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

CONDENSED AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2015 AND DECLARATION OF DIVIDENDS

HIGHLIGHTS FOR THE PERIOD

- Revenue marginally higher
- Improved profitability
- Resumption of dividend payments

The board of directors ("the Board") of Huge Group is pleased to present the condensed audited consolidated annual results of the Company and its subsidiary companies, and joint venture ("the Group") for the year ended 28 February 2015.

CONDENSED AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Audited 28 February 2015 (12 months)	Unaudited 31 August 2014 (6 months)	Audited 28 February 2014 (12 months)
Total revenue	204 589	98 961	203 578
Gross profit	80 939	41 020	94 240
Other income	1 068	890	1 542
Operating expenses	(66 074)	(33 028)	(77 818)
Operating profit	15 933	8 882	17 964
Investment income	621	359	1 021
Net change in fair value of financial instruments	3 319	1 562	(804)
Share of earnings from joint venture	12	26	73
Finance costs	(2 700)	(1 359)	(2 293)
Profit before taxation	17 185	9 470	15 961
Income tax expense	(5 933)	(2 074)	(4 628)
Net profit for the period	11 252	7 396	11 333
Attributable to:			
Owners of the parent	11 526	7 383	11 853
Non-controlling interest	(274)	13	(520)
	11 252	7 396	11 333
Basic and diluted earnings per share (cents)	12.80	9.20	13.54
Adjusted for:			
Impairment of non-current assets	-	-	0.15
Profit on disposal of property, plant and equipment	(0.02)	-	(0.03)
Basic and diluted headline earnings per share (cents)	12.78	9.20	13.66

Total number of shares in issue (‘000)	101 901	80 255	80 255
Weighted number of shares in issue (‘000)	90 041	80 255	87 530

CONDENSED AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R’000	Audited 28 February 2015 (12 months)	Unaudited 31 August 2014 (6 months)	Audited 28 February 2014 (12 months)
ASSETS			
Non-Current Assets			
Property, plant and equipment	46 085	42 133	34 451
Goodwill	215 153	215 153	215 153
Intangible assets	2 298	2 130	2 809
Investment in joint venture	714	729	702
Deferred tax	3 333	11 303	11 303
Deferred expenditure	4 444	-	1 779
Total non-current assets	272 027	271 448	266 197
Current Assets			
Inventories	1 025	876	-
Trade and other receivables	34 860	76 991	69 220
Current tax receivable	-	-	164
Deferred expenditure	6 825	7 417	1 988
Other financial assets	-	4 874	3 400
Cash and cash equivalents	4 741	4 868	4 173
Total current assets	47 451	95 026	78 945
Total Assets	319 478	366 475	345 142
EQUITY AND LIABILITIES			
Equity			
Share capital	229 323	208 411	208 410
Reserves	-	(482)	(482)
Retained earnings	23 098	19 270	11 887
Attributable to:			
Owners of the parent	252 421	227 199	219 815
Non-controlling interest	(4 101)	(3 647)	(3 659)
Total equity	248 320	223 552	216 156
Liabilities			
Non-current liabilities			
Finance lease obligations	770	557	459
Deferred tax	499	9 381	7 771
Total non-current liabilities	1 269	9 938	8 230
Current liabilities			
Interest bearing liability	20 612	-	-
Loans from shareholders	2 757	1 161	1 346

Other financial liabilities	788	1 273	1 168
Finance lease obligations	606	539	360
Trade and other payables	45 126	116 764	107 881
Bank overdraft	-	13 247	10 001
Total current liabilities	69 889	132 984	120 756
Total liabilities	71 158	142 922	128 986
Total equity and liabilities	319 478	366 474	345 142
Number of shares in issue ('000)	101 901	80 255	80 255
Net asset value per share (cents)	245.24	278.55	269.34
Net tangible asset value per share (cents)	30.49	7.81	(2.25)

CONDENSED AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Audited 28 February 2015 (12 months)	Unaudited 31 August 2014 (6 months)	Audited 28 February 2014 (12 months)
Balance at the beginning of the period	216 156	216 156	209 774
Total comprehensive income for the period	11 252	7 396	11 333
Purchase of own shares	-	-	(4 951)
Issue of own shares	20 912	-	-
Balance at the end of the period	248 320	223 552	216 156

