed to:

- integrity and best practice in its dealings with stakeholders and society at large
- doing business with customers and suppliers using best ethical practices
- employment practices which are non-discriminatory and which include training and skills development.

Board of directors

The company currently has four executive directors and two independent directors. The directors are of the opinion that this structure is effective. The executive directors have responsibility for implementing strategic and operational decisions in the conduct of the group's business. The independent directors support the executive directors and supplement the skills and judgement of the executive directors in the overall direction of the company. The roles of Chairman of the board and CEO are separate. A policy is in place for the appointment of new directors.

Day to day management of the group is vested in the Executive Committee (Exco), which consists of the four executive directors plus two senior executives and a consultant. Exco meets weekly, and formulates the direction of the group as well as monitoring group performance. Each executive has clear areas of responsibility for which he is responsible to Exco.

No director or officer of the company had an interest in any contract of significance during the financial year.

Remuneration committee

The remuneration committee consists of Ashvin Mancha (Chairman and Independent Director), Gaurang Mooney (Independent Director) and Gareth Tudor (Financial Director). The committee meets annually to determine remuneration levels and the directors' bonus scheme. It also meets on an ad hoc basis when the need arises. The committee met twice in the year under review and all members were present. This committee ensures that remuneration levels are appropriate to attract and retain the staff needed to run the group successfully.

Audit, risk and compliance committee

Due to the past size of the group and the "hands-on" involvement of the executive directors, the directors had deemed it inappropriate to appoint an audit committee of non-executive directors in the past. An audit, risk and compliance committee has now been appointed, and consists of the two independent non-executive directors (Ashvin Mancha and Gaurang Mooney) and the CEO, Mark Smith. The financial director and the external auditors will be invited to meetings. At its first meeting, the committee will frame up terms of reference for board approval, and the committee will meet twice a year. The committee will operate with formal written terms of reference. It will have authority to investigate any matter relative to corporate risk and sound governance, and will be free to obtain external advice and to make use of the services of any outsider who can provide professional advice on relevant matters.

Broad based Black Economic Empowerment

The company is committed to complying with the DTI's Black Economic Empowerment Codes of Good Practice. It is diligently seeking to increase its shareholding by Historically Disadvantaged Individuals even though similar talks in the past have been fruitless. The group's operating subsidiary FoneWorx (Pty) Limited was recently granted a certificate as a Level 7 Contributor in terms of the Broad Based Black Economic Empowerment Act, and that company will be seeking to improve that score in the future.

Employment equity

The group's approach has been to encourage all staff to reach their maximum potential irrespective of gender, race or creed. While this focus remains in place, the group is committed to increasing the participation of historically disadvantaged staff in its structures as per legislative and regulatory requirements. The requisite employment equity reports have been submitted to the Department of Labour. In terms of the latest report which will be submitted shortly, the staff profile is currently as follows:

[A = Africans, C = Coloureds, I = Indians and W = Whites.]

	Designated							Non-designated			TOTAL
Occupational levels	Male			Female				White male	Foreign nationals		
	A	C	I	A	C	I	W	W	Male	Female	
Senior management								5			5
Professionally qualified and experienced specialists and mid-management							2	2	1		5
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	1			1			3	7			12
Semi-skilled and discretionary decision making			1	4	1	1	6	2		2	17
Unskilled and defined decision making				2							2
TOTAL PERMANENT	1	0	1	7	1	1	11	11	6	2	41
Non-permanent employees											0
GRAND TOTAL	1	0	1	7	1	1	11	11	6	2	41

The employment equity and skills retention function falls within the mandate of nominated individuals who are responsible for monitoring the progress made in these areas and reporting to the board of directors thereon.

Closed period

The company enforces a restricted period for transacting in the company's shares in line with the JSE Listings Requirements. In terms of this requirement, no dealing in shares by staff and directors is allowed from the end of the reporting period to the time that the results are released and at any time that the company is trading under a cautionary announcement. A procedure to monitor all transactions by staff and directors is in place.

Other matters

Litigation statement

The directors, whose names are given on pages 1 and 7, are not aware of any legal or arbitration proceedings that are pending or threatened, that may have or have had in the recent past, being at least 12 months, a material effect on the group's financial position.

Material change

Other than the facts and developments reported on in the 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 the date of notice of the Annual General Meeting.

