



Audited Financial Results

FOR THE 12 MONTHS ENDED 31 JULY 2002

★ **EMPOWERMENT AND LISTING SUCCESSFULLY ACHIEVED** ★ **ATTRIBUTABLE EARNINGS UP BY 207%** ★ **HEADLINE EARNINGS PER SHARE UP BY 390%**

"These results reflect the solid foundation built over the last 3 years of focussed business restructuring. The group is poised for growth and will apply for its listing to move to the Main Board". – M P Malungani

Abridged Income Statements

	2002 R'000	2001 R'000
Betting turnover	1 490 241	1 511 516
Operating profit before depreciation and interest	31 061	14 130
Depreciation	10 544	13 033
Operating profit	20 517	1 097
Net interest (paid)/received	(1 357)	523
Profit before taxation	19 160	1 620
Taxation	386	2 385
Profit after taxation	19 546	4 005
Attributable to outside shareholders	2 136	-
Net profit from ordinary activities	17 410	4 005
Extraordinary items	-	1 666
Earnings attributable to ordinary shareholders	17 410	5 671
Earnings attributable to ordinary shareholders	17 410	5 671
Adjusted for:		
Extraordinary items	-	(1 666)
Surplus on disposal of property, plant and equipment	(1 911)	(613)
Impairment of Newmarket Racecourse	1 100	-
Amortisation of goodwill	89	-
Headline earnings	16 688	3 392
Number of shares in issue	70 000 285	280
Weighted average number of shares	13 655 076	280
Earnings per share (cents)	127	*42
Headline earnings per share (cents)	122	*25
Earnings per share based on number of shares in issue at year end (cents)	25	*8

*Pro forma based on number of shares as for 2002

★ Comments ★

REVIEW OF RESULTS AND FINANCIAL POSITION

The board considers the earnings attributable to ordinary shareholders of R17,4 million for the year ended 31 July 2002 to be a good achievement. During the year betting tax was brought more in line with other forms of gaming in Gauteng and Limpopo. The flow through effect to earnings together with benefits from major cost reduction initiatives were largely responsible for the improvement over the previous year. Betting turnover of R1490,2 million was R44,1 million higher than the Prospectus forecast and consequently the earnings forecast of R12,2 million was surpassed by 43%.

On 5 November 2001 the acquisition of TAB North West (Pty) Ltd became unconditional and Phumelela took over management control. Their results have been consolidated from that date. Without this investment, betting turnover would have declined by 9%. In terms of the acquisition agreement R8,1 million was paid on 29 June 2002 to the shareholders for the 90% of the share capital not previously owned.

Competition for the discretionary Rand remained fierce and was heightened following the introduction of the midweek lottery draw. Modest economic growth plus high inflation and interest rates have also impacted on consumer spend. These factors and the strike by certain branch staff over the introduction of variable pay with the temporary closure of the affected branches for 4 months contributed to the betting turnover decline.

The introduction of variable based remuneration, the outsourcing of non-core activities and the closure of Gosforth Park Racecourse on 2 February 2002, reduced operating costs.

The revised Investment Agreement with the Racing Association, The Thoroughbred Horseracing Trust and empowerment shareholders, which was signed in April 2002, dealt *inter alia* with the sale of North Rand Training Centre (Pty) Ltd to the Racing Association for R60,0 million and options over Newmarket Racecourse for R20,0 million. If Newmarket Racecourse is sold to the Racing Association their loan account will reduce by the R20,0 million. The corresponding reduction in property after the sale of North Rand Training Centre (Pty) Ltd was partially offset by capital expenditure mainly on information technology and the second Turffontein racetrack.

The balance sheet with total assets of R188,5 million remains strong. Current assets are tightly managed and

Abridged Balance Sheet

	2002 R'000	2001 R'000
ASSETS		
<i>Non-current assets</i>	161 251	204 252
Property, plant and equipment	152 153	201 867
Goodwill	5 269	-
Deferred taxation	3 829	2 385
<i>Current assets</i>	27 283	18 513
Inventories	1 239	1 651
Trade and other receivables	19 113	16 275
Cash and cash equivalents	6 931	587
Total assets	188 534	222 765
EQUITY AND LIABILITIES		
<i>Capital and reserves</i>	74 038	33 940
Share capital and premium	22 688	-
Capital reserve	-	13 957
Accumulated profit	51 350	19 983
<i>Non-current Liabilities</i>	60 810	141 285
Retirement benefit obligations	19 985	24 985
Interest bearing borrowing	700	800
Racing Association loan	30 125	115 500
Grant for industry transformation	10 000	-
<i>Current Liabilities</i>	53 686	47 540
Trade and other payables	45 780	42 138
Provisions	7 360	5 402
Taxation	546	-
Total equity and liabilities	188 534	222 765

