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

REVIEWED PROVISIONAL CONDENSED CONSOLIDATED ANNUAL FINANCIAL RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2018

HIGHLIGHTS

- Our EBITDA in the current financial year (**FY2018**) is 145% higher than in the prior financial year (**FY2017**) off the back of an improved EBITDA margin, which increased from 21.4% to 31.9%
- Our operating profit in FY2018 is 168% higher than in FY2017
- Our net profit after taxation in FY2018 is 188% higher than in FY2017

The board of directors (**the Board** or **the Directors**) of Huge is pleased to present the reviewed provisional condensed consolidated annual financial results of the Company, its subsidiary companies and joint venture (**the Group**) for the year ended 28 February 2018.

COMPANY PROFILE

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

Huge Telecom Proprietary Limited (**Huge Telecom**) was the principal operating entity of Huge prior to the acquisition of Huge Connect Proprietary Limited (**Huge Connect**), formerly ConnectNet Broadband Wireless Proprietary Limited (**ConnectNet**), and its wholly owned subsidiary company, Huge Networks Proprietary Limited, formerly Sainet Internet Proprietary Limited (**Sainet Internet**). Huge Connect and Huge Networks were acquired with effect from 30 March 2017 and Accknowledge Systems Proprietary Limited (**Accknowledge**) on 30 June 2017 (the **Acquisitions**).

Huge Telecom is a voice connectivity or telephony services business that makes use of GSM to provide a wireless 'last mile' connection from the customer's premises to the core of the network (the last mile is the final connection from the core network to the customer's premises). Its principal service is substituting fixed-line voice infrastructure, like that provided by a public switched telephone network such as Telkom, with wireless GSM solutions. Huge Telecom has more than 15 000 customers (representing approximately 40 000 telephone lines) which comprise corporate organisations of any size and residential consumers, who require a fixed location voice connectivity service. Huge Telecom does not own any core network infrastructure; rather, it leverages off the existing mobile operator networks in South Africa.

Huge Connect is a telecommunications solutions company with a focus on growing its voice, network and payment connectivity solutions. It was established in 2004 and provides connectivity to the card payment terminals of merchants, payment service providers and the commercial banks in South Africa by making use of secure, managed, dual SIM connectivity over GSM data networks. It has over 28 000 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 solutions, branch connectivity, hosting services and website and system development.

REVIEWED PROVISIONAL CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Reviewed 28 February 2018 (12 months) R'000	**Audited 28 February 2017 (12 months) R'000**
Total revenue	401 382	245 993
Gross profit	**224 538**	**118 612**
Other income	2 580	1 247
Operating expenses	(98 648)	(67 319)
EBITDA	**128 470**	**52 540**
Depreciation and Amortisation	(15 495)	(10 301)
Operating profit	**112 975**	**42 239**
Investment income	4 332	233
Share of (losses) / earnings from equity accounted investments	(72)	(22)
Impairment of property, plant and equipment	(2 794)	-
Reversal of impairment of financial assets	4 520	-
Finance costs	(11 036)	(5 336)
Profit before taxation	**107 925**	**37 114**
Income tax credit / (expense)	(30 861)	(10 307)
Net profit for the period	**77 064**	**26 807**
Non-controlling interest	223	184
Net profit attributable to owners of the company	**76 841**	**26 623**
Basic earnings per share (cents)	47.40	26.30
Headline earnings per share (cents)	46.34	26.30

REVIEWED PROVISIONAL CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Reviewed 28 February 2018 (12 months) R'000	**Audited 28 February 2017 (12 months) R'000**
ASSETS		
Non-current assets		
Property, plant and equipment	178 669	73 222
Goodwill	593 443	215 153
Intangible assets	8 680	3 927
Investment in joint venture	616	688
Other financial assets	7 496	-
Deferred tax	12 805	7 551
Deferred expenditure	-	16 950
	801 709	**317 491**
Current assets		
Inventories	1 219	647
Trade and other receivables	103 299	42 606
Deferred expenditure	-	7 694
Cash and cash equivalents	30 265	70 976
	134 783	**121 923**
Total assets	**936 492**	**439 414**

