



huge
group

unlocking business opportunity

Interim Results for the 6 months ended 31st August 2009

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

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST
2009

Income Statement

	Unaudited 31 August 2009 (6 months) R	Unaudited 31 August 2008 (6 months) R	Audited 28 February 2009 (12 months) R
Revenue	282 009 503	308 875 291	608 539 827
Cost of sales	208 404 635	217 695 140	495 467 018
Gross profit	73 604 868	91 180 151	113 072 809
Other operating income	2 038 892	2 578 224	3 563 103
Operating costs	(72 514 109)	(59 967 166)	(89 043 728)
Operating profit	3 129 651	33 791 209	27 592 184
Interest received	-	1 645 696	6 205 310
Income from equity accounted investments	329 780	-	2 641 740
Minority interest	(101 263)	-	-
Fair value adjustments on SSF's and CFD's	(9 434 325)	-	(25 567 876)
Finance costs	(4 977 125)	-	(6 527 695)
(Loss)/Profit before taxation	(11 053 282)	35 436 905	4 343 663
Taxation	5 198 665	(6 643 048)	3 093 559
Net (loss)/profit for the period	(5 854 617)	28 793 857	7 437 222
Basic (loss)/earnings per share (cents)	(5.43)	26.18	6.82
Headline (loss)/earnings per share (cents)	(5.46)	26.18	6.85
Total number of shares in issue ('000)	106 167	111 760	106 167
Weighted number of shares in issue ('000)	107 858	109 979	109 089

Reconciliation of headline earnings

(Loss)/profit for the period	(5 854 617)	28 793 857	7 437 222
(Profit)/loss on sale of property, plant and equipment	(37 168)	-	40 125
Headline earnings	(5 891 785)	28 793 857	7 447 347

Statement of financial position	Unaudited 31 August 2009 R	Unaudited 31 August 2008 R	Audited 28 February 2009 R
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Assets

Non-current assets

Property, plant and equipment	50 143 113	58 339 330	59 627 060
Intangible assets	6 612 873	537 599	1 284 009
Goodwill	223 475 925	215 153 481	215 153 482
Investments	2 962 750	11 326 381	9 027 925
Deferred tax asset	14 955 720	-	9 652 736
	298 150 381	285 356 791	294 745 212

Current assets

Inventories	23 648 593	17 601 851	28 720 933
Loans receivable	1 096 064	3 750 000	6 124 364
Trade and other receivables	101 409 112	104 663 166	93 257 238
Current taxation receivable	1 797 816	-	-
Cash and cash equivalents	-	23 664 320	13 785 144
	127 951 585	149 679 337	141 887 679

Total assets	426 101 966	435 036 128	436 632 891
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Equity and Liabilities

Equity

Share capital	10 617	11 176	10 617
Share premium	228 822 360	236 577 236	228 822 360
Minority interest	(888 476)	-	-
Revaluation of reserves	296 467	224 043	296 467
Retained income	14 423 429	55 045 880	20 278 045

	242 664 397	291 858 335	249 407 489
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Non-current
Liabilities

Shareholders' loans	18 416 104	6 811 818	17 035 069
Other financial liabilities	-	21 265 810	1 516 202
Finance lease obligations	7 025 385	7 091 186	9 484 917
	25 441 489	35 168 814	28 036 188

Current
liabilities

Trade and other payables	107 820 791	99 740 529	125 732 940
Other financial liabilities	24 659 930	-	25 702 333
Finance lease obligations	4 833 657	4 720 600	4 534 184
Shareholders for dividends	14 952	-	14 952
Current taxation payable	-	3 547 850	3 204 805
Bank overdraft	20 666 750	-	-
	157 996 080	108 008 979	159 189 214

Total equity and liabilities	426 101 966	435 036 128	436 632 891
Number of shares in issue ('000)	106 167	111 760	106 167
Net asset value per share (cents)	228.57	261.15	234.92
Net tangible asset value per share (cents)	18.07	68.63	31.05