Statement of Changes in Group Equity

	Share capital R'000	Share premium R'000	Capital reserve R'000	Accumulated profit R'000	Total R'000
Balance at 31 July 2001 restated	-	-	13,957	19,983	33,940
Issue of share capital	1,750	33,250	-	-	35,000
Grant for industry transformation	-	(10,000)	-	-	(10,000)
Share issue expenses	-	(2,312)	-	-	(2,312)
Movement in reserve	-	-	(13,957)	13,957	-
Net profit for the year	-	-	-	17,410	17,410
Balance at 31 July 2002	1,750	20,938	-	51,350	74,038

interest bearing debt is nominal. The R5,4 million goodwill arising on the acquisition of TAB North West (Pty) Ltd will be amortised over the expected useful life of 5 years.

The grant for industry transformation to the Racing Association/The Thoroughbred Horseracing Trust is payable out of the proceeds from the sale of the Gosforth Park Racecourse. The Gosforth Park disposal agreement for R18,5 million was signed on 6 September 2002.

GAMING TAXATION

The Gauteng Province reduced their gaming tax from 3,5% to an effective 1,6% of betting turnover on 1 April 2002 and Limpopo reduced their gaming tax from approximately 9% to 3,5% of betting turnover on 19 October 2001. No relief has yet been forthcoming from Mpumalanga where the rate is unacceptably high at approximately 9% of betting turnover.

SEGMENTAL ANALYSIS

The group operates in one business segment, horse racing, and almost entirely in one geographic segment, South Africa.

NATIONAL TOTALISATOR POOLS

Commingling of exotic pools with Gold Circle started in December 2001 and full commingling of all bet types commenced on 18 April 2002 under the brand name SAFTOTE. National totalisator pools have benefited the South African horse racing industry.

DIVIDEND

No dividend was declared for the year ended 31 July 2002.

LISTING

Subsequent to the successful offer of 19 250 000 ordinary shares to the racing public at 50 cents per share, which was 15 times over subscribed, 70 000 285 ordinary shares were listed on the JSE Securities Exchange in the Development Capital Market on 14 June 2002. Prior to the listing 19 250 000 ordinary shares were sold to black empowerment shareholders at 50 cents per share. Application will be made for the listing to move to the Main Board.

ACCOUNTING POLICIES

The annual financial statements are prepared on the historical cost basis in accordance with South African Statements of Generally Accepted Accounting Practice and incorporate accounting policies that are consistent with those applied in the prior year except for AC116 on employee benefits, which was adopted in the current year.

Abridged Cash Flow Statements

	2002 R'000	2001 R'000
Cash generated by operations	29 148	9 079
Increase in working capital	(2 745)	(13 247)
Cash generated by operating activities	26 403	(4 168)
Net interest, investment income and taxation	(1 869)	962
Net cash inflow/(outflow) from operating activities	24 534	(3 206)
Net cash outflow from investing activities	(20 453)	(12 116)
Net cash inflow from financing activities	2 263	-
Net movement in cash and cash equivalents	6 344	(15 322)
Cash and cash equivalents at beginning of year	587	15 909
Cash and cash equivalents at end of year	6 931	587

SOCIAL RESPONSIBILITY

Phumelela is an empowerment company with employment equity and training programmes in place and due consideration is given to the previously disadvantaged when awarding contracts. A R10,0 million grant will be made to the Racing Association/The Thoroughbred Horseracing Trust for the transformation of the industry including affirmative schemes for the work riders. Phumelela has agreed to sponsor the SAPS Mounted Unit with R7 million over the 5 years ending July 2004. The SAPS Mounted Unit has proved to be highly successful in combating crime.

PROSPECTS

The benefits from cost reduction measures, the lower provincial tax in Gauteng and Limpopo, better configured racing fixtures with national pools underpinning betting turnover, have created a sound foundation for a further profit improvement in the next year.

AUDIT

The annual financial statements have been audited by Ernst & Young Chartered Accountants (SA) and their unqualified audit report is available for inspection at Phumelela's registered office.

The Board notes with regret the untimely death, on 13 September 2002, of Mr Jos Tsanwani, the sole practitioner of our joint auditor Tsanwani & Company and extends sincere condolences to the family.

DIRECTORATE

For and on behalf of the Board

M P MALUNGANI
Chairman

B D MEHL
Chief Executive

Johannesburg
25 September 2002

Directors: M P Malungani (Chairman), B D Mehl* (Chief Executive), S E Abrahams, K J Hlongwane, B Kantor, S Khampepe, K E Latilla, J S Tennant*, G J Thula, J B Walters
* Executive Director

Company Secretary: A F Wintour

Share code: PHM ISIN: ZAE000039269

Registered Office: Turffontein Racecourse,
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