GROUP BALANCE SHEET

as at 30 June 2007

	Notes	2007 R'000	2006 R'000
ASSETS			
Non-current assets		**6 782**	5 054
Property, plant and equipment	2	**5 927**	3 904
Intangible assets	3	**46**	400
Investment in associate and joint ventures	4	**809**	750
Current assets		**29 354**	15 092
Inventory	5	**30**	145
Loans to directors, managers and employees		**1**	12
Current tax receivable		**256**	–
Trade and other receivables	6	**14 420**	10 406
Cash and cash equivalents		**14 647**	4 529
Total assets		**36 136**	20 146
EQUITY AND LIABILITIES			
Capital and reserves		**17 187**	8 183
Share capital	7 & 8	**114**	114
Share premium	9	**14 044**	14 044
Accumulated profits/(losses)		**3 029**	(5 975)
Non current liabilities		**2 930**	1 955
Instalment sale agreements	10	**1 905**	1 542
Deferred tax liability	11	**554**	–
Loan payable	12	**471**	413
Current liabilities		**16 019**	10 008
Trade and other payables	13	**15 023**	9 206
Current portion of non-current liabilities	10	**996**	802
Total equity and liabilities		**36 136**	20 146

GROUP INCOME STATEMENT

for the year ended 30 June 2007

	Notes	2007 R'000	2006 R'000
Revenue	14	**58 241**	33 191
Other operating income		**319**	57
Direct operating costs		**(27 731)**	(15 813)
Staff costs		**(11 565)**	(7 771)
Depreciation and amortisation expense		**(1 764)**	(1 291)
Other operating expenses		**(6 152)**	(5 909)
Profit from operations	15	**11 348**	2 464
Finance costs	18	**(256)**	(131)
Investment income	19	**845**	174
Profit from ordinary activities		**11 937**	2 507
Income tax expense	20	**(2 933)**	–
Net profit for the year		**9 004**	2 507
Opening accumulated losses		**(5 975)**	(8 482)
Closing accumulated profits/(losses)		**3 029**	(5 975)
Basic earnings per share	21	**7,89c**	2,24c
Headline earnings per share	21	**8,20c**	2,54c

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2007

	Notes	2007 R'000	2006 R'000
Share capital		**114**	114
Balance at beginning of year		**114**	110
Issued during the year		**–**	4
Share premium		**14 044**	14 044
Balance at beginning of year		**14 044**	13 298
Issued during the year		**–**	746
Accumulated profits/(losses)		**3 029**	(5 975)
Balance at beginning of year		**(5 975)**	(8 482)
Attributable profits		**9 004**	2 507
		17 187	**8 183**

GROUP CASH FLOW STATEMENT

for the year ended 30 June 2007

	Notes	2007 R'000	2006 R'000
Cash flow from operating activities		**12 998**	2 271
Net cash generated from operations	A	**15 044**	2 228
Finance costs		**(256)**	(131)
Investment income		**845**	174
Normal tax paid	B	**(2 635)**	–
Cash flow from investing activities		**(3 495)**	(3 680)
(Increase) in investment in subsidiaries and associates		**(59)**	(750)
Purchase of property, plant and equipment		**(3 512)**	(2 900)
Proceeds on disposal of property, plant and equipment		**93**	–
Purchase of intangible assets		**(17)**	(30)
Cash flow from financing activities		**615**	2 924
Share capital and share premium introduced		**–**	750
Increase in non-current liabilities		**421**	1 654
Increase in current portion of non-current liabilities		**194**	520
Net increase in cash and cash equivalents		**10 118**	1 515
Cash and cash equivalents at beginning of year		**4 529**	3 014
Cash and cash equivalents at end of year		**14 647**	4 529

NOTES TO THE GROUP CASH FLOW STATEMENT

for the year ended 30 June 2007

	2007 R'000	2006 R'000
A. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS		
Profit before taxation	**11 937**	2 507
Adjustments for:	**1 178**	1 246
Amortisation	**371**	512
Depreciation	**1 393**	777
Finance costs	**256**	131
Loss on disposal of property, plant and equipment	**3**	–
Investment income	**(845)**	(174)
Operating profit before working capital changes	**13 115**	3 753
Working capital changes	**1 929**	(1 525)
Decrease/(increase) in inventory	**115**	(55)
Increase in trade and other receivables	**(4 003)**	(4 283)
Increase in trade and other payables	**5 817**	2 813
Cash generated from operations	**15 044**	2 228
B. NORMAL TAX PAID		
Charge per the income statement	**(2 933)**	–
Adjustments to deferred tax	**554**	–
Movement in tax balance	**(256)**	–
Normal tax (paid)	**(2 635)**	–
C. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of cash on hand and balances with banks.		
Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash and cash equivalents	**14 647**	4 529
	14 647	4 529

1. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa. The financial statements have been prepared on the historical cost basis, except for the measurement of investment properties and certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous year.

