FONEWORX HOLDINGS LIMITED
Incorporated in the Republic of South Africa
(Registration number 1997/010640/06)
Share code: FWX ISIN: ZAE000086237
(“FoneWorx” or “the group” or “the company”)

GROUP AUDITED RESULTS FOR THE YEAR ENDED 30 JUNE 2008 AND DIVIDEND DECLARATION

Revenue up by 22%
Profit before tax up by 67%
Earnings per share up by 65%
Headline earnings per share up by 56%
Net asset value up by 212%

The FoneWorx board is proud to announce another record breaking set of results for the year ended 30 June 2008.

During the year under review the group’s BEE transaction with Kabo Capital (Proprietary) Limited (“Kabo”) was finalised. Kabo now owns 30% (thirty percent) in the group and the group’s overall BEE equity status is 43% (forty three percent). We look forward to a positive relationship with Kabo as well as the introduction of two non-executive directors nominated by Kabo to the main board of the group.

NATURE OF THE BUSINESS

The group is a telecommunications value-added service provider and has developed its own technology platform for the purposes of hosting all the various operating divisions. It has service provider agreements with Telkom, MTN, Vodacom and Cell C. The platform currently comprises in excess of 1 260 channels of digital voice and data, which makes it one of the largest independent platforms in South Africa.

FINANCIAL PERFORMANCE

Earnings before net interest, tax, depreciation and amortisation (“EBITDA”) improved to R19.8 million (2007: R13.1 million), an increase of 51% and profit before tax was R20 million (2007: R11.9 million), an increase of 67% versus the previous year.

Earnings per share (“EPS”) grew by 65% to 13.00 cents per share from 7.89 cents per share in the previous reporting period. Headline earnings per share (“HEPS”) grew 56% from 8.20 cents per share in the previous period to 12.75 cents per share.

Profit before tax, expressed as a percentage of revenue, improved to 28% (2007: 21%). Gross profit was R39.0 million (2007: R30.5 million), which is 55% of revenue (2007: 52%).

Profit for the year improved by 65% to R14.9 million (2007: R9.0 million). The profit for the year has increased by an average of 159% per annum over the past four years.

During the year under review the net asset value of the group increased by 212% from R17.2 million (15.1 cents per share) to R53.6 million (39.9 cents per share). R21.6 million of the growth in net asset value relates to the cash received from the issue of 20 330 612 shares on 23 June 2008 to Kabo. The increase in net asset value, without taking into account the issue of the shares to Kabo is 86%.

OPERATIONAL PERFORMANCE

FoneWorx has redefined its operating divisions with the emphasis on providing more focus on additional operational and strategic depth. These divisions incorporate Infotainment Services, Business Services and Switching Services. An overview on each division follows:

Infotainment

FoneWorx remains a strong brand in this industry and continues to provide a variety of interactive services to advertising agencies and corporates using Short Message System (“SMS”) and Interactive Voice Response (“IVR”) as the primary bearer technologies. Our proprietary data and voice platform currently operates over 1 260 channels and enables FoneWorx to have a distinct advantage of complete control in offering turnkey solutions in this industry.

FoneWorx continues to be the preferred service provider for mobile services for the SABC as well as to MultiChoice (“MMobile”) for services into Africa. FoneWorx has established contractual and operational relationships with 65 cellular networks in 31 countries in Africa.

FoneWorx continues to add new and innovative services to its portfolio of Infotainment Services and in the last year we introduced SMS to Email and Multi Messaging Services (“MMS”). We believe these services will add significant revenue to this division in the years ahead particularly as there is a conscious move within marketing and media circles to adopt one-to-one marketing strategies.

Business Services

This division’s broad range of services continued to show good growth, particularly our stalwart service Fax2Email, which has shown excellent growth with subscriptions up by 15% and fax minutes processed up by 63%.

The number of dealers has grown to 367 with 268 being individual PostNet stores. Our Virtual Business Centre (“VBC”), which is a combination of 15 services with a prepaid back-end billing engine, continues to show steady growth with a number of large corporates evaluating the potential to private label this product and offer it to their clients, particularly small, medium and micro enterprises.

Switching Services

This division has been structured into two distinct business opportunities which over time, depending on growth, could possibly have distinct structures and their own management. These are FoneWorx Compliance and Loyalty Services.

FoneWorx Compliance incorporates identity access management (“IAM”) and includes our exciting and innovative authentication solution for compliance of the Financial Intelligence Centre Act, No. 38 of 2001 (“FICA”) and Regulation of Interception of Communications and Provision of Communication-related Information Act, No. 70 of 2002 (“RICA”). This application is aimed at natural and juristic persons and will provide invaluable assistance to accountable institutions such as banks, attorneys, financial institutions and casinos to mention a few. In addition natural persons and legal entities will enjoy great benefit and convenience from the use of the card.