Statement of changes in equity

Unaudited results for the 6 months period ended 31 August 2009

	Share Capital R	Share Premium R	Revaluation Reserve R
Opening Balance 1 March 2009	10 617	228 822 360	296 467
Minority interest at acquisition	-	-	-

Losses for the 6 months	-	-	-
Closing balance 31 August 2009	10 617	228 822 360	296 467

	Retained Income R	Minority Shareholder s R	Total Equity R
Opening Balance 1 March 2009	20 278 045	-	249 407 489
Minority interest at acquisition	-	(989 739)	(989 739)
Losses for the 6 months	(5 854 616)	101 263	(5 753 353)
Closing balance 31 August 2009	14 423 429	(888 476)	242 664 397

Unaudited results for the 6 months period ended 31 August 2008

	Share Capital R	Share Premium R	Revaluation Reserve R
Opening balance 1 March 2008	10 676	221 577 736	224 043
Shares issued	500	14 999 500	-
Profit for the 6 months	-	-	-
Closing balance 31 August 2009	11 176	236 577 236	224 043

	Retained Income R	Minority Shareholders R	Total Equity R
Opening balance 1 March 2008	26 252 023	-	248 064 478
Shares issued	-	-	15 000 000
Profit for the 6 months	28 793 857	-	28 793 857
Closing balance 31 August 2009	55 045 880	-	291 858 335

Audited results for the year ended 28 February 2009

	Share Capital R	Share Premium R	Revaluation Reserve R
Opening balance 1 March 2008	10 676	221 577 736	224 043

Shares issued	500	14 999 500	-
Share repurchase	(559)	(7 754 876)	-
Dividends paid			
Profit for the year	-	-	-
Deferred taxation			72 424
Closing balance 31 August 2009	10 617	228 822 360	296 467

	Retained Income R	Minority Shareholders R	Total Equity R
Opening balance 1 March 2008	26 252 023	-	248 064 478
Shares issued	-	-	15 000 000
Share repurchase	-	-	(7 755 435)
Dividends paid	(13 411 200)	-	(13 411 200)
Profit for the year	7 437 222	-	7 437 222
Deferred taxation	-	-	72 424
Closing balance 31 August 2009	20 278 045	-	249 407 489

Statement of cash flows

	Unaudited 31 August 2009 (6 months) R	Unaudited 31 August 2008 (6 months) R	Audited 29 February 2009 (12 months) R
Cash flows from operating activities	(25 393 896)	19 457 244	26 241 887
Cash flows from investing activities	(3 813 781)	(12 586 645)	(34 311 120)
Cash flows from financing activities	(5 244 217)	(3 084 925)	1 975 731
Net cash movement for the period	(34 451 894)	3 785 674	(6 093 502)
Cash at the beginning of the period	13 785 144	19 878 646	19 878 646
Total cash at the end of the period	(20 666 750)	23 664 320	13 785 144

COMMENTARY

These financial statements have been prepared in accordance with accounting policies and methods of computation that are consistent with those of the prior period and with International Financial Reporting Standards ("IFRS"). This announcement is prepared in accordance with IAS 34 - *Interim Financial Reporting*.

ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements.

SEGMENT INFORMATION

Business segments

2009 August

Consolidated revenue

2008 August

Consolidated revenue

2009 February

Consolidated revenue

Geographical

	Western Cape	KwaZulu - Natal
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30 August 2009		
Segment revenue	62 132 664	38 176 809
Segment result	16 216 711	9 964 200
Other income	-	-
Interest income	-	-
Interest expense	-	-
Income from equity accounted associate	-	-
Minority interest	-	-
Operating costs	(15 976 393)	(9 816 539)
Loss on derivatives	-	-
Taxation	-	-
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Profit for period		
Segment assets	44 642 806	27 430 337
Segment liabilities	40 415 180	24 832 713
Capital expenditure	479 855	294 842
Depreciation	2 504 726	1 539 005
Goodwill	-	-

