HUGE GROUP LTD
(Registration number 2006/023587/06)
Share code: HUG ISIN: ZAE000102042
("Huge" or "the Company")

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2017

HIGHLIGHTS

- Total revenue and gross profit increased by 70.6% and 104.3% respectively
- Gross profit margins improved from 45.1% to 54%
- Operating profit up 149%
- Headline earnings of 19.1 cents up 90%
- Adjusted headline earnings per share of 29.5 cents after taking into account certain once-off charges against operating profit

The board of directors ("the Board" or "the Directors") of Huge is pleased to present the unaudited consolidated interim results of the Company and its subsidiary companies and joint venture ("the Group") for the six months ended 31 August 2017.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 31 August 2017 (6 months) R'000	Audited 29 February 2017 (12 months) R'000	Unaudited 31 August 2016 (6 months) R'000
Total revenue	197 901	245 993	116 010
Gross profit	**106 778**	**118 612**	**52 270**
Other income	1 588	1 247	569
Operating expenses	(70 173)	(77 620)	(37 499)
Operating profit	**38 193**	**42 239**	**15 340**
Investment income	1 831	233	88
Share of (losses) / earnings from equity accounted investments	9	(22)	7
Impairment	(2 763)	-	-
Finance costs	(4 956)	(5 336)	(2 696)
Profit before taxation	**32 314**	**37 114**	**12 739**
Income tax credit / (expense)	(8 859)	(10 307)	(2 505)
Net profit for the period	**23 455**	**26 807**	**10 234**
Non-controlling interest	24	(184)	(57)
Net profit attributable to owners of the company	**23 479**	**26 623**	**10 177**
Basic earnings per share (cents)*	17.10	26.27	10.05

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 August 2017 (6 months) R'000	Audited 29 February 2017 (12 months) R'000	Unaudited 31 August 2016 (6 months) R'000
ASSETS			
Non-current assets			
Property, plant and equipment	115 794	73 222	65 672
Goodwill	540 701	215 153	215 153
Intangible assets	2 848	3 927	1 464
Investment in joint venture	679	688	716
Other financial assets	1717	-	-
Deferred tax	12 533	7 550	4 385
Deferred expenditure	21 043	16 951	16 632
	695 314	**317 491**	**304 022**
Current assets			
Inventories	24 664	647	1 211
Trade and other receivables	58 487	42 606	30 753
Deferred expenditure	8 501	7 694	3 826
Cash and cash equivalents	19 585	70 976	397
	111 237	**121 923**	**36 187**
Total assets	**806 550**	**439 414**	**340 209**
EQUITY AND LIABILITIES			
Share capital	619 348	319 421	229 323
Retained earnings	28 580	60 361	43 915
Equity attributable to equity holders of parent	647 928	379 782	273 238
Non-controlling interest	(3 025)	(3 001)	(3 128)
	644 903	**376 781**	**270 110**
Non-current liabilities			
Finance lease obligations	1 802	1 331	1 802
Deferred tax	21 703	9 942	585
	23 505	**11 273**	**2 387**
Current liabilities			
Interest bearing liability	75 000	-	20 000
Loans from shareholders	-	-	177
Other financial liabilities	1 908	753	716
Current tax payable	3 888	4 256	2 562
Finance lease obligations	3 027	1 166	1 357
Trade and other payables	49 703	35 744	35 311
Bank overdraft	4 616	9 441	7 589
	138 142	**51 360**	**67 712**
Total liabilities	**161 647**	**62 633**	**70 099**
Total equity and liabilities	**806 550**	**439 414**	**340 209**
Number of shares in issue ('000)	175 602	125 551	110 901
Net asset value per share (cents)	513.66	339.74	266.76
Net tangible asset value per share (cents)	80.73	142.20	52.83

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited 31 August 2017 (6 Months) R'000	Audited 29 February 2017 (12 months) R'000	Unaudited 31 August 2016 (6 Months) R'000
Balance at 1 March	376 781	259 876	259 876
Total comprehensive income for the period	23 455	26 807	10 234
Issue of Shares	244 667	90 098	-
Balance at 28 February / 31 August	644 903	376 781	270 110