1.1 *Significant judgements*

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 judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Allowance for doubtful debts

Based on past experiences of little prospect of collecting debtors over the age of six months. Therefore the allowance is raised on 10% of these debtors. Accounts are written off when they are delinquent.

Impairment testing

Management used impairment testing to determine the recoverable amount of goodwill, intangible assets with an indefinite useful life and identifying assets that have been impaired.

1.2 *Basis of consolidation*

The consolidated financial statements include the financial statements of the holding company and enterprises controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

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

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

On acquisition of a subsidiary, minorities' interest is measured at the proportion of the pre-acquisition fair values of the identifiable assets and liabilities acquired.

1.3 *Property, plant and equipment*

The cost of an item of property, plant and equipment is recognised as an asset when:

– it is probable that future economic benefits associated with the item will flow to the company; and

– the cost of the item can be measured reliably.

Costs include cost incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation is provided on all property, plant and equipment, to write down the cost, less residual value, on a straight line basis, at the following annual rates:

Improvements to leased premises	5%
Plant and equipment	20%
Furniture, fixtures and fittings	16,67%
Office equipment	20%
Computer equipment	15% – 33%

The residual value and the useful life of each asset are reviewed at each financial year end.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 *Intangible assets*

An intangible asset is recognised when:

– it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
– the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

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

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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 its useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every year end.

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.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values, at the following annual rates:

Intellectual property	20%
Computer software	15%

1.5 *Investments in subsidiaries*

Investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

– the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and the equity instruments issued by the company; plus
– any costs directly attributable to the purchase of the subsidiary.

Any adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.6 *Financial instruments*

Initial recognition

The company 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 company's balance sheet when the company becomes party to the contractual provision of the instrument.

Loans to (from) group companies

These included loans to holding companies, fellow subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

1. PRESENTATION OF FINANCIAL STATEMENTS (continued)

1.6 *Financial instruments (continued)*

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Trade and other receivables

Trade and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdrafts and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

1.7 *Tax*

Current tax assets and liabilities

Current tax for 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 (the tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

– the initial recognition of goodwill; or
– goodwill for which amortisation is not deductible for tax purposes; or
– the initial recognition of an asset or liability in a transaction which:
  – is not a business combination
  – at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

– the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and
– it is probable that the temporary difference will not reverse in the foreseeable future.

1.7 *Tax (continued)*

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

– is not a business combination
– at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary difference arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that it is probable that:

– the temporary difference will reverse in the foreseeable future; and
– taxable profit will be available against which the temporary difference can be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

– a transaction or event which is recognised, in the same or a different period, directly in equity, or
– a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

1.8 *Leases*

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value on the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. The liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.9 *Inventories*

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as and expensed in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1. PRESENTATION OF FINANCIAL STATEMENTS (continued)

1.10 *Impairment of assets*

The company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the company also:

– tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. The impairment test is performed during the annual year end at the same time every year;
– tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the assets belong is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

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; 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 entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of a impairment loss of a revalued asset is treated as a revaluation increase.

1.11 *Share capital and equity*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the company reacquires 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 company's own equity instruments. Consideration paid or received shall be recognised directly in equity.

1.12 *Employee benefits*

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

1.13 ***Provisions and contingencies***

Provisions are recognised when:

– the company has a present obligation as a result of a past event;
– it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
– a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle 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.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

– has a detailed formal plan for the restructuring, identifying at least:
  – the business or part of a business concerned;
  – the principal locations affected;
  – the location, function, and approximate number of employees who will be compensated for terminating their services;
  – the expenditures that will be undertaken; and
  – when the plan will be implemented; and
– has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

– the amount that would be recognised as a provision; and
– the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

1.14 ***Revenue***

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

– the amount of revenue can be measured reliably;
– it is probable that the economic benefits associated with the transaction will flow to the company;
– the stage of completion of the transaction at the balance sheet date can be measured reliably; and
– the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided for in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest is recognised, in profit or loss, using the effective interest rate method.

1. PRESENTATION OF FINANCIAL STATEMENTS (continued)

1.15 *Turnover*

Turnover comprises sales to customers and services rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.16 *Cost of sales*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in the net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

1.17 *Translation of foreign currencies*

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At balance sheet date:

– foreign currency monetary items are translated using the closing rate;
– non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
– non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cashflows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Investments in subsidiaries, joint ventures and associates

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
– income and expenses for each income statement item are translated at exchange rates at the dates of the transactions; and
– all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially in the translation reserve and recognised in profit or loss on disposal of the net investment.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

1.18 *Offset*

Financial assets and liabilities are offset and disclosed on a net basis in the consolidated balance sheet when there is a legal right to set off and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

1. PRESENTATION OF FINANCIAL STATEMENTS (continued)

1.19 *Comparative figures*

Comparative figures have been reclassified or restated where appropriate to afford a proper and more meaningful comparison of results. In addition, the Interconnective Solutions Share Incentive Trust has been been consolidated in line with IAS 27. The prior year's earnings per share of 2,21 cents and headline earnings per share of 2,50 cents have accordingly been restated to 2,24 cents and 2,54 cents respectively. The share capital, number of shares in issue, and the group statement of changes in equity have similarly been adjusted subsequent to the consolidation of the Trust.

