

## ABRIDGED CONSOLIDATED INCOME STATEMENTS

|   | % Growth<br>year<br>on year | Audited<br>31 July<br>2006<br>R'000 | Restated<br>audited<br>31 July<br>2005<br>R'000 |
|---|-----------------------------|-------------------------------------|---|
| Revenue   | 9                           | 2 118 719                           | 1 946 811                                       |
| Net betting income  | 8                           | 447 848                             | 415 661   |
| Other operating income  |                             |                                     |   |
| – local operations  | 1                           | 100 761                             | 99 595  |
| – international operations  | 57                          | 53 118                              | 33 817  |
| Net income  | 10                          | 601 727                             | 549 073   |
| Operating expenses and overheads  |                             |                                     |   |
| – Stakes  | 6                           | 122 554                             | 116 022   |
| – local operations  | 7                           | 347 969                             | 324 484   |
| – international operations  | 10                          | 43 385                              | 39 349  |
| Profit from operations  | 27                          | 87 819                              | 69 218  |
| Finance costs   |                             | 1 738                               | 1 026   |
| Profit before associated company's income   | 26                          | 86 081                              | 68 192  |
| Share of associated company's results   |                             | 251                                 | 9   |
| Profit before taxation  | 27                          | 86 332                              | 68 201  |
| Taxation  |                             | 25 778                              | 20 324  |
| Profit for the year   | 26                          | 60 554                              | 47 877  |
| Attributable to:  |                             |                                     |   |
| – Ordinary equity holders of the parent   |                             | 60 338                              | 47 877  |
| – Minority interests  |                             | 216                                 | –   |
|   | 26                          | 60 554                              | 47 877  |
| Attributable to ordinary equity holders   |                             | 60 338                              | 47 877  |
| Adjusted for:   |                             |                                     |   |
| Surplus on disposal of fixed odds operation   |                             |                                     | (730)   |
| Net surplus on disposal<br>of property, plant and equipment   |                             | (387)                               | (1 655)   |
| Headline earnings   | 32                          | 59 951                              | 45 492  |
| Number of ordinary shares in issue  |                             | 73 909 635                          | 71 809 785                                      |
| Weighted average number of ordinary<br>shares in issue for basic and<br>headline earnings per share |                             | 72 724 683                          | 71 022 038                                      |
| Weighted average number of ordinary shares<br>in issue for diluted earnings per share               |                             | 76 033 155                          | 76 462 428                                      |
| Basic earnings per share (cents)  | 23                          | 82,97                               | 67,41   |
| Diluted earnings per share (cents)  | 27                          | 79,36                               | 62,62   |
| Headline earnings per share (cents)   | 29                          | 82,44                               | 64,05   |
| Net asset value per share (cents)   | 15                          | 297,08                              | 257,45  |
| Interim dividend/distribution   |                             |                                     |   |
| Dividend per ordinary share (cents)   |                             | 8,00                                | 12,00   |
| Distribution out of share premium (cents)   |                             | 8,00                                | –   |
| Final dividend/distribution   |                             |                                     |   |
| Distribution out of share premium (cents)   |                             | –                                   | 24,00   |
| Dividend per ordinary share (cents)   |                             | 30,00                               | –   |

## ABRIDGED CONSOLIDATED CASH FLOW STATEMENTS

|  | Audited<br>31 July<br>2006<br>R'000 | Restated<br>audited<br>31 July<br>2005<br>R'000 |
|--|-------------------------------------|---|
| Cash generated by operations   | 97 431                              | 67 963  |
| Decrease/(increase) in working capital   | 10 202                              | (4 361)   |
| Cash generated by operating activities   | 107 633                             | 63 602  |
| Net finance costs, investment<br>income and taxation paid                          | (29 191)                            | (15 691)  |
| Post retirement benefit asset funding  | (79)                                | (1 535)   |
| Dividends paid   | (6 002)                             | (22 719)  |
| Net cash inflow from operating activities  | 72 361                              | 23 657  |
| Net cash outflow from investing activities   | (13 353)                            | (22 316)  |
| Net cash (outflow)/inflow from financing activities<br>before capital distribution | (17 359)                            | 3 630   |
| Capital distribution   | (23 272)                            | –   |
| Net movement in cash and cash equivalents  | 18 377                              | 4 971   |
| Cash and cash equivalents at beginning of year                                     | 51 125                              | 46 154  |
| Cash and cash equivalents at end of year   | 69 502                              | 51 125  |

