

HUGE GROUP LTD

(Registration number 2006/023587/06)

Share code: HUG ISIN: ZAE000102042

("Huge" or "the Group" or "the Company")

UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2014
HIGHLIGHTS

- EPS and HEPS increased by 128.8% and 51.5% respectively when compared to the previous comparable six months;
- Net asset value has increased by 39.92 cents per share, from 238.63 cents per share to 278.55 cents per share;
- Net tangible asset value has increased by 14.90 cents per share, from (7.09) cents per share to 7.81 cents per share;
- In September 2014 Huge successfully raised R20 million by way of a rights offer;
- In August 2014 a settlement agreement was concluded in respect of the litigation involving MTN Service Provider (Pty) Ltd and iTalk Cellular (Pty) Ltd, and was settled in terms of this agreement in September 2014;
- In October 2014 Huge Telecom closed out contracts for difference over the ordinary shares of Huge at an underlying reference price of 170 cents per share which released margined cash of R6.6 million; and
- In November 2014 Huge Software (Pty) Ltd raised R20 million loan funding from AfrAsia Special Opportunities Fund (Pty) Ltd.

The board of directors ("the Board") of Huge is pleased to present the unaudited interim results of the Company and its subsidiary companies and joint venture ("the Group") for the six months ended 31 August 2014.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 31 August 2014 (6 months) R'000	Unaudited 31 August 2013 (6 months) R'000	Audited 28 February 2014 (12 months) R'000
Total revenue	98 961	106 698	203 578
Gross profit	41 020	46 234	94 240
Other income	890	1 421	1 542
Operating expenses	(33 028)	(39 368)	(77 818)
Operating profit	8 882	8 287	17 964
Investment income	359	328	1 021
Net change in fair value of financial instruments	1 562	(1 341)	(804)
Share of earnings /(losses) from equity accounted investments	26	(10)	73

Finance costs	(1 359)	(1 210)	(2 293)
Profit before taxation	9 470	6 054	15 961
Income tax (expense)	(2 074)	(2 843)	(4 628)
Net profit for the period	7 396	3 211	11 333
Non-controlling interest	13	(454)	(520)
Net profit attributable to owners of the company	7 383	3 665	11 853
Basic earnings per share (cents)	9.20	4.11	13.54
Adjusted for:	-	-	-
Impairment of non-current assets	-	-	0.15
Impairment of fixed assets	-	0.01	-
Profit on disposal of property, plant and equipment	-	-	(0.03)
Legal settlements	-	1.95	-
Headline earnings per share (cents)	9.20	6.07	13.66
Total number of shares in issue ('000)	80 255	89 255	80 255
Weighted number of shares in issue ('000)	80 255	89 255	87 530

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 August 2014 (6 months) R'000	Unaudited 31 August 2013 (6 months) R'000	Audited 28 February 2014 (12 months) R'000
ASSETS			
Property, plant and equipment	42 133	33 605	34 451
Goodwill	215 153	215 153	215 153
Intangible assets	2 130	5 693	2 809
Investment in joint venture	729	674	702
Investments	-	188	-
Deferred tax	11 303	12 287	11 303
	271 448	267 600	264 418
Current assets			
Inventories	876	4 747	-
Trade and other receivables	76 991	67 935	69 220
Loans to associate companies	-	367	-
Shareholders' loans	-	806	-
Current tax receivable	-	-	164
Derivative margin deposits	4 874	7 147	3 400

