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 2018

HIGHLIGHTS

- Total revenue increased by 8.4% from R197.9 million to R214.6 million
- Operating profit increased by 77.0% from R38.2 million to R67.6 million
- EBITDA increased by 74.1% from R46.1 million to R80.3 million
- Earnings per share increased by 66.4% from 17.1 cents per share to 28.5 cents per share
- Headline earnings per share increased by 49.2% from 19.1 cents per share to 28.5 cents per share

The board of directors (**the Board** or **the Directors**) of Huge is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiary companies and joint venture (**the Group**) for the first six months of the financial year which commences on 1 March 2018 and ends on 28 February 2019 (**FY2019**). These results have been compared to the twelve months of the financial year which commenced on 1 March 2018 and ended on 28 February 2018 (**FY2018**) and they have also been compared to the first six months of FY2018.

COMPANY PROFILE

Huge is an investment holding company listed on the Main Board of the JSE Limited (the **JSE**).

It has four principal operating subsidiary companies:
- Huge Connect Proprietary Limited (**Huge Connect**)
- Huge Networks Proprietary Limited (**Huge Networks**)
- Huge Software Proprietary Limited (**Huge Software**)
- Huge Telecom Proprietary Limited (**Huge Telecom**)

Huge Connect is a telecommunications solutions company with a focus on growing its voice, network and payment connectivity solutions. It was established in 2004 and provides connectivity to the card payment terminals of merchants, payment service providers and 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 for payment connectivity, including connectivity for 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. Huge Networks is a subsidiary of Huge Telecom.

Huge Software is an accounting software development company. It is a 75% held subsidiary of Huge. Huge Software presently offers two products to the SME market, being WebAccounting and its online Application, Webatar.

Huge Telecom is a voice connectivity or 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 such as Telkom, with wireless GSM solutions. Huge Telecom's customer base comprises corporate organisations of any size and residential consumers, who require a fixed location telephony service. Huge Telecom does not own any core network infrastructure; rather, it leverages off the existing mobile operator networks in South Africa.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 31 August 2018 (6 months) R'000	**Audited 28 February 2018 (12 months) R'000**	**Unaudited 31 August 2017 (6 months) R'000**
Total revenue	214 559	401 382	197 901
Gross profit	**125 872**	**224 538**	**106 778**
Other income	16 396	2 580	1 588
Operating expenses	(61 970)	(98 648)	(62 232)
EBITDA	**80 298**	**128 470**	**46 134**
Depreciation and Amortisation	(12 697)	(15 495)	(7 941)
Operating profit	**67 601**	**112 975**	**38 193**
Investment income	958	4 332	1 831
Share of (losses) / earnings from equity accounted investments	-	(72)	9
Impairment of property, plant and equipment	-	(2 794)	(2 763)
Reversal of impairment of financial assets	-	4 520	
Finance costs	(6 556)	(11 036)	(4 956)
Profit before taxation	**62 003**	**107 925**	**32 314**
Income tax credit / (expense)	(14 852)	(30 861)	(8 859)
Net profit for the period	**47 151**	**77 064**	**23 455**
Non-controlling interest	(266)	(223)	24
Net profit attributable to owners of the company	**46 885**	**76 841**	**23 479**
Basic earnings per share (cents)	28.46	47.40	17.10
Headline earnings per share (cents)	28.50	46.34	19.10

No diluted instruments are in issue.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 August 2018 R'000	**Audited 28 February 2018 R'000**	**Unaudited 31 August 2017 R'000**
ASSETS			
Non-current assets			
Property, plant and equipment	205 829	178 669	115 794
Goodwill	593 443	593 443	540 701
Intangible assets	10 499	8 680	2 848
Investment in joint venture	616	616	679
Other financial assets	7 496	7 496	1716
Deferred tax	13 070	12 805	12 533
Deferred expenditure	-	-	21 042