EQUITY AND LIABILITIES		
Share capital	618 772	319 421
Retained earnings	128 774	60 361
Equity attributable to equity holders of parent	**747 546**	**379 782**
Non-controlling interest	(3 016)	(3 001)
	744 530	**376 781**
Non-current liabilities		
Interest bearing liabilities	78 324	-
Finance lease obligations	2 155	1 331
Deferred tax	30 670	9 942
	111 149	**11 273**
Current liabilities		
Interest bearing liabilities	25 535	-
Loans from shareholders	-	178
Other financial liabilities	840	753
Current tax payable	9 683	4 256
Finance lease obligations	1 918	1 166
Trade and other payables	41 506	35 566
Bank overdraft	1 331	9 441
	80 813	**51 360**
Total liabilities	**191 962**	**62 633**
Total equity and liabilities	**936 492**	**439 414**
Number of shares in issue ('000)	175 602	125 551
Net asset value per share (cents)	423.99	300.10
Net tangible asset value per share (cents)	81.10	125.61

REVIEWED PROVISIONAL CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	**Share premium**	**Accumulated profit**	**Non-controlling interest**	**Total equity**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
Balance as at 1 March 2016	**10**	**229 313**	**33 738**	**(3 185)**	**259 876**
Profit for the year	-	-	26 623	184	26 807
Issue of shares	2	90 096	-	-	90 098
Balance as at 1 March 2017 as original statement	**12**	**319 409**	**60 361**	**(3 001)**	**376 781**
Early adoption of IFRS 9	-	-	(8 428)	-	(8 428)
Balance as at 1 March 2017 as restated	**12**	**319 409**	**51 933**	**(3 001)**	**368 353**
Profit for the year	-	-	76 841	223	77 064
Issue of shares	5	299 346	-	-	299 351
Business combinations	-	-	-	(238)	(238)
Balance as at 28 February 2018	**17**	**618 755**	**128 774**	**(3 016)**	**744 530**

During FY2017, 14 650 000 ordinary shares were issued at 615 cents per share, amounting to R90 097 500.

During FY2018:

- 24 373 551 ordinary shares were issued at a price of 615 cents per share, amounting to R149 897 339.
- 25 208 333 ordinary shares issued on 30 March 2017 were subject to Renounceable Letters of Allotment and were delivered to ConnectNet at a price of 600 cents per Share, amounting to R151 249 998 and then subsequently delivered to the existing shareholders of ConnectNet in terms of a repurchase of existing ConnectNet ordinary shares.
- 468 750 ordinary shares were issued on 8 June 2017 at a price of 800 cents per share, amounting to R3 750 000 under a general authority to allot and issue ordinary shares for cash granted by shareholders at the annual general meeting held on 14 September 2016.

REVIEWED PROVISIONAL CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Reviewed 28 February 2018 (12 months) R'000	**Audited 28 February 2017 (12 months) R'000**
Profit before taxation	**107 925**	**37 114**
Adjusted for non-cash movements	14 391	15 421
Adjusted for working capital movements	(61 985)	(22 517)
Net finance costs	(5 744)	(4 668)
Tax (paid) received	(16 717)	86
Cash flows from operating activities	**37 870**	**25 436**
Cash flows from investing activities		
Purchase of property, plant and equipment	(73 349)	(20 266)
Proceeds from disposal of property, plant and equipment	4 790	17
Purchase of intangible assets	(4 770)	(5 549)
Business combinations	(260 580)	-
	(333 909)	**(25 798)**
Cash flows from financing activities		
Proceeds from share issue	299 351	90 098
Proceeds/(Repayment) of other financial liabilities	(37 249)	59
Repayment of interest bearing liabilities	-	(20 000)
Proceeds/(Repayment) of shareholder loans	721	(1 183)
Instalment sale receipts/(payments)	615	(1 759)
	263 438	**67 215**
Net cash movement for the period	**(32 601)**	**66 853**
Cash at the beginning of the period	61 535	(5 318)
Total cash at the end of the period	**28 934**	**61 535**

SEGMENTAL REPORTING

The Directors have considered IFRS 8 Operating Segments and are of the opinion, based on the information provided to the chief operating decision maker, that the current operations of the Group can be split into three main operating segments, namely a Corporate Office Grouping, a Telecom Grouping and a Financial Technology (**Fintech**) Grouping. The summarised information included below is in line with the requirements of IAS 34. The revenue generated from the products and services provided by the various Group companies to all customers is done so on a countrywide basis, with no geographical differentiation.