## SEGMENTAL ANALYSIS

The group stages and broadcasts horseracing events and offers betting opportunities on both South African and international product in two geographic segments, namely South Africa and the rest of the world.

|                               | Audited<br>31 July<br>2006<br>R'000 | Restated<br>audited<br>31 July<br>2005<br>R'000 |
|-------------------------------|-------------------------------------|---|
| <b>LOCAL</b>                  |                                     |   |
| Revenue (net of VAT)          | 2 044 463                           | 1 910 443                                       |
| Net income                    | 548 609                             | 515 256   |
| Stakes                        | 122 554                             | 116 022   |
| Other net operating expenses  | 347 969                             | 324 484   |
| Profit from operations        | 78 086                              | 74 750  |
| Assets                        | 294 450                             | 276 362   |
| Liabilities                   | 83 997                              | 99 215  |
| <b>INTERNATIONAL</b>          |                                     |   |
| Revenue                       | 74 256                              | 36 368  |
| Net income                    | 53 118                              | 33 817  |
| Net operating expenses        | 43 385                              | 39 349  |
| Profit/(loss) from operations | 9 733                               | (5 532)   |
| Assets                        | 37 452                              | 49 570  |
| Liabilities                   | 28 329                              | 41 840  |
| <b>TOTAL</b>                  |                                     |   |
| Revenue (net of VAT)          | 2 118 719                           | 1 946 811                                       |
| Profit from operations        | 87 819                              | 69 218  |
| Assets                        | 331 902                             | 325 932   |
| Liabilities                   | 112 326                             | 141 055   |

## ABRIDGED STATEMENTS OF CHANGES IN GROUP EQUITY

|   | Audited<br>31 July<br>2006<br>R'000 | Restated<br>audited<br>31 July<br>2005<br>R'000 |
|---|-------------------------------------|---|
| Total equity at beginning of year       | 184 877                             | 158 318   |
| Changes in share capital and premium    | 2 960                               | 574   |
| Share based payment reserve             | 424                                 | 824   |
| Net profit for the year                 | 60 554                              | 47 877  |
| Foreign currency translation reserve    | 49                                  | 3   |
| Distributions paid to equity holders    | (29 274)                            | (22 719)  |
| Acquisition of minority shareholding    | (14)                                | –   |
| Total equity at end of year             | 219 576                             | 184 877   |
| Attributable to:                        |                                     |   |
| – Ordinary equity holders of the parent | 219 576                             | 184 877   |



# PHUMELELA GAMING AND LEISURE LIMITED

(Registration number 1997/016610/06)

## The Group's audited financial results for the year ended 31 July 2006

- ★ HEADLINE EARNINGS UP 32%
- ★ HEPS UP 29%
- ★ OPERATING CASH FLOWS UP 69%
- ★ DIVIDEND TO SHAREHOLDERS UP 25%

## ABRIDGED CONSOLIDATED BALANCE SHEETS

|  | Audited<br>31 July<br>2006<br>R'000 | Restated<br>audited<br>31 July<br>2005<br>R'000 |
|--|-------------------------------------|---|
| <b>ASSETS</b>                            |                                     |   |
| <i>Non-current assets</i>                |                                     |   |
| Property, plant and equipment            | 187 052                             | 169 932   |
| Intangible assets                        | 19 482                              | 39 720  |
| Deferred taxation                        | –                                   | 2 209   |
| Investment and loan – associated company | 8 857                               | 6 712   |
| Unlisted investments                     | 370                                 | 370   |
| Long term debtor                         | –                                   | 1 681   |
| <i>Current assets</i>                    | 111 956                             | 105 308   |
| Inventories                              | 250                                 | 126   |
| Trade and other receivables              | 42 204                              | 32 057  |
| Debtor for sale of Newmarket Racecourse  | –                                   | 22 000  |
| Cash and cash equivalents                | 69 502                              | 51 125  |
| Assets classified as held for sale       | 4 185                               | –   |
| Total assets                             | 331 902                             | 325 932   |
| <b>EQUITY AND LIABILITIES</b>            |                                     |   |
| <i>Total equity</i>                      |                                     |   |
| Share capital and premium                | 3 274                               | 23 586  |
| Retained earnings                        | 216 250                             | 161 288   |
| Non-distributable reserves               | 52                                  | 3   |
| <i>Non-current liabilities</i>           | 7 842                               | 27 746  |
| Deferred taxation                        | 5 793                               | 8 362   |
| Financial liability                      | –                                   | 16 919  |
| Retirement benefit obligations           | 2 049                               | 2 465   |
| <i>Current liabilities</i>               | 104 484                             | 113 309   |
| Trade and other payables                 | 74 808                              | 54 335  |
| Taxation                                 | 11 350                              | 16 487  |
| Short-term financial liability           | 18 326                              | 20 487  |
| Short-term borrowings                    | –                                   | 22 000  |
| Total equity and liabilities             | 331 902                             | 325 932   |

