



# PHUMELELA GAMING AND LEISURE LIMITED

(Registration number 1997/016610/06)

## The Group's audited summarised preliminary consolidated financial statements for the year ended 31 July 2011

- ★ PBT FROM INTERNATIONAL OPERATIONS UP 43%
- ★ ONGOING PBT FROM FIXED ODDS OPERATIONS UP 14%
- ★ PBT FROM OTHER LOCAL OPERATIONS DOWN 18%
- ★ ONGOING GROUP PBT UP 4% ★ HEPS UP 5%
- ★ CASH RESERVES OF R133 MILLION ★ DIVIDEND MAINTAINED

### SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited 31 July 2011 R'000	Audited 31 July 2010 R'000
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>393 941</b>	<b>378 558</b>
Property, plant and equipment	338 999	325 340
Intangible assets	46 340	44 717
Interest in equity accounted investee	3 811	4 266
Investment	891	891
Deferred tax asset	3 900	3 344
<b>Current assets</b>	<b>210 548</b>	<b>198 438</b>
Inventories	5 799	5 738
Trade and other receivables	70 334	68 212
Income tax receivable	1 414	6 943
Cash and cash equivalents	133 001	117 545
<b>Total assets</b>	<b>604 489</b>	<b>576 996</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>410 791</b>	<b>394 682</b>
Share capital and premium	1 890	1 890
Retained earnings	386 159	375 199
Non-distributable reserves	(283)	(1 030)
Equity attributable to ordinary shareholders	387 766	376 059
Non-controlling interest	23 025	18 623
<b>Non-current liabilities</b>	<b>7 165</b>	<b>5 670</b>
Deferred tax liability	5 346	3 851
Retirement benefit obligations	1 819	1 819
<b>Current liabilities</b>	<b>186 533</b>	<b>176 644</b>
Trade and other payables	176 711	164 521
Short term loans from non-controlling interest	5 362	8 968
Contingent consideration liability	3 000	3 000
Income tax payable	1 460	155
<b>Total equity and liabilities</b>	<b>604 489</b>	<b>576 996</b>

### REVIEW OF RESULTS

#### GROUP RESULTS

Local trading conditions remained challenging whilst Rand strength and the termination of the Racing UK (RUK) rights agreement in the previous year impacted negatively on international operations. Despite this Group total income rose by 4% to R883,2 million (2010: R849,5 million).

A strong performance by the Group's Isle of Man (IOM) Tote operation helped lift net betting income by 6% to R666,3 million (2010: R625,9 million) with local operations up 4% to R620,7 million (2010: R596,5 million) and the IOM Tote up 55% to R45,6 million (2010: R29,4 million).

Other operating income comprising, *inter alia*, bookmakers' levies, unclaimed dividends and breakages, stable rentals, limited payout machines (LPM's) and local and international broadcasting levies/fees decreased by 3% to R204,4 million (2010: R210,6 million), primarily due to the termination of the RUK rights agreement in the previous year. Notably bookmaker levies increased by 14% to R40,6 million (2010: R35,7 million) whilst income from LPM's increased by a pleasing 56% to R11 million (2010: R7,1 million) benefitting from an increased LPM footprint in Gauteng.

Investment income increased by 3% to R3 million (2010: R2,9 million) abated by increased foreign currency denominated assets and a softening in investment returns.

Operating expenses and overheads were well contained, in particular international operations that benefitted from Rand strength and the loss of the RUK rights, and increased by 4% to R742,3 million (2010: R712,7 million).

Profit before finance costs, income tax, depreciation and amortisation increased by 4% to R131,4 million (2010: R126,7 million).

The Group's depreciation and amortisation charge increased by 1% to R33,1 million (2010: R32,8 million).

Profit before income tax (PBT), which includes a R4,4 million profit on step up of Betting World becoming a subsidiary in the previous year, decreased marginally to R98,2 million (2010: R98,6 million). However, PBT from the Group's international and ongoing fixed odds operations increased by a pleasing 43% and 14% respectively.

Attributable earnings decreased by 2% to R62,4 million (2010: R63,3 million).