	830 953	**801 709**	**695 313**
Current assets			
Inventories	2 049	1 219	24 664
Loans to Group companies	-	-	-
Trade and other receivables	132 481	103 299	58 487
Deferred expenditure	-	-	8 501
Cash and cash equivalents	29 962	30 265	19 585
	164 492	**134 783**	**111 237**
Total assets	**995 445**	**936 492**	**806 550**
EQUITY AND LIABILITIES			
Share capital	607 724	618 772	619 348
Retained earnings	179 317	128 774	28 580
Equity attributable to equity Holders of parent	**787 041**	**747 546**	**647 928**
Non-controlling interest	(2 688)	(3 016)	(3 025)
	784 353	**744 530**	**644 903**
Non-current liabilities			
Interest bearing liabilities	93 554	82 500	60 000
Instalment sales	1 040	2 155	1 802
Deferred tax	33 111	30 670	21 703
	127 705	**115 325**	**83 505**
Current liabilities			
Interest bearing liabilities	21 176	22 199	15 000
Other financial liabilities	7 145	-	1 908
Current tax payable	3 103	9 683	3 888
Instalment sales	2 633	1 918	3 027
Trade and other payables	40 701	41 506	49 703
Bank overdraft	8 629	1 331	4 616
	83 387	**76 637**	**78 142**
Total liabilities	**211 092**	**191 962**	**161 647**
Total equity and liabilities	**995 445**	**936 492**	**806 550**
Number of shares in issue ('000)	175 602	175 602	175 602
Net asset value per share (cents)	446.67	423.99	367.25
Net tangible asset value share (cents)	102.74	81.10	57.72

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	**Share premium**	**Accumulated profit**	**Non-controlling interest**	**Total equity**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
Balance as at 1 March 2016	**10**	**229 313**	**33 738**	**(3 185)**	**259 876**
Profit for the year	-	-	26 623	184	26 807
Issue of shares	2	90 096	-	-	90 098
Balance as at 1 March 2017 as originally stated	**12**	**319 409**	**60 361**	**(3 001)**	**376 781**
Early adoption of IFRS 9	-		(8 428)		

		-		-	(8 428)
Balance as at 1 March 2017 as restated	**12**	**319 409**	**51 933**	**(3 001)**	**368 353**
Profit for the year	-	-	76 841	223	77 064
Issue of shares	5	299 346	-	-	299 351
Business combinations	-	-	-	(238)	(238)
Balance as at 28 February 2018	**17**	**618 755**	**128 774**	**(3 016)**	**744 530**
Profit for the year	-	-	46 885	266	47 151
Donation of treasury shares	(1)	(11 047)	-	-	(11 048)
Share-based Payment reserves	-	-	5 955	-	5 955
Purchase of non-controlling interest	-	-	(2 297)	62	(2 235)
Balance as at 31 August 2018	**16**	**607 708**	**179 317**	**(2 688)**	**784 353**

During September 2018, 25 000 ordinary shares were issued by the Company at a price of 900 cents per share (amounting to R225 000) in consideration for the acquisition of an additional shareholding in Huge Messaging Proprietary Limited.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 31 August 2018 (6 months) R'000	**Audited 28 February 2018 (12 months) R'000**	**Unaudited 31 August 2017 (6 months) R'000**
Profit before taxation	**62 003**	**107 925**	**32 314**
Adjusted for non-cash movements	24 320	19 399	13 819
Adjusted for working capital movements	1 464	(38 452)	(30 838)
Net finance costs	(5 261)	(5 744)	(3 125)
Tax paid	(21 416)	(16 566)	(368)
Cash flows from operating activities	**61 110**	**66 562**	**11 802**
Cash flows from investing activities			
Purchase of property, plant and equipment	(74 145)	(96 709)	(46 306)
Proceeds from disposal of property, plant and equipment	70	1 995	19
Purchase of intangible assets	(1 164)	(5 132)	(3 127)
Business combinations	-	(109 330)	(386 174)
Purchase of financial assets	-	(1 284)	-
	(75 239)	**(210 460)**	**(435 588)**
Cash flows from financing activities			
Proceeds from share issue	-	148 101	299 927
Treasury shares issued to employees	(11 048)		
Proceeds/(Repayment) of interest bearing liabilities	10 031	(37 249)	75 000
Proceeds of financial liabilities	7 145	-	(40)