Reporting segments

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

- 50.2% held Ambient Mobile Proprietary Limited, the shareholding of which is held by Huge Telecom
- 100% held Huge Cellular Proprietary Limited, the holding company of which is Huge Telecom
- 100% held Huge Networks, the holding company of which is Huge Telecom
- 100% held Huge Soho Proprietary Limited, the holding company of which is Huge
- 100% held Huge Software and Technologies Proprietary Limited, the holding company of which is Huge
- 100% held Huge Telecom, the holding company of which is Huge
- 49.66% held Le Gacy Telecom (FRA) Proprietary Limited, the shareholding of which is held by Huge Telecom

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

- Huge Connect, the holding company of which is Huge

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

- Huge itself
- 75% held Accknowledge Systems Proprietary Limited
- 96% held Eyeballs Mobile Advertising Proprietary Limited

	Reviewed 28 February 2018	**Elimination**	**Telecom Grouping**	**Fintech Grouping**	**Corporate Office Grouping**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
Total revenue	**401 382**	**-**	**262 524**	**136 920**	**1 938**
Gross profit	**224 538**	**-**	**126 855**	**96 054**	**1 629**
Other income	2 580	-	1 285	1 295	-
Operating expenses	(98 648)	-	(56 880)	(21 700)	(20 068)
EBITDA	**128 470**	**-**	**71 260**	**75 649**	**(18 439)**
Depreciation and amortisation	(15 495)	-	**(9 679)**	**(5 816)**	**-**
Operating profit/(loss)	**112 975**	**-**	**61 581**	**69 833**	**(18 439)**
Investment income	4 332	-	611	2 973	748
Loss from equity accounted investments	(72)	-	(72)	-	-
Impairment of property, plant and equipment	(2 794)	-	(2 794)	-	-
Reversal of impairment of financial assets	4 520	-		4 520	-
Finance costs	(11 036)	-	(1 600)	(13)	(9 423)
Profit/(loss) before income tax	**107 925**	**-**	**57 726**	**77 313**	**(27 114)**
Income tax credit/(expense)	(30 861)	-	(13 141)	(18 703)	983

Profit after income tax	**77 064**	**-**	**44 585**	**58 610**	**(26 131)**

	Audited 28 February 2017	**Elimination**	**Telecom Grouping**	**Fintech Grouping**	**Corporate Office Grouping**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
Total revenue	**245 993**	**-**	**245 993**	**-**	
Gross profit	**118 612**	**-**	**118 612**	**-**	**-**
Other income	1 247	(5 913)	1 247	-	5 913
Operating expenses	(67 319)	5913	(64 512)	-	(8 720)
EBITDA	**52 540**	**-**	**55 347**	**-**	**(2 807)**
Depreciation and amortisation	(10 301)	-	(10 301)	-	
Operating profit/(loss)	**42 239**	**-**	**45 046**	**-**	**(2 807)**
Investment income	233	-	108	-	125
Loss from equity accounted investments	(22)	-	(22)	-	
Finance costs	(5 336)	-	(5 310)	-	(26)
Profit/(loss) before income tax	**37 114**	**-**	**39 822**	**-**	**(2 708)**
Income tax credit/(expense)	(10 307)	-	(11 391)	-	1 084
Profit after income tax	**26 807**	**-**	**28 431**	**-**	**(1 624)**

COMMENTARY

REVIEW OF OPERATIONS

<u>Overview</u>

Over the last five years Huge has focused on growing its core mobility and connectivity business and has scaled-up its operations significantly. Today, Huge offers a three-pronged service offering to a substantial SME market. Route-to-market includes both direct, through Huge Connect and Huge Networks and indirect, through a substantial and unique value-added reseller channel that resides in Huge Telecom.

The Group refers to its community of customers as its real estate. The term reflects the value that Huge perceives in its customers and the tangible reference to the cumulative worth of this customer network. Huge started the financial year with 15 000 customers and ended with a real estate customer base of circa 45 000. By way of reference, we estimate that the South African four large domestic banks are each servicing 50 000 to 75 000 SME customers.

Metcalfe's law suggests that the community value of a network grows as the square of the number of its users increases. If this theorem holds true, then FY2018 represents a watershed year in the evolution of Huge.

What have we done this year

The Acquisitions prove a defining event for the Group and represents an inflection point in the evolutionary growth trajectory of Huge.

