

DIRECTORS' REPORT

The directors submit their report for the year-ended 28 February 2019.

1. Nature of business

Huge is an investment holding company holding investments in subsidiary companies operating in the telecommunications, media, technology and software industries. The Company maintains a listing on the Main Board of the JSE and a secondary listing on A2X Markets. The Company conducts its business principally within South Africa but also in Botswana, Lesotho, Mozambique, Namibia, eSwatini, Zambia and Zimbabwe.

Huge has four principal subsidiary companies:

- Huge Connect
- Huge Networks
- Huge Software
- Huge Telecom

Huge Connect is a telecommunications services company with a focus on growing its payment connectivity services. 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. It has over 32 000 merchants as customers. 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 services, branch connectivity, hosting services and website and system development. Huge Networks is a subsidiary of Huge Telecom. Prior to the end of the financial year, Huge Networks concluded a transaction with Otel which contemplated the acquisition by Huge Networks of the businesses of Otel and which came into effect on 27 February 2019. The purchase consideration for the Otel Transaction was settled in ordinary shares of Huge Networks, such that, after the issue of shares, Huge Telecom's shareholding in Huge Networks decreased from 100% to 50.03%.

Huge Messaging is a company which develops messaging software and systems for use by Group companies and for sale to third parties. It has developed and made commercial a Microsoft Outlook plug-in or add-in, called TexSMS, which allows users to generate SMS messages in exactly the same manner as they would generate emails. It has also developed and commercialised the ability for a client's in-house software application to connect directly to the TexSMS SMS server, allowing SMS messages to be sent in bulk from machine-to-machine.

During the reporting period, Huge Telecom, which held 50.2% of Huge Messaging, entered into a Sale of Shares Agreement in terms of which it acquired 49.8% of the shares from the minority shareholders. Huge Messaging became a wholly owned subsidiary company of Huge Telecom. Subsequently, Huge acquired 100% of the shares of Huge Messaging from Huge Telecom. As a result, Huge Messaging became a wholly owned subsidiary company of Huge.

Huge Media is engaged in the on-going development and licencing of software for innovative and affordable real time, permission based, high impact and targeted advertising to mobile phones. Huge Media is a 96% held subsidiary company of Huge.

Huge Software develops, maintains and supplies the WebAccounting accounting software suite as well as mobile application, Webatar. The software is developed locally and was released to the market in 2005. WebAccounting is multi-lingual and sold internationally. WebAccounting incorporates both online, cloud-hosted and individual company intranet installation options. The software can be accessed from anywhere in the world without having to have the software loaded onto a client's server. The cloud-based accounting software caters fully for debtor, creditor and inventory management. Additional module functionality includes, but is not limited to, the management of manufacturing processes and customer relationship management tools. Huge Software is a 75% held subsidiary company of Huge.

Huge Technologies is a company which develops billing software and acquires, develops and manufactures connectivity devices for its own use and for sale and rental to third parties. It owns proprietary billing and rating software, known as the Huge Integrated Value Engine, or the HIVE, and it licences this to Huge Telecom and a company in Namibia. Huge Technologies is a wholly owned subsidiary company of Huge.

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 a mobile telephone 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 services. Huge Telecom's customer base comprises corporate organisations of any size and residential consumers, who require a fixed location telephony service.

Gonondo is a joint venture company in which the joint venture partners are Huge Telecom and Adapt IT Proprietary Limited. Both partners share equally in the profit of the joint venture. Gonondo is a cloud telecommunications intelligence and management solutions provider which supplies telecommunications management services to customers throughout South Africa.

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Directors' report (continued)

2. Financial results

The AFS have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, as well as the Companies Act.

Full details of the financial position, results of operations and cash flows of the Group are set out in these AFS. The Board's view of the qualification by the independent auditor is set out at paragraph 20 of the Director's report.

3. Going concern

The Board is of the opinion that the business of the Company and the Group will continue to operate as a going-concern in the twelve-month period (the **Forecast Period**) following the date of the approval of these AFS. In reaching this opinion, the Board has considered the following factors:

- The current cash balances of the Group;
- The access of the Group to lines of credit during the Forecast Period;
- The headroom in the current debt facilities of the Group and the ability of the Group to take on additional debt as a result of this headroom, as well as the appetite of the debt providers to advance further debt during the Forecast Period;
- The continuing increase in monthly annuity sales, together with the resulting revenue increases and profitability improvements during the Forecast Period;
- The operating cash flow generation projections of the Group for the Forecast Period;
- The capital expenditure projections of the Group for the Forecast Period;
- The changes in the working capital requirements of the Group for the Forecast Period;
- The expected further improvement in the Group's profitability as reflected in the budget for the year that will end on 28 February 2020, which budget was approved by the Board during February 2019.

Based on these facts, the Board believes that the Group is a going concern and will remain a going concern for the twelve-month period that follows the date of approval of these AFS. Accordingly, the Company and the Group continue to adopt the going concern basis of preparing these AFS.

4. Borrowing powers

In terms of the MOI of the Company, the directors may exercise all the powers of the Company to borrow money, as they consider appropriate.