30 August 2008

Segment revenue	57 695 636	35 980 296
Segment result	16 700 208	10 414 626
Other income	-	-
Interest income	-	-
Interest expense	-	-
Income from equity accounted investments	-	-
Operating costs	(10 983 357)	(6 849 469)
Loss on derivatives	-	-
Taxation	-	-

Profit for period

	-	-
Segment assets	41 072 463	25 613 712
Segment liabilities	26 744 560	16 678 509
Capital expenditure	2 101 057	1 310 266
Depreciation	1 904 441	1 187 652
Goodwill	-	-

28 February 2009

Segment revenue	113 670 770	70 887 648
Segment result	20 709 984	12 915 212
Other income	-	-
Interest income	-	-
Interest expense	-	-
Income from equity accounted investments	-	-
Operating costs	(16 308 906)	(10 170 600)
Loss on derivatives	-	-
Taxation	-	-

Profit for period									
Segment assets	41	322	412		25	769	585		
Segment liabilities	34	972	330		21	809	531		
Capital expenditure	4	179	411		2	606	375		
Depreciation	3	656	565		2	280	316		
Goodwill									

				LCR		Other		Consolidated
2009 August								
Consolidated revenue	249	649	373		32	360	130	282 009 503
2008 August								
Consolidated revenue	276	449	706		32	425	585	308 875 291
2009 February								
Consolidated revenue	544	655	317		63	884	510	608 539 827

Geographical

				Gauteng		Eastern Cape		Consolidated
30 August 2009								
Segment revenue	163	966	910		17	733	120	282 009 503
Segment result	42	795	588		4	628	369	73 604 868
Other income			-				-	2 038 892
Interest income			-				-	-
Interest expense			-				-	(4 977 125)
Income from equity accounted associate			-				-	329 780
Minority interest			-				-	(101 263)
Operating costs	(42)	161	397		(4)	559	780	(72 514 109)
Loss on derivatives			-				-	(9 434 325)
Taxation			-				-	5 198 665
Profit for period								(5 854 617)
Segment assets	117	811	512		12	741	386	202 626 041
Segment liabilities	106	654	886		11	534	790	183 437 569
Capital expenditure	1	266	329			136	954	2 177 980
Depreciation	6	609	925			714	867	11 368 523
Goodwill			-				-	223 475 925

30 August 2008

Segment revenue	199 594 274	15 605 085	308 875 291
Segment result	59 548 451	4 516 866	91 180 151
Other income	-	-	2 578 224
Interest income	-	-	1 645 696
Interest expense	-	-	-
Income from equity accounted investments	-	-	-
Operating costs	(39 163 698)	(2 970 643)	(59 967 166)
Loss on derivatives	-	-	-
Taxation	-	-	(6 643 048)
Profit for period	-	-	28 793 857
Segment assets	142 087 498	11 108 974	219 882 647
Segment liabilities	92 521 055	7 233 669	143 177 793
Capital expenditure	7 268 470	568 278	11 248 071
Depreciation	6 588 289	515 099	10 195 481
Goodwill	-	-	215 153 481

28 February 2009

Segment revenue	393 237 158	30 744 251	608 539 827
Segment result	73 846 235	5 601 378	113 072 809
Other income	-	-	3 563 103
Interest income	-	-	6 205 310
Interest expense	-	-	(6 527 695)
Income from equity accounted investments	-	-	2 641 740
Operating costs	(58 153 061)	(4 411 029)	(89 043 597)
Loss on derivatives	-	-	(25 567 876)
Taxation	-	-	3 093 559

Profit for period	-	-	7 437 222
Segment assets	143 211 042	11 176 370	221 479 409
Segment liabilities	120 984 663	9 458 878	187 225 402
Capital expenditure	14 359 458	1 130 395	22 275 639
Depreciation	12 563 083	988 982	19 488 946
Goodwill	-	-	215 153 482

The main reasons for the decrease in EPS and HEPS can be attributed to:

Revenue Effects

There has been a reduction in cellular airtime and other revenue of R14 million from R262 million for 1HY09 to R253 million for 1HY10. Weighted average daily cellular airtime revenue is down by R75 000 per average calling day from R1.918 million per average calling day to R1.843 million per average calling day. There were 131.5 weighted calling days during 1HY10 versus 132 weighted calling days during 1HY09. This has had the effect of reducing gross profit by R2.8 million based on current discounts received from the mobile network operators, with the after tax impact on earnings amounting to R2.016 million. To counter this in the next period, the company has initiated an increased focus on sales, a widely expanded product and service offering, and the appointments of a Managing Director: Sales and a Managing Director: Channel and Distribution at Huge Telecom (Pty) Limited. This should result in an improvement in this metric during 2HY10.

Gross Profit Effects

The contractual seasonality or timing patterns of mobile network contracts, with a contract period of 24 months, has had the effect of reducing connection incentive bonuses earned during 1HY10 by R13 million from R43 million in 1HY09 to R29 million during the period under review. This difference is expected to reverse in 1HY11. This has had the effect of reducing gross profit by R13 million with an after tax impact on earnings of R9.4 million.

Stock of airtime revenue on 6 000 unallocated SIM cards of R11.5 million has been written off during 1HY10. The after tax impact of this write off on earnings is R8.28 million. All 6 000 unallocated SIM cards have now been allocated to customers, which will produce an increase in billed revenues, and correspondingly a dramatic decrease in the amount of unused airtime written off. This reversal is considered permanent for the foreseeable future, and means that Huge Telecom (Pty) Ltd is now operating at a far higher level of efficiency than at the beginning of the period. Further, clearing this primary efficiency metric of airtime stock now opens the way for the company to begin implementing and reaping the benefits of secondary operational efficiency strategies in the next period.

Operating costs Effects

Operating costs during 1HY10 have increased by R11.6 million when compared to 1HY09 as a result of:

An increase in salary expenses of R6.5 million. Huge Telecom has resolved to invest in human capital to advance its medium term growth aspirations, and the company now considers itself well prepared for rapid expansion off its existing structures.

Non-recurring restraint of trade bonuses of R2.4 million paid to staff (and not directors of the Company) in the prior half year but amortised during the current half year.

An increase in bad debts of R2.6 million when compared to the same period last year, mainly due to the weaker economic climate. The bad debt ratio of 1.7% is however stable and within an acceptable range for the current operating conditions.

Legal fees are R2 million higher than the prior period. These fees are considered non-recurring. Consulting and audit fees are R1 million higher. The 2009 year end audit was particularly complex as a result of the accounting treatment of certain transactions. The increase in fees is expected to be non-recurring.

Depreciation and amortisation is R1 million higher due to high capital expenditure in the prior year. The Company's infrastructure was upgraded and vastly improved and this is expected to positively contribute to the future success of the Company. Again, the company considers itself very well prepared to handle rapid future expansion in both customers and the range of products and services provided.

The after tax impact of these items of operating expenses was R8.352 million.

Other Effects on Earnings

The impairment of derivative contracts currently held by the company reduced impacted pre-tax earnings by R9.4 million in the current period due to downward movements in the Huge share price. The total possible future exposure to these derivatives contracts amounts to R10.2 million, which represents the net total possible future loss to the company in this regard.

Future Prospects

Management is pleased that the integration of TelePassport (Proprietary) Limited and CentraCell (Proprietary) Limited is finally complete, after taking far longer than expected and impacting on the business during the period under review. Huger Telecom (Proprietary) Limited, being a combination of the businesses of TelePassport and CentraCell, has a completely refocused and balanced executive team, the last position filled being that of the managing director: direct. This recent appointment augments the other two separately created business focus areas of Channel and Distribution, and Services. This completes the company's transition to a fully fledged managed telecommunications service provider with a focus on communications expense management services. The absence of revenue growth during the period is largely attributed to the integration and the diversion this created. Revenue growth should therefore resume with greater impetus in the new financial year. Management is hopeful of seeing the benefits of its recent restructuring in the last 6 months of the current financial year.