Firstly, Huge has historically focussed on its core, single service offering of voice connectivity and did not operate a holding company structure. The Acquisitions necessitated the formation of a more comprehensive and focussed Group holding company, resourced to drive the Group's expansion aspirations. A formal group-wide strategy has now been adopted, in the Growing Huge Strategy, which underpins and guides these expansion aspirations. The Growing Huge Strategy has five key strategic objectives: creating a platform for growth, creating capacity for growth, improving the Group's BBBEE profile, growing the Group organically and by acquisition and elevating the Group brand.

Secondly, the Group significantly broadened its customer real estate, which it now calls the Huge Real Estate, and its service offerings. Huge now has a sizeable platform which it can leverage and expand by increasingly introducing innovative product and service offerings, cross-selling and developing new strategic partnerships.

Thirdly, consolidating Huge Connect and Huge Networks into Huge has been a key focal point for management in FY2018. Key to the Group's on-going success will be a deep understanding of its key asset, the customer real estate. Significant investment is currently underway to collect, analyse, segment and understand the Group's customers. These analytics will provide the basis and methodology for effectively creating cross-selling opportunities, whether it is related to current services or through the development of new customised bespoke ones. It will also help direct the Group's on-going acquisition strategy.

In addition to the Acquisitions, the Group made a significant investment into technical, regulatory and human resources to optimise and expand its voice connectivity offering, with concomitant efficiency and profitability improvements for Huge Telecom. This included negotiating sizeable decreases in its variable cost base, migrating customers onto a new network and pioneering and commercialising Full Suite Telephony (**FST**). These initiatives constituted significant projects in their own right, which ran concurrently throughout the year.

The commercialisation and launch of FST in late 2017, as an example, was incubated for five years from inception-to-prototyping, testing, development and launch. It culminated in a carefully synchronised collaboration between network provider, distribution partners and other stakeholders to take the service to our customer real estate. It now represents one of our biggest growth opportunities, as Huge actively tackles the sizeable domestic voice market.

Capital

Historically, the growth of the Group has been constrained by its balance sheet limitations. The acquisition of a strong cash flow generative business like Huge Connect and the increased size of the Group following the Acquisitions, have greatly enhanced its debt and equity capital raising abilities. Huge has seen its share price increase from a closing price of R2.10 on 28 February 2015, while its profit after tax has increased seven-fold over the same period, reflecting the Group's growth from a single voice connectivity or telephony services offering to an expanded offering that includes data and payment connectivity. This has positive implications for both organic and acquisitive growth aspirations.

The Board remains dedicated to maintaining an optimal capital structure for the Group. Leverage is regularly considered and reassessed, balancing growth aspirations and shareholders' earnings expectations. In order to steer the Board, a Capital Structure Policy has been introduced, providing a debt to equity ratio ceiling of 25% as a guiding parameter.

Revenue
Total Group revenue increased by 63%. This performance includes 11 months of trading from Huge Connect and Huge Networks.

The Telecom Grouping achieved a 7% increase in revenue after the inclusion of 11 months of revenue from Huge Networks, a business which, in the opinion of the Board, is substantially sub scale. While trading conditions during FY2018 were tough for the Telecom Grouping, it was still able to increase its base of installed telephone lines by 4%, its base of installed data services by 15% and its base of monthly annuity customers by 6%.

The launch of FST in November 2017 created significant interest and sales activity in the market but coupled with some initial launch challenges and the start of a holiday season, was too late to yield significant cross selling opportunities for voice and data services across the customer real estate, left little time to build sales momentum and for the new sales' annuity revenue to have an impact on revenue or profit. The realisation of these three objectives over a full year of operation should bode well for the future growth of the businesses in the Telecom Grouping.

Customers can port their geographic fixed landline telephone numbers for use with wireless GSM-based FST, which now has all the functions of an equivalent fixed landline telephony service, like the one offered by Telkom. This has expanded the size of the Telecom Grouping's market for voice services to in excess of 5 million telephone lines.

The Telecom Grouping expects significant growth in the future sales of voices services as a result of FST.

The revenue of the Fintech Grouping includes 11 months of revenue from Huge Connect, which was acquired with effect from 30 March 2017.

The revenue of the Corporate Office Grouping includes revenue generated by Accknowledge Systems.

Gross profit
Total gross profit for the Group increased by 89% and total gross profit for the Telecom Grouping increased by 7%.