5. Interest in subsidiary companies, joint venture and associates

The attributable interest of the Company in the net profit (losses) after taxation of each subsidiary company, joint venture and associate company was:

Name of subsidiary, joint venture and associate	shareholding %	2019	2018
Huge Cellular (associate)	49%	5 219 781	608 222
Huge Connect	100%	41 145 254	51 176 317
Huge Media	96%	868 989	4 667 827
Huge Messaging	100%	658 992	147 858
Huge Mobile	100%	(94 504)	(88 230)
Huge Networks	50%	(1 550 404)	4 120 410
Huge Software	75%	(36 324)	28 987
Huge SOHO (associate)	49%	(308 489)	(364 268)
Huge Technologies	100%	9 267 940	1 117 491
Huge Telecom	100%	32 882 975	22 203 750
Gonondo (joint venture)	50%	(37 621)	(144 110)
The CI Trust	100%	9 174 308	–
		97 190 898	83 474 254

6. Goodwill

Goodwill is tested annually for impairment and has an indefinite useful life.

During the current and prior financial year, the Group assessed the recoverable amount of Goodwill and in each year determined that no impairment was required.

The directors of Huge continue to assess the industry in which its subsidiary companies operate and the possible changes that may impact the carrying value of Goodwill.

7. Authorised and issued share capital

AUTHORISED SHARE CAPITAL

The authorised share capital of the Company as at 28 February 2019 is 1 000 000 000 Shares.

ISSUED SHARE CAPITAL

The Company listed on the AltX list of the JSE on 7 August 2007. 100 000 000 Shares were in issue at the time of the initial listing. Shortly after its listing, the Company issued another 11 760 000 Shares. During September 2014, the Company undertook a renounceable rights offer for 20 000 000 Shares. This was followed shortly thereafter by an issue of 1 000 000 Shares for cash in terms of a general authority to issue Shares for cash.

Since incorporation and up until 28 February 2019, the Company and its subsidiary company, Huge Telecom, repurchased and acquired 31 505 483 Shares.

The listing of the Company was moved to the Main Board of the JSE on 1 March 2016. The Company listed on A2X Markets on 10 April 2018.

The number of Shares in issue at 28 February 2019 is 175 627 077 (2018: 175 602 077).

SHARES ISSUED

On 20 December 2016, the shareholders of the Company granted approval to the directors of the Company to issue up to 50 000 000 Shares, in terms of a specific authority to issue Shares for cash, at a value of no more than R300 million.

During 2017, 14 650 000 Shares were issued at 615 cents per Share, in terms of the specific issue of Shares for cash approved by shareholders on 20 December 2016. The proceeds of this issue amounted to R90 097 500. Non-public shareholders to whom Shares were issued were Praesidium SA Hedge Fund and Peregrine Equities Proprietary Limited.

During 2018, 24 373 551 Shares were issued at a price of 615 cents per Share, in terms of the specific issue of Shares for cash approved by shareholders on 20 December 2016. The proceeds of this issue amounted to R149 897 339 and from which expenses of R5 624 208 were deducted. Non-public shareholders to whom Shares were issued were Praesidium SA Hedge Fund, Peregrine Equities Proprietary Limited, K2017082648 South Africa Proprietary Limited, K2017038068 South Africa Proprietary Limited, K2017038099 South Africa Proprietary Limited, K2017038086 South Africa Proprietary Limited, DM Holdco Proprietary Limited, RF Mushonga and CNet Empowerment Trust.

A total of 25 208 333 Shares, issued in terms of renounceable letters of allotment which were delivered to ConnectNet Broadband Wireless on 30 March 2017. These Shares were issued at a price of 600 cents per Share, amounting to R151 249 998.

On 6 September 2017, the Company issued 468 750 Shares at 800 cents per Share, amounting to R3 750 000, under the general authority to allot and issue Shares for cash granted by shareholders at the AGM held on 31 August 2017.

On 21 September 2018, the Company issued 25 000 Shares to EM Kerby in terms of an acquisition issue, in respect of the acquisition by Huge Telecom of minority shareholdings in Huge Messaging. These Shares were issued at a price of 900 cents per Share, amounting to R225 000.

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Directors' report (continued)

The following Shares were issued on the following dates and at the following prices:

Date of issue	Number of Shares issued	Price per Share (in cents)	Proceeds (in Rand)
22 February 2017	4 000 000	615	24 600 000
28 February 2017	10 650 000	615	65 497 500
	14 650 000		90 097 500
07 March 2017	988 000	615	6 076 200
20 March 2017	14 500 000	615	89 175 000
27 March 2017	5 356 598	615	32 943 078
05 April 2017	249 685	615	1 535 563
13 April 2017	2 450 000	615	15 067 500
24 April 2017	829 268	615	5 099 998
	24 373 551		149 897 339
30 March 2017	25 208 333	600	151 249 998
06 September 2017	468 740	800	3 750 000
	25 677 073		154 999 998
21 September 2018	25 000	900	225 000
	64 725 624		395 219 837

REPURCHASE BY THE COMPANY OF ITS SHARES AND ACQUISITIONS BY THE COMPANY'S SUBSIDIARY COMPANIES OF ITS SHARES

At the last AGM of the Company held on 30 August 2018, shareholders gave the Company or any of its subsidiary companies a general authority, in terms of section 48 of the Companies Act and by way of special resolution, to repurchase or acquire the Shares of Huge.

