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

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2016

HIGHLIGHTS

- Total revenue increased by 8.4%
- Gross profit margins improved from 41.6% to 45.1%
- Adjusted operating profit up 38.6% (after adjusting the H1FY16 operating profit for the once-off effect of a reversal of impairment of R3 million in H1FY16) Headline earnings per share up 6.9%

The board of directors ("the Board" or "the Directors") of Huge is pleased to present the unaudited consolidated interim results of the Company and its subsidiary companies and joint venture ("the Group") for the six months ended 31 August 2016.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 31 August 2016 (6 months) R'000	Audited 29 February 2016 (12 months) R'000	Unaudited 31 August 2015 (6 months) R'000
Total revenue	116 010	216 517	106 999
Gross profit	**52 270**	**88 189**	**44 544**
Other income	569	1 296	553
Operating expenses	(37 499)	(66 529)	(31 027)
Operating profit	**15 340**	**22 956**	**14 070**
Investment income	88	492	24
Share of (losses) / earnings from equity accounted investments	7	(5)	(13)
Finance costs	(2 696)	(4 697)	(2 303)
Profit before taxation	**12 739**	**18 746**	**11 777**
Income tax credit / (expense)	(2 505)	911	805
Net profit for the period	**10 234**	**19 656**	**12 582**
Non-controlling interest	57	876	25
Net profit attributable to owners of the company	**10 177**	**18 780**	**12 557**
Basic earnings per share (cents)*	10.05	18.55	12.40
Adjusted for:			
Profit on disposal of property, plant and equipment	-	-	(0.04)
Reversal of impairment	-	-	(2.96)
Headline earnings per share (cents)*	10.05	18.55	9.40
Total number of shares in issue ('000)	110 901	110 901	110 901
Weighted number of shares in issue ('000)	101 255	101 255	101 255

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 August 2016 (6 months) R'000	Audited 29 February 2016 (12 months) R'000	Unaudited 31 August 2015 (6 months) R'000
ASSETS			
Non-current assets			
Property, plant and equipment	65 672	61 093	50 584
Goodwill	215 153	215 153	215 153
Intangible assets	1 464	1 558	4 922
Investment in joint venture	716	709	701
Deferred tax	4 385	6 415	6 984
Deferred expenditure	16 632	6 224	4 972
	304 022	**291 152**	**283 316**
Current assets			
Inventories	1 211	1 294	1 661
Trade and other receivables	30 753	27 567	35 512
Deferred expenditure	3 826	9 494	8 205
Cash and cash equivalents	397	4 555	1 186
	36 187	**42 910**	**46 564**
Total assets	**340 209**	**334 062**	**329 880**
EQUITY AND LIABILITIES			
Share capital	229 323	229 323	229 323
Retained earnings	43 915	33 738	35 680
Equity attributable to equity holders of parent	273 238	263 061	265 003
Non-controlling interest	(3 128)	(3 185)	(4 076)
	270 110	**259 876**	**260 927**
Non-current liabilities			
Finance lease obligations	1 802	2 143	831
Deferred tax	585	1 422	1 103
	2 387	**3 565**	**1 934**
Current liabilities			
Interest bearing liability	20 000	20 000	20 672
Loans from shareholders	177	461	-
Other financial liabilities	716	694	835
Current tax payable	2 562	1 247	-
Finance lease obligations	1 357	1 677	813
Trade and other payables	35 311	36 669	44 692
Bank overdraft	7 589	9 873	7
	67 712	**70 621**	**67 019**
Total liabilities	**70 099**	**74 186**	**68 953**
Total equity and liabilities	**340 209**	**334 062**	**329 880**
Number of shares in issue ('000)	101 255	101 255	101 255
Net asset value per share (cents)	266.76	256.66	257.69

Net tangible asset value per share (cents)	52.83	42.63	40.35

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited 31 August 2016 (6 Months) R'000	Audited 29 February 2016 (12 months) R'000	Unaudited 31 August 2015 (6 Months) R'000
Balance at 1 March	259 876	248 320	248 320
Total comprehensive income for the period	10 234	19 656	12 582
Acquisition of non-controlling interest	-	-	25
Dividends	-	(8 100)	-
Balance at 28/29 February/31 August	270 110	259 876	260 927