This FICA solution has been developed over the last two years and has been designed in line with the international Financial Action Task Force (“FATF”) recommendation as well as a number of international standards. Accordingly, our research indicates the opportunity to introduce this solution to a number of countries around the world which conform to the FATF recommendations is very good. The prospects for this product, both in South Africa and internationally, are extremely good. FoneWorx has been approached by a number of interested parties in countries outside South Africa to adopt this solution.

Loyalty Services is a fully fledged customer differentiation programme, which incorporates a Customer Relationship Programme (“CRM”) and incorporates all the bearer services offered in Infotainment Services such as SMS, IVR, MMS and email, to mention a few.

FoneWorx has developed its own proprietary software to manage the programme and will leverage off a number of its clients within the Infotainment division.

Both the Loyalty and FoneWorx Compliance solutions operate off the much enlarged state-of-the-art innovation and hosting centre which the group owns and operates. Additional infrastructure has been developed in the innovation centre as well as the off-site back-up environment to cater for these new solutions.

PROSPECTS

Extract from Chief Executive Officer’s report.

“I am confident about the outlook for the ensuing year to June 2009 and I am particularly positive about the potential for our loyalty and FICA solutions.

Most of our anticipated growth is expected to come from organic growth, however management will constantly look at acquisitive opportunities to either open new revenue streams or fast-track any of our operating divisions.

We look forward to the contribution that Kabo will make in working with us at a strategic level and we welcome them on board.

The group has a much stronger balance sheet, with enhanced cash flows which will clearly assist us in our future growth.

There are tremendous opportunities within our FoneWorx Compliance division, particularly with the FICA/RICA solution with a strong emphasis on territories outside South Africa that have adopted the FATF guidelines.”

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2008

	Notes	2008 R '000	2007 R '000
ASSETS			
Non-current assets		18 559	6 782
Property, plant and equipment	2	17 251	5 927
Intangible assets		196	46
Deferred tax asset		1 112	-
Investment in associate and joint venture	3	-	809
Current assets		66 356	29 354
Inventory		14	30
Loan to director		60	-
Current tax receivable		-	256
Trade and other receivables		14 069	14 421
Cash and cash equivalents	4	52 213	14 647
Total assets		84 915	36 136
EQUITY AND LIABILITIES			
Capital and reserves		53 625	17 187
Share capital	5	134	114
Share premium	5	35 575	14 044
Accumulated profits		17 916	3 029
Non-current liabilities		10 696	2 930
Instalment sale agreements		788	1 905
Long-term loan	2	9 437	-
Deferred tax liability		-	554
Loans payable		471	471
Current liabilities		20 594	16 019
Trade and other payables		13 495	12 372
Provisions		4 236	2 651
Tax payable		1 374	-
Current portion of non-current liabilities		1 489	996
Total equity and liabilities		84 915	36 136

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Growth	2008 R '000	2007 R '000
Revenue	22.3%	71 206	58 241
Cost of Sales		(32 227)	(27 731)
Gross profit	27.8%	38 979	30 510
Other operating income		644	319
Share of profits from Joint Venture		133	-
Staff costs		(13 133)	(11 565)
Depreciation and amortisation expense		(2 106)	(1 764)
Other operating expenses		(6 826)	(6 152)
Profit from operations	55.9%	17 691	11 348
Finance costs		(308)	(256)
Investment income		2 569	845
Profit before tax	67.1%	19 952	11 937
Income tax expense		(5 065)	(2 933)
Profit for the year	65.3%	14 887	9 004
Basic earnings per share (note 6)	64.7%	13.00 cents	7.89 cents
Diluted earnings per share (note 6)	64.5%	12.8 cents	7.78 cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	2008 R '000	2007 R '000
Share capital	134	114
Balance at beginning of year	114	114
Issued during the year	20	-
Share premium	35 575	14 044
Balance at beginning of year	14 044	14 044
Issued during the year	21 531	-
Accumulated profits	17 916	3 029
Balance at beginning of year	3 029	(5 975)
Profit for the year	14 887	9 004
	53 625	17 187

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Notes	2008 R '000	2007 R '000
Cash flow from operating activities		20 954	12 998
Net cash generated from operations		24 031	15 044
Finance costs		(308)	(256)
Investment income		2 569	845
Normal tax paid		(5 338)	(2 635)
Cash flow from investing activities		(3 124)	(3 495)
Decrease / (Increase) in investment in joint venture and associates	3	811	(59)
Procurement of subsidiary		(1 912)	-
Purchase of property, plant and equipment		(1 976)	(3 512)
Proceeds on disposal of property, plant and equipment		131	93
Purchase of intangible assets		(178)	(17)
Cash flow from financing activities		19 736	615
Share capital and share premium introduced		21 551	-
(Decrease) / Increase in non-current liabilities		(1 724)	421
(Decrease) / Increase in current portion of non-current liabilities		(91)	194
Net increase in cash and cash equivalents		37 566	10 118
Cash and cash equivalents at beginning of year		14 647	4 529
Cash and cash equivalents at end of year		52 213	14 647

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

1. The group annual financial statements from which these condensed financial statements were derived have been prepared on the historical cost basis excluding financial instruments which are fair valued and conform to International Financial Reporting Standards (“IFRS”). The accounting policies are consistent with those applied in the annual financial statements for the year ended 30 June 2007. These condensed financial statements set out in this report have been prepared in terms of IAS 34 – Interim Financial Reporting, the 1973 Companies Act of South Africa and the Listings Requirements of JSE Limited.

