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

PROVISIONAL REVIEWED CONSOLIDATED ANNUAL RESULTS FOR THE YEAR ENDED 29 FEBRUARY 2016

HIGHLIGHTS

- The total number of telephone lines increased by 20% when compared to the previous financial year;
- The total number of customers increased by 35% when compared to the previous financial year;
- Earnings and headline earnings per share increased by 45% when compared to the previous financial year;
- Revenue increased by 6% when compared to the previous financial year;
- Operating profit increased by 44% when compared to the previous financial year.

The board of directors ("the Board") of Huge is pleased to present the provisional summarised reviewed consolidated annual results of the Company and its subsidiary companiesand joint venture ("the Group") for the year ended 29 February 2016.

REVIEWED SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Reviewed 29 February 2016 (12 months) R'000	Audited 28 February 2015 (12 months) R'000
Total revenue	216 517	204 589
Gross profit	**88 189**	**80 939**
Other income	1 296	1 068
Operating expenses	(66 529)	(66 074)
Operating profit	**22 956**	**15 933**
Investment income	492	621
Net change in fair value of financial instruments	-	3 319
Share of (losses) / earnings from equity accounted investments	(5)	12
Finance costs	(4 697)	(2 700)
Profit before taxation	**18 746**	**17 185**
Income tax credit / (expense)	910	(5 933)
Net profit for the period	**19 656**	**11 252**
Non-controlling interest	876	(274)
Net profit attributable to owners of the company	**18 780**	**11 526**
Basic earnings per share (cents)	18.55	12.80
Adjusted for:		
Profit on disposal of property, plant and equipment	(0.04)	(0.02)
Headline earnings per share (cents)	18.51	12.78
Total number of shares in issue ('000)	101 255	101 255
Weighted number of shares in issue ('000)	101 255	90 041

Note: There are no dilutive instruments in issue

REVIEWED SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Reviewed 29 February 2016 (12 months) R'000	Audited 28 February 2015 (12 months) R'000
ASSETS		
NON CURRENT ASSETS		
Property, plant and equipment	61 093	46 085
Goodwill	215 153	215 153
Intangible assets	1 558	2 298
Investment in joint venture	709	714
Deferred tax	6 415	3 333
Deferred expenditure	6 224	4 444
	291 152	**272 027**
CURRENT ASSETS		
Inventories	1 294	1 025
Trade and other receivables	27 568	34 860
Deferred expenditure	9 494	6 825
Cash and cash equivalents	4 555	4 741
	42 910	**47 451**
Total assets	**334 063**	**319 478**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	229 323	229 323
Reserves	-	-
Retained earnings	33 738	23 098
Equity attributable to equity holders of parent	263 061	252 421
Non-controlling interest	(3 185)	(4 101)
	259 876	**248 320**
NON-CURRENT LIABILITIES		
Finance lease obligations	2 143	770
Deferred tax	1 422	499
	3 565	**1 269**
CURRENT LIABILITIES		
Interest bearing liability	20 000	20 612
Loans from shareholders	461	2 757
Other financial liabilities	694	788
Current tax payable	1 249	-
Finance lease obligations	1 677	606
Trade and other payables	36 667	45 126
Bank overdraft	9 873	-
	70 621	**69 889**
Total liabilities	**74 187**	**71 158**
Total equity and liabilities	**334 063**	**319 478**
Number of shares in issue ('000)	101 255	101 255
Net asset value per share (cents)	256.66	245.24
Net tangible asset value per share (cents)	42.63	30.49

REVIEWED SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reviewed 29 February 2016 (12 months) R'000	Audited 28 February 2015 (12 months) R'000
Balance at 1 March	248 320	216 156
Total comprehensive income for the period	19 656	11 252
Issue of new shares	-	20 912
Acquisition of non-controlling interest	-	-
Dividends	(8 100)	-
Balance at 28/29 February/31 August	259 876	248 320

REVIEWED SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

	Reviewed 29 February 2016 (12 months) R'000	Audited 28 February 2015 (12 months) R'000
Cash flows from operating activities	22 694	(12 251)
Cash flows from investing activities	(23 860)	(20 294)
Cash flows from financing activities	(8 893)	43 113
Net cash movement for the period	(10 058)	10 568
Cash at the beginning of the period	4 741	(5 827)
Total cash at the end of the period	(5 318)	4 741

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 constitute one operating segment. 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 provisional reviewed consolidated annual financial results have been prepared in accordance with the recognition and measurement principles of International FinancialReporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Committee and presented in accordance with the minimum content,including disclosures, prescribed by IAS 34 Interim Financial Reportingapplied to year-end reporting, the Companies Act of South Africa, and the JSE Limited'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(a) of the Listings Requirements.