## BASIS OF PRESENTATION

In line with the listing requirements of the JSE Limited, the Group adopted International Financial Reporting Standards (IFRS) for the first time in the current year. The information presented has been prepared in accordance with IFRS applicable at 31 July 2006.

The transitional adjustments from South African Statements of Generally Accepted Accounting Practice (SA GAAP) to IFRS are set out under the heading "Transitional Report".

## ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new/revised standards mandatory for financial years beginning on or after 1 January 2005.

The audited financial statements are prepared on the historical cost basis except where stated otherwise, in accordance with International Financial Reporting Standards (IFRS) and interpretations of those standards as adopted by the International Accounting Standards Board and the Companies Act, No. 61 of 1973, in South Africa.

The transitional adjustments from South African Statements of Generally Accepted Accounting Practice (SA GAAP) to IFRS are set out in the transitional report below.

## REVIEW OF RESULTS

Revenue increased by 9% year on year to R2,1 billion (2005: R1,9 billion) with revenue from local operations up 7% to R2 billion and revenue from international operations up 104% to R74 million.

Earnings attributable to ordinary equity holders increased by 26% to R60,3 million (2005: R47,9 million) and headline earnings per share increased by 29% to 82,44 cents per share (2005: 64,05 cents per share).

International operations continued its strong growth with the signing of further contracts during the year. This helped turn a prior year loss from operations of R5,5 million to a current year profit from operations of R9,7 million.

Local operating costs, including stakes increased by 7% year on year with the Group continuing to invest in its retail operations and betting technology. Operating costs were generally contained within inflation other than costs incurred on health and safety, staff training, social responsibility projects and marketing.

International operating costs increased by 10% year on year as a result of the growth in international contracts concluded.

The results have been audited by Ernst & Young and SizweNtsaluba vsp and their unqualified audit report is available for inspection at the Company's registered office.

## FINANCIAL POSITION

The financial position of the Group which is set out in the balance sheet shows total assets of R331,9 million (2005: R325,9 million) including cash balances of R69,5 million (2005: R51,1 million).

The Group generated a net cash inflow from operating activities of R72,3 million (2005: R23,6 million), R13,3 million (2005: R22,3 million) was applied in investing activities, R40,6 million was utilised for (2005: R3,6 million generated from) financing activities resulting in a net increase in cash and cash equivalents of R18,4 million (2005: R4,9 million) for the year.

Distributions comprising cash distributions out of share premium and ordinary dividends paid to equity holders during the year amounted to R29,1 million (2005: R22,7 million).

## CAPITAL COMMITMENTS

| Commitments in respect of capital expenditure approved by directors | 2006<br>R'000 | 2005<br>R'000 |
|---|---------------|---------------|
| – contracted for  | 717           | 5 809         |
| – not contracted for  | 39 283        | 34 191        |

## POST BALANCE SHEET EVENTS

There are no significant post balance sheet events that have a material impact on the financial statements at 31 July 2006 other than noted below.

In August 2006 Phumelela concluded an agreement to terminate the Newmarket Racecourse Use Agreement in return for a payment on 31 January 2007 of R40 million. The proceeds will be utilised to, *inter alia*, relocate the Newmarket floodlights to Turffontein and to upgrade the racetrack and facilities at Turffontein.

## TRANSITIONAL REPORT

In line with the JSE Limited listing requirements, the Group has adopted International Financial Reporting Standards (IFRS) with effect from 1 August 2005. As the Group publishes comparative information for one year in its financial statements, the date for transition to IFRS is effectively 1 August 2004, which represents the start of the earliest period of comparative information presented.

In preparing the opening IFRS balance sheet, the Group has adjusted amounts previously reported in the financial statements in accordance with its previous basis of accounting on SA GAAP. An explanation of how the transition from SA GAAP to IFRS has affected the Group's financial position and performance is set out in the following tables and the notes accompanying the tables. The adjustments arising from the adoption of IFRS did not have an effect on the cash flows of the Group.