CONDENSED AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Audited 28 February 2015 (12 months)	Unaudited 31 August 2014 (6 months)	Audited 28 February 2014 (12 months)
Cash flows from operating activities	(12 251)	8 707	11 583
Cash flows from investing activities	(20 294)	(11 456)	(9 092)
Cash flows from financing activities	43 113	198	(3 454)
Net cash movement for the period	10 568	(2 551)	(963)
Cash at the beginning of the period	(5 827)	(5 828)	(4 865)
Total cash at the end of the period	4 741	(8 379)	(5 828)

SEGMENTAL REPORTING

The directors have considered the implications of IFRS 8: Operating segments and are of the opinion that the current operations of the Group now constitute one operating segment, and accordingly the Telecoms and MTS operating segments as well as the Corporate Office have been combined with effect from the current financial year. Resource allocation and operational management are performed on an aggregate basis. Performance is measured based on profit or loss before tax as shown in internal management reports that are reviewed regularly by the Chief Operating Decision Maker (CODM), who is the Group's Chief Executive Officer. The CODM also regularly reviews the Group Statement of Financial Position.

COMMENTARY

BASIS OF PREPARATION

The condensed audited consolidated annual financial results have been prepared in accordance the recognition and measurement principles of International Financial Reporting Standards and presented in accordance with the minimum content, including disclosures, prescribed by IAS 34: Interim Financial Reporting applied to year end reporting, the Companies Act of South Africa, and the Johannesburg Stock Exchange ("JSE") Listings Requirements. In addition, these condensed audited consolidated annual financial results have been prepared in accordance with SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. The accounting policies used in preparation of these condensed audited consolidated annual financial results are consistent with those applied in the most recent six month period, as well as those applied in the preparation of the annual financial results of the Company for the year ended 28 February 2014.

These condensed audited consolidated annual financial results were prepared under the supervision of the Group Financial Director, David Deetlefs CA (SA), and are derived from and are consistent with the Group's audited consolidated annual financial statements.

COMPANY PROFILE

Huge Group is an investment holding company listed on the Alternative Exchange ("AltX") of the JSE.

Huge Telecom and Huge Mobile are engaged in providing voice, messaging, data and video connectivity services using wireless, GSM-based, fixed-cellular, last-mile solutions to residential consumers and a wide range of corporate clients, ranging from large corporates to small and medium enterprises.

Huge Software owns the Group's router equipment and has made this equipment available to Huge Telecom on a rental basis. Huge Software also owns the Group's proprietary billing and rating software and continues to develop and enhance such software for the benefit of the companies in the Group and for third parties to which it provides such services. Ambient Mobile provides the technology platform used in the provision of messaging services by Huge Telecom and Huge Mobile to their customers.

Eyeballs is engaged in the development of software for innovative and affordable real time, permission based, high-impact and targeted advertising to mobile phones and internet users. During the year under review, further development of its software has been initiated in order to align the product with current smart phone technologies and thereby enhance its revenue generating opportunities.

FINANCIAL OVERVIEW

Investment holding activities

During August and September 2014 the Company undertook a Rights Offer of 20 000 000 ordinary shares at a price of 100 cents per share. The Rights Offer, which was oversubscribed, enabled the Company to raise the necessary cash to facilitate a settlement of outstanding litigation with MTN Service Provider Proprietary Limited (MTNSP). It also allowed the Company to strengthen its working capital position.

Up until November 2014, long-term assets (particularly routing equipment) were being financed by short-term trade credit. In November 2014, the Company secured a R20m loan facility from AfrAsia Special Opportunities Fund Proprietary Limited (ASOF). In terms of negotiations the Company has had recently with ASOF, it is anticipated that this facility will be rolled and made more permanent. The Company also expects to lower the funding costs attributable to this debt.

Media activities

The Group is committed to finding opportunities in media that will assist it in creating value from existing investments.

Telecommunications activities

Review of operations

Distribution

Huge Telecom continued to grow its distribution capabilities. During FY2015, the number of Business Partners increased by 136, from 289 to 425 Business Partners. This represents a 47% increase in the total number of Business Partners.

Business Partner activity levels measured by the number of active Business Partners increased during FY2015 by 76%.

Market positioning

Huge Telecom’s connectivity services are distributed mainly to SMMEs. Huge Telecom provides connectivity services to over 9 800 customers. It has no more than a 1.3% exposure to its single largest customer; customer concentration risk is therefore low.