Repayment of shareholder loans	-	(170)	-
Instalment sale receipts	400	615	2 333
	6 528	**111 297**	**377 220**
Net cash movement for the period	**(7 601)**	**(32 601)**	**(46 566)**
Cash at the beginning of the period	28 935	61 535	61 535
Total cash at the end of the period	**21 334**	**28 934**	**14 969**

SEGMENTAL REPORTING

The Directors have considered 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, a Telecom Grouping and a 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 provided by the various Group companies to all customers is done so on a countrywide basis, with no geographical differentiation.

Reporting segments

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

- 100% held Huge Messaging Proprietary Limited, the holding company of which is Huge Telecom
- 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
- 100% held Huge Soho Proprietary Limited, the holding company of which is Huge
- 100% held Huge Technologies Proprietary Limited, the holding company of which is Huge
- 100% held Huge Telecom Proprietary Limited, the holding company of which is Huge
- 100% held Huge Mobile Proprietary Limited, the holding company of which is Huge

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 Huge Software
- 96% held Huge Media Proprietary Limited

	Unaudited 31 August 2018 R'000	**Elimination R'000**	**Telecom Grouping R'000**	**Fintech Grouping R'000**	**Corporate Office Grouping R'000**
Total revenue	214 559		135 727	77 603	1 229
Gross profit	**125 872**		**70 451**	**54 352**	**1 069**
Other income	16 396		1 651	274	14 471
Operating expenses	(61 970)		(29 746)	(19 653)	(12 571)
EBITDA	**80 298**		**42 356**	**34 973**	**2 969**
Depreciation and amortisation	(12 697)		(7 651)	(4 960)	(86)
Operating profit/(loss)	**67 601**		**34 705**	**30 013**	**2 883**
Investment income	958		283	417	258

Finance costs	(6 556)		(2 326)	(7)	(4 223)
Profit/(loss) before income tax	**62 003**		**32 662**	**30 423**	**(1 082)**
Income tax credit/(expense)	(14 852)		(6 915)	(8 268)	331
Profit after income tax	**47 151**		**25 747**	**22 155**	**(751)**

	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	(62 232)	2 180	(46 138)	(11 349)	(6 925)
EBITDA	**46 134**		**15 537**	**34 785**	**(4 188)**
Depreciation and amortisation	(7 941)		(4 314)	(3 620)	(7)
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)**

COMMENTARY

BASIS OF PREPARATION

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

The unaudited condensed consolidated interim results for the period ended 31 August 2018 were prepared under the supervision of the Chief Financial Officer of the Company, Z Bulbulia (CA(SA)).

ACCOUNTING POLICIES

The accounting policies used in the preparation of these unaudited condensed consolidated interim results comply with IFRS and are consistent with those used in the preparation of the annual financial results of the Group for the year ended 28 February 2018, with the exception of IFRS9 which was early adopted for the period 1 March 2017 to 28 February 2018.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Standards Issued Not Yet Effective

IFRS 15 Revenue from contracts with customers

This standard is effective for years commencing on or after 1 January 2018. This standard will be adopted by the Group for the financial reporting period commencing 1 March 2018 and ending on 28 February 2019. 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, identifying the deliverables (the performance obligations), determining the transaction price (including the treatment of variances in the transaction price, and significant financing components), allocating the transaction price, and recognising the revenue.

Huge has assessed its significant contracts with customers in line with this standard. The outcomes of the preliminary assessment indicate that there will be no impact on the current accounting treatment.