	Gross carrying value R'000	Accumulated depreciation R'000	Net carrying value R'000
2. PROPERTY, PLANT AND EQUIPMENT			
2007			
Improvements to leased premises	**1 008**	**13**	**995**
Plant and equipment	**200**	**20**	**180**
Motor vehicles	**1 641**	**401**	**1 240**
Furniture and fittings	**376**	**195**	**181**
Office equipment	**291**	**115**	**176**
Computer hardware	**6 357**	**3 202**	**3 155**
	9 873	**3 946**	**5 927**
2006			
Improvements to leased premises	59	59	–
Plant and equipment	42	42	–
Motor vehicles	1 723	155	1 568
Furniture and fittings	234	173	61
Office equipment	267	138	129
Computer hardware	4 604	2 458	2 146
	6 929	3 025	3 904

2. PROPERTY, PLANT AND EQUIPMENT (continued)

The net carrying amount of fixed assets can be reconciled as follows:

	Net carrying value at beginning of year R'000	Additions/ revaluations R'000	Disposals R'000	Depreciation R'000	Net carrying value at end of year R'000
2007					
Improvement to leased premises	**–**	**1 008**	**–**	**(13)**	**995**
Plant and equipment	**–**	**200**	**–**	**(20)**	**180**
Motor vehicles	**1 568**	**–**	**–**	**(328)**	**1 240**
Furniture and fittings	**61**	**142**	**–**	**(22)**	**181**
Office equipment	**129**	**134**	**(60)**	**(27)**	**176**
Computer hardware	**2 146**	**2 028**	**(36)**	**(983)**	**3 155**
	3 904	**3 512**	**(96)**	**(1 393)**	**5 927**
2006					
Improvement to leased premises	20	–	–	(20)	–
Plant and equipment	1	–	–	(1)	–
Motor vehicles	–	1 641	–	(73)	1 568
Furniture and fittings	36	42	–	(17)	61
Office equipment	71	89	–	(31)	129
Computer hardware	1 653	1 128	–	(635)	2 146
	1 781	2 900	–	(777)	3 904

	Gross carrying value R'000	Accumulated amortisation R'000	Net carrying value R'000
3. INTANGIBLE ASSETS			
2007			
Intellectual capital	**1 628**	**1 628**	**–**
Computer software	**299**	**253**	**46**
	1 927	**1 881**	**46**
2006			
Intellectual capital	1 628	1 278	350
Computer software	397	347	50
	2 025	1 625	400

3. INTANGIBLE ASSETS (continued)

The net carrying amount of intangible assets can be reconciled as follows:

	Net carrying value at beginning of year R'000	Additions/ revaluations R'000	Amortisation R'000	Net carrying value at end of year R'000
2007				
Intellectual capital	**350**	**–**	**(350)**	**–**
Computer software	**50**	**17**	**(21)**	**46**
	400	**17**	**(371)**	**46**
2006				
Intellectual capital	676	–	(326)	350
Computer software	59	30	(39)	50
Research of development	147	–	147)	–
	882	30	(512)	400

	2007 R'000	2006 R'000
4. INVESTMENT IN ASSOCIATES AND JOINT VENTURES		
Alto Network Communications (Pty) Limited	**530**	750
40% of the ordinary shares issued	**–**	175
Loan	**530**	575
Four Rivers Trading 123 (Pty) Limited	**279**	–
50 ordinary shares of R1 each – 50% of issued share capital	**–**	–
Loan	**279**	–
	809	750
Reconciliation of carrying amounts		
Carrying value at beginning of year	**750**	–
Additions	**279**	750
Impairment of investment	**(220)**	–
Carrying value at end of year	**809**	750

The loans are unsecured, currently interest free, and there are no fixed repayment terms. The carrying amount of investment in associate is shown net of impairment losses.