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 31 August 2017 (6 Months) R'000	Audited 29 February 2017 (12 months) R'000	Unaudited 31 August 2016 (6 months) R'000
Cash flows from operating activities	11 802	24 433	8 620
Cash flows from investing activities	(435 588)	(24 795)	(10 385)
Cash flows from financing activities	377 220	67 215	(109)
Net cash movement for the period	(46 566)	66 853	(1 874)
Cash at the beginning of the period	61 535	(5 318)	(5 318)
Total cash at the end of the period	14 969	61 535	(7 192)

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 can be split into three main operating segments, namely a Corporate Office Grouping, Telecom Grouping and Financial Technology ("Fintech") Grouping. The summarised information included below is in line with the requirements of IAS 34. The revenue generated from the products and services supplied by the respective Group companies to all clients is done so on a countrywide basis, with no geographical differentiation.

	Unaudited 31 August 2017 R'000	Elimination R'000	Telecom Grouping R'000	Fintech Grouping R'000	Corporate Office Grouping R'000
Total revenue	197 901	(2 180)	134 661	62 492	2 928
Gross profit	**106 778**	**(2 180)**	**60 801**	**45 420**	**2 737**
Other income	1 588	-	874	714	-
Operating expenses	(70 173)	2 180	(50 452)	(14 969)	(6 932)
Operating profit/(loss)	**38 193**		**11 223**	**31 165**	**(4 195)**
Investment income	1 831	-	154	1 179	498
Loss from equity accounted investments	9		9	-	-
Impairment	(2 763)	-	(2 763)	-	-
Finance costs	(4 956)	-	(502)	(179)	(4 275)
Profit/(loss) before income tax	**32 314**		**8 121**	**32 165**	**(7 972)**
Income tax credit/(expense)	(8 859)	-	(996)	(7 945)	82
Profit after income tax	**23 455**	**-**	**7 125**	**24 220**	**(7 890)**

	Unaudited 31 August 2016 R'000	Elimination R'000	Telecom Grouping R'000	Fintech Grouping R'000	Corporate Office Grouping R'000
Total revenue	116 010	-	116 010	-	-
Gross profit	**52 271**	**-**	**49 571**	**-**	**2 700**
Other income	569		569	-	-
Operating expenses	(37 499)		(35 063)	-	(2 436)
Operating profit/(loss)	**15 341**	**-**	**15 077**	**-**	**264**
Investment income	88	-	33	-	56
Loss from equity accounted investments	7		7	-	-
Finance costs	(2 696)		(2 670)	-	(25)
Profit/(loss) before income tax	**12 740**	**-**	**12 447**	**-**	**294**
Income tax credit/(expense)	(2 507)		(2 424)	-	(82)
Profit after income tax	**10 233**	**-**	**10 023**	**-**	**213**

COMMENTARY

BASIS OF PREPARATION

The unaudited consolidated interim results have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and presented in compliance with IAS 34: Interim Financial Reporting, the Companies Act of South Africa, and the JSE Limited's ("the JSE") Listings Requirements ("Listings Requirements").

This announcement has not been reviewed or reported on by the Company's auditors. Any references to post year-end performance are based on management accounts.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of these unaudited consolidated interim results are in terms of IFRS and are consistent with those applied in the preparation of the annual financial results of the Company for the year ended 28 February 2017.

BASIC EARNINGS AND HEADLINE EARNINGS PER SHARE

	Unaudited 31 August 2017 (6 Months) R'000	Audited 29 February 2017 (12 months) R'000	Unaudited 31 August 2016 (6 months) R'000
Basic earnings per share (cents)*	17.10	26.27	10.05
Adjusted for:			
Profit on disposal of property, plant and equipment	(0.01)	(0.05)	-
Impairment of property, plant and equipment	2.01	-	-
Headline earnings per share (cents)*	19.10	26.22	10.05
Total number of shares in issue ('000)	175 602	125 551	110 901
Weighted number of shares in issue ('000)	137 281	101 360	101 255

*The Group does not have any dilutionary instruments in issue.