Sales

Increased Business Partner activity continued to have a significant impact on the sale of Huge Telecom's products and services.

Average monthly sales of telephone lines increased during the year under review, from an average of 689 units during FY2014 to an average of 1 044 units during FY2015 (FY2013: 309 units and FY2012: 203 units).

Sales measured by the number of Telephone Lines sold (excluding churn) increased by 55% during FY2015.

Churn

During FY2015 Huge Telecom reduced churn from an average of 281 units per month and during FY2014 to an average of 249 units per month (FY2013: 362 units, FY2012: 397 units).

The average customer life of all of the existing customers of Huge Telecom is 6.43 years.

Revenue

Revenue for FY2015 increased marginally by 0.5% when compared to FY2014. There is an approximate twelve month lead time between sales activity and its effects on revenue. Net growth or net churn in any period is felt financially, on average, twelve months later. The revenue generated during FY2015 is a result of the sales and churn activity in prior periods. The revenue generated during FY2016 will be a function of the sales and churn activity in FY2015.

Revenue for March and April 2015 is 8.7% higher than revenue for March and April 2014. Billed minutes for March and April 2015 are 17.9% higher than billed minutes for March and April 2014.

Average Revenue per User (ARPU), where the user is defined as an installed telephone line, amounted to R694 for FY2015, which is roughly nine times greater than the average ARPU of MTN across their two biggest markets, Nigeria and South Africa, and which is roughly six times greater than the ARPU of Vodacom's South African operation.

The mix between calls to mobile and fixed-line numbers (where prices to the former are higher than to the latter) also changed during the year. This year the mobile to fixed-line mix was 68%:32% when compared to FY2014, where the mix was 80%:20% (FY2013: 89%:11%).

The average selling price for a mobile minute during FY2015 was 87 cents per minute (FY2014: R0.93; FY2013: R1.15).

The average selling price for a fixed-line minute during FY2015 was 38 cents per minute (FY2014: R0.38; FY2013: R0.44).

Huge Telecom has also been successful in increasing its fixed annuity income to variable annuity income ratio. The fixed annuity income consists of channel management fees, on account fees, site management fees and line rentals, which are all protected from price compression and in fact escalate annually. The total current monthly fixed annuity income is in the order of about R3.1m – having increased from R1.6m at the end of FY2014 as a result of an average monthly increase of approximately R125 000. Fixed annuity income is growing presently at about R150 000 per month, which will have the effect of increasing the total current monthly fixed annuity income to R4.9m by the end of FY2016. Each month in which the increase is R150 000, there is a 12x multiplier effect on income for the next financial year – R1.8m could therefore be added to monthly fixed annuity income in FY2017. If this is the case, the annual contribution to revenue and profit for FY2017 from this sales activity (being sales activity in FY2016) is equal to R1.8m x 12 = R21.6m. If monthly sales of fixed annuity income continues to grow at R150 000 per month, the total annual contribution of fixed annuity income to revenue and profit for FY2017 will be equal to R4.9m x 12 = R58.8m, of which R21.6m (37%) will be as a result of sales activity during FY2016. This contribution to revenue and profit is over and above the contribution the minutes of use on the telephone lines relating to this fixed annuity income will make.

Supply-side economics
The mobile termination rate decreased from 40 cents per minute to 20 cents per minute (a 50% decrease) on 1 April 2014. Huge Telecom has benefited from this lower mobile termination rate but for only 11 months of FY2015.

The fixed-line termination rate between geographic area codes (i.e. national calls) decreased from 19 cents per minute to 18 cents per minute on 1 October 2014. Huge Telecom has benefited from this lower fixed-line termination rate between area codes but for only 5 months of FY2015.

The fixed-line termination rate within geographic area codes (i.e. local calls) remained at 12 cents per minute for FY2015.

Origination rates at the end of FY2015 were approximately the same as origination rates at the end of FY2014. Post year end, Huge Telecom has been able to secure significantly more favourable origination rates. This will impact gross margins for FY2016.

The factors listed above have all had a positive effect on gross profit margins for the period under review.

On 1 October 2015 mobile termination rates will decrease by 4 cents per minute, from 20 cents per minute to 16 cents per minute (a 20% decrease).

On 1 October 2015 fixed line termination rates between area codes will decrease by 2 cents per minute, from 18 cents per minute to 16 cents per minute (an 11% decrease).