Deferred Discretionary Incentive Bonuses	7 417	-	3 767
Cash and cash equivalents	4 868	4 638	4 173
	95 026	85 640	80 724
Total assets	366 474	353 240	345 142
EQUITY AND LIABILITIES			
Share capital	208 411	213 361	208 411
Reserves	(482)	(1 075)	(482)
Retained earnings	19 270	4 293	11 887
Equity attributable to equity holders of parent	227 199	216 579	219 816
Non-controlling interest	(3 647)	(3 594)	(3 660)
	223 552	212 985	216 156
Non-current liabilities			
Finance lease obligations	557	182	459
Deferred tax	9 381	-	7 771
Investment in associate	-	55	-
	9 938	237	8 230
Current liabilities			
Loans from shareholders	1 161	-	1 346
Other financial liabilities	1 273	-	1 168
Finance lease obligations	539	219	360
Trade and other payables	116 764	127 126	107 881
Bank overdraft	13 247	12 672	10 001
	132 984	140 017	120 756
Total liabilities	142 922	140 254	128 986
Total equity and liabilities	366 474	353 240	345 142
Number of shares in issue ('000)	80 255	89 255	80 255
Net asset value per share (cents)	278.55	238.63	195.00
Net tangible asset value per share (cents)	7.81	(1.60)	(7.09)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited 31 August 2014 (6 months) R'000	Unaudited 31 August 2013 (6 months) R'000	Audited 28 February 2014 (12 months) R'000
Balance at 1 March	216 156	209 774	209 774
Total comprehensive income for the period	7 396	3 211	11 333
Purchase of own shares	-	-	(4 951)
Balance at 28 February/31 August	223 552	212 985	216 156

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 31 August 2014 (6 months) R'000	Unaudited 31 August 2013 (6 months) R'000	Audited 28 February 2014 (12 months) R'000
Cash flows from operating activities	8 707	1 561	11 583
Cash flows from investing activities	(11 456)	(2 901)	(9 093)
Cash flows from financing activities	198	(1 830)	(3 454)
Net cash movement for the period	(2 551)	(3 170)	(964)
Cash at the beginning of the period	(5 828)	(4 864)	(4 864)
Total cash at the end of the period	(8 379)	(8 034)	(5 828)

SEGMENTAL REPORTING

The directors have considered the implications of IFRS 8 Operating segments and are of the opinion, based on the information provided to the chief operating decision maker, that the current operations of the Group are split into two main operating segments, namely a Telecom Grouping and a Media, Technology and Software ("MTS") Grouping. The operations within each of these main segments or groupings are substantially similar to one another and the risk and returns of the operations of these segments/groupings are likewise similar. Resource allocation and management of the current operations are performed on an aggregate basis within each of the two main segments/groupings. The summarised information is included below in line with the requirements of IAS 34. The revenue generated from the products and services which are supplied by the respective Group companies is distributed countrywide to all clients with no geographical differentiation.

The Telecom Grouping comprises:

- Huge Telecom Pty Ltd ("Huge Telecom");
- Huge Mobile Pty Ltd;
- Huge Cellular Pty Ltd;
- Ambient Mobile Pty Ltd;
- Le Gacy Telecom (FRA) Pty Ltd; and
- Gonondo Telecom Pty Ltd.

The MTS Grouping comprises:

- Eyeballs Mobile Advertising Pty Ltd ("Eyeballs"); and
- Huge Software Pty Ltd.

The Corporate Office comprises:

- Huge Group Ltd

	Telecom Grouping R'000	MTS Grouping R'000	Corporate Office R'000	Total R'000
Total revenue	98 961	-	-	98 961
Gross profit	41 020	-	-	41 020
Other income	539	351	-	890
Operating expenses	(29 884)	(1 606)	(1 538)	(33 028)
Operating profit/(loss)	11 675	(1 255)	(1 538)	8 882
Investment income	273	-	86	359
Net change in fair value of financial instruments	1 562	-	-	1 562
Loss from equity accounted investments	26	-	-	26
Finance costs	(1 073)	(75)	(211)	(1 359)
Profit/(loss) before income tax	12 463	(1 330)	(1 663)	9 470
Income tax credit/(expense)	(3 549)	1 011	464	(2 074)
Profit after income tax	8 914	(319)	(1 199)	7 396

COMMENTARY

BASIS OF PREPARATION

The unaudited consolidated interim financial results have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards and presented in accordance with the minimum content, including disclosures, prescribed by IAS 34 Interim Financial Reporting applied to year-end reporting, the Companies Act of South Africa, and the JSE Limited's Listings Requirements.