STANDARDS ISSUED NOT YET EFFECTIVE

IFRS 15 *Revenue from contracts with customers*

The standard is effective for years commencing on or after 1 January 2018. The standard will be adopted by the Group for the financial reporting period commencing 1 March 2018. IFRS 15 requires an entity to recognise revenue in such a manner as to depict the transfer of the goods or services to customers, at an amount representing the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard has a 5-step process to be applied to all contracts with customers. The standard provides guidance for identifying the contract with the customer, identification of the deliverables (performance obligations), determination of the transaction price

(including the treatment of variability in the transaction price, and significant financing components), how to allocate the transaction price, and when to recognise revenue.
Huge has assessed its significant contracts with customers in line with the new standard. The outcomes of the preliminary assessment indicate the pattern of revenue recognition for certain device sales and fees charged will differ to current accounting treatment under IAS 18. Further the new standard requires commissions paid to acquire a contract, some of which are expensed currently, to be capitalized and amortised over the contract duration. The Group is still in the process of quantifying the impacts of these changes and will take a decision on the transition method to be applied.

IFRS 16 *Leases*

The standard is effective for years commencing on or after 1 January 2019. The standard is likely to be adopted by the Group for the financial reporting period commencing 1 March 2018, but must be implemented by 1 March 2019. IFRS 16 requires a lessee to recognize a right of use asset and lease obligations for all leases except for short term leases, or leases of low value assets which leases may be treated similarly to operating leases under the current standard IAS 17, if the exceptions are applied. A lessee measures its lease obligation at the present value of future lease payments, and recognises a right of use asset initially measured at the same amount as the lease obligation, including costs directly related to entering into the lease. Right of use assets are subsequently treated in a similar way to other assets such as property, plant and equipment, or intangible assets, dependent on the nature of the underlying item.
The Group has a number of property rental agreements in place. In accordance with the above, right of use assets and lease obligations associated to these rentals would be recognised in the statement of financial position, the extent of which is yet to be determined. The Group will take a decision on the transition method to be applied, or the application of exceptions related to short term and low value asset leases.

IFRS 9 *Financial instruments*

The standard is effective for years commencing on or after 1 January 2018. The standard is likely to be adopted by the Group for the financial reporting period commencing 1 March 2018, but must be implemented by 1 March 2019. IFRS 9 provides guidance on the classification, measurement and recognition of financial assets and financial liabilities and replaces IAS 39. The standard establishes three measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. Classification of financial assets into these categories is dependent on the entity's business model (which depicts its objectives with respect to the management of financial assets as a whole) and the characteristics of the contractual cash flows of the specific financial asset. There were no significant changes to the classification guidance for financial liabilities.
IFRS 9 introduces a new expected credit loss impairment model that replaces the incurred loss impairment model used in IAS 39. The Group will have to adjust its impairment models to incorporate forward looking information and time value of money to comply with expected credit loss impairments under IFRS 9. The Group is still in the process of quantifying the impacts of this change. The Group will take a decision on the transition method to be applied.

COMPANY PROFILE

Huge is an investment holding company listed on the Main Board of the JSE.

Huge Telecom Proprietary Limited ("Huge Telecom") was the principal operating entity of Huge prior to the acquisition of Huge Connect Proprietary Limited ("Huge Connect"), formerly Connectnet Broadband Wireless Proprietary Limited ("ConnectNet"), and its wholly owned subsidiary company, Huge Networks Proprietary Limited, formerly Sainet Internet Proprietary Limited ("Sainet Internet"). Huge Connect and Huge Networks were acquired with effect from 30 March 2017.

Huge Telecom is a telephony services business that makes use of GSM to provide a wireless 'last mile' connection from the customer's premises to the core of the network (the last mile is the final connection from the core network to the customer's premises). Its principal service is substituting fixed-line voice infrastructure, like that provided by a public switched telephone network (PSTN) such as Telkom, with wireless GSM solutions. The customers of Huge Telecom exceed 14 500 in number (and circa 40 000 telephone lines) and comprise corporate organisations of any size and residential consumers, who require a fixed location voice service. Huge Telecom does not own any core network infrastructure; rather, it leverages off the existing mobile operator networks in South Africa.

Huge Telecom has an extensive and growing distribution network, selling its telephony services through more than 650 resellers (referred to as Business Partners).