This general authority remains valid until the next AGM, which is to be held on 29 August 2019. Shareholders will be requested at that meeting to consider a special resolution to renew this general authority, which will remain valid until the following AGM.

SHARES OF THE COMPANY REPURCHASED BY THE COMPANY

During the year the Company did not repurchase any of its own Shares (2018: 0 Shares). The Company has, since incorporation, repurchased and cancelled in aggregate 21 858 557 shares.

TREASURY SHARES

As at 28 February 2019, the Company had 175 627 077 Shares in issue, of which 9 646 926 Shares are held by Huge Telecom as treasury Shares. 1 206 027 Shares are held by The CI Trust, which has been classified in terms of IFRS10 as an entity controlled by Huge Connect and therefore by Huge. As a result of the consolidation of The CI Trust, the investment in Huge Shares has been reclassified as treasury Shares. This is set out in note 20 of the AFS. Accordingly, 10 852 953 (2018: 9 646 926) of the issued Share capital of the Company are treasury Shares, constituting 6.2% (2018: 5.5%).

FORWARD ISSUE OF SHARES

In terms of an announcement published on SENS on 3 January 2017, shareholders of Huge were advised that the Company had concluded a subscription agreement, dated 27 December 2016, with Praesidium Capital Management Proprietary Limited, in its capacity as general partner of the SA Hedge Fund en Commandite Partnership (**Praesidium**), in terms of which Praesidium has agreed to subscribe for 17 500 000 Shares, at a subscription price of 850 cents per Share. This subscription agreement was cancelled during the reporting period and no Shares were issued in respect of this subscription agreement.

8. Directorate

8.1 Composition of the Board

The Board consists of the following members:

- JC Herbst, Chief Executive Officer (Executive director)
- AP Openshaw, Chief Operating Officer (Executive director)
- SL Sequeira, Chief Financial Officer (Executive director)
- DF da Silva, Chairman (Non-executive director)
- SP Tredoux, Lead Independent Director (Independent non-executive director)
- DR Gammie, Chairman of the Audit Committee (Independent non-executive director)
- VM Mokholo (Non-executive director)
- CWJ Lyons (Independent non-executive director)
- BC Armstrong (Independent non-executive director)

Changes in directorship during the reporting period were made as follows:

- Z Bulbulia resigned with effect from 31 December 2018

Subsequent to the reporting period, the following changes in directorship were made:

- AP Openshaw was appointed as the Chief Operating Officer (Executive director) with effect from 1 March 2019
- SL Sequeira was appointed as the Chief Financial Officer (Executive director) with effect from 25 March 2019

8.2 Rotation of directors

Directors retiring in terms of the Company's MOI, all of whom are eligible and offer themselves for re-election, are DR Gammie, VM Mokholo and SP Tredoux. Executive directors who were appointed after the last AGM, AP Openshaw and SL Sequeira, will stand for election by shareholders at the AGM to be held on 29 August 2019.

9. Directors' interest in the share capital of the Company

As at 28 February 2019, the following directors held Shares in the issued share capital of the Company:

	Direct	Indirect	Total	%
2019 – Number of Shares held				
JC Herbst ¹	268 370	24 445 549	24 713 919	14.071
CWJ Lyons ²	–	200 000	200 000	0.113
	268 370	24 645 549	24 913 919	14.184
2018 – Number of Shares held				
JC Herbst	268 370	24 445 549	24 713 919	14.074
AD Potgieter	569 984	3 440 275	4 010 259	2.284
D Deetlefs	250 000	188 174	438 174	0.249
CWJ Lyons	–	200 000	200 000	0.114
	1 088 354	28 273 998	29 362 352	16.721

¹ The indirect shareholding of JC Herbst is non-beneficial and is held by Eagle Creek Investments 223 Proprietary Limited, Pacific Breeze Trading 417 Proprietary Limited and Silver Meadow Trading 3 Proprietary Limited.

² The indirect shareholding of CWJ Lyons is a non-beneficiary shareholding.

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Directors' report (continued)

9. Directors' interest in the share capital of the Company (continued)

As at 28 February 2019, the following directors of major subsidiary companies held Shares in the issued share capital of the Company:

	Direct	Indirect	Total	%
2019 Number of Shares held				
A Lessing ³	–	4 694 044	4 694 044	2.673
DD Meintjes ⁴	–	1 751 434	1 751 434	0.997
SM Oberholzer ⁵	–	5 448 907	5 448 907	3.103
K Schmulian ⁶	15 021	1 065 688	1 080 709	0.615
KB Sinclair ⁷	–	4 049 613	4 049 613	2.306
	15 021	17 009 686	17 024 707	9.694
E van Heerden ⁸	1 803	–	1 803	0.001
RF Mushonga ⁹	–	–	–	–
	16 824	17 009 686	17 026 510	9.695

As at 28 February 2018, the following directors of major subsidiary companies held Shares in the issued share capital of the Company:

	Direct	Indirect	Total	%
2018 Number of Shares held				
A Lessing ³	–	4 694 044	4 694 044	2.673
DD Meintjes ⁴	–	1 751 434	1 751 434	0.997
SM Oberholzer ⁵	–	5 448 907	5 448 907	3.103
K Schmulian ⁶	5 007	1 065 688	1 070 695	0.610
KB Sinclair ⁷	–	4 049 613	4 049 613	2.306
	5 007	17 009 686	17 014 693	9.689
E van Heerden ⁸	1 803	–	1 803	0.001
RF Mushonga ⁹	16 260	–	16 260	0.009
	23 070	17 009 686	17 032 756	9.699

³ An indirect shareholding of A Lessing, a director of Huge Connect, amounting to 4 689 025 Shares is held by K2017038068 South Africa Proprietary Limited, while 15 057 (2018: 5 019) Shares are held by an associate, CJ Lessing.