5. INVENTORY		
Raw materials	**–**	46
Finished goods	**30**	99
	30	145

	2007 R'000	2006 R'000
6. TRADE AND OTHER RECEIVABLES		
Trade and other receivables	**7 111**	6 471
Less: Provision for bad debts	**(173)**	(188)
Other receivables and prepayments	**7 482**	4 123
	14 420	10 406
7. SHARE CAPITAL		
Authorised		
250 000 000 ordinary shares of R0,001 each	**250**	250
Issued		
115 671 429 ordinary shares of R0,001	**116**	116
Less: 1 600 000 ordinary treasury shares held by the Interconnective Solutions Share Incentive Trust	**(2)**	(2)
114 071 429 ordinary shares of R0,001cents each	**114**	114

Unissued shares

The 134 328 571 (2006 – 134 328 571) unissued ordinary shares are under the control of the directors, subject to Sections 221 and 222 of the Companies Act and the Listings Requirements of the JSE Limited, South Africa, in terms of a resolution passed at the annual general meeting of shareholders in November 2006. The authority is valid until the forthcoming annual general meeting.

8. SHARE INCENTIVE TRUST

The Interconnective Solutions Share Incentive Trust is the owner of 1 600 000 ordinary shares in Foneworx Holdings Limited at an issue price of 50 cents each. As mentioned in the Directors' Report, these ordinary shares were allocated to certain senior and long-serving staff during the year. The trust has been consolidated in compliance with IAS 27.

	2007 R'000	2006 R'000
9. SHARE PREMIUM		
Balance at beginning of period	**14 044**	13 298
Premiums on shares issued during the year	**–**	746
Shares issued	**–**	746
Share issue and listing expenses	**–**	–
Balance at end of period	**14 044**	14 044

	2007 R'000	2006 R'000
10. INSTALMENT SALE AGREEMENTS		
Minimum lease payments due		
– within one year	**1 423**	993
– in second to fifth year inclusive	**1 964**	1 741
	3 387	2 734
Less: future finance charges	**(486)**	(390)
Present value of minimum lease payments	**2 901**	2 344
Present value of minimum lease payments due		
– within one year	**996**	802
– in second to fifth year inclusive	**1 905**	1 542
	2 901	2 344
Non-current liabilities	**1 905**	1 542
Current liabilities	**996**	802
	2 901	2 344

Loans are secured by Instalment sale agreements over certain fixed assets having a book value of R3 870 810 (2006 – R2 721 548). The loans bear interest at various rates which are variable in line with the prime lending rate, and are repayable in monthly instalments of R110 285.

	2007 R'000	2006 R'000
11. DEFERRED TAX LIABILITY		
Deferred tax comprises:		
– Capital allowances	**85**	–
– Timing differences	**469**	–
	554	–
12. LOAN PAYABLE		
Tresso Trading (Pty) Limited	**471**	413
	471	413

The above loan is unsecured, currently interest free, and there are no fixed repayment terms.

	2007 R'000	2006 R'000
13. TRADE AND OTHER PAYABLES	**9 049**	5 629
Trade payables	**4 504**	3 978
Other payables	**4 545**	1 651
Provisions	**5 974**	3 577
	15 023	9 206

Provisions	**Audit fee**	**Leave pay**	**Revenue shares**	**Other**	**Total**
Balance at beginning of year	178	436	2 129	834	**3 577**
Amounts added	234	418	2 054	2 232	**4 938**
Amounts used	214	156	1 957	214	**2 541**
Balance at end of year	198	698	2 226	2 852	**5 974**

	2007 R'000	2006 R'000
14. REVENUE		
An analysis of the group's revenue is as follows		
Services	**57 840**	32 316
Sales of goods	**401**	875
	58 241	33 191

Revenue consists of sales excluding Value Added Tax.

15. PROFIT FROM OPERATIONS

Profit from operations is stated after taking into account the following items:

	2007 R'000	2006 R'000
Expenditure		
Auditors' remuneration (Note 16)	**218**	187
Directors' emoluments (Note 17)	**4 574**	2 034
Operating lease – rent	**686**	668

	2007 R'000	2006 R'000
16. AUDITORS' REMUNERATION		
Audit fees	**188**	178
Secretarial fees	**30**	9
	218	187

17. DIRECTORS' EMOLUMENTS

	Basic salary	Bonus	Travel allowance	Provident fund	Medical aid	Total	2006
R Graver	**574**	**300**	**–**	**58**	**43**	**975**	318
A G Mancha*	**–**	**–**	**–**	**–**	**–**	**–**	–
G Mooney*	**–**	**–**	**–**	**–**	**–**	**–**	–
R Russell	**553**	**300**	**84**	**37**	**–**	**974**	541
M A Smith	**863**	**591**	**–**	**36**	**26**	**1 516**	545
G H Tudor	**713**	**275**	**–**	**82**	**39**	**1 109**	630
	2 703	**1 466**	**84**	**213**	**108**	**4 574**	2 034

** Independent directors*

During the year under review, R Russell was allocated 350 000 ordinary shares in Foneworx Holdings Limited by the Interconnective Solutions Share Incentive Trust at a price of 50 cents each. The terms of this allocation are that the shares do not vest until paid for in full, must be paid for before delivery of the shares is taken, and that payment must be made within 10 years of the grant of the allocation.