The sum-of-the-parts valuation of Huge (prior to Huge Connect), is comprised of: firstly, the demonstrable fixed landline telephony services substitution blueprint and secondly, the cash flow generative profile of its customer base coupled with the scalability of this base (via a large distribution channel). The economies of scale enjoyed by the mobile network operators (MNOs) means that the existing customer base would generate much higher cash flow returns to the networks, thereby imputing a far higher valuation in their hands.

Huge Connect is a telecommunications solutions company with a focus on growing its voice, network connectivity and payment offering. It was established in 2004 and provides connectivity to the card payment terminals of the commercial banks in South Africa by making use of secure, managed, dual SIM connectivity over GSM data networks. The company has also expanded into other markets, including ATMs, integrated points of sale, medical/script verifications, telemetry applications, micro-lending applications and cash vaults.

Huge Networks is a network service provider and data communications company that markets and sells a variety of products and services including Internet data services, managed network solutions, branch connectivity, hosting services and website and system development.

The combination of Huge Telecom, Huge Connect and Huge Networks is compelling. Firstly, the bulk of Huge Connect's 31 000 customers fit squarely into Huge Telecom's target customer market, with little overlap. It is therefore expected that Huge Connect will assist Huge Telecom in expanding its base of customers. Secondly, Huge Networks creates a critical entry for Huge Telecom to participate in the data market.

Huge, enlarged by Huge Connect and Huge Networks, is building an investment theme focused on connectivity, mobile payments and Financial Technology (Fintech). People live in a connected world – everyone and everything needs to be connected – Huge Telecom, Huge Connect and Huge Networks make connections possible. Huge Connect and Huge Networks provide Huge with an entry into the data telecommunications and mobile payments markets, and an opportunity to participate in the expected explosive growth of the Internet, as it transforms from being a source of information to one focused on value and its movement. Huge Connect's participation as a trusted service provider in the payments industry makes it invaluable real estate for expansion into Fintech-type opportunities.

REVIEW OF OPERATIONS

Reporting segments

Huge acquired ConnectNet and its wholly owned subsidiary company Sainet on 30 March 2017. ConnectNet has been renamed and rebranded as Huge Connect and Sainet has been renamed and rebranded as Huge Networks.

In terms of Huge's segmental reporting, the Telecom Grouping comprises the following companies:

- 100% held Huge Telecom, the holding company of which is Huge
- 100% held Huge Soho Proprietary Limited, the holding company of which is Huge
- 100% held Huge Software and Technologies Proprietary Limited, the holding company of which is Huge
- 100% held Huge Cellular Proprietary Limited, the holding company of which is Huge Telecom
- 100% held Huge Networks, the holding company of which is Huge Telecom
- 50.2% held Ambient Mobile Proprietary Limited, the shareholding of which is held by Huge Telecom
- 49.66% held Le Gacy Telecom (FRA) Proprietary Limited, the shareholding of which is held by Huge Telecom

In terms of Huge's segmental reporting, the Fintech Grouping comprises the following companies:

- Huge Connect, the holding company of which is Huge

In terms of Huge's segmental reporting, the Corporate Office Grouping comprises the following companies:

- Huge itself
- 75% held Accknowledge Systems Proprietary Limited
- 96% held Eyeballs Mobile Advertising Proprietary Limited

Revenue

The revenue of the Telecom Grouping is up 16.1% for the first six months of the current financial year ("HY18") when compared to the comparative six month period ("the Comparative"). This is largely as a result of the inclusion of 5 months of revenue attributable to the acquisition by Huge Telecom of Huge Networks. If the impact of the acquisition of Huge Networks on the Telecom Grouping's revenue is excluded, like for like revenue growth was 2.5%. Huge Telecom is the principal contributor to the Telecom Grouping's revenue and profit.

Huge Telecom's installed base of telephone lines increased by 1 490 telephone lines, from 36 793 installed telephone lines at the end of February 2017 to 38 283 installed telephone lines at the end of August 2017, implying a net growth of 250 telephone lines per month.

Average revenue per user ("ARPU"), where a user is defined as an installed telephone lines, amounted to just over R475 for HY18 (HY17: R550). ARPUs are expected to increase with the launch by Huge Telecom of its new full suite telephony service referred to below.