⁴ The indirect shareholding of DD Meintjes, a director of Huge Connect, is held by DM Holdco Proprietary Limited.

⁵ The indirect shareholding of SM Oberholzer, a director of Huge Connect and Huge Networks, is held by K2017082648 South Africa Proprietary Limited.

⁶ The indirect shareholding of K Schmulian, a director of Huge Connect, is held by K2017038099 South Africa Proprietary Limited.

⁷ The indirect shareholding of K Sinclair, a director of Huge Connect, is held by K2017038086 South Africa Proprietary Limited.

⁸ E van Heerden is a director of Huge Connect and Huge Networks.

⁹ During the reporting period, RF Mushonga was a director of Huge Telecom. He resigned with effect from 18 April 2018. Following his resignation, Mr Mushonga disposed of his shareholding.

Save as for disclosed above, there has been no other change in directors' interests in the share capital of the Company subsequent to year-end and prior to the publication of this report.

10. Restricted Shares

Shareholder	Pledged as security for warranties ¹⁰	Subject to 24-month lock-in ¹¹	The CI Trust ¹²	Total
2019 – Number of Shares held				
K2017038068 South Africa Proprietary Limited – A Lessing	2 937 430	1 751 595	–	4 689 025
DM Holdco Proprietary Limited – DD Meintjes	1 097 182	654 252	–	1 751 434
K2017082648 South Africa Proprietary Limited – SM Oberholzer	3 413 456	2 035 451	–	5 448 907
K2017038099 South Africa Proprietary Limited – K Schmulian	667 598	398 090	–	1 065 688
K2017038086 South Africa Proprietary Limited – KB Sinclair	2 536 871	1 512 742	–	4 049 613
	10 652 537	6 352 130	–	17 004 667
Datawireless Proprietary Limited	377 337	225 007	–	602 344
K2017038129 South Africa Proprietary Limited	1 735 754	1 035 034	–	2 770 788
K2017038154 South Africa Proprietary Limited	400 559	238 854	–	639 413
CNet Empowerment Proprietary Limited	1 706 728	1 017 726	–	2 724 454
The CI Trust – Initial transfer	–	–	1 206 026	1 206 026
	14 872 915	8 868 751	1 206 026	24 947 692
The CI Trust – 2018 allocation to Share beneficiaries	–	–	129 415	129 415
The CI Trust – 2019 allocation to Share beneficiaries	–	–	131 226	131 226
	14 872 915	8 868 751	1 466 667	25 208 333

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Directors' report (continued)

10. Restricted shares (continued)

Shareholder	Pledged as security for warranties ¹⁰	Subject to 24-month lock-in ¹¹	The CI Trust ¹²	Total
2018 – Number of Shares held				
K2017038068 South Africa Proprietary Limited – A Lessing	2 937 430	1 751 595	–	4 689 025
DM Holdco Proprietary Limited – DD Meintjes	1 097 182	654 252	–	1 751 434
K2017082648 South Africa Proprietary Limited – SM Oberholzer	3 413 456	2 035 451	–	5 448 907
K2017038099 South Africa Proprietary Limited – K Schmulian	667 598	398 090	–	1 065 688
K2017038086 South Africa Proprietary Limited – KB Sinclair	2 536 871	1 512 742	–	4 049 613
	10 652 537	6 352 130	–	17 004 667
Datawireless Proprietary Limited	377 337	225 007	–	602 344
K2017038129 South Africa Proprietary Limited	1 735 754	1 035 034	–	2 770 788
K2017038154 South Africa Proprietary Limited	400 559	238 854	–	639 413
CNet Empowerment Proprietary Limited	1 706 728	1 017 726	–	2 724 454
The CI Trust – Initial transfer	–	–	1 337 252	1 337 252
	14 872 915	8 868 751	1 337 252	25 078 918
The CI Trust – 2018 allocation to Share beneficiaries			129 415	129 415
	14 872 915	8 868 751	1 466 667	25 208 333

¹⁰ In terms of the subscription and repurchase agreement entered into between Huge and ConnectNet Broadband Wireless Group on or about 30 March 2017, Huge subscribed for 185 new ordinary shares in ConnectNet Broadband Wireless for a total subscription consideration of R418 million, R266.75 million of which was settled in cash and R151.25 million of which was settled by the issue of renounceable letters of allocation. Subsequent to the subscription, ConnectNet Broadband Wireless repurchased 122 existing ordinary shares in its share capital from the relevant shareholders for a total consideration of R275 million, of which R123.75 million was settled in cash and R151.25 million was settled by the delivery of renounceable letters of allocation in respect of 25 208 333 Shares in Huge at 600 cents per Share. ConnectNet Broadband Wireless renounced 25 208 333 Shares in Huge in favour of the relevant shareholders. The relevant shareholders agreed to pledge 14 872 915 Shares in Huge as security for the payment of any claims instituted by Huge against the relevant shareholders for, amongst other things, a breach of a profit warranty that the cumulative aggregate operating profit of the ConnectNet Broadband Wireless Group for the financial years ended 28 February 2018, 28 February 2019 and 29 February 2020 will be no less than 80% of the cumulative aggregate operating profit target of R239.9 million, which determination shall be made within 15 business days of the date of finalisation of the financial statements of the ConnectNet Broadband Wireless Group for the year ended 29 February 2020.