The provisional consolidated annual financial statements for the year ended 29 February 2016 were prepared under the supervision of the Group Financial Director, Mr D Deetlefs, and will be included in the 2016 Integrated Report to be issuedto shareholders on or before 30 June 2016.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of these provisional reviewed consolidated annual financial results are in terms of IFRS and are consistent with those in the preparation of the annual financial results of the Company for the year ended 28 February 2015.

INDEPENDENT REVIEWER'S OPINION

These provisional consolidated annual financial statements for the year ended 29 February 2016 were reviewed by BDO South Africa Inc., who expressed an unmodified review opinion thereon. A copy of the review report is available for inspection at the registered offices of the Company.

COMPANY PROFILE

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

Huge Telecom is a wholly-owned subsidiary company of Huge and the principal trading operation of the Group.

Eyeballs Mobile Advertising Proprietary Limited ("Eyeballs") is 96% owned by Huge and is an application technology developer and provider. The "Eyeballs" technology application is downloaded and installed by recipient users on their mobile phones. The application displays advertising and content images on the phone screen when calls or messages are received on the recipient user's phone.

FINANCIAL OVERVIEW

Group Financial Performance

During the period under review, Huge increased revenue and operating profit, improved operational efficiencies and controlled operating expenses.

Investment holding activities

As at the date of this announcement, the Huge Group share price had appreciated from about 330 cents per share last year to about 520 cents per share. This price appreciation has significantly strengthened Huge Group's ability to contemplate mergers and acquisitions on a share for share basis. The volume of shares traded in the last year is also encouraging and this has strengthened Huge Group's potential ability to acquire companies for cash on the basis of a vendor placing of shares.

Media activities

The Group is committed to finding opportunities in media that will assist it in creating value from existing investments. Eyeballs Mobile Advertising signed a global software licencing agreement with Media 24 Proprietary Limited, a Naspers Limited company, in terms of which Eyeballs Mobile Advertising has licensed its technology to Media 24 on a non-exclusive use basis. We hope that many more transactions of this nature will be signed in the future. The parallel use of the Eyeballs Mobile Advertising technology by organisations with a global footprint is bound to enhance Huge Group's ability to leverage value from this investment.

Telecommunications activities

Introduction

Huge Telecom is the Group's principal revenue and profit generator. In the past six years Huge Telecom has increased its gross profit percentage substantially. Its distribution channel has seen exponential growth – from 63 Business Partners in July 2010 to 552 Business Partners today. This increase has resulted in higher levels of sales activity and revenues. Huge Telecom now installs five times more telephone lines (or connections) than it did six years ago.

Review of operations

Distribution

We continue to grow our distribution capabilities aggressively. During FY2016 we increased our Business Partners by 127, from 425 to 552 Business Partners. This represents a 30% increase in the total number of Business Partners.

We also continue to focus on increasing the activity levels of our Business Partners. Business Partner activity levels measured by the number of active Business Partners increased during FY2016 by 24%.

Customers

Huge Telecom has over 12 700 customers. Huge Telecom provides Fixed Line Cellular Routing (FLCR) services to over 9 800 customers (FY2015: 7 900, FY2014: 5 500 and FY2013: 4 400). Huge Telecom provides Small Office Home Office Residential (SOHOR) services to over 2 900 customers (FY2015: 1 500, FY2014: 900 and FY2013: 500). It has no more than a 1.3% exposure to its single largest customer – customer concentration risk is therefore low.

Sales

Increased levels of Business Partner activity continue to have a significant impact on the sale of Huge Telecom's products and services. Greater numbers of active Business Partners result in greater sales of products and services, lower relative churn and higher net growth and revenue. The acquisition of new Business Partners is a lead indicator of increased monthly sales of new telephone lines (or connections), which in turn is a lead indicator of Huge Telecom's primary revenue metric – average revenue per trade weighted day.

During the year under review, average monthly sales of telephone lines was 810 units (FY2015: 1 040 units, FY2014: 689 units and FY2013: 309 units). The total number of telephone lines managed by Huge Telecom increased by 20%.

Churn

Churn is the termination of contracts in respect of existing telephone lines and this has an impact on the net growth of telephone lines. The appointment of an increasing number of Business Partners is an effective recipe to combat relative churn (the churn experienced relative to new sales growth). The net growth (i.e. sales less churn) of telephone lines is a success indicator for Huge Telecom because it has an impact on revenue.

During the year under review, average monthly churn of telephone lines was 295 units (FY2015: 249 units, FY2014: 281 units and FY2013: 281 units).

Revenue

A key feature of revenue growth in the future is the number of active selling Business Partners. Revenue for FY2016 has increased by 6% when compared to FY2015. There is about a 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 FY2016 is a result of the sales and churn activity in prior periods. The revenue generated during FY2017 will be a function of the sales and churn activity in FY2016.