2. Property, plant and equipment

During the year under review the group procured land and building to the value of R9.7 million that is now being occupied by the group’s head office. This property is encumbered with a bond to the value of R10.0 million of which R0.6 million is payable within the next financial year. In addition, computer equipment to the value of R1.9 million was procured during the financial year.

3. Investments in associates and joint venture

The group sold its investment in Alto Network (Proprietary) Limited during the year under review and procured the remaining 50% shareholding in Four Rivers Trading 123 (Proprietary) Limited, a company holding the land and building as disclosed in note 2, for R2.6 million. This procurement has led to an increase in the group's assets of R11.3 million and liabilities of R10.4 million.

4. Cash and cash equivalents

Cash and cash equivalents increased 256% during the year under review. Of this, R21.6 million relates to the issue of new shares as disclosed in note 5. The remaining increase of R16.0 million (110% increase) was generated through normal operations of the group.

5. Share capital and share premium

FoneWorx issued 20 330 612 new shares in terms of a BEE deal with Kabo during the year under review at R1.06 per share. The total issued shares at year end was 134 402 041 (2007: 114 071 429).

6. Earnings per share

The calculation of earnings per share is based on profits of R14 887 141 (2007: R9 004 380) and a weighted average of 114 515 814 (2007: 114 071 429) ordinary shares issued during the year.

The calculation of headline earnings per share is based on profits of R14 887 141 adjusted to R14 596 016 (2007: R9 004 380 adjusted to R9 354 380) and a weighted average of 114 515 814 (2007: 114 071 429) ordinary shares issued during the year.

	2008	2007
	12.75 cents	8.20 cents
Reconciliation between earnings and headline earnings		
Profit attributable to ordinary shareholders	14 887	9 004
Items included in other operating expenses:		
Intellectual property amortised	-	350
Profit on the sale of associate	(270)	-
Profit on disposal of property, plant and equipment	(38)	-
Tax effect of the sale of associate and disposal of property, plant and equipment.	17	-
Headline earnings	14 596	9 354

The calculation of diluted earnings per share is based on profits of R14 887 141 (2007: R9 004 380) and a weighted average of 116 115 814 (2007: 115 671 429) ordinary shares issued during the year.

	2008	2007
	12.8 cents	7.78 cents
Reconciliation between earnings and diluted earnings per share:		
Weighted average number of shares used in the calculation of earnings per share	114 515 814	114 071 429
Shares deemed to be issued in respect of:		
Employee options	1 600 000	1 600 000
Weighted average number of shares used in the calculation of diluted earnings per share.	116 115 814	115 671 429

The calculation of diluted headline earnings per share is based on profits of R14 887 141 adjusted to R14 596 016 (2007: R9 004 380 adjusted to R9 354 380) and the diluted weighted average of 116 115 814 (2007: 115 671 429) ordinary shares issued during the year.

2008	2007
12.57 cents	8.09 cents

7. Segmental reporting

The group has not reported on segments, as all activities are classed as being in the information technology system sector. The business of the group is mainly transacted in South Africa. Therefore no segmental reporting is necessary.

8. Subsequent events

There have been no significant events subsequent to year-end and up to the date of this report, that would require adjustment.

Audit report

The group's consolidated financial statements for the year ended 30 June 2008 have been audited by Deloitte & Touche, registered auditors. The board has approved these consolidated annual financial statements that have been condensed for purposes of this report. The auditors` unmodified report on the annual financial statements and the set of condensed financial statement is available for inspection at the company`s registered address.

Corporate Governance

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

Dividend announcement

Notice is hereby given that the board has declared a maiden cash dividend of 2.7 cents per share, which is payable to shareholders recorded in the register at the close of business on Friday, 17 October 2008. Shareholders are advised that the last day to trade "cum" the dividend will be Friday, 10 October 2008. The shares will trade "ex" the dividend as from Monday, 13 October 2008. Payment will be made on Monday, 20 October 2008. Share certificates may not be dematerialised or rematerialised during the period Monday, 13 October 2008 to Friday, 17 October 2008, both days inclusive.

For and on behalf of the board

Ashvin Mancha	Mark Smith	Pieter Scholtz
Chairman	Chief Executive Officer	Financial Director

Johannesburg
22 September 2008

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Directors: Ronald Graver, Ashvin Govan Mancha B Proc * - Chairman, Gaurang Mooney BA * (Botswana), Robert Russell, Mark Smith BA LLB – Chief Executive Officer, Pieter Scholtz CA (SA) - Financial Director (* Independent)

Company Secretary: P A Scholtz CA (SA)

Auditors: Deloitte & Touche

Transfer Secretaries: Computershare Investor Services (Proprietary) Limited

Designated Adviser: Merchantec (Proprietary) Limited