The general economic downturn and low rate of economic growth in South Africa during HY18 has had a significant impact on Huge Telecom's ability to sell telephone lines. Net growth for the Comparative was 3 132 installed telephone lines, implying a net growth of 520 telephone lines per month. This is more than double the monthly net growth for HY18.

Huge Telecom has been working with the mobile network operators in South Africa to increase the functionality of telephone services using mobile network infrastructure. A development project was launched on 1 March 2017 with a view to developing this additional functionality, which has become known in Huge Telecom as full suite telephony.

Prior to the development of full suite telephony, Huge Telecom did not have access to (1) the ability to queue incoming telephone calls made simultaneously to the same telephone number for distribution to multiple mobile telephone lines for further distribution to the extensions to the PABX and (2) the ability to distribute multiple outgoing telephone calls made simultaneously from the extensions to the PABX to multiple mobile telephone lines while displaying the same telephone number. These two functions have lowered the barrier to making the porting of geographic fixed line telephone numbers useful. There was historically no point in porting a geographic fixed line telephone number to a mobile network operator due to the lack of this functionality. The introduction of full suite telephony has now provided Huge Telecom with access to these important telephony functions.

It was originally anticipated that full suite telephony would become available from 1 August 2017. There were delays in finalising the development and accordingly, full suite telephony only became available in November 2017. Huge Telecom expects significant growth in the sale of telephone lines as a result of full suite telephony. It is anticipated that full suite telephony will not only increase the monthly gross sales of telephone lines, which averaged 645 during HY18 (872 during the Comparative), but will also reduce the monthly churn of telephone lines, which averaged 395 during HY18 (350 during the Comparative). Net sales in November 2017 are already 8 times what they were on average during HY18.

The revenue of the Fintech Grouping includes 5 months of revenue from Huge Connect, which was acquired with effect from 30 March 2017. Accordingly, there is no comparative.

The revenue of the Corporate Office Grouping includes revenue from the sale of accounting software by Accknowledge of R748 088 and management fees of R2 179 708 charged by Huge to Huge Telecom.

Gross profit

On 15 February 2017, Huge published a voluntary announcement on the JSE Limited's Stock Exchange News Service ("SENS") in which it sought to explain the possible impact of, amongst other things, the negotiation of substantially lower wholesale pricing ("New Pricing") from certain existing suppliers of Huge Telecom on the future cost of sales of Huge Telecom ("the Guidance").

In order for Huge Telecom to benefit from the New Pricing it has to rotate the SIM cards in each router underlying each telephone line ("the Rotation"). The Rotation started on 1 March 2017. At the end of October 2017, 64% of billed minutes benefited from the New Pricing.

The gross profit of the Telecom Grouping is up 16.6% for HY18 when compared to the Comparative. This is largely as a result of the inclusion of 5 months of gross profit attributable to the acquisition by Huge Telecom of Huge Networks. If the impact of the acquisition of Huge Networks on the Telecom Grouping's gross profit is excluded, like for like gross profit would be 4% higher than its Comparative.
For the six months from March to August 2017, 41% of the total minutes billed by Huge Telecom benefited from the New Pricing. Historically, 51% of Huge Telecom's minutes are billed in the first half of the financial year and 49% are billed in the second half of the financial year. If Huge Telecom had completed the Rotation on 1 March 2017, Huge's cost of sales for HY18 would have been R9.5 million lower, gross profit and operating profit would have been R9.5 million higher ("the Rotation Effect"), after

tax profit would have been R6.8 million higher and headline earnings per share would have been higher by 5 cents per share.

The gross profit of the Fintech Grouping includes 5 months of gross profit from Huge Connect, which was acquired with effect from 30 March 2017. Accordingly, there is no comparative.

If the gross profit of Huge Networks for the 5 months to 31 August 2017 is aggregated with the gross profit of Huge Connect for the same 5 months for comparative purposes, the gross profit for Huge Connect and Huge Networks for the last 5 months of HY18 amounted to R52.4 million. This implies average monthly gross profit of R10.5 million. The gross profit of Huge Connect and Huge Networks for the 6 months to August 2016, which was disclosed in Huge's circular to shareholders, dated 17 January 2017, amounted to R46.3 million, implying average monthly gross profit of R7.7 million. Accordingly, gross profit growth for Huge Connect and Huge Networks has been substantially higher.