IFRS 16 Leases

This standard is effective for years commencing on or after 1 January 2019. This standard is likely to be adopted by the Group for the financial reporting period commencing on 1 March 2018 and ending on 28 February 2019. To the extent that it is not, it must be implemented by no later than the financial reporting period commencing on 1 March 2019 and ending on 28 February 2020. IFRS 16 requires a lessee to recognize a right of use of an asset and its concomitant lease obligation for any lease other than a short-term lease or a lease relating to 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 of an asset initially measured at the same amount as the lease obligation, including costs directly related to entering into the lease. A right of use of an asset is 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 IFRS 16 Leases, a right of use of an asset and the lease obligations associated with rentals would be recognised in the statement of financial position. The extent of the recognition 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 at a later point in time.

Standards Early adopted

IFRS 9 Financial instruments

The Group has early adopted this standard for the financial reporting period commencing 1 March 2017 and ending on 28 February 2018. 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 informs 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 has adjusted its impairment models to incorporate forward looking information and time value of money to comply with expected credit loss impairments under IFRS 9.

Basic Earnings and Headline Earnings Per Share

	Unaudited 31 August 2018 (6 months) R'000	**Unaudited 31 August 2018 (6 months) cents**	**Audited 28 February 2018 (12 months) R'000**	**Audited 28 February 2018 (12 months) cents**	**Unaudited 31 August 2017 (6 months) R'000**	**Unaudited 31 August 2017 (6 months) cents**
Profit or loss attributable to the equity owners of the parent	46 885	28.46	76 841	47.40	23 479	17.10
Adjusted for:						
Impairment of property, plant and equipment	70	0.04	2 794	1.72	2 744	2
Reversal of Impairment of financial assets	-	-	(4 520)	(2.78)	-	-
Headline earnings	46 955	28.50	75 115	46.34	26 223	19.10
Weighted average number of shares in issue ('000)	164 749		162 100		137 281	

Fair Value Disclosures

Financial assets

	Unaudited 31 August 2018 (6 months) R'000	**Audited 28 February 2018 (12 months) R'000**	**Unaudited 31 August 2017 (6 months) R'000**
Other financial assets	7 496	7 496	1 716
Trade and other receivables (excluding vat and payables)	47 058	56 302	58 487
Cash and cash equivalents	29 962	30 265	19 585

These are classified as loans and receivables under the amortised cost model.

Financial liabilities

	Unaudited 31 August 2018 (6 months) R'000	Audited 28 February 2018 (12 months) R'000	Unaudited 31 August 2017 (6 months) R'000
Instalment sales	3 673	4 073	4 830
Interest bearing liabilities	114 730	104 699	75 000
Trade and other payables	40 701	19 978	49 704
Bank overdraft	8 629	1 331	4 616

These are classified under the amortisation cost model.

Financial assets and liabilities classification levels

	Level 1	Level 2	Level 3
Trade and other receivables	Not applicable	Applicable	Not applicable
Cash and cash equivalents	Applicable	Not applicable	Not applicable
Instalment sales	Applicable	Not applicable	Not applicable
Other financial liabilities	Applicable	Not applicable	Not applicable
Trade and other payables	Not applicable	Applicable	Not applicable
Bank overdraft	Applicable	Not applicable	Not applicable

Related Party Disclosures

Relationships

Subsidiary companies:
- Huge Cellular
- Huge Connect
- Huge Media
- Huge Messaging
- Huge Mobile
- Huge Networks
- Huge Software
- Huge Software
- Huge SOHO
- Huge Technologies
- Huge Telecom

Joint Controlled Arrangement
- Gonondo

IFRS10 Controlled Entities
- Connectnet Incentive Trust

Members of key management
- James Charles Herbst
- Zunaid Bulbulia

Directors of subsidiary companies
- Andre Lessing
- Marius Oberholzer
- Gunter Engling
(resigned 6 November 2018)
- Craig Rowan