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 31 August 2016 (6 Months) R'000	Audited 29 February 2016 (12 months) R'000	Unaudited 31 August 2015 (6 months) R'000
Cash flows from operating activities	8 620	22 693	9 831
Cash flows from investing activities	(10 385)	(23 860)	(10 904)
Cash flows from financing activities	(109)	(8 893)	(2 489)
Net cash movement for the period	(1 874)	(10 059)	(3 562)
Cash at the beginning of the period	(5 318)	4 741	4 741
Total cash at the end of the period	(7 192)	(5 318)	1 179

SEGMENTAL REPORTING

The Board has considered the implications of IFRS 8: Operating segments and is 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 unaudited consolidated interim results have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and presented in compliance with IAS 34: Interim Financial Reporting, the Companies Act of South Africa, and the JSE Limited's (the "JSE") Listings Requirements ("Listings Requirements").

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

ACCOUNTING POLICIES

The accounting policies applied in the preparation of these unaudited consolidated interim results are in terms of IFRS and are consistent with those applied in the preparation of the annual financial results of the Company for the year ended 29 February 2016.

COMPANY PROFILE

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

Huge Telecom Proprietary Limited ("Huge Telecom") and Huge Connect Proprietary Limited ("Huge Connect") are the principal operating entities of Huge.

Huge Telecom and Huge Connect are mobile telephony services businesses. Their principal service is substituting fixed-line voice infrastructure with mobile solutions. Unlike a public switched telephone network (PSTN) like Telkom, the service makes use of GSM to provide a wireless 'last-mile' connection from the customer's premises to the core of the network. Huge Telecom and Huge Connect have, collectively, in excess in excess of 14 000 customers comprising corporate organisations (of any size) and residential consumers who require a fixed location voice service. Huge Telecom and Huge Connect do not own any core network infrastructure - rather, they leverage off the existing mobile operator networks in South Africa.

Huge Telecom and Huge Connect have extensive distribution networks with ability to grow, selling their telephony services through more than 600 resellers (referred to as Business Partners).

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

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 has increased revenue by 8.4%, gross profit by 17.3% and operating profit by 9%. Adjusting for the once-off effect of a reversal of impairment of R3 million taken into account in the comparative period in the prior financial year, operating profit increased by 38.6%. Gross profit margins expanded from 41.6% to 45.1%, benefitting from declining costs of sales.

While operating expenses were 20.9% higher than the comparative period in the prior financial year, these would only be 10.2% higher if the once-off effect of the aforementioned reversal of impairment of R3 million is deducted from expenses for the six months ended 31 August 2015.

INVESTMENT HOLDING ACTIVITIES

The loan funding agreement with Stellar Specialised Lending Proprietary Limited ("SSL"), formerly Afrasia Special Opportunities Fund (Pty) Ltd, for the provision of short term funding in the amount of R20 million, has been extended to 31 January 2017 to give the Group time to implement replacement funding that has been secured a lower cost.

The interest rate applicable to the SSL funding is prime plus 9% per annum and repayable in one lump sum on 31 January 2017. The Group has secured replacement funding at a cost of prime plus 2% per annum.

TELECOMMUNICATION ACTIVITIES
Huge Telecom and Huge Connect are the Group's principal revenue generators.

Review of operations
Distribution

- The Group has continued to grow its distribution capabilities during H1FY17. As at the date of this announcement, the Group has in excess of 598 Business Partners (H1FY16: 550).

- Business Partner activity levels measured by the number of active Business Partners remained constant when compared to H1FY16 (H1FY16: 20%).

Market positioning

- The Group's connectivity services are distributed mainly to SMMEs. It provides connectivity services to over 14 000 customers. It has no more than a 0.7% exposure to its single largest customer - customer concentration risk therefore remains low.

Sales

- Monthly sales of telephone lines averaged approximately 872 during H1FY17 (H1FY16: 845).

Churn

- Monthly churn of telephone lines averaged approximately 350 during H1FY17 (H1FY16: 295).

Revenue

- Revenue for H1FY17 is 8.4% higher than the revenue for H1FY16.
- Billed minutes for H1FY17 is 10% higher than billed minutes for H1FY16.
- Average Revenue per User (ARPU), where the user is defined as an installed telephone line, amounted to just over R550 for H1FY17 (H1FY16: R600).
- The ratio of calls to mobile and to fixed-line numbers (where prices to the former are higher than to the latter) for H1FY17 was 64%:36% (H1FY16: 64%:36%).
- The average selling price for a mobile minute during H1FY17 was R0.88 per minute (H1FY16: R0.84).
- The average selling price for a fixed-line minute during H1FY17 was R0.41 cents per minute (H1FY16: R0.36).
- The current monthly annuity book of fixed annuity charges at 31 August 2016 amounted to R4.9m (31 August 2016: R4.1m).