Headline earnings and headline earnings per share (HEPS) increased by 5% to R62,9 million (2010: R59,7 million) and 83,19 cents per share (2010: 78,96 cents per share) respectively. Diluted HEPS also increased by 5% to 82,76 cents per share (2010: 78,62 cents per share).

#### LOCAL OPERATIONS

Income from local operations increased by 4% to R787,9 million (2010: R754,3 million) with income from fixed odds up 7% to R87,4 million (2010: R81,6 million) and income from totalisator, racing and other operations up 4% to R700,5 million (2010: R672,7 million).

After a moderate start, totalisator betting handle gradually gained momentum in the second half assisted by the launch of the new 'All to come' and 'Soccer 10' bets, an upgraded betting platform and an 8% increase in betting handle on Vodacom Durban July day resulting in an overall increase of 3% to R2,76 billion (2010: R2,68 billion).

Totalisator betting handle in bricks and mortar outlets increased marginally year on year whilst betting handle on-course and via interactive channels (internet, telephone and mobile platforms) increased by 5% and 9% respectively.

### SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Share premium R'000	Non-distributable reserves R'000	Retained earnings R'000	Equity attributable to ordinary shareholders R'000	Non-controlling interest R'000	Total equity R'000
<b>Balance at 31 July 2009</b>	1 890		(13)	362 103	363 980		363 980
Issue of share capital – options exercised		14			14		14
Non-controlling interest on equity accounted investee becoming a subsidiary						13 893	13 893
Share based payment				1 235	1 235		1 235
Share re-purchases				(75)	(89)		(89)
Total comprehensive income for the year			(1 017)	63 338	62 321	4 730	67 051
– Profit for the year				63 338	63 338	4 730	68 068
– Foreign currency translation reserve			(1 017)		(1 017)		(1 017)
Dividends paid to equity holders of parent				(51 402)	(51 402)		(51 402)
<b>Balance at 31 July 2010</b>	1 890		(1 030)	375 199	376 059	18 623	394 682
Total comprehensive income for the year			747	62 359	63 106	4 402	67 508
– Profit for the year				62 359	62 359	4 402	66 761
– Foreign currency translation reserve			747		747		747
Dividends paid to equity holders of parent				(51 399)	(51 399)		(51 399)
<b>Balance at 31 July 2011</b>	1 890		(283)	386 159	387 766	23 025	410 791

Totalisator betting handle on local and imported horseracing increased by 2% to R2,47 billion (2010: R2,41 billion) and on the Group's soccer pools by 7% to R287,6 million (2010: R269,5 million). Growth in soccer pools was however curtailed by a decline in the number of betting opportunities to 448 (2010: 475) with increased betting opportunities offered in the previous year due to the 2010 Soccer world cup tournament fixtures.

Net betting income increased by 4% to R620,7 million (2010: R596,5 million) with fixed odds up 8% to R77 million (2010: R71,4 million) and totalisator operations up 3% to R543,7 million (2010: R525,1 million).

Operating expenses and overheads increased by 6% to R681,6 million (2010: R643,4 million). Excluding stakes which decreased by 3% to R153,9 million (2010: R158 million), operating expenses and overheads increased by 9% to R527,8 million (2010: R485,4 million) primarily due to employee, marketing and advertising, security, water and electricity, fuel and regulatory compliance costs.

PBT from local operations, which includes a R4,4 million profit on step up of Betting World becoming a subsidiary in the previous year, decreased by 17% to R59,9 million (2010: R71,9 million).

Excluding the R4,4 million profit on step up of Betting World becoming a subsidiary in the comparative period, PBT from local operations decreased by 11% with Betting World up 14% to R17,3 million (2010: R15,2 million) and totalisator, racing and other operations down 18% to R42,6 million (2010: R52,2 million).

#### INTERNATIONAL OPERATIONS

Despite the loss of the RUK rights and the Rand appreciating by approximately 8% against the major trading currencies, international operations continued to excel through the IOM Tote operation and from strategic relations forged with Australia, Italy and the UK who collectively made up 32% (2010: 20%) of international revenue for the year under review.

Bar the IOM Tote, Australia is