



# PHUMELELA GAMING AND LEISURE LIMITED

(Registration number 1997/016610/06)

## The Group's summarised provisional consolidated financial statements for the year ended 31 July 2010

★ R163 MILLION CASH GENERATED FROM OPERATING ACTIVITIES  
★ PBITDA UP 3% ★ HEPS DOWN 16%  
★ DISTRIBUTION TO SHAREHOLDERS MAINTAINED

### REVIEW OF RESULTS

#### GROUP RESULTS

Trading conditions remained challenging in the second half of the year. This was further compounded by strong competition for the leisure Rand, particularly during South Africa's successful hosting of the 2010 Soccer World Cup.

On 1 August 2009 Betting World (Pty) Limited "Betting World" (a fixed odds bookmaking concern) became a subsidiary company of the Group, previously an equity accounted investee. The consolidation of Betting World in the current year enhanced net betting income, which increased by 11% to R625,9 million (2009: R562,3 million) with the Group's Isle of Man totalisator operation up a pleasing 24% to R29,4 million (2009: R23,6 million). Excluding Betting World net betting income decreased by 1% to R554,5 million (2009: R562,3 million).

Other operating income that comprises, *inter alia*, bookmakers' levies, unclaimed dividends and breakages, stable rentals, and local and international broadcasting levies/fees decreased by 1% to R210,6 million (2009: R211,8 million).

Operating expenses and overheads increased by 9% to R712,7 million (2009: R654,1 million). Excluding Betting World operating expenses and overheads decreased marginally to R653,3 million (2009: R654,1 million).

Profit before interest, income tax, depreciation and amortisation (PBITDA) increased by 3% to R123,7 million (2009: R120 million).

Mainly as a result of the R45 million capital expenditure spent on the Turffontein illumination project and the inclusion of Betting World, the depreciation charge increased by 32% to R32,8 million (2009: R24,8 million).

Profit before interest and income tax (PBIT) decreased by 4% to R90,9 million (2009: R95,2 million).

As a result of the R58,4 million invested in property, plant and equipment (which included R27 million on the Turffontein illumination project and R5,8 million to upgrade the training/racing facilities at Turffontein and the Vaal), R9,5 million spent on acquiring control of Betting World, increased cash reserves generated offshore and a decrease in interest rates, investment income decreased by 70% to R2,9 million (2009: R9,6 million).

Profit before income tax (PBT) decreased by 9% to R98,5 million (2009: R108,2 million) and the profit for the year by 4% to R68,1 million (2009: R70,7 million) benefitting from a reduction in tax on dividends following the interim distribution to shareholders out of capital.

Headline earnings and headline earnings per share (HEPS) decreased by 16% to R59,7 million (2009: R70,9 million) and 78,96 cents per share (2009: 93,67 cents per share) respectively. Diluted HEPS also decreased by 16% to 78,62 cents per share (2009: 93,67 cents per share).

#### LOCAL OPERATIONS

Revenue from local operations decreased by 3% to R672,7 million (2009: R693,6 million).

The Soccer World Cup provided for increased betting opportunities with the Group's sports bet offerings, in particular Betting World's fixed odds offering on soccer, garnering favourable betting interest. Competition for the gaming Rand was particularly fierce during the event with a number of internationally recognised bookmaking concerns entering the local market to capitalise on it.

Betting World's net betting income from fixed odds betting increased by a very pleasing 47% to R71,4 million (2009: R48,5 million) benefitting from an increased retail footprint and betting volumes boosted by the World Cup.

Totalisator handle generated on local and imported international horseracing declined by 5% whilst the Group's pari-mutuel soccer sports bet benefitted from the Soccer World Cup increasing by a pleasing 11%.

Operating expenses and overheads increased by 13% to R643,8 million (2009: R569,5 million). Excluding stakes (which increased by 1% to R158 million (2009: R157 million)) and Betting World, operating expenses and overheads were well contained, increasing by 3% to R426,4 million (2009: R412,6 million).

Betting World's PBT increased by a very pleasing 101% to R16,4 million (R15,2 million after elimination of intra-Group related party transactions). In addition a profit of R14,4 million on re-measurement of the fair value of the net assets of the Company was realised on acquisition of the further 16,5% shareholding in the Company.

PBT from local operations decreased by 12% to R71,9 million (2009: R81,6 million).

#### INTERNATIONAL OPERATIONS

Revenue from international operations was negatively impacted by the strength of the Rand and the loss of the Racing UK (RUK) rights from 1 March 2010 and decreased by 14% to R95,3 million (2009: R110,7 million). At constant currencies, revenue decreased by 1%.

The Group's Isle of Man totalisator operation continued to perform strongly with net betting income increasing by 24% to R29,4 million (2009: R23,6 million) whilst income generated from other international initiatives was negatively impacted by the loss of the RUK rights and decreased by 24% to R65,7 million (2009: R87 million).