Operating expenses

The operating expenses of the Telecom Grouping are up 38.6% for HY18 when compared to the Comparative. If the impact of the acquisition of Huge Networks on the Telecom Grouping's operating expenses is excluded, like for like operating expenses would have been 30% higher than the Comparative. The two main reasons for the increase in operating expenses is a 15.3% increase in human capital costs and an increase in provisions. The increase in human capital costs is mainly attributable to R1.7 million in once-off severance charges ("the Severances"). Excluding the Severances, human capital costs would have increased by 7.7%, which is in line with the inflationary increases proposed and approved on 1 March 2017. Included in operating expenses is a provision for disputes amounting to R5.6 million ("the Disputes") and an increase in the provision for doubtful debts of R2.7 million. Given the current economic climate in South Africa, management are of the view that a more conservative approach in providing for doubtful debts is warranted. While Huge Telecom is optimistic about its prospects relating to the Disputes, it has once again preferred a more conservative approach. Excluding the effects of the Disputes and the Severances, headline earnings per share would have been 3.8 cents higher.

The operating expenses of the Fintech Grouping include 5 months of operating expenses of Huge Connect, which was acquired with effect from 30 March 2017. Accordingly, there is no comparative.

If the operating expenses of Huge Networks for the 5 months to 31 August 2017 are aggregated with the operating expenses of Huge Connect for the same 5 months for comparative purposes, the operating expenses for Huge Connect and Huge Networks for the last 5 months of HY18 amounted to R14.4 million. This implies average monthly operating costs of R2.9 million. The operating expenses of Huge Connect and Huge Networks for the 6 months to August 2016, which was disclosed in Huge's circular to shareholders dated 17 January 2017, amounted to R17.6 million, implying average monthly operating expenses of R2.9 million.

The operating expenses of the Corporate Office Grouping include once-off charges relating to the acquisition of ConnectNet and the issue of shares for cash, all of which were required to be expensed. These are corporate finance charges amounting to R3.1 million ("the Once-off Charges") and are unrelated to the organic performance of Huge. They are related to acquisitions, the benefits of which will only accrue in later years. Huge expects to continue to incur such once-off charges as it pursues future acquisitions. Excluding the effects of the Once-off Charges, headline earnings per share would have been 1.7 cents higher.

Operating profit

Operating profit for HY18 amounted to R38.2 million, which is 149% higher than the Comparative. Excluding the Rotation Effect, the effects of the Severances, the Disputes and the Once-off Charges, operating profit for HY18 would have amounted to R58.1 million, which would have been 280% higher than the Comparative. Adding back the aforementioned items, headline earnings per share would have been 10.4 cents per share higher than the 19.1 cents per share for HY18.

Shareholders are reminded that it in terms of the Subscription and Repurchase Agreement ("the SRA") concluded by Huge, ConnectNet and the vendors of ConnectNet, the initial repurchase consideration (as that term is defined in the SRA) is subject to an upward or downward adjustment in the event that sum of the cumulative aggregate operating profit of ConnectNet and Sainet for the financial years ended 28 February 2018, 28 February 2019 and 29 February 2020 is greater than, or less than, an upper and lower threshold either side of a cumulative aggregate operating profit target of R240 million.

The cumulative aggregate operating profit of ConnectNet and Sainet for the six months to 31 August 2017 amounted to R35 million.

FUTURE PROSPECTS

There is a profitable vacuum in the telecommunications market for services. Service companies have been emerging and building propositions that cater to specific market segment needs while the big network operators continue to roll out a commodity – technology infrastructure. This has allowed innovative service organisations to steal a march on their bigger rivals by owning the customer relationship and experience. This has been effective particularly in the Small, Medium Enterprise ("SME") and Small Office, Home Office ("SOHO") and Residential markets. Huge has over 45 000 SME customers and it is the intention of the Group to expand this customer base and leverage the cross-selling and cross-over opportunities that exist. The large networks struggle to compete in these markets because their core processes are engineered and geared towards supporting either the large corporates (through large sales forces on the ground), or consumers (through mainstream media advertising and mass distribution through large retail chains and owned stores). The SME, SOHO and Residential market segments are also largely price insensitive and are prepared to pay relatively more for effective and efficient services tailored to their needs.