Any information included in this announcement that might be perceived as a forward looking statement has not been reviewed and reported on by the Company's auditors in accordance with section 8.40(a) of the JSE Limited's Listings Requirements. Any references to post interim period performance are based on management accounts.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of these unaudited consolidated interim financial results are consistent with those applied in the last comparable six month period, as well as those applied in the preparation of the annual financial results of the Company for the year ended 28 February 2014.

COMPANY PROFILE

Huge is an investment holding company listed on the Alternative Exchange ("AltX") of the JSE Limited's Stock Exchange ("JSE") and comprises a Telecom Grouping and an MTS Grouping.

Huge Telecom, a wholly-owned subsidiary company of Huge and the principal trading operation of the Group, is one of South Africa's leading "Connectivity Services Providers". It provides wireless, GSM-based, fixed-cellular, last-mile connectivity services (connections) for voice, messaging, and data. It procures these last-mile connectivity services from the mobile network operators ("MNOs").

Eyeballs (77% owned by Huge) is an application technology developer and provider. The "Eyeballs" technology application is downloaded and installed by recipient users on their mobile phones. The application displays advertising and content images on the phone screen when calls or messages are received on the recipient user's phone.

Further investor and shareholder information is available at www.hugegroup.com.

FINANCIAL OVERVIEW

GROUP FINANCIAL PERFORMANCE

During the period under review, Huge has continued to improve operational efficiencies and contain costs.

INVESTMENT HOLDING ACTIVITIES

In August 2014, Huge announced its intention to undertake a Rights Offer of 20 000 000 Huge ordinary shares, at an offer price of 100 cents per share. The Rights Offer, which closed in September 2014, was 43% oversubscribed. Subsequent to the Rights Offer, a further 1 million Huge ordinary shares were issued in terms of the general authority granted to the Company by shareholders at the Annual General Meeting of the Company held on Tuesday, 19 August 2014.

As at 31 August 2014, the Company had 89 901 443 ordinary shares in issue, of which 9 646 926 ordinary shares are held by its wholly owned subsidiary, Huge Telecom, as treasury shares.

In October 2014, Huge Telecom closed out contracts for difference which it held over the ordinary shares of Huge at an underlying reference price of 170 cents per share. This had the effect of releasing the restriction on R6.6 million of cash held as initial margin.

TELECOMMUNICATIONS ACTIVITIES

Huge Telecom is the Group's principal revenue generator.

Total revenue generated in the six months ended 31 August 2014 showed a decrease of 7.3% to R98.9 million, from the R106.7 million generated during the six months to the end of August 2013.

Notwithstanding the declines in revenue noted above, Huge Telecom's revenue indicators (in the form of sales activity indicators) reflect positive growth trends. The compounding effect of annuity sales has started to come through in September and October 2014 with revenue for these two months exceeding the revenue for the comparable two months in the prior year by 10%. In the six months from 1 March 2014 to 31 August 2014 (the current reporting period), Huge Telecom acquired in excess of 1 800 new clients and grew net connections by more than 5 300 lines.

Huge Telecom has also been successful in increasing its fixed annuity to variable annuity ratio. The fixed annuity consists of channel management fees, on-account fees, site management fees and line rentals, which are largely protected from price compression. The current monthly annuity book of fixed annuity charges is in the order of about R2.8 million as at 31 October 2014 (R1.6 million as at 28 February 2014).

In the six months from 1 March 2014 to 31 August 2014, operating expenses decreased by 16.1% from R39.4 million to R33.1 million as compared to the previous comparable six months. Huge Telecom has continued to contain costs and this remains a key focus area.

MEDIA ACTIVITIES

Eyeballs has continued developing its proprietary mobile phone advertising application.

GROUP NET CHANGE IN THE FAIR-VALUE OF FINANCIAL INSTRUMENTS

The profits relating to derivative instruments increased Group operating profitability by R1.56 million in the six month period ended 31 August 2014 compared to a loss of R1.34 million in the comparative prior period.