	2007 R'000	2006 R'000
18. FINANCE COSTS		
Interest paid on bank overdraft	**1**	30
Interest paid on secured loans	**231**	101
Interest paid SARS	**24**	–
	256	131

	2007 R'000	2006 R'000
19. INVESTMENT INCOME		
Interest received	**845**	174
20. INCOME TAX EXPENSE		
South African normal tax		
– Current	**2 379**	–
– Deferred	**554**	–
Charged against profit before tax	**2 933**	–
Tax reconciliation:		
Standard tax rate	**29%**	29%
Taxation of profit from operations at the standard rate	**3 461**	727
Donations	**17**	–
Legal fees	**22**	–
Research and development allowance	**(97)**	–
Losses utilised	**(470)**	(727)
Applied against profit before tax	**2 933**	–
Effective tax rate	**24,57%**	–
21. EARNINGS PER SHARE		
The calculation of earnings per ordinary share is based on profits of R9 004 380 (2006 – R2 507 177) and a weighted average of 114 071 429 (2006 – 111 690 476) ordinary shares issued during the year	**7,89c**	2,24c
The calculation of headline earnings per share is based on profits of R9 355 542 (2006 – R2 832 887) and a weighted average of 114 071 429 (2006 – 111 690 476) ordinary shares issued during the year	**8,20c**	2,54c
Reconciliation between earnings and headline earnings		
Per the income statement	**9 004**	2 507
Items included in other operating expenses:		
Intellectual property amortised	**350**	326
Headline earnings	**9 354**	2 833

22. COMMITMENT

Four Rivers Trading 123 (Pty) Limited, a 50% held joint venture company, has purchased Erf 1363, Ferndale for a purchase price of R9,5 million. The purchase price has been fully financed through a mortgage bond facility with BOE. Transfer took place on 8 August 2007.

23. BORROWING POWERS

In terms of the company's Articles of Association, the borrowing powers of the board of directors are unlimited.

24. RELATED PARTY TRANSACTION

Arm's-length trading transactions occur between subsidiary companies within the group and are reversed on consolidation.

25. FAIR VALUE AND CREDIT RISK OF FINANCIAL INSTRUMENTS

In the normal course of its operations, the group is exposed to currency, interest rate and credit risk. In order to manage these risks the group may enter into transactions which make use of financial instruments. The group does not acquire, hold or issue derivative instruments for trading purposes.

25.1 Concentration of risk

The group's financial instruments do not represent a concentration of credit risk because it deals with a variety of major banks, and its debtors and loans are regularly monitored. An adequate level of provision is maintained.

25.2 Foreign currency risk

In the past and in the normal course of business, the group has entered into transactions denominated in foreign currencies. The group currently does not hedge its exposure to foreign currency exchange rates. However, all sales during the current year have been, and future sales will be, denominated in SA Rands.

25.3 Interest rate risk

Fluctuating interest rates impact on the value of short-term cash investments and financing activities, giving rise to interest rate risk. In the ordinary course of business the group receives cash from its operations and is required to fund working capital and capital expenditure requirements. The cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks.

25.4 Fair values

The fair values of all financial instruments are substantially identical to carrying values reflected in the balance sheet.

25.5 Segment reporting

The group has not reported by segments, as all activities are classed as being in the Information Technology Systems Sector, and therefore no segmental reporting is necessary.

26. SUBSIDIARIES

	Issued share capital	Group effective interest	Interest of Holding Company			
			Book value of shares R000		Loans owing by/(to) R000	
		%	**2007**	2006	**2007**	2006
Foneworx (Pty) Limited	0,1	100	**0,1**	0,1	**9 441**	2 969
Interconnective Solutions Management Services (Pty) Limited	0,1	100	**0,1**	0,1	**637**	4 988
Retail Card Club (Pty) Limited	0,1	100	**0,1**	0,1	**540**	1 288
SurveyOnLine (Pty) Limited	0,1	51	**0,05**	0,05	**942**	512
Valutronics (Pty) Limited	0,1	100	**0,1**	0,1	**138**	636
VM Advertising (Pty) Limited	0,1	50	**0,05**	0,05	**824**	855
			0,50	0,50	**12 522**	11 248

FONEWORX HOLDINGS LIMITED
(formerly Interconnective Solutions Limited)
(Registration number 1997/010640/06)
Share code: FWX ISIN: ZAE000086237

Notice is hereby given that the 9th Annual General Meeting of the members of FoneWorx Holdings Limited (formerly Interconnective Solutions Limited) will be held at Corner Bram Fischer Drive and Will Scarlet Road (entrance in Will Scarlet Road), Ferndale, Randburg, 2194 on Friday, 02 November 2007 at 10h00 for the following purposes:

Ordinary business

1. *Ordinary resolution number 1:*

   To consider and adopt the Annual Financial Statements of the company and of the group for the year ended 30 June 2007, including the Directors' Report and the report of the Auditors thereon.