The gross profit for the Telecom Grouping could have potentially increased by 27% had it been able to fully exploit the cost of sales reduction benefits from an agreement that it concluded in February 2017 for the substantial lowering of wholesale input prices related to its voice services. In order to benefit from these substantially lower wholesale input prices, the Telecom Grouping is required to rotate services between its suppliers. The rotation of these services has taken longer than expected but by the end of the financial year, 70% of the Telecom Grouping's voice services are benefiting from lower input prices. Shareholders were given guidance about the possible impact of the lower input prices in a voluntary announcement published on the JSE's Stock Exchange News Service on 15 February 2017.

The gross profit of the Fintech Grouping includes 11 months contribution from Huge Connect.

Operating expenses
Total Group operating expenses increased by 47%, which percentage increase is less than the increase in total Group revenue of 63%. This can be attributed to lower operating cost structures in Huge Connect and Huge Networks.

Detailed below is an analysis of the year on year changes in various operating expenses of the Corporate Office Grouping:

- JSE related expenses increased by R1 million, primarily as a result of the higher market capitalisation of Huge during FY2018.
- Personnel costs increased from a zero base in FY2017 to R8.1 million in FY2018. Personnel costs for FY2018 include the costs of a Group CEO for 12 months, the costs of a Group CFO for 11 months and the costs of a Company Secretary for 6 months. In FY2017, the costs of the Group CEO were allocated to the Telecom Grouping, which also bore the costs of the Chief Operating Officer of Huge Telecom and the Company Secretary. Huge appointed the Group CFO with effect from 27 March 2017 and a new Company Secretary with effect from 1 September 2017. For the next financial year (**FY2019**), Huge Telecom will only bear the costs of a managing director as opposed to the costs it bore of both a chief executive officer and chief operating officer during FY2018.
- Legal expenses increased from R3 million to R5.2 million, and are mainly attributable to the Acquisitions and other once-off charges.

The operating expenses relating to the Corporate Office Grouping are unrelated to the organic performance of the existing Huge operating companies. They are related to building capacity to manage an enlarged group of operating companies and to professional and legal fees relating to acquisitions, the benefits of which only accrue in later years. The Corporate Office Grouping expects to continue to incur additional once-off charges as it pursues future acquisitions.

Finance costs

Huge is embarking on a strategy to centralise the treasury functions of the Group. In future years, the costs of debt are expected to emanate from a Group treasury function as opposed to separate operating company treasury functions. At the end of FY2017, the Telecom Grouping repaid debt borrowings of R20 million, which were priced at an interest rate equal to the Prime Rate plus 9%. During November 2017, the Telecom Grouping secured a R30 million facility from Futuregrowth Asset Management Proprietary Limited (**FutureGrowth**) at JIBAR plus 400 bps, with the first drawdown of R10 million taking place on 15 November 2017. Huge intends to transfer the debt borrowings relating to this facility to the Corporate Office Grouping during FY2019 and is currently involved in discussions with FutureGrowth to do so.

FUTURE PROSPECTS

The Group's introduction into payment connectivity via Huge Connect will inevitably lead Huge into related services and ultimately Fintech, where we anticipate delivering disruptive and innovative solutions to our customers, in partnership with financial institutions. Currently, Huge has connected over 120 000 devices for our customers, making the Huge Real Estate one of the largest IoT platforms in Southern Africa. This, in conjunction with the customer analytics referenced earlier and coupled with our connectivity expertise, means that Huge is ideally positioned to conceive, develop and distribute a suite of Fintech offerings. Platforms for mobile payments, mobility, connectivity and the 'Fintech evolution' provide an exciting and innovative space for the Group to explore. Its expanding customer real estate means that the creation of bespoke financial offerings in partnership with financial institutions becomes viable and potentially a highly attractive investment space.

Huge Telecom will benefit more significantly in future years from the momentum it is seeing since the launch of FST and which is being evidenced in increased sales activity. This will also facilitate the cross selling of voice and data services across the customer real estate for a full year.

The Group is positioned to further invest in extending its current service offerings, as well as deepening them. Each investment will be intentionally designed to increase the size of the customer real estate, which could include niche connectivity solutions, focussed inter alia on opportunities that complement and strengthen existing product and service offerings. The Bureau for Economic Research, Research Note 2016, No.1 records that the formal sector SME's in South Africa who are employers stands at around 462 815 at Q2, 2015 – from this data it is apparent that the Group is well positioned in the SME market.

Following from the success of FY2018, Huge has established its credentials as a large SME service provider, offering connectivity and mobility solutions. Huge has now aggregated a product and service suite that offers significant growth opportunities. In addition, the Group's larger scale, earnings diversification and cash flows have provided it with improved access to debt and equity capital markets.