Shareholders behind non-controlling interests
- Jarratt Ingram
- Edward Mitchell Kerby
- Gregory Beaufort Shiers

Shareholders of the Company

Anton Daniel Potgieter
Associates of non-executive directors
Casa Da Luz Proprietary Limited – an associate company of Dr Duarte da Silva

	Unaudited 31 August 2018 (6 months) R'000	Audited 28 February 2018 (12 months) R'000	Unaudited 31 August 2017 (6 months) R'000
Loan Account – owing (to) by related parties			
Gunter Engling	(5 120)	-	-
James Charles Herbst	-	-	181
Jarratt Ingram	(900)	(98)	91
Edward Mitchell Kerby	(225)	(693)	653
Gregory Beaufort Shiers	(900)	(50)	46
	(7 145)	**(841)**	**(971)**
Interest paid to (received from) related parties			
James Charles Herbst	-	5	0
Jarratt Ingram	-	6	5
Edward Mitchell Kerby	-	39	34
Anton Daniel Potgieter	-	(61)	(44)
Gregory Beaufort Shiers	-	3	2
	-	**(8)**	**(3)**
Purchases from related parties			
Casa Da Luz Proprietary Limited	472	770	350
Dee-Anco Investments Proprietary Limited	-	1 762	
Gonondo	484	1 097	546
	1 240	**4 030**	**1 225**

REVIEW OF OPERATIONS

Overview

The Growing Huge Strategy, which was adopted during 2018 and published in the Group's Integrated Report for the year ended 28 February 2018, continues to inform and guide the Group's growth aspirations. The Growing Huge Strategy includes improving the B-BBEE profile of the Group, creating a platform for growth, creating the capacity for growth, elevating the Group's brand and growing the Group organically and by acquisition.

A substantial investment is being made in trying to improve the Group's B-BBEE profile, including the introduction of B-BBEE shareholders in each of Huge's primary operating subsidiary companies. Various engagements and discussions are taking place currently and the Company is hopeful that it will, in the very near future, be able to announce the acquisition by B-BBEE persons of a meaningful shareholding in Huge Connect.

The Company is involved in many initiatives currently, which, if successfully progressed, will help grow Huge. Some of these initiatives are organic whilst others involve mergers and acquisitions.

Huge's profile continues to improve and as a result the number of deal opportunities in the last 12 months has increased substantially. Huge has considered at least 12 transactions in the last 12 months, has passed over about 6 and is presently still engaged in about 6 transactions.

The ability to deal with an increased number of deal opportunities has been made possible by the creation of Corporate Office capacity, the costs of which have been detailed in the Corporate Office Grouping segment. Shareholders are asked to be cognizant of the longer payback periods relating to investments in the Corporate Office grouping, which are expensed as opposed to being capitalised. The income generated by the Corporate Office grouping will be uneven.

R12.6 million has been spent by the Corporate Office Grouping in the six months to 31 August 2018. This is a significant investment, the returns on which are only expected in future reporting periods.

During the first six months of FY2019, the operating expenses of the Corporate Office Grouping segment amounted to R12.6 million. Other income of the Corporate Office Grouping for the first six months of FY2019 includes the consolidation of donation income recognised by the Connectnet Incentive Trust on receipt by the trust, of cash and Huge shares from the vendors of Connectnet Broadband Wireless Proprietary Limited (**Connectnet**) in terms of the incentive scheme. The Connectnet Incentive Trust was not recognized as a controlled entity of Huge for the year ended 28 February 2018 but has now been so recognized and accordingly cumulative donations made to the Connectnet Incentive Trust since inception, in an aggregate amount of R14.5 million, have now been taken into account.

The Connectnet Incentive Trust was established by the vendors of Connectnet for the purpose of distributing the Huge shares and cash donated by the vendors to staff members of Huge Connect and Huge Networks who are able to influence the performance and long term sustainability of these companies.