The following transitional exemptions from retrospective application under "IFRS 1 – First-time Adoption of International Financial Reporting Standards" were elected:

### Business combinations

The Group has elected not to apply "IFRS 3 – Business combinations" retrospectively. The carrying amount of goodwill at transition date is its carrying amount under the previous SA GAAP and has been tested for impairment on an annual basis since.

### Property, plant and equipment

The Group has elected to use the fair value as deemed cost for property, plant and equipment at date of transition.

### Share-based payments

The Group has elected not to apply "IFRS 2 – Share-based payments" to equity instruments granted on or before 7 November 2002 or to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

The quantification of the IFRS adjustments is shown in the reconciliation's that follow.

|  | 12 months<br>31 July<br>2005<br>R'000 | IFRS<br>transition<br>1 Aug 2004<br>R'000 |
|--|---------------------------------------|---|
| <b>Reconciliation of total equity</b>                              |                                       |   |
| As previously reported under SA GAAP                               | 160 411                               | 136 424                                   |
| Property, plant and equipment                                      | 32 828                                | 29 049                                    |
| Deferred tax on PPE adjustment                                     | (8 362)                               | (7 155)                                   |
| <b>Total equity restated under IFRS</b>                            | 184 877                               | 158 318                                   |
| <b>Reconciliation of non-current liabilities</b>                   |                                       |   |
| As previously reported under SA GAAP                               | 19 384                                | 27 376                                    |
| Deferred tax on PPE adjustment                                     | 8 362                                 | 7 155                                     |
| <b>Non-current liabilities restated under IFRS</b>                 | 27 746                                | 34 531                                    |
| <b>Reconciliation of non-current assets</b>                        |                                       |   |
| As previously reported under SA GAAP                               | 187 796                               | 158 692                                   |
| Property, plant and equipment                                      | 32 828                                | 29 049                                    |
| <b>Non-current assets restated under IFRS</b>                      | 220 624                               | 187 741                                   |
| <b>Reconciliation of profit attributable to ordinary holders</b>   |                                       |   |
| As previously reported under SA GAAP                               | 46 129                                | –   |
| Property, plant and equipment                                      | 3 779                                 | –   |
| Deferred tax on PPE adjustment                                     | (1 207)                               | –   |
| Share based payments   | (824)                                 | –   |
| <b>Profit attributable to ordinary holders restated under IFRS</b> | 47 877                                | –   |

## SOCIAL RESPONSIBILITY

Phumelela recognises that it has a responsibility to the broader community to act in a socially responsible manner, for the benefit of all South Africans. Contributions continue to be made to the National Responsible Gambling Programme, Work Rider training programmes, the SAPS Mounted Services and community soccer projects. Phumelela was ranked third in the Travel and Leisure sector of the 2006 Financial Mail Listed Company Empowerment Survey.

## LITIGATION

The Company's legal action instituted against the Company's insurance underwriters in respect of a business interruption claim arising from the loss of profits caused by the equine flu is ongoing. The trial date scheduled for 3 November 2005 was postponed at the instance of the Company's insurance underwriters and a new trial date has been set for 12 October 2006.

## DIRECTORS

During the year Messrs M J Jooste, E Nkosi and C J H van Niekerk were appointed to the Board.

Mr A Hogg has been invited to join the Board of Directors once the necessary regulatory requirements have been fulfilled.

## PROSPECTS

Extensive international business opportunities exist and are being developed by our team. Notwithstanding the extended sales cycle, profits from international operations are expected to grow substantially in the current year.

The local macro-economic factors are set to impact negatively on consumer confidence and disposable income, however, the ongoing investment in the retail network, training and technology should largely ameliorate this impact.

Management expects to achieve real growth in headline earnings for the current financial year.

## DIVIDEND TO SHAREHOLDERS

Notice is hereby given that the Board has declared a final dividend of 30 cents per share (2005: cash distribution out of share premium of 24 cents per share in lieu of a dividend) for the year ended 31 July 2006 to shareholders recorded in the register on 20 October 2006.

Shareholders are advised that the last day to trade "cum" the dividend will be Friday, 13 October 2006. As from commencement of business on Monday, 16 October 2006, all trading in Phumelela shares will be "ex" the dividend. Payment will be made on Monday, 23 October 2006. Share certificates may not be dematerialised or rematerialised between Monday, 16 October 2006 and Friday, 20 October 2006, both days inclusive.

For and on behalf of the Board

M P MALUNGANI  
Chairman

J S TENNANT  
Chief Executive

Johannesburg  
27 September 2006