Acquisitive activity will continue to be essential to the Growing Huge Strategy, with bolt-on acquisitions and service-diversification investments being actively pursued. As the Group expands its customer real estate, harvesting cross selling opportunities and introducing new service offerings will be central to fuelling growth. A sustainable earnings growth momentum, leveraged off a tangible customer real estate asset, is expected to underpin the embedded value of Huge for our stakeholders.

BASIS OF PREPARATION

REVIEWED PROVISIONAL CONDENSED CONSOLIDATED

The reviewed provisional condensed consolidated annual financial 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 includes the information required by IAS 34: Interim Financial Reporting, the Companies Act of South Africa, and the JSE's Listings Requirements (**Listings Requirements**).

Any information included in this announcement that might be perceived as a forward-looking statement has not been reviewed and reporting on by the Company's auditors in accordance with section 8.40(c) of the Listings Requirements.

The reviewed provisional condensed consolidated annual financial results for the year ended 28 February 2018 were prepared under the supervision of the Chief Financial Officer of the Company, Z Bulbulia, and will be included in the 2018 Integrated Annual Report to be issued to shareholders on or before 30 June 2018.

ACCOUNTING POLICIES

The accounting policies used in the preparation of these reviewed provisional condensed consolidated annual financial results comply with IFRS and are consistent with those used in the preparation of the annual financial results of the Group for the year ended 28 February 2017, with the exception of IFRS9 which was early adopted in the period under review commencing from 1 March 2017.

INDEPENDENT AUDITOR'S REVIEW ONCLUSION

BDO South Africa Inc has reviewed these condensed consolidated provisional results in compliance with ISRE 2410 and they have expressed an unmodified review conclusion thereon. A copy of their unmodified review conclusion is available for inspection at the registered office of the Company. The Directors take full responsibility for the preparation of these provisional condensed consolidated annual financial statements.

NOTES TO THE REVIEWED PROVISIONAL CONDENSED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Standards Issued Not Yet Effective

IFRS 15 Revenue from contracts with customers

This standard is effective for years commencing on or after 1 January 2018. This standard will be adopted by the Group for the financial reporting period commencing 1 March 2018. IFRS 15 requires an entity to recognise revenue in such a manner as to depict the transfer of the goods or services to customers, at an amount representing the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard has a 5-step process to be applied to all contracts with customers. The standard provides guidance for identifying the contract with the customer, identifying the deliverables (the performance obligations), determining the transaction price (including the treatment of variances in the transaction price, and significant financing components), allocating the transaction price, and recognising the revenue.

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

IFRS 16 Leases

This standard is effective for years commencing on or after 1 January 2019. This standard is likely to be adopted by the Group for the financial reporting period commencing on 1 March 2018 but must be implemented by no later than the financial reporting period commencing on 1 March 2019. IFRS 16 requires a lessee to recognize a right of use of an asset and its concomitant lease obligation for any lease other than a short term lease, or a lease relating to low value assets – which leases may be treated similarly to operating leases under the current standard IAS 17, if the exceptions are applied. A lessee measures its lease obligation at the present value of future lease payments and recognises a right of use of an asset initially measured at the same amount as the lease obligation, including costs directly related to entering into the lease. A right of use of an asset is subsequently treated in a similar way to other assets such as property, plant and equipment, or intangible assets, dependent on the nature of the underlying item.

The Group has a number of property rental agreements in place. In accordance with IFSR 16 Leases, a right of use of an asset and the lease obligations associated with rentals would be recognised in the statement of financial position. The extent of the recognition is yet to be determined. The Group will take a decision on the transition method to be applied, or the application of exceptions related to short term and low value asset leases at a later point in time.

Standards Early adopted

IFRS 9 Financial instruments

The Group has early adopted this standard for the financial reporting period commencing 1 March 2017. IFRS 9 provides guidance on the classification, measurement and recognition of financial assets and financial liabilities and replaces IAS 39. The standard establishes three measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. Classification of financial assets into these categories is dependent on the entity's business model (which informs its objectives with respect to the management of financial assets as a whole) and the characteristics of the contractual cash flows of the specific financial asset. There were no significant changes to the classification guidance for financial liabilities.