Full suite telephony is a very exciting development and recent data points talk to enormity of the opportunity. Huge Telecom is able to port geographic telephone numbers for use with wireless GSM networks. This has never been done before and is a world first. This presents Huge Telecom with a new and significantly expanded market – a vast market that previously was the exclusive domain of the Telkom monopoly.

Huge Telecom's wireless GSM telephony service is a fast, simple and easy to install solution – one that is plug, play and walk away. It does not come with a charge for hardware – there are no device costs. It is a solution that offers a simple ecosystem with few variables and few points of failure, which is devoid of complexity and the high costs of maintenance that come with complexity. It is a solution built on first tier mobile network infrastructure and it does not require a data connection. There is no risk of cable theft. It is a low maintenance, if not free of maintenance, solution – so much so that Huge Telecom doesn't charge for after sales service and maintenance. It is a solution that is inherently mobile and capable of quick and easy relocation. It is compatible with all makes of PBX and a solution that offers significant savings on call costs.

While the future looks promising for Huge Telecom, the management team realizes that they need to do a massive roll out of this service to what is effectively an untapped market. This is going to require the building of capacity. The appointment of Gunter Engling as Managing Director of Huge Telecom is evidence of Huge's commitment to building this capacity. A key differentiator of the Huge Telecom business model is its reach – Huge Telecom has approximately 650 resellers – which Huge Telecom calls Business Partners – located nationwide.

TREASURY SHARES

As at 31 August 2017, the Company has 175 602 077 ordinary shares in issue, of which 9 646 926 ordinary shares are held by Huge Telecom in treasury, resulting in a net 165 955 151 listed ordinary shares.

LITIGATION AND REGULATORY REQUIREMENTS

Huge is currently party to the following litigation:

Pro-active Monitoring of Financial Statements

On 11 August 2017, shareholders of Huge were advised that the Company's application ("the Application") to the High Court: Gauteng Local Division Johannesburg ("the Court") to set aside the decision of the JSE Limited ("the JSE") of 27 October 2014 ("the Decision") directing the Company to restate its annual financial statements ("AFS") for the years 2010, 2011 and 2012 ("the Restatement"), was dismissed. In terms of the Decision, the Company was required to announce the Restatement on the JSE's Stock Exchange News Service ("SENS") and include the full details of the Restatement in Huge's next annual financial statements, being the annual financial statements for the year ended 28 February 2018 ("the Next AFS").

The Restatement is related to the accounting treatment in Huge's 2010 (and by implication the 2009 comparative), 2011 and 2012 annual financial statements ("the Relevant AFS") of 80 455 single stock futures ("SSF") contracts that Huge acquired in October 2008.

Huge, on the advice of its statutorily appointed auditors, reflected the SSF contracts in the Relevant AFS as derivative financial instruments and accounted for the movement in the fair value of the SSF contracts through profit and loss and ultimately retained income in equity. In terms of the Decision, Huge should have reflected the SSF contracts in the Relevant AFS as equity instruments and accounted for the movement in the fair value of the SSF contracts through share capital in equity.

Fair value losses relating to the SSF contracts of R17 881 163 and R7 059 948 were recorded in the 2009 and 2010 AFS respectively, a fair value gain relating to the SSF contracts of R3 252 619 was recorded in the 2011 AFS and fair value losses relating to the SSF contracts of R1 783 148 and R4 202 350 were recorded in the 2012 and 2013 AFS respectively. The aggregate fair value losses relating to the SSF contracts and recorded from 2009 to 2013 amounted to R27 673 990. The Company accounted for these losses through profit and loss and ultimately retained income in equity, instead of through share capital in equity, as is required by the Decision.

Huge has considered the impact of the Restatement on the Next AFS and in this regard Accounting Standard ("IAS") 8: Accounting Policies, Changes in Accounting Estimates and Errors is applicable. Because the cumulative impact of the Restatement is both a debit and a credit to equity in the same amount (being a debit to share capital in equity and a credit to retained income in equity of the same amount) and the Company closed out the SSF contracts on 18 December 2013, there will be no impact on assets, equity or liabilities of the current or comparative period of the Next AFS.