2. *Ordinary resolution number 2:*

   To re-elect the following director: Ronald Graver.

   Ronald started his career in retail, and then moved into music procurement. He was the marketing manager for 320 CNA retail stores from 1980 until 1990. He then held the position of marketing director of RPM Record Company, a division of CNA Gallo, from 1989 to 1990. In 1990 he was appointed the managing director of Parrot Publishing (Pty) Limited, a joint venture between Nasionale Pers Limited and the Argus Group. Ronald then left Parrot to form his own company, International Appeal (Pty) Limited, which operated within the premium rate industry. In 1994 Ronald joined Shield Trading Corporation Limited as marketing manager, and in 1997, together with Mark Smith and others, he left Shield to start VM Value Marketing which later became FoneWorx. Ronald is in charge of Content services which relies on his deep knowledge of the music industry.

3. *Ordinary resolution number 3:*

   To re-appoint Messrs G Cambanis Inc as auditors of the company.

Special business

4. *To consider and, if deemed fit, to pass, with or without modification, the following further ordinary resolutions.*

   4.1 *Ordinary resolution number 4:*

   Resolved that all the authorised but unissued ordinary shares in the capital of FoneWorx Holdings Limited (formerly Interconnective Solutions Limited) ("the company") be placed under the control of the directors of the company with authority to issue and allot all or part thereof in their discretion, subject to the provisions of Sections 221 and 222 of the Companies Act 61 of 1973, as amended, and subject to the rules and requirements of the JSE Limited ("the JSE").

   4.2 *Ordinary resolution number 5:*

   Resolved that, subject to the passing of ordinary resolution number 5 and in terms of the requirements of the JSE, the directors are hereby authorised to issue ordinary shares for cash as and when suitable opportunities arise, subject to the following conditions

   - that this authority shall not extend beyond the next Annual General Meeting or 15 (fifteen) months from the date of this Annual General Meeting, whichever date is the earlier;
   - issues in terms of this authority in any one financial year will not exceed 15% (fifteen percent) in the aggregate of the number of shares in the company's issued share capital in issue at the date of this notice of Annual General Meeting. The 15% shall also take into account (and will include, if applicable), any securities to be issued pursuant to a rights issue which has been announced which is irrevocable and fully underwritten, or securities issued in terms of an acquisition which has had final terms announced;
   - a press announcement giving full details, including the impact on net asset value and on earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% (five percent) or more of the number of shares in issue prior to such issue;
   - in determining the price at which shares will be issued in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price of such shares, as determined over the 30 day business period prior to the date that the price of the issue is determined or agreed by the directors of the company. If such shares have not been traded in the said 30 day business period, a ruling will be obtained from the JSE;
   - any such issue will only be made to public shareholders as defined in the Listings Requirements of the JSE, and not to related parties; and
   - any such issues will be of the same class of shares already in issue

NOTICE OF ANNUAL GENERAL MEETING

The approval of a 75% majority of the votes cast by shareholders present or represented by proxy at the meeting is required for this resolution to become active.

5. To transact any other business as may be transacted at an Annual General Meeting.

6. The JSE Listings Requirements require the following disclosures, which are disclosed elsewhere in the annual report of which this notice forms part, as set out below:

	Page
• Directors and administration	1
• Directors' shareholdings	7
• Major shareholders	8
• Litigation statement	10
• Material change	10
• Share capital of the company	26

7. Any member entitled to attend and vote at a meeting of the company may appoint a proxy to attend, speak and vote in his stead. The proxy need not be a member of the company. A proxy form is included in the back of this Annual Report. Completed proxy forms must be returned to the transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) by no later than 10.00 on Wednesday, 31 October 2007.

8. Certificated shareholders and "own name" dematerialised shareholders who are unable to attend the general meeting to be held at 10.00 on Friday 02, November 2007, but wish to be represented thereat, must complete and return the attached form of proxy in accordance with the instructions therein and lodge it with the transfer secretaries so as to be received by no later than 10.00 on Wednesday, 31 October 2007.