¹¹ In terms of the subscription and repurchase agreement, 10 335 518 Shares issued to the relevant shareholders were the subject of a 24-month lock-in undertaking, which expired on 29 March 2019. Subsequent to the closing of the subscription and repurchase agreement, the relevant shareholders, of their own volition, created a trust to be known as The CI Trust and decided to donate 1 466 667 Huge Group Shares and R1.2 million in cash to The CI Trust. The donation was not part of the subscription and repurchase agreement and was in no way linked to the subscription and repurchase agreement. However, the Shares that were the subject of the donation were part of the 10 335 518 Shares that were subject to the 24-month lock-in undertaking. The CI Trust was established by the relevant shareholders for the benefit of certain employees, directors and/or consultants of the ConnectNet Broadband Wireless Group to inter alia assist the relevant shareholders in making sure that the ConnectNet Broadband Wireless Group achieved the targets for the profit warranty referred to in footnote 10 above.

¹² During August 2018, 131 226 Shares (2017: 129 415) were transferred by The CI Trust to Share beneficiaries, being certain existing employees, directors and/or consultants to the ConnectNet Broadband Wireless Group. Of the remaining 1 206 026 Shares, 355 852 Shares will be allocated to Share beneficiaries after 28 February 2019, 474 471 after 29 February 2020. The residual balance of 355 851 Shares being available for allocation to future employees, directors and/or consultants. Shares that have been allocated to Share beneficiaries are not restricted.

11. Directors' personal financial interests

The register of personal financial interests of directors, held in terms of section 75(4) of the Companies Act, is available to the public on request at the Company's registered address.

12. Special resolutions

The Company passed the following special resolutions at its AGM held on 30 August 2018:

12.1 General authority to acquire (repurchase) Shares

The granting of a general authority to the directors of the Company, and to the directors of any subsidiary company of the Company, to repurchase ordinary par value Shares previously issued by the Company, subject to the MOI of the Company, the Companies Act, and the restrictions placed on this authority by the JSE.

12.2 Non-executive directors' remuneration

The approval of the non-executive directors' remuneration for the financial year commencing 1 March 2018, in terms of section 66(9) of the Companies Act.

12.3 General authority to enter into funding agreements, provide loans or other financial assistance

The granting of a general approval in terms of section 45 of the Companies Act, to the Company and its directors, and to any subsidiary company of the Company and their directors, to enter into funding agreements, guarantee loans or other obligations, secure debts or obligations or to provide loans and financial assistance to any one or more of the subsidiary companies of the Company from time to time, subject to the provisions of the Listings Requirements.

13. Significant announcements

CAPITAL STRUCTURE AND FINANCE FACILITIES: 21 December 2018

The Company concluded a R200 million Term Facility Agreement with Futuregrowth.

APPOINTMENT OF AP OPENSHAW AS CHIEF OPERATING OFFICER

27 December 2018

The Company appointed Andy Openshaw as the Chief Operating Officer with effect from 1 March 2019. Andy has in excess of 20 years of telecommunications experience, having been the Chief Executive Officer of ECN and Chief Executive Officer of the Reunert Communication Cluster.

APPOINTMENT OF RR BURGER AS MANAGING DIRECTOR: HUGE TELECOM

25 January 2019

Rob Burger, who had previously been the Acting Managing Director, was appointed as the Managing Director of Huge Telecom with effect from 23 January 2019. Rob is an experienced leader with a strong financial and commercial experience.

APPOINTMENT OF SL SEQUEIRA AS CHIEF FINANCIAL OFFICER

22 February 2019

The Company appointed Samantha Sequeira as the Chief Financial Officer with effect from 25 March 2019. Samantha is a Chartered Accountant with experience in the telecommunications industry, having previously been the Financial Director of Virgin Mobile.

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14. 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.

15. Dividends

No dividends were paid to shareholders during the period under review. A dividend was declared on 31 May 2019, subsequent to the reporting period.

16. Events after the reporting period

Acquisitions:

Subsequent to 28 February 2019, Huge acquired 50 plus 1 share of Pansmart for a nominal value and 50% of the shareholder claims on loan account which amounted to R13 151 309. Huge's acquisition of a controlling shareholding in Pansmart took effect on 13 May 2019.

Subsequent to 28 February 2019, Huge acquired 100% of the issued share capital of IntelPay and shareholder claims in accordance with a Sale of Shares and Claim Agreement. Huge acquired the 100% issued share capital for a value of R100 000. Huge's acquisition of IntelPay took effect 27 March 2019.