IFRS 9 introduces a new expected credit loss impairment model that replaces the incurred loss impairment model used in IAS 39. The Group has adjusted its impairment models to incorporate forward looking information and time value of money to comply with expected credit loss impairments under IFRS 9. The Group has quantified the impact of this change.

Basic Earnings and Headline Earnings Per Share

	Reviewed 28 February 2018 (12 months) R'000	**Reviewed 28 February 2018 (12 months) cents**	**Audited 28 February 2017 (12 months) R'000**	**Audited 28 February 2017 (12 months) cents**
Profit or loss attributable to the equity owners of the parent	76 841	47.40	26 623	26.30
Adjusted for:				
Impairment of property, plant and equipment	2 794	1.72	-	-
Reversal Impairment of financial assets	(4 520)	(2.78)	-	-
Headline earnings per share (cents)	75 115	46.34	26 623	26.30
Weighted average number of shares in issue ('000)	162 100		101 360	

Fair Value Disclosures

Financial assets

	Reviewed 28 February 2018 (12 months) R'000	**Audited 28 February 2017 (12 months) R'000**
Trade and other receivables	103 299	42 606
Cash and cash equivalents	30 265	70 976

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

Financial liabilities

	Reviewed 28 February 2018 (12 months) R'000	**Audited 28 February 2017 (12 months) R'000**
Finance lease obligations	4 073	2 497
Interest bearing liabilities	103 859	-
Other financial liabilities	840	753
Trade and other payables	41 506	35 566
Bank overdraft	1 331	9 441

These are classified under the amortisation cost model.

Financial assets and liabilities classification levels

	Level 1	**Level 2**	**Level 3**
Trade and other receivables	Not applicable	Applicable	Not applicable
Cash and cash equivalents	Applicable	Not applicable	Not applicable

Instalment sales	Applicable	Not applicable	Not applicable
Other financial liabilities	Applicable	Not applicable	Not applicable
Trade and other payables	Not applicable	Applicable	Not applicable
Bank overdraft	Applicable	Not applicable	Not applicable

Business Combinations

Huge Connect

On 30 March 2017 the Group acquired 100% of the voting equity interest of Huge Connect which resulted in the Group obtaining control over Huge Connect. Huge Connect is principally involved in the telecom industry.

Goodwill of R373.83 million arising from the acquisition relates to the excess of the subscription price over the net asset value. Goodwill is not deductible for income tax purposes.

Accknowledge

On 1 July 2017 the Group acquired 75% of the voting equity interest of Accknowledge which resulted in the Group obtaining control over Accknowledge. Accknowledge is principally involved in the Computer Software industry.

Goodwill of R4.46 million arising from the acquisition relates to the excess of the subscription price over the net asset value. Goodwill is not deductible for income tax purposes.

Aggregated business combinations

	2018 R'000	**2017 R'000**
Property, plant and equipment	27 151	-
Intangible assets	345	-
Other financial assets	1 692	-
Deferred expenditure	1 390	-
Inventories	787	-
Current tax receivable	12	-
Trade and other receivables	10 006	-
Cash and cash equivalents	18 170	-
Other financial liabilities	(141 195)	-
Deferred tax	(3 891)	-
Provisions	(2 133)	-
Loans from group companies	(120)	-
Loans from shareholders	(771)	-
Current tax payable	(2 712)	-
Trade and other payables	(8 509)	-
Total identifiable net assets	(99 778)	-
Non-controlling interest	238	-
Goodwill	378 290	-
	278 750	

Consideration paid

Cash	(270 500)	-
Equity - Renounceable Letters of Allocation	(151 250)	-
Liabilities assumed	1 805	-
Liabilities settled	141 195	-
	(278 750)	

Net cash outflow on acquisition		
Cash consideration paid	(278 750)	-
Cash acquired	18 170	-
	(260 580)	

<u>Related Party Disclosures</u>

Relationships
Subsidiary companies:
- Huge Telecom
- Huge SOHO
- Huge Cellular
- Huge Software & Technologies
- Eyeballs Mobile Advertising
- Ambient Mobile
- Le Gacy
- Huge Connect
- Huge Networks
- Accknowledge

Joint Controlled Arrangement
- Gonondo

Entities controlled by directors which have transacted with a Group company
- Accknowledge (James Charles Herbst)

Members of key management
- James Charles Herbst
- Zunaid Bulbulia

Directors of subsidiary companies
- Michael Ronald Beamish
- Gregory Beaufort Shiers
- Jarratt Ingram
- Anton Daniel Potgieter
- David Deetlefs