9. Dematerialised shareholders without own name registration who wish to vote by way of proxy at the Annual General Meeting, must provide their CSDP or broker with their voting instructions by the cut-off time and date advised by the CSDP or broker for instructions of this nature, as specified in the custody agreement entered into between such shareholder and their CSDP or broker, in order for such CSDP or broker to vote in accordance with such instructions at the Annual General Meeting. Should such shareholders wish to attend the Annual General Meeting, they must obtain the necessary Letter of Representation from their CSDP or broker.

By order of the board

GH Tudor CA (SA)
Secretary

20 September 2007

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Printed by Ince (Pty) Limited

FONEWORX HOLDINGS LIMITED

(formerly Interconnective Solutions Limited)

(Registration number 1997/010640/06)

Share code: FWX ISIN: ZAE000086237

FORM OF PROXY

For use by certificated and own name dematerialised shareholders at the Annual General Meeting of shareholders to be held at 10:00 on Friday, 02 November 2007 in the boardroom of FoneWorx Holdings Limited (formerly Interconnective Solutions Limited), Corner Bram Fischer Drive and Will Scarlet Road (entrance in Will Scarlet Road), Ferndale, Randburg, 2194

Note: Dematerialised shareholders without own name registration must not use this form. Dematerialised shareholders without own name registration who wish to vote by way of proxy at the Annual General Meeting, must provide their CSDP or broker with their voting instructions by the cut-off time and date advised by the CSDP or broker for instructions of this nature as specified in the custody agreement entered into between such shareholder and their CSDP or broker, in order for such CSDP or broker to vote in accordance with such instructions at the Annual General Meeting.

I/We ____________________

Of (address) ____________________

Being the holders of __________ Foneworx Holdings Limited ordinary shares, hereby appoint

Or failing him/her __________ of

Or failing him/her, the chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the company to be held on Friday, 02 November 2007 at 10:00 and at any adjournment thereof as follows:

	In favour of	Against	Abstain
Ordinary resolution number 1 To adopt the annual financial statements			
Ordinary resolution number 2 To re-elect the following retiring director: Ronald Graver			
Ordinary resolution number 3 To re-appoint Messrs: G Cambanis Inc as auditors of the company			
Ordinary resolution number 4 To place the unissued shares under the control of the directors			
Ordinary resolution number 5 To grant the directors general authority to issue the unissued shares for cash			

(Indicate instruction to proxy by way of a cross in space provided above).

Unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

Signed this __________ day of __________ 2007

Signature ____________________

NOTES TO THE FORM OF PROXY

1. A shareholder may insert the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the chairman of the general meeting". The person whose name appears first on the form of proxy and whose name has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow.

2. 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 space provided. Failure to comply herewith will be deemed to authorise the proxy to vote at the general meeting as he/she deems fit in respect of the shareholder's votes exercisable thereat, but where the proxy is the chairman, failure to so comply will be deemed to authorise the chairman to vote in favour of the resolutions. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy.

3. Forms of proxy must be lodged at or posted to the transfer office of the company, Computershare Investor Services 2004 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg 2001, (PO Box 61051, Marshalltown, 2107), to be received not later than 10:00 on Wednesday, 31 October 2007.

4. The completion and lodging of this form of proxy will not preclude the shareholder from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

5. The form of proxy shall be valid for any adjournment of the general meeting as well as for the meeting to which it relates, unless the contrary is stated therein.

6. A vote cast or act done in accordance with the terms of a form of proxy shall be deemed to be valid notwithstanding:

   – the previous death, insanity, or any other legal disability of the person appointing the proxy; or
   – the revocation of the proxy; or
   – the transfer of a share in respect of which the proxy was given,

   unless notice as to any of the abovementioned matter shall have been received by the company at its registered office or by the chairman of the general meeting at the place of the general meeting if not held at the registered office, before the commencement or resumption (if adjourned) of the general meeting at which the vote was cast or the act was done or before the poll on which the vote was cast.

7. The authority of a person signing this form of proxy:

   7.1. under a power of attorney; or

   7.2. on behalf of a company,

   must be attached to the form of proxy unless the full power of attorney has already been received by the transfer secretaries.

8. Where shares are held jointly, all joint holders must sign.

9. The chairman of the annual general meeting may accept or reject any form of proxy which is completed and/or received other than in accordance with these notes and instructions provided that he is satisfied as to the manner in which the shareholder wishes to vote.

SHAREHOLDERS' DIARY

Financial year end	30 June 2007
Annual report and financial statements	September 2007
Annual general meeting	02 November 2007
Half-year interim report	February 2008