Dividends:

Ordinary shareholders are advised that the Board has declared a gross cash dividend of 12.50 cents per ordinary Share for the year ended 28 February 2019.

The dividend will be paid out of retained earnings of the Company.

A dividend withholdings tax of 20% will be applicable to all shareholders who are not exempt from, or who do not qualify for a reduced rate of withholding tax. Accordingly, for those shareholders subject to withholding tax, the net dividend amounts to 10.00 cents per Share.

Performance incentive:

The Remuneration Committee recommended, and the Board approved, an annual performance incentive for Mr Herbst of R3 960 000, being 100% of his annual gross remuneration. This performance incentive was based on measured and agreed objectives, the detail of which is set out in the Remuneration Report.

Other matters:

The directors are not aware of any other significant matters or circumstance arising since the end of the financial year, not otherwise dealt with in the AFS, which affects the financial position of the Group or the results of its operations to the date of this Report.

17. Company Secretary and administration

During the reporting period, the office of the Company Secretary was held by K Robinson.

Computershare Investor Services Proprietary Limited are the Company's transfer secretaries.

Contact information for the Company Secretary and the transfer secretaries can be found on the inside back cover of this Report.

18. Audit Committee

The directors confirm that the Audit Committee has addressed specific considerations required in terms of section 94(7) of the Companies Act. Further details are contained in the Audit Committee Report on pages 77 to 78 of this Report.

19. Auditors

The Audit Committee appointed Moore Stephens as independent auditors for FY2019 and has recommended that Moore Stephens remain in office in accordance with section 90(1) of the Companies Act.

20. Basis for consolidation of The ConnectNet Incentive Trust (The CI Trust)

20.1 Introduction

- 20.1.1 Huge Group Limited (**Huge Group**) is in possession of two opinions relating to the International Financial Reporting Standards (**IFRS**) treatment of The CI Trust. The first opinion, dated 25 June 2018, was provided by Kimberly McNamara trading as KM Professional Consulting (the **McNamara Opinion**), a JSE accredited IFRS Advisor. The second opinion, which Moore Stephens MWM Incorporated (**Moore Stephens**) has provided to us, was provided to Moore Stephens by W Consulting (the **W Consulting Opinion**), who are also JSE accredited IFRS Advisors.
- 20.1.2 In summary, the McNamara Opinion states that The CI Trust (the **Trust**) is an entity controlled by Huge Group in terms of IFRS 10 Consolidated Financial Statements (**IFRS10**), whereas the W Consulting Opinion states that the Trust is not an entity controlled by Huge Group in terms of IFRS10.
- 20.1.3 The McNamara Opinion remains unaltered in terms of its assessment of the Trust and the implications of IFRS10.
- 20.1.4 Huge Group relied on the McNamara Opinion in preparing its Unaudited Condensed Consolidated Interim Results for the six months ended 31 August 2018 (the **Interim Results**). As such, the Trust was consolidated by Huge Group as an entity controlled by Huge Group in terms of IFRS10.
- 20.1.5 We have considered the W Consulting Opinion and we are not convinced that the W Consulting Opinion trumps the McNamara Opinion. For this reason, we see no reason why Huge Group should deconsolidate The CI Trust, which would see the removal of the donation income relating to the Trust, which is the item of most concern to Moore Stephens. We also believe that there is no basis on which Moore Stephens can qualify the consolidated financial statements of Huge Group for the year ended 28 February 2019 (the **2019 AFS**).
- 20.1.6 Our arguments are set out below.

20.2 The factual matrix

- 20.2.1 On or about 17 November 2016, Huge Group, CNET Empowerment Proprietary Limited, Datawireless Proprietary Limited, DM Holdco Proprietary Limited, Stephanus Marius Oberholzer, Unwire Communications Proprietary Limited (the **Relevant Shareholders**) and ConnectNet Broadband Wireless Proprietary Limited (**ConnectNet**) concluded a Subscription and Repurchase Agreement (the **SRA**). The SRA contemplated a subscription by Huge Group for new shares in ConnectNet (the **Subscription**). The Subscription consideration of R418 million would be settled in Huge Group ordinary shares (amounting to R151.25 million) and in cash (amounting to R266.75 million). In making the Subscription, ConnectNet's net asset value would increase from a negative R99.8 million to a positive R318.2 million. Following the Subscription, ConnectNet would repurchase existing shares in ConnectNet held by the Relevant Shareholders (the **Repurchase**). The Repurchase consideration of R275 million (the **Repurchase Consideration**) would be settled in Huge Group ordinary shares (amounting to R151.25 million) and in cash (amounting to R123.75 million). The net asset value of ConnectNet after the Repurchase would decrease to R218.4 million. In October 2015, ConnectNet undertook a repurchase of shares and it did so by raising debt from Futuregrowth Asset Management Proprietary Limited and then using this debt to repurchase certain shares. This repurchase created the negative net asset value referred to aforesaid.
- 20.2.2 On or about 17 March 2017, the Relevant Shareholders and ConnectNet concluded an Incentive Agreement (the **Incentive Agreement**). In the introduction to the Incentive Agreement, the parties made reference to the SRA and the fact that the Repurchase Consideration was subject to upward adjustment and that the Relevant Shareholders had given Huge Group a profit warranty. The parties acknowledged that it was necessary to provide certain employees, directors and or consultants (**Beneficiaries**) of ConnectNet and its