<u>Loan Account – owing (to) by related parties</u>

	2018 R'000	**2017 R'000**
Anton Daniel Potgieter	-	899
James Charles Herbst	-	(178)
Gregory Beaufort Shiers	(50)	(44)
Jarratt Ingram	(98)	(90)
Edward Mitchell Kerby	(693)	(619)
	(841)	**(32)**

<u>Interest paid to (received from) related parties</u>

Anton Daniel Potgieter	(61)	(117)
James Charles Herbst	5	26
Gregory Beaufort Shiers	3	5
Jarratt Ingram	6	9
Edward Mitchell Kerby	39	62

	(8)	**(15)**
Purchases from (sales to) related parties		
Accknowledge	401	258
Gonondo	1 097	1 122
	1 498	**1 380**

TREASURY SHARES

As at 28 February 2018, the Company has 175 602 077 ordinary shares in issue, of which 9 646 926 ordinary shares are held by Huge Telecom in treasury.

LITIGATION STATEMENT

Dispute between Huge and TeleMasters Holdings Limited (TeleMasters)
During February 2013 Telemasters cancelled an agreement with Huge for the supply of MTN airtime and suspended the SIM cards held by the Company. In its Statement of Claim issued on 31 May 2013, Telemasters alleges that the Company is indebted to it in the amount of R4.176 million plus interest thereon.

In its Plea and Counterclaim issued on 11 June 2014, the Company:

1. admitted that TeleMasters was entitled to raise R1.7 million for monthly subscriptions for the period 15 January 2013 to 14 February 2013 in respect of 2 820 SIM cards;
2. admitted that TeleMasters was entitled to raise R8 084 for monthly subscriptions for the period 15 February 2013 to 18 February 2013 in respect of 100 SIM cards;
3. claimed that Telemasters is indebted to it in the amount of R4.392 million plus interest thereon in respect of amounts overcharged by Telemasters and which is made up as follows:

a) R1.215 million in respect of "Itemised Billing" for which it was not entitled to charge;
b) R1.034 million in respect of "Administration Fees" for which it was not entitled to charge;
c) R2.143 million in respect of "Gross Out of Bundle Charges" (being a claim of R4.053 million in respect of Gross Out of Bundle Charges, less a credit note passed by TeleMasters in respect thereof of R1.910 million) in respect of which it was not entitled to charge.

The matter is subject to arbitration by the Arbitration Foundation of Southern Africa. The assets and liabilities relating to this dispute have been recognised at levels appropriate to the Company's assessment of the outcome of the arbitration hearing.

During February 2017, Huge and TeleMasters decided to separate out for decision (the **Separation**), before deciding on the claim and counterclaim, the following issues (the **Separated Issues**):

i. Was TeleMasters entitled to charge Huge a fee in respect of Itemised Billing?
ii. Was TeleMasters entitled to charge huge the Administration Fees?
iii. Was TeleMasters entitled to charge Huge for calls made on SIM cards, where those calls had been zero rated by the network operator in the depleting of any accumulated value?"

The hearing was set down for five days, commencing on 2 October 2017. The parties argued the Separated Issues before the arbitrator on 4 October 2017.

No definitive relief was claimed on account of the Separation but the arbitrator's decision on the Separated Issues was anticipated to contribute to a convenient resolution of some issues between the parties.

In terms of an award of the arbitrator, dated 6 October 2017, the arbitrator made the following award in respect of the Separated Issues:

A. In respect of issue number i above, the arbitrator decided in favour of Huge;
B. In respect of issue number ii above, the arbitrator decided in favour of TeleMasters;
C. In respect of issue number iii above, the arbitrator decided in favour of TeleMasters.

The remaining issues arising out of the Statement of Claim and the Plea and Counterclaim were postponed *sine die* and no order was made thereon.

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

There have been no events subsequent to 28 February 2018 and up to the date of this announcement which have had or may have a material impact on the Group.

GOING CONCERN

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

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

DIVIDENDS

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

GOVERNANCE

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

Johannesburg
31 May 2018

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Directors
Non-Executive: Dr DF Da Silva (Chairman), SP Tredoux* (Lead Independent Director), DR Gammie*, BC Armstrong*, CWJ Lyons*, VM Mokholo
Executive: JC Herbst (Chief Executive Officer), Z Bulbulia (Chief Financial Officer)
*Independent