The distributions that have been made by the Connectnet Incentive Trust since it came into existence, have been treated as share based expenses in accordance with IFRS2. The operating expenses of the Telecom Grouping segment is R0.32 million higher as a result of share based expenses relating to Huge Networks for the current period and is R0.48 million higher as a result of the aforementioned cumulative effect of the share based expenses relating to Huge Networks during the prior period. The operating expenses of the Fintech Grouping segment is R1.8 million higher as a result of share based expenses relating to Huge Connect for the current period and is R3.4 million higher as a result of a catch up of share based expenses relating to Huge Networks during the prior period.

The Company has created a platform which will allow it to expand its real estate of customers, which is one of its central investment themes, and expand its distribution of Business Partners, which is another central investment theme. It has also created the platform to leverage this real estate by expanding its product and service offerings through the introduction of new, innovative product and services offerings and by cross-selling both existing and new product and services offerings through its current distribution of Business Partners and its current real estate of customers. It is also in the process of developing new strategic partnerships which will become important for the Growing Huge Strategy.

The acquisition of Huge Connect and Huge Networks during FY2018 resulted in Huge growing its mobility and connectivity business and up-scaling its operations significantly. Huge continues to offer a three-pronged service offering to a substantial SME market. Route-to-market includes both direct, through Huge Connect and Huge Networks and indirect, through a substantial and unique value-added reseller channel that resides in Huge Telecom.

Central to the Group's ongoing success will be its ability to leverage value from a deep understanding of its key asset, its real estate of customers. Good progress is being made in collecting, analysing, segmenting and understanding the Group's real estate of customers. These analytics will provide the basis and methodology for effectively improving cross-selling opportunities, whether it is related to current services or through the development of new customised bespoke ones. It will also help direct the Group's on-going acquisition strategy.

<u>Review of operations</u>

The results for the first six months of FY2019 include six months of Huge Networks in the Telecom Grouping segment and Huge Connect in the Fintech Grouping. This must be compared to the five months of performance of Huge Networks in the Telecom Grouping and Huge Connect in the Fintech Grouping for the first six months of FY2018.

Huge Connect has experienced significant growth in the provision of network related products and solutions to its existing and new customers. Churn of traditional connectivity to the payments industry has increased slightly – Huge Connect has seen a gradual migration of its business from direct retail to retail via financial institutions. Active SIM card growth, as the means of connectivity to the payments industry, has increased by 23.2% over the comparable period. Huge Connect now has 304 000 active SIM cards active within the borders of South Africa.

During the period 31 August 2017 to 31 August 2018, Huge Telecom has increased its customer base by 11.4% and its telephone lines by 12.9%. Full Suite Telephony (**FST**), which was launched in November 2017, which is a world-first, is still expected to take off. A lot of the challenges that have been experienced have been overcome. The Group believes that FST remains one of its biggest growth opportunities for the future.

Huge Networks has strengthened its revenue base significantly but remains relatively subscale. While the base of installed data services increased by 10% during the period 31 August 2017 to 31 August 2018, this has been off the back of the sale of products and services at lower margins. The Group continues to search for opportunities to scale this business.

<u>Revenue</u>

Total Group revenue increased by 8.4% during the first half of FY2019 when compared to the first half of FY2018.

Receivables at 31 August 2018 are considerably higher than receivables at 28 February 2018 and receivables at 31 August 2017. This is largely as a result of the pre-payments made to the mobile network providers for the supply of network services. As at 31 August, the pre-payments to the mobile network operators amounted to R81.7 million. Excluding the effects of these payments, trade receivables have remained constant and within a reasonable range.

<u>Gross profit</u>

Total Group gross profit increased by 17.9% during the first half of FY2019 when compared to the first half of FY2018. The Group also enjoyed increases in gross profit margins, which increased from 54% to 59% as a result of reducing costs of sale and the retention of sale prices. The Telecom Grouping increased margins were as a result of the migration from higher to lower cost suppliers. 81% of the Telecom Grouping's voice services are benefiting from lower input prices.