These decreases will benefit Huge Telecom in the form of reduced call cost prices during FY2016.

Gross margins

Gross margins before direct expenses (such as consumables and distribution costs) increased again this year, from 46.3 % to 55.2%, being an increase of 19.2% year on year. Shareholders are referred to the SENS announcement published by the Company on 26 November 2013, in which the Company disclosed that it had successfully negotiated a substantial supplier discount (the Huge Discount). The Huge Discount was a once-off discount that impacted the gross margins for FY2014. For this reason the gross margin in FY2015 of 55.2% is not comparable to the gross margin for FY2014 of 46.3%. Excluding the effect of the Huge Discount, gross margins before direct expenses have increased by 75% from 31.6% during FY2014 to 55.2% during FY2015. Likewise, the improvement in operating profitability for FY2015 is greater, given the impact of the Huge Discount. Gross margins have continued to increase after year end.

Overheads

The two primary overhead costs in Huge Telecom were well controlled during the year. Employee expenses were contained and reduced by 3.0% year on year. Depreciation increased by 13.0% as a result of increased capital expenditure on router equipment, a direct result of increased sales activity.

There were a number of non-recurring expenses in the second six months of FY2015 and these expenses amounted to R3.9m. Included in this amount are legal and facility expenses of R1.3m relating to the debt facility raised from ASOF as well as legal expenses and an under accrual of settlement expenses of R1.4m relating to the MTNSP settlement.

Future Prospects

Undoubtedly, a huge portion of Huge Telecom's intrinsic value can be found in its distribution capability. Calculating the intrinsic value of a distribution channel is difficult but as MTN Group Limited has shown in its acquisition of a 50% plus 1 share in Afrihost Proprietary Limited for R408m, the value of effective distribution reach should not be underestimated.

The subscriber value associated with Huge Telecom's base of 30 000 installed Telephone Lines adds to the investment case. It can be argued that, with higher minutes of use (ARPU or average revenue per user) across its installed telephone lines, Huge Telecom's value per subscriber telephone line is easily double that which Nashua Mobile Proprietary Limited achieved on the sale of its subscriber base.

Huge Telecom has built, and more importantly, owns and controls, the "last mile" network or local loop between each of its customers and a number of the mobile network operators. As many commentators suggest, the last mile or local loop is the most valuable part of a network and the fight over the unbundling of Telkom SOC Limited's local loop in respect of the fixed line last mile is testimony to this. With the total cost of installing a subscriber line at about R5 000, the value of Huge Telecom's last mile network is substantial.

It can also be demonstrated that the Eyeballs Mobile Advertising technology has an intrinsic or option value and with the recent increase in the rate of adoption of more affordable smart mobile devices, the value of the advertising real estate on them is phenomenal. While Eyeballs Mobile Advertising has been unable as yet to monetise its technology, the hope in partnering with global players is that the Eyeballs Mobile Advertising technology will deliver substantial investment returns.

Huge Group is a different company today when compared to twelve months ago. It has a stronger balance sheet having raised both equity and longer-dated debt, and all the material litigation that was hanging over the Company has been settled. The currency of its shares has also improved markedly. The performance metrics related to its principal subsidiary, Huge Telecom, are very positive – sales activity is expanding rapidly, revenue is increasing, gross margins are high and there is positive cash flow generation which continues to improve. Huge Telecom's cash flows now position Huge Group to pay dividends and grow, whether organically or by acquisition.

LEGAL AND REGULATORY REQUIREMENTS

Dispute between MTNSP and Huge Telecom

MTNSP instituted a notice of motion in the South Gauteng High Court, Johannesburg, on 18 January 2011 whereby it made application for either an order 1) liquidating Huge Telecom; 2) that the costs of the application be costs in the liquidation; 3) further and/or alternative relief, or alternatively a judgment against Huge Telecom for 1) payment of the amount of R30 million; 2) interest; 3) costs of the suit; 4) further or alternative relief.

On 1 August 2014, the Company announced on SENS that it had reached a settlement with MTNSP in the amount of R10 million (the Settlement Figure). A further SENS announcement released on 11 September 2014 confirmed that the Settlement Figure had been paid in full to MTNSP. The matter between MTNSP and Huge Telecom has therefore been resolved.

Arbitration

Dispute between Huge Group and Telemasters

During February 2013 Telemasters cancelled an agreement with Huge Group 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 R4.176m plus interest thereon.