Arbitration

Dispute between Huge and TeleMasters Holdings Limited (TeleMasters)

During February 2013 Telemasters cancelled an agreement with Huge for the supply of MTN airtime and suspended the SIM cards held by the Company. In its Statement of Claim issued on 31 May 2013, Telemasters alleges that the Company is indebted to it in the amount of R4.176 million plus interest thereon.

In its Plea and Counterclaim issued on 11 June 2014, the Company:
1. admitted that TeleMasters was entitled to raise R1.7 million for monthly subscriptions for the period 15 January 2013 to 14 February 2013 in respect of 2 820 SIM cards;
2. admitted that TeleMasters was entitled to raise R8 084 for monthly subscriptions for the period 15 February 2013 to 18 February 2013 in respect of 100 SIM cards;
3. claimed that Telemasters is indebted to it in the amount of R4.392 million plus interest thereon in respect of amounts overcharged by Telemasters and which is made up as follows:
   a) R1.215 million in respect of "Itemised Billing" for which it was not entitled to charge;
   b) R1.034 million in respect of "Administration Fees" for which it was not entitled to charge;
   c) R2.143 million in respect of "Gross Out of Bundle Charges" (being a claim of R4.053 million in respect of Gross Out of Bundle Charges, less a credit note passed by TeleMasters in respect thereof of R1.910 million) in respect of for which it was not entitled to charge.

The matter is subject to arbitration by the Arbitration Foundation of Southern Africa. The assets and liabilities relating to this dispute have been recognised at levels appropriate to the Company's assessment of the outcome of the arbitration hearing.

During February 2017, Huge and TeleMasters decided to separate out for decision ("the Separation"), before deciding on the claim and counterclaim, the following matters:
i. Was TeleMasters entitled to charge Huge a fee in respect of itemised billing?
ii. Was TeleMasters entitled to charge huge the Administration Fees?
iii. Was TeleMasters entitled to charge Huge for calls made on SIM cards, where those calls had been zero rated by the network operator in the depleting any accumulated value?"

The hearing was set down for five days, commencing on 2 October 2017. The parties argued the separated issues before the arbitrator on 4 October 2017.

No definitive relief was claimed on account of the Separation but the arbitrator's decision on the separated issues was anticipated would contribute to a convenient resolution of some issues between the parties.

In terms of an award of the arbitrator, dated 6 October 2017, the arbitrator made the following award in respect of the separate issues:
A. In respect of issue number i above, the arbitrator decided in favour of Huge;
B. In respect of issue number ii above, the arbitrator decided in favour of TeleMasters;
C. In respect of issue number iii above, the arbitrator decided in favour of TeleMasters.

The remaining issues arising out of the Statement of Claim and the Plea and Counterclaim were postponed sine die and no order was made thereon.

Other litigation

The Company and Group engage in a certain level of litigation in the ordinary course of business. The Directors have considered all pending and current litigation and are of the opinion that, unless specifically provided, none of these will result in a loss to the Group. All significant litigation which the Directors believe may result in a possible loss has been disclosed.

SUBSEQUENT EVENTS

There have been no events subsequent to 31 August 2017 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

During the six months ended 31 August 2017, the following changes were made to the Board:

D Deetlefs	31 May 2017	Resignation
A Potgieter	30 June 2017	Resignation
C Lyons	30 June 2017	Appointment
B Armstrong	1 September 2017	Appointment

DIVIDENDS

No dividends were declared or paid during the period under review.

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 IV Report on Corporate Governance.

Johannesburg
30 November 2017

Sponsor
Questco (Pty) Ltd
1st Floor, Ballywoods Office Park, 33 Ballyclare Drive, Bryanston, 2021

Registered office
1st Floor, East Wing, 146a Kelvin Drive, Woodmead, Johannesburg, 2191 (PO Box 16376, Dowerglen, 1610)

Transfer Secretaries
Computershare Investor Services (Pty) Ltd
2nd Floor, Rosebank Towers, 15 Bierman Avenue, Rosebank, 2196

Directors

Non-Executive: Dr DF Da Silva (Chairman), SP Tredoux* (Lead Independent Director), DR Gammie*, BC Armstrong*, C Lyons*, VMM Mokholo
Executive: JC Herbst (Chief Executive Officer), Z Bulbulia (Chief Financial Director)
*Independent