FUTURE PROSPECTS

INVESTMENT HOLDING ACTIVITIES

One of the strategies of the Group is to participate in the consolidation of the telecommunications industry by participating in merger and acquisition activity.

TELECOMMUNICATIONS ACTIVITIES

The transformation of Huge Telecom from a least cost routing company to a distribution company providing an enhanced telephony offering has changed the fortunes and prospects of the Group substantially. The distribution capability built by Huge Telecom in the last two years has laid the foundation for significant growth in both revenue and profits; coupled with the future delivery of data services and asset backed financing, it is possible to increase revenues at a rate faster than what has been achieved historically.

Huge Telecom now has in excess of 380 distribution partners and the value of the Group lies in its distribution capability. The increase in distribution has had a concomitant effect on Huge Telecom's sales where the compounding effect of annuity revenue since the end of this reporting period has gained greater momentum, with revenue for September and October 2014 exceeding the revenue for the comparable two months in the prior year by 10%.

Since the start of calendar year 2014, monthly sales records have been set in 8 of the 10 trading months; monthly sales in October 2014 exceeded 1 500 telephone lines or connections and average monthly sales for FY15 have increased by more than 70% in comparison to the comparable six month period.

Average line rental on connections has compounded at an average of R152 000 per month for the months of March 2014 to October 2014, thereby increasing the monthly line rental book by R1.52 million at the end of October 2014 (for FY14 monthly line rental compounded at an average rate of R39 000 per month, increasing the monthly line rental book by R468 000 at the end of February 2014).

MEDIA ACTIVITIES

The increased prevalence of lower priced smartphones is fortifying the opportunity in providing advertising to smartphone users in the manner envisaged by the Eyeballs Mobile Technology. The Board remains hopeful of seeing a return on the significant investment that has been made in this technology.

GENERAL REPURCHASE OF SHARES FOR CASH

As at 31 August 2014, the Company has 89 901 443 ordinary shares in issue. 9 646 926 ordinary shares are held by Huge Telecom in treasury, resulting in a net 80 275 017 listed ordinary shares.

The contracts for difference held by Huge Telecom over 3 904 579 ordinary shares of Huge were closed out during the six months under review.

LEGAL AND REGULATORY REQUIREMENTS

Settlement of litigation: Disputes between Huge Telecom and MTN SP Shareholders are referred to the SENS announcement dated 11 September 2014, wherein the Company advised that a settlement agreement had been reached with MTN SP in the amount of R10 million. The matter is therefore closed.

The Company is currently party to the following litigation:
Disputes between Huge and TeleMasters Holdings Ltd ("TeleMasters")
TeleMasters has referred a dispute to the Arbitration Foundation of South Africa ("AFSA") and it is claiming payment of the amount of R4.176 million, plus interest and costs. Huge has filed a counterclaim of R4.392 million and prays for payment of R2.674 million, interest thereon as well as the costs of suit.

SUBSEQUENT EVENTS

Other than as disclosed in this announcement, there are no events subsequent to 31 August 2014 and to the date of this announcement which have had or may have a material impact on the Company.

GOING CONCERN

The Board has undertaken a detailed review of the going concern capability of the Company (and all subsidiary companies of the Company that form the Group) with reference to certain assumptions and plans underlying various cash flow forecasts.

The Board has not identified any events or conditions that individually or collectively cast significant doubt on the ability of the Company and the Group to continue as a going concern.

CHANGES TO THE BOARD

There were no changes to the board of directors of the Company during the six months ended 31 August 2014.

DIVIDENDS

No dividends were paid or declared during the six months ended 31 August 2014.

GOVERNANCE

The Group recognises the need to conduct its business with integrity, transparency and equal opportunity, and subscribes to good corporate governance as set out in the King III Report on Corporate Governance.

Johannesburg
24 November 2014

Designated Adviser

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VM Mokholo* (Chairman), SP Tredoux* (Lead Independent Director), DR Gammie*, AD Potgieter*, JC Herbst (Chief Executive Officer), D Deetlefs (Group Financial Director)

*Non-executive