Operating expenses and overheads decreased by 19% to R68,9 million (2009: R84,6 million) primarily due to the loss of the RUK rights, Rand strength and the variable nature of operating expenses linked to income streams.

The Group's share of profit from its equity accounted investee, Automatic Systems Limited (a company listed on the Mauritius Stock Exchange and one of two licensed totalisator operators on the island) was unchanged year on year at R1 million.

PBT increased by 1% to R26,7 million (2009: R26,5 million) and equates to 27% (2009: 25%) of the Group's PBT. At constant currencies PBT increased by 22%.

#### FINANCIAL POSITION

The Group has total assets of R577 million (2009: R500,4 million) including cash resources of R117,5 million (2009: R100,2 million) and insignificant gearing.

Cash generated from operating activities increased by 61% to R163,2 million (2009: R101,5 million) assisted by a more than satisfactory improvement in working capital management and the Vodacom Durban July race meeting which was held on 31 July 2010 due to the Soccer World Cup (historically the first week in July each year). Post year end cash reserves have normalised to R95 million.

Cash generated from operating activities was utilised to pay income tax of R32 million and distributions to shareholders of R51,4 million. A further R9,5 million (net of cash and cash equivalents acquired on acquisition) was utilised to purchase an additional shareholding in Betting World, R58,4 million for capital expenditure and R0,1 million for share repurchases.

### SUPPLEMENTARY STATEMENT OF COMPREHENSIVE INCOME

	Audited 12 months 31 July 2010	Audited 12 months 31 July 2009
	% change	
Revenue	(3)	672 689
Net income		661 999
Stakes	1	(157 986)
Other net operating expenses	3	(426 363)
Profit before interest, income tax, depreciation and amortisation	(17)	77 650
Depreciation and amortisation	15	(28 064)
Profit before interest and income tax	(29)	49 586
Investment income	(72)	2 661
Finance costs	(65)	(27)
Profit before share of profit of equity accounted investee	(34)	52 220
Share of profit of equity accounted investee		2 359
Profit before income tax from ongoing operations	(36)	52 220

	Audited 12 months 31 July 2010	Audited 12 months 31 July 2009
	% change	
Reconciliation of headline earnings		
Profit attributable to equity holders of parent	(10)	63 338
Adjusted for:		
Net loss on disposal of property, plant and equipment		234
Tax effect		(66)
Profit on remeasurement of Betting World becoming a subsidiary		(4 443)
Tax effect		622
Headline earnings	(16)	59 685
Headline earnings per share (cents)	(16)	78,96
Diluted headline earnings per share (cents)	(16)	78,62
Net asset value per share (cents)	3	497,52

	Audited 12 months 31 July 2010	Audited 12 months 31 July 2009
	% change	
Distributions to shareholders		
Interim distribution/dividend		7,50
Distribution out of share premium (cents)		17,50
Dividend per ordinary share (cents)		43,00
Final dividend		43,00
Dividend per ordinary share (cents)		43,00
Number of shares in issue		75 586 838
Weighted average number of shares in issue for basic and headline earnings per share calculation		75 590 417
Weighted average number of shares in issue for diluted earnings per share calculation		75 917 090

	Audited 12 months 31 July 2010	Audited 12 months 31 July 2009
	% change	
Effective from 1 August 2009, the Company acquired a further 16,5% shareholding in Betting World for R12,9 million. This amount includes a R3 million contingent consideration payable on condition that Betting World is granted bookmaker licences in KwaZulu-Natal which requires the relevant gaming legislation in the Province to be amended to allow for corporate ownership of bookmaker licences. The Group's total shareholding in Betting World is now 59%. Total goodwill arising on the acquisition equates to R8,9 million.		
The fair value of the assets and liabilities acquired on 1 August 2009 were:		
Book value		Fair value adjustment
R'000	R'000	R'000
Property, plant and equipment	17 044	17 044
Betting licenses and software	19 040	10 455*
Prepayments	4 760	4 760
Inventories	48	48
Trade and other receivables	9 665	9 665
Income tax receivable	19	19
Cash and cash equivalents	2 857	2 857
Finance lease liabilities	(74)	(74)
Deferred tax liability	(956)	(956)
Trade and other payables	(12 471)	(12 471)
Shareholders' loans	(16 300)	(16 300)
Income tax payable	(202)	(202)
Fair value of identifiable assets	23 430	10 455
Less: Non-controlling interest		(13 893)
Fair value of identifiable assets		19 992
Less: Fair value of previous interest in the acquired		(16 007)
Less: Additional purchase consideration		(12 900)
Goodwill		(8 915)
Current period purchase consideration		12 900
Add: Shareholders' loan liability acquired		2 464
Less: Contingent consideration		(3 000)
Payment effected		12 364
Less: Cash and cash equivalents acquired		(2 857)
Net cash outflow on acquisition		9 507

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