Gross margins

- Gross margins of 45.1% were achieved during H1FY17 (H1FY16: 41.6%).
- While gross margins increased during H1FY17, the different components of cost of sales had counter-balancing effects: transmission cost of sales decreased as a result of reductions in the cost of acquiring access from the mobile network operators but distribution costs relating to commission payments to Business Partners increased significantly. On a comparative basis, distribution costs relating to Business Partner commissions was R5.6 million, or 40%, higher than H1FY16.

Overheads

- Operating expenses during H1FY17 amounted to R37.5m (H1FY16: R31.0m and R33.9m after adjusting for the after-tax effect of a reversal of the impairment as noted earlier).
- Employee expenses during H1FY17 amounted to R23.2m (H1FY16: R21.2m).
- Depreciation during H1FY17 amounted to R5.1m (H1FY16: R4.7m).

MEDIA ACTIVITIES

Eyeballs continues to engage with third parties with a view to signing additional licence agreements in respect of the use of its technology. It has already concluded a licence agreement with a subsidiary company of a global platform operator of internet, e-commerce, media and social network services and hopes to conclude more of the same.

FUTURE PROSPECTS

Huge Telecom and Huge Connect are service companies that have created businesses that are able to provide a more effective and efficient voice service as a substitute to fixed landlines built on copper infrastructure. This service is very marketable to the small, medium enterprise ("SME") and small office, home office, residential (SOHOR) customer segment. The rapid growth in this service when measured against the limited capital which Huge has had at its disposal validates the market opportunity that exists. Extending this even further, it has highlighted the opportunities for other services in the same market segment, particularly in data.

The fixed location voice service supplied by Huge Telecom and Huge Connect uses the GSM infrastructure of the mobile network operators ("MNOs"). It is a simple ecosystem with very few variables and accordingly very few points of failure. The voice traffic that is generated using this service does not compete with other types of traffic. Because of this simplicity, this service is, at the time of installation, a plug, play and walk-away service with little need for ongoing intervention and maintenance. This impacts service and maintenance costs positively, which are nevertheless very low, and enhances profitability significantly.

Fixed landlines are maintained by the fixed landline operator operating in South Africa at a 50% deficit to the line rentals that each telephone line generates every month.

Fixed landlines do have advantages over alternative services such as Voice over Internet Protocol ("VoIP"). A fixed landline is also a simple ecosystem with few points of failure but it is maintained at a deficit. It involves a circuit where the voice also does not compete with other forms of traffic. VoIP in comparison is a complex ecosystem with many variables and many points of failure, where different types of traffic compete with each other. Because of its complexity it requires expensive resources to maintain it and because it has many variables and many points of failure, it is far more costly to maintain.

Fixed location voice services using GSM is logically a profitable substitute for fixed landlines that make use of ageing copper infrastructure. The Board envisages that in the next 5 years, fixed location voice using GSM will be the dominant fixed location voice service being offered in the African market.

Huge's voice service is a perfect substitute and it can therefore be used by a fixed landline operator to stop declines because of other forms of substitution. Equally, it presents the MNOs with an opportunity to compete in the fixed location voice market. Huge is supplier agnostic and partners with all the MNOs. Huge is not an infrastructure provider but rather a service provider. It is a partner to the operators at the service layer and it assists the operators in installing telephone lines and initiating voice traffic across their respective networks.

Huge has for years been constrained by financial and legal challenges as well as by the size of its balance sheet and the lack of capital to grow organically. This, however, will change if it raises the optimum capital.

Huge buys access to GSM infrastructure on an incremental use basis, priced in cents per minute but on a pure per second basis. This is one leg of the cost of making a telephone call (the cost of sale) and is often referred to as origination. The other leg of the cost of sale is termination, which is regulated, and a regulated termination rate applies to calls initiated by Huge for delivery to a chosen destination (international, national, local and mobile). At 31 August 2016, origination costs of sale were greater than termination costs of sale by a wide margin. The economic theory of arbitrage suggests that the two costs should be equal. Cost of sale reduction opportunities therefore exist and if such reductions are achieved this will improve Huge's profitability significantly.