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Directors' report (continued)

20. Basis for consolidation of The ConnectNet Incentive Trust (continued)

wholly owned subsidiary company, Sainet Internet Proprietary Limited (**Sainet**), with incentives in order for ConnectNet and Sainet (the **ConnectNet Group**) to achieve the profit warranty. In the introduction to the Incentive Agreement, the parties agreed to establish an incentive trust in the form of an attached Trust Deed and the Relevant Shareholders agreed to transfer for no consideration (in other words, the Relevant Shareholders agreed to donate) to the trust a portion of the Repurchase Consideration, being cash of R1.2 million (**Donated Cash**) and 1 466 667 Huge Group shares (the **Donation Shares**). In terms of clause 2.5 of the Incentive Agreement the Relevant Shareholders agreed to donate the Donation Shares "...at the same price at which they are issued to the Company in terms of the SRA, namely R6.00 per share..."

- 20.2.3 On or about 17 March 2017, ConnectNet and Stephanus Marius Oberholzer, Keven Brian Sinclair, Andre Lessing, Elsabe van Heerden (the **Trustees**) and the Relevant Shareholders signed the Trust Deed of The CI Trust. ConnectNet made the first donation to the Trust of R100 (the **Initial Donation**).
- 20.2.4 The main purposes (the **Main Purposes**) of the Trust are:
- 20.2.4.1 to acquire the Donation Shares and the Donated Cash;
- 20.2.4.2 to enable the Share Beneficiaries (as listed in Annexure C of the Trust Deed) to acquire vested rights in the Donation Shares and to benefit from the income and capital gains in respect of the Donation Shares;
- 20.2.4.3 to enable the Cash Beneficiaries to acquire a discretionary spes in the Donated Cash and any income in respect of the Donated Cash.

- 20.3 The income and capital beneficiaries of the Trust are:
- 20.3.1 the Share Beneficiaries;
- 20.3.2 the Cash Beneficiaries;
- 20.3.3 ConnectNet, who is the residual capital and income beneficiary.
- 20.3.3.1 In terms of the Trust Deed, the Trustees were required to offer the Share Beneficiaries the option of acquiring a vested right to the share total specified next to their name in Annexure C. On the date of signature of an acceptance notice, each Share Beneficiary's share total in Annexure C vested. In terms of clause 8 of the Trust Deed, the following vesting condition, among others, applied:
- 20.3.4 the Share Beneficiary must be employed by...the ConnectNet Group...on each allocation date, being as soon as practicable after 28 February 2017 (**FY2017**), 28 February 2018 (**FY2018**), 28 February 2019 (**FY2019**) and 28 February 2020 (**FY2020**).
- 20.3.5 In terms of Annexure C of the Trust Deed the following Donation Shares were allocated to FY2017, FY2018, FY2019 and FY2020:
- 20.3.6 FY2017 – 112 249 to ConnectNet and 17 167 to Sainet, being 129 145 Donation Shares in total;
- 20.3.7 FY2018 – 224 497 to ConnectNet and 34 333 to Sainet, being 258 831 Donation Shares in total;
- 20.3.8 FY2019 – 336 746 to ConnectNet and 51 500 to Sainet, being 388 245 Donation Shares in total;
- 20.3.9 FY2020 – 448 995 to ConnectNet and 68 667 to Sainet, being 517 661 Donation Shares in total.
- 20.3.10 The Trustees are also directors of ConnectNet and Sainet.
- 20.3.11 In terms of the Trust Deed, the Trustees must, in the performance of their duties and exercise of their power, act with the care, diligence and skill which can reasonably be expected of a person who manages the affairs

20. Basis for consolidation of The ConnectNet Incentive Trust (continued)

- of another. In terms of the Trust Deed, the powers of the Trustees (the **Powers**) may only be exercised for the advancement of the Main Purposes of the Trust. In other words, the Powers of the Trustees were limited to the powers of an agent because the Trustees were only authorised to act as agents (**Agents**) in an agency capacity (**Agency Capacity**).
- 20.3.12 The Trust Deed was registered in the applicable master's office in March 2017.
- 20.3.13 The business combination contemplated in the SRA was implemented on 30 March 2017.
- 20.3.14 The Share Beneficiaries signed their acceptance notices on various dates between 1 April 2017 and 30 June 2017
- 20.3.15 In 2017, ConnectNet changed its name to Huge Connect and Sainet changed its name to Huge Networks.
- 20.3.16 On or about 15 June 2017, 129 415 Donation Shares were allocated to the Share Beneficiaries in terms of the FY2017 tranche in Annexure C of the Trust Deed and the vesting conditions in respect of 100% of these Donation Shares were met. In other words, 100% of the 129 415 Donation Shares vested in the Share Beneficiaries.
- 20.3.17 On or about 14 August 2018, 244 395 Donation Shares were allocated to the Share Beneficiaries in terms of the FY2018 tranche of 258 831 Donation Shares in Annexure C of the Trust Deed. Of the 244 395 allocated Donation Shares, 113 169 Donation Shares were forfeited by the Share Beneficiaries who elected to accept cash as the *quid pro quo* for forfeiting their Donation Shares. As such, only 131 226 of the 258 831 Donation Shares in Annexure C (51%) actually vested in the Share Beneficiaries. In order for the Trustees to offer the Share Beneficiaries a cash alternative, the Trust needed to raise funds which it did from a loan of R1 075 075 advanced to it by Huge Group on or about 20 August 2018 (**Huge Group Loan**).