In its Plea and Counterclaim issued on 11 June 2014, the Company claims that Telemasters is indebted to it in the amount of R4.392m plus interest thereon in respect of amounts overcharged by Telemasters and made up as follows:

1. R1.215m in respect of "Itemised Billing" for which it was not entitled to charge;
2. R1.034m in respect of "Administration Fees" for which it was not entitled to charge;
3. R4.053m in respect of "Gross Out of Bundle Charges" for which it was not entitled to charge.

In November 2012, TeleMasters admitted that it had overcharged the Company and credited the Company with an amount of approximately R1.910m. In the result, Huge alleges that Telemasters is indebted to the Company in the amount of R4.392m, being the R6.302m less the credit of R1.910m already passed by TeleMasters, as listed above.

Huge Group is claiming an amount of R2.674m from TeleMasters, being the R4.932m less an amount of R1.718m (of the R4.176m) that Telemasters was entitled to raise against Huge Group.

The matter will be 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. A date has not yet been set for the arbitration hearing.

Pro-Active Monitoring of Financial Statements

On 21 February 2013, the Company received a letter from the JSE Limited, instructing the Company to restate its 2010, 2011 and 2012 Annual Financial Statements (the Relevant Financial Statements) in so far as this related to the accounting by the Company for the acquisition of certain single stock futures contracts (SSFs) (the Restatement Decision).

The Company is in possession of unqualified audit reports relating to the Relevant Financial Statements on the basis that the accounting policy in respect of the accounting for the SSFs has resulted in fair presentation and is in accordance with IFRS.

There has been protracted correspondence between the Company and the JSE in this regard, culminating in the Company instituting an action in the Gauteng Local Division of the High Court of South Africa, for the judicial review of, amongst other things, the JSE's Restatement Decision, on the basis that the Restatement Decision constitutes administrative action that is reviewable in terms of section 6(2)(e)(iii) of the Promotion of Administrative Justice Act, 2 of 2000.

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

Other than the matter referred to above with regard to the Pro-Active Monitoring of Financial Statements and the action brought by the Company in this regard, there are no events subsequent to 28 February 2015 and prior to the date of this announcement which have had or may have a material impact on the Company.

GOING CONCERN

The Board has made a detailed assessment of the going concern capability of 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 OF DIRECTORS

There were no changes to the Board of directors during the course of the year ended 28 February 2015.

DIVIDENDS

Notice is hereby given that the directors have declared a final gross dividend of 4 cents per ordinary share (2014: 0 cents), payable out of the income reserves for the year ended 28 February 2015 to the ordinary shareholders in accordance with the timetable below.

Salient dates relating to the dividend:

Declaration date	Friday, 29 May 2015
Last day to trade to receive dividend	Friday, 21 August 2015
Shares commence trading ex-dividend	Monday, 24 August 2015
Record date	Friday, 28 August 2015
Dividend payment date	Monday, 31 August 2015

In terms of South African dividends tax, the following additional information is disclosed:

Local dividend withholding rate	15%
Net local dividend payable to shareholders who are not exempt from dividends withholding tax	3.4 cents per ordinary share

Total number of ordinary shares in issue	110 901 443
Company income tax reference number	9378909155

Share certificates may not be dematerialised or rematerialised between Monday, 24 August 2015 and Friday, 28 August 2015, both days inclusive.

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

AUDIT OPINION
These results have been audited by the Group auditors, BDO South Africa Inc, and their unqualified audit report is available for inspection at the Company's registered office.

FORECAST STATEMENTS
Shareholders are advised that any forecast financial information contained in this announcement has not been reviewed by the Group's auditors.

By order of the board

Johannesburg
29 May 2015

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

Designated Adviser
Afrasia Corporate Finance Proprietary Limited
Level P3, Oxford Corner, c/o Jellicoe and Oxford Roads, Rosebank, Johannesburg

Auditor
BDO South Africa Incorporated.
22 Wellington Road, Parktown, 2193

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

Company Secretary
Jean Tyndale-Biscoe

Transfer Secretaries
Computershare Investor Services Proprietary Limited
Ground Floor, 70 Marshall Street, Johannesburg

Directors:
VM Mokholo* (Chairman), SP Tredoux* (Lead Independent Director), DR Gammie*, AD Potgieter*, JC Herbst (CEO), D Deetlefs (Group Financial Director)
*Non-executive