While the cost of a sale is declining, retail prices are increasing. This can be seen from the prices that the MNOs are charging their retail customers for making voice calls, which, in the last 12 months, have been increased substantially. The price of voice calls in the retail market is therefore experiencing price inflation. This means that margins are widening. In August 2016, Huge raised the price of a mobile destined telephone call by 2 cents per minute and the price of local and national destined calls by 3 cents per minute. It also increased its existing monthly line rental charges by 6.5%. The effect of these price increases only impacted one month's trading. This is expected to have a positive effect on profitability for H2FY17.

TREASURY SHARES
As at 31 August 2016, the Company has 110 901 443 ordinary shares in issue, of which 9 646 926 ordinary shares are held by Huge Telecom in treasury, resulting in a net 101 254 517 listed ordinary shares.

LITIGATION AND REGULATORY REQUIREMENTS
Huge is currently party to the following litigation:

Pro-active Monitoring of Financial Statements
The first correspondence with regard to this matter was received from the JSE on 2 February 2012, the main theme of which was that the JSE was instructing the Company to restate its AFS for the 2010, 2011 and 2012 financial years (the **Relevant AFS**) as a result of the accounting treatment by the Company of, amongst other matters, the purchase by the Company of Single Stock Futures (**SSFs**) on 16 October 2008, with which the JSE, after consulting with the Financial Reporting Investigations Panel, disagreed (the **Restatement Decision**).

The Company treated its acquisition of the SSFs as financial instruments with the resultant losses being accounted through profit and loss. The JSE contends that the acquisition of the SSFs should have been treated as equity instruments and that the resultant losses ought not to have been accounted through profit and loss.

The Company objected to the JSE's findings and the Restatement Decision. On 20 January 2014 the Company received a letter from the JSE stating that the Company's objections had been dismissed, and that the Company was instructed to restate the Relevant AFS.

On 21 February 2014, the Company addressed a letter to the JSE explaining that the SSFs which were the subject of the Restatement Decision had been closed out during December 2013, and requesting the JSE to take this fact into consideration.

The JSE directed a reply to the Company dated 27 October 2014, wherein it informed the Company that it had decided that there was no merit in Huge's request that the JSE has to "revisit" its decision nor is it correct to attempt to suggest that the JSE's decision was rendered without duly considering all of the facts.

In reply, the Company addressed a letter to the JSE dated 27 November 2014, wherein the Company advised the JSE that the Company's legal advisors had been instructed to prepare review application papers.

On 24 April 2015, the Company instituted an action in the Gauteng Local Division of the High Court of South Africa, for the judicial review of the decisions of the JSE in terms of section 6(2)(e)(iii) of the Promotion of Administrative Justice Act, 2 of 2000.

A court date for the hearing of the review application has not been set.

Arbitration

Dispute between Huge and TeleMasters Holdings Limited (TeleMasters)

During February 2013 TeleMasters cancelled an agreement with Huge for the supply of MTN airtime and suspended the SIM cards held by the Company relating to this airtime.

After protracted correspondence, the matter was referred for arbitration. No formal date for arbitration had been set down as yet.

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

Subsequent to 31 August 2016, on 17 November 2016, the Company announced the conclusion of a transaction agreement with the vendors of Connectnet Broadband Wireless Proprietary Limited ("Connectnet"), with a view to subscribing for 185 new ordinary Connectnet shares, followed by the repurchase of 122 existing ordinary Connectnet shares held by the vendors (constituting all of the existing shares held by the vendors). The net effect of the subscription and repurchase will be that Connectnet will become wholly-owned by Huge. The proposed acquisition of Connectnet remains subject to a number of conditions precedent, including approval by Huge shareholders in general meeting.

On 21 November 2016, the Company posted a circular to shareholders detailing a specific issue of shares for cash via a bookbuild process, with the intention of raising up to a maximum of R300 000 000 from qualifying investors.

Other than as disclosed in this announcement, there are no events subsequent to 31 August 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 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
There were no changes to the Board during the six months ended 31 August 2016.

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

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

Johannesburg
30 November 2016

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Executive: JC Herbst (Chief Executive Officer), D Deetlefs (Group Financial Director)
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