As a result of increased revenue and decreased input costs, the gross profit of the Fintech Grouping increased by 19.7% during the first half of FY2019 when compared to the first half of FY2018. Huge Connect successfully negotiated a more favourable supply agreement from a substantial network service provider, the benefits of which have been evident in the current financial period.

Operating expenses

As a result of good cost, total Group operating expenses for the first six months of FY2019 have decreased when compared to the first six months of FY2018. This has been offset by the share based expenses referred to above.

EBITDA

Group EBITDA for the first six months of FY2019 is 74.1% higher than Group EBITDA for the first six months of FY2018. The increase in Group EBITDA is the result of lower costs of sale, improved gross margins and the strong cost containment of operating expenses in both Huge Connect and Huge Telecom.

Depreciation and Amortisation

Depreciation and amortisation is higher as a result of increases in property, plant and equipment. Deferred expenses of R32 million at the end of FY2018 were subsequently reclassified as property, plant and equipment.

Operating profit

As a result of the increase in gross profit and lower operating expenses, Group operating profit for the first six months of FY2019 is 77% higher than operating profit for the first six months of FY2018. Operating profit margins have increased from 19.3% to 31.5%. Operating profit in the Fintech Grouping was negatively impacted by the share based expense referred to above, which amounted to R5.2 million.

Finance costs

Finance costs for the first six months of FY2018 were 32% higher than finance costs for the first six months of FY2018. This increase is attributable to an increase in Group interest bearing debt from R75 million at 31 August 2017 to R115 million at 31 August 2018. The cost of Group interest bearing debt is between JIBAR plus 400 bps and JIBAR plus 500 bps.

Taxation

The Group's effective tax rate has decreased from 27% to 24% as a result of the exempt income in the current financial reporting period.

Capital

The Board remains dedicated to maintaining an optimal capital structure for the Group. Leverage is regularly considered and reassessed, balancing growth aspirations and shareholders' earnings expectations. In order to steer the Board, a Capital Structure Policy has been introduced, providing a debt to equity ratio ceiling of 25% as a guiding parameter. During the FY2019, the Group increased its bearing debt from R105 million to R115 million but remained within its desired capital structure with a debt to equity ratio of 15%. As the Group continues to grow its respective operations, it is anticipated that its interest bearing debt will be increased and shareholders will be updated accordingly.

FUTURE PROSPECTS

The Group continues to explore opportunities to expand the Fintech Grouping, which today is only focused on payment connectivity. Its real estate of circa 135 000 connected devices makes it one of the largest potential platforms for IoT in Southern Africa. In conjunction with the customer analytics, which it continues to develop, this real estate of devices positions Huge to enter the market for Fintech and to participate in the Fintech evolution that is taking place. The Company continues to believe that it is possible to leverage its payment connectivity platform to create bespoke financial services, in partnership with financial institutions.

The Group believes that Huge Telecom will benefit significantly from FST.

The Group will continue to build its eco-system for service and product delivery to a real estate in excess of 45 000 SME customers. The Group believes that it is well positioned to increase the number of installed telephone lines, which is currently has over 43 000, and the number of active devices, which is currently in excess of 120 000 by selling existing services and products to an increasing number of customers.

TREASURY SHARES

As at 31 August 2018, the Company has 175 602 077 ordinary shares in issue, of which 9 646 926 ordinary shares are held by Huge Telecom and 1 206 027 ordinary shares are held by the Connectnet Incentive Trust as treasury shares. The impact of accounting for the Connectnet Incentive Trust as a controlled entity of Huge in terms of IFRS10 has been a decrease in share capital of R11 million.

LITIGATION STATEMENT

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 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 issues (the **Separated Issues**):

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 of 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 to 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 Separated 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.

<u>Other litigation</u>
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 2018 and up to the date of this announcement which have had or may have a material impact on the Group.

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.

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 2018

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