The company continues to perform well at an operating level. Notwithstanding the reductions in revenue over the period, the company has continued to maintain gross margins at acceptable levels. Adjusting for the seasonality of connection incentive bonuses, and accounting for depreciation as part of the cost of sales in the August 2009 results, gross margins for the period would have increased by 1.24%. This is equivalent to improved efficiencies.

Cash flow generation is good and management is quietly optimistic about the future prospects of the business.

Director changes

With effect from 1 March 2009, Mrs Michelle Allison Meth was appointed to the board of directors as executive financial director. Michelle joins the Huger Group from the TMS Group (a wholly owned subsidiary of Bidvest) where she was the finance director. Prior to the position she held at the TMS Group she was employed at Cell C as their executive head of finance. Her responsibility at Cell C encompassed the entire finance function and she had 7 divisions reporting to her (Treasury, Financial Control, Billing and Commissions, Accounts Payable and General Ledger, Fixed Assets and Property). Michelle has experience in preparing annual financial statements, internal audit controls, investor relations, tax planning, budgeting and was part of the fund raising team at Cell C. Her prior experience as group financial accountant at Primedia Limited in 2000 also provided her with valuable experience in consolidating accounts across a complex group structure with many subsidiaries and associates and regular changes in the shareholding structures. She completed her BCom (Hons) at RAU in 1998 and in 2000 she qualified as a Chartered Accountant (SA).

With effect from 1 August 2009 Stephen Peter Tredoux, an executive director of Huger Group Limited, resigned as an employee of Huger Telecom (Proprietary) Limited, being a wholly owned subsidiary of Huger. Mr Stephen Tredoux will, however, remain on the board of directors of Huger as a non-executive director.

With effect 7 September 2009 the role of Mr Ken Jarvis changed from Non-Executive Director to Lead Independent Director. This change is in line with the imminent implementation of King III and further enhances the company's compliance therewith.

With effect from 7 October 2009, Mr Michael Beamish was appointed to the board of directors of Huger as a non-executive director. Mr Beamish is currently a shareholder in Praesidium Capital Management (Pty) Limited. Mr Beamish has managed the Praesidium SA Hedge Fund since 2003 and co-managed the Praesidium Structured Finance Fund since 2006. Prior to launching the Praesidium SA Hedge Fund in December 2003, Mr Beamish spent six years at the Johannesburg Office of HSBC. He has spent time with Credit Suisse Financial Products, Natwest Markets, and Liberty Life.

Dividends

No dividend has been paid or declared in the period under review. In the comparative period the board of directors declared a maiden dividend on 29 August 2008 of 12 cents per share to all shareholders registered as shareholders on 19 September 2008. The dividend was paid on 29 September 2008.

Acquisitions during the period

Huger increased its shareholding in Eyeballs Mobile Advertising (Proprietary) ("Eyeballs") Limited on 9 March 2009. The total shareholding in Eyeballs was increased from 25% to 77%. The cost of the additional 52% was R807 435.

Eyeballs is a technology provider of innovative and affordable real-time, permission based, high impact targeted advertising to mobile phones and Internet users.

Eyeballs Mobile Advertising is still in development phase. As such it did not contribute to group revenues for the period. Eyeballs incurred costs of R1.168 million. These costs are consolidated as part of the group results from the period commencing the day the additional 52% shareholding was acquired until 31 August 2009.

Eyeballs is expected to start operations in December 2009, and revenue from operations should begin to be realised in the next period.

Details of the net assets acquired and goodwill are as follows:

Additional purchase consideration:

Cash paid	R500 000
Provisional fair value of net identifiable assets acquired	(R2 237 672)
Provisional goodwill	R2 737 672

The goodwill is attributable to the software development of the Eyeballs technology.

Johannesburg

30 November 2009

Designated Advisor

Arcay Moela Sponsors (Proprietary) Limited