20.4 The IFRS treatment of the Trust for FY2018

- 20.4.1 Huge Group considered the impact of the Trust on its consolidated financial statements for FY2018 and took into account the following:
- 20.4.1.1 The Relevant Shareholders established The CI Trust independently of Huge Group and Huge Group was not a party to the establishment of Trust.
- 20.4.1.2 The Main Purposes of the Trust.
- 20.4.1.3 The Powers of the Trustees as Agents.
- 20.4.1.4 The Agency Capacity of the Trustees.
- 20.4.2 For FY2018, Huge Group considered IFRS10 and arrived at the conclusion that Huge Connect, Huge Group and the Trustees acted in no more than an Agency Capacity with regard to the Trust and as such the Huge Connect did not meet the definition of investor or sponsor in terms of IFRS10.
- 20.4.3 For FY2018, Huge Group considered the impact of IFRS 2 Share-based Payment (**IFRS2**) on its financial statements and while it determined that share-based expenses existed under IFRS2, it did not account for these expenses on the basis of materiality. Its decision to do so was informed by the fact that, at a commercial level, the establishment of the Trust had nothing to do with Huge Group.

20.5 The IFRS treatment of the Trust for FY2019

- 20.5.1 In terms of IFRS10, Huge Group is required to reconsider its position in relation to the Trust continually in terms of IFRS10.
- 20.5.2 In terms of the McNamara Opinion, Kimberly McNamara agreed to assess the following:
- 20.5.2.1 whether the Trust should be consolidated by Huge Group;
- 20.5.2.2 whether the transactions relating to the Trust included share-based payment transactions;

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Directors' report (continued)

20. Basis for consolidation of The ConnectNet Incentive Trust (continued)

- 20.5.2.3 whether the share-based payment transactions, if any, were equity- or cash-settled; and
- 20.5.2.4 the basic principles of recognition and measurements of any share-based payment transactions.
- 20.5.3 In terms of the McNamara Opinion, The CI Trust was considered to be an entity controlled by Huge Connect and Huge Group in terms of IFRS10 because, amongst other things, the Trustees were directors of ConnectNet, giving ConnectNet Powers over the Trust.
- 20.5.4 In terms of the McNamara Opinion, the Donated Cash and the Donation Shares are income in the separate financial statements of the Trust, which income would fall to be consolidated in the consolidated financial statements of Huge Group.
- 20.5.5 The McNamara Opinion was delivered to Moore Stephens MWM Incorporated (**Moore Stephens**) in December 2018 and Moore Stephens was requested to consider the McNamara Opinion.
- 20.5.6 On 3 June 2019, Huge Group published its Reviewed Provisional Condensed Consolidated Annual Financial Results for the year ended 28 February 2019 (the **Provisional Results**), which incorporated a qualified review conclusion from Moore Stephens.
- 20.5.7 On 3 June 2019, Huge Group was informed that a component of the McNamara Opinion could no longer be relied upon. This did not relate to the IFRS10 assessment in the McNamara Opinion which had stated that The CI Trust is an entity controlled by Huge Group.
- 20.5.8 On 7 June 2019, Moore Stephens wrote to the Chief Financial Officer of Huge Group indicating that the reason why Moore Stephens had to issue a qualified review conclusion on the Provisional Results was because a component of the McNamara Opinion could not be relied upon. As mentioned above, this

did not relate to the IFRS10 assessment in the McNamara Opinion which had stated that The CI Trust is an entity controlled by Huge Group.

20.6 The accounting treatment of the Donated Cash and the Donation Shares in the 2019 AFS

- 20.6.1 The Donated Cash and the Donation Shares are treated as income in the separate financial statements of the Trust (the **Trust Separates**), which have been prepared for the first time for the period ended 28 February 2019. There is no debate that the Donated Cash and Donation Shares must be treated as income in the Trust Separates.
- 20.6.2 In the Trust Separates, the Donated Cash is shown as cash and cash equivalents and the Donation Shares as Investments (in Huge Group Limited ordinary shares).
- 20.6.3 The Trust Separates are included in the stack up of entities controlled by Huge Group, which are consolidated by Huge Group in the preparation of the 2019 AFS. As such, the net asset value of the Trust is consolidated and the Initial Donation is eliminated.
- 20.6.4 Huge Group has considered International Accounting Standard (**IAS**) 32 and in particular paragraph 33. Huge Group has not reacquired its own equity instruments and as such an enquiry in terms of paragraph 33 should end after the first sentence in paragraph 33 of IAS 32. However, Huge Group has chosen to deduct the Trust's investment in Huge Group Limited ordinary shares from equity. The Donated Cash and Donation Shares are income resulting from donations and are not a gain or loss on the purchase, sale, issue or cancellation by Huge Group as the consolidated entity of its own equity instruments and as such no further journal entry is required other than a journal entry which moves the Donated Cash from cash and cash equivalents to restricted cash. The Donated Cash is regarded by Huge Group as immaterial.