The average revenue per trade weighted day is an important measure of sales performance in any given financial year, which is based on historical sales activity. Average revenue per trade weighted day exhibited the following trends during FY2016:

Period	Change in average revenue per trade weighted day
March 2015 on March 2014	4%
April 2015 on April 2014	5%
May 2015 on May 2014	12%
June 2015 on June 2014	2%
July 2015 on July 2014	8%
August 2015 on August 2014	14%
September 2015 on September 2014	10%
October 2015 on October 2014	6%
November 2015 on November 2014	2%
December 2015 on December 2014	24%
January 2016 on January 2015	6%
February 2016 on February 2015	8%

The mix between calls to mobile and to fixed-line numbers (where prices to the former are higher than to the latter) was 64%:36% during the year (FY2015: 68%:32%, FY2014: 80%:20%, FY2013: 89%:11%).

The average selling price for a mobile minute during FY2016 was R0.94 cents per minute (FY2015: R0.87, FY2014: R0.93 and FY2013: R1.15).

The average selling price for a fixed-line minute during FY2016 was R0.40 cents per minute (FY2015: R0.38, FY2014: R0.38 and FY2013: R0.44).

Huge Telecom continues to be successful in increasing its fixed annuity income to variable annuity income ratio. The fixed annuity income consists of line rentals and other similar charges which are protected from price compression, and which are subject to annual escalations. Current monthly fixed annuity income charges are in the order of about R4 million (FY2015: R3.1 million, FY2014: R1.6 million and FY2013: R1.5 million). Fixed annuity income is growing at about R110 000 per month presently. This has a 66x multiplier effect on revenue for the next 12 months, or R7.2 million. Our annual fixed annuity income is therefore running at a rate of R56.4 million (being R4 million x 12 plus R7.2 million).

Supply-side economics

The mobile termination rate decreased from 20 cents per minute to 16 cents per minute (a 20% decrease) on 1 October 2015, the fixed-line termination rate between area codes (i.e. national calls) decreased from 15 cents per minute to 12 cents per minute (a 20% decrease), and the fixed-line termination rate within area codes (i.e. local calls) decreased from 12 cents per minute to 11 cents per minute (an 8% decrease). Huge Telecom benefited from these lower termination rates for only 5 months of FY2016. The factors listed above will have had an effect on gross profit margins for the period under review.

Origination rates are higher than termination rates currently.

On 1 October 2016 mobile termination rates will decrease by 3 cents per minute from 16 cents per minute to 13 cents per minute (a 19% decrease), the fixed line termination rates between area codes will decrease by 2 cents per minute from 12 cents per minute to 10 cents per minute (a 17% decrease), and the fixed line termination rates within area codes will decrease by 1 cent per minute from 11 cents per minute to 10 cents per minutes (a 9% decrease). These decreases will benefit Huge Telecom in the form of reduced call cost prices.

Gross margins

Gross margins after direct expenses (such as consumables and distribution costs) increased again this year, by 3% from 40% to 41%.

Overheads

The two primary overhead costs in Huge Telecom were well controlled during the year. Staff costs reduced by 2%. Depreciation increased by 3.5% as a result of increased capital expenditure on router equipment, a direct result of increased sales activity.

Prospects

Huge Group's balance sheet continues to strengthen. The currency of its shares also continues to improve. The performance metrics related to its principal subsidiary, Huge Telecom, are positive – sales activity remains high, revenue is increasing, gross margins are high and the resultant cash flows are expanding. Huge Telecom's cash flows now position Huge Group for growth, whether organically or by acquisition.

At the moment the investment case for Huge Group is built principally around Huge Telecom's investment case.

While Huge Telecom's Fixed Line Voice Offering (FLVO) service has been incredibly successful, a significant portion of Huge Telecom's intrinsic value is its distribution. A distribution model has been developed that will work across a broad range of products and services. Very close attention has been paid to understanding the factors that drive distribution and are capable of growing it. Distribution is therefore a key differentiator. It differentiates Huge Telecom from a competitive perspective and it differentiates Huge Group from an investment perspective. This is where the real value in Huge Group and Huge Telecom lie – it is the distribution capability that creates all the potential.

The subscriber value associated with Huge Telecom's base of approximately 34 000 installed telephone lines adds to the investment case.

Huge Telecom has also built, and more importantly controls, a "last mile" network or local loop between each of its customers and the mobile network operators. As many commentators suggest, the last mile or local loop is the most valuable part of a network.

Huge Telecom continues to grow and reinforce its unique position in the telecommunications industry. Its business model is bearing fruit, sales activity is high, its distribution footprint is extensive and growing, and gross margins are also high.

The voice revenues from consumers that the Mobile Network Operators have enjoyed historically are declining. Data is all the rage but margins on data are lower. Cell C, MTN and Vodacom are desperate to eat Telkom's lunch and Huge Telecom is able to show them how. Telkom needs a substitute for its expensive, difficult to install, last mile and this makes Huge Telecom a perfect partner.

The value of Huge Telecom, and therefore Huge Group, comprises two parts: its Fixed Location Voice Only telephony service and distribution footprint, and the value of its customer or subscriber cash flows. Huge Telecom's customer cash flows should be valued on the economies that scale can bring. The profits that Huge Telecom's customers will generate if these customers are consolidated by another industry participant higher up the value chain are greater than the profits it can generate on its own. The Huge Telecom telephony service is largely annuity in nature – the revenues repeat every month. If this annuity revenue were to be consolidated by an industry participant higher up the value chain, only termination costs to competitor networks and commissions to resellers would have to be incurred, resulting in higher attributable profit after tax for each unit of revenue – this is because Huge Telecom's after sales service and maintenance costs are low in relation to total revenue.

Huge Group is committed to finding more opportunities in media that will assist it in creating value from its investment in Eyeballs Mobile Advertising. The global software licencing agreement that Eyeballs Mobile Advertising signed with Media 24 Proprietary Limited, a Naspers Limited company, in October last year is profound. The Eyeballs Mobile Advertising technology has been licenced to Media 24 on a non-exclusive use basis. The expectation is that more transactions of this nature will be signed in the future. The parallel use of the Eyeballs Mobile Advertising technology by organisations with a global footprint is bound to enhance Huge Group's ability to leverage value from this investment. The Eyeballs Mobile Advertising technology therefore has an option value and with the rate of adoption of smart mobile devices the real estate value in advertising to them is exciting.

TREASURY SHARES

As at 29 February 2016, the Company had 110 901 443 ordinary shares in issue. 9 646 926 ordinary shares are held by Huge Telecom in treasury, resulting in a net 101 254 517listed ordinary shares.

LEGAL AND REGULATORY REQUIREMENTS

The Company is currently party to the following litigation:

Arbitration

Dispute between Huge Group and Telemasters Proprietary Limited ("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.

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 , 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.

On 24 April 2015, the Company launched an application (the Main Application) in the Gauteng Division of the High Court of South Africa for the judicial review of the Restatement Decision in terms of the Promotion of Administrative Justice Act, 20 of 2000.

Subsequent to this, a dispute arose with regard to the completeness of the record of the Restatement Decision filed by the JSE. The Company launched an interlocutory application, and on 8 March 2016, Satchwell J ruled in favour of Huge and ordered that the JSE provide certain documents for inclusion in the record. A date for the hearing of the Main Application has not been set.

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 for, 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

On 1 March 2016, the listing of Huge was transferred from the Alternative Exchange to the Main Board of the Johannesburg Stock Exchange.

Other than as disclosed in this announcement, there are no events subsequent to 29 February 2016 and to the date of this announcement which have had or may have a material impact on the Company.

GOING CONCERN

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

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

CHANGES TO THE BOARD

Mr Zunaid Bulbulia was appointed to the Board of Huge with effect from 28 January 2016. Subsequent to year end, Dr Duarte da Silva was appointed Non-executive Chairman of the Board. This appointment took effect from 1 March 2016.

DIVIDENDS

A gross dividend of 4 cents per share was declared on 29 May 2015, and paid on 6 July 2015. An interim gross dividend of 4 cents per share was declared on 27 November 2015, and paid on 29 December 2015.

The board has decidednot to declare a further dividend for the year ended 29 February 2016, but instead to invest the available cash resources of the Company. The board has identified a number of growth opportunities – both organic and acquisitive – that it intends pursuing and for this reason believes it is important to build rather than distribute its cash resources.

ANNUAL GENERAL MEETING

The annual general meeting of the shareholders of the Company will be held at 10:00am on Wednesday, 10 August 2016 at the offices of Huge Group, Woody Woods, First Floor, 3M Building, 146a Kelvin Drive, Woodmead. The notice of annual general meeting forms part of the 2016 Integrated Report, to be posted to shareholders on or before 30 June 2016. In terms of section 62(3)(a), as read with section 59 of the Companies Act (Act 71 of 2008), as amended, the record date for purposes of determining which shareholders of the Company are entitled to participate in and vote at the annual general meeting is 29 July 2016. Accordingly the last day to trade in the Company's shares in order to be recorded in the Register to be entitled to vote will be 26 July 2016.

GOVERNANCE

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

Johannesburg
26 May 2016

Sponsor
Questco(Pty) Ltd
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Transfer Secretaries
Computershare Investor Services Proprietary Ltd
Ground Floor, 70 Marshall Street, Johannesburg

Directors
Non-Executive: Dr DF Da Silva* (Chairman), VM Mokholo, SP Tredoux* (Lead Independent Director), DR Gammie*, AD Potgieter, Z Bulbulia
Executive: JC Herbst (Chief Executive Officer), D Deetlefs (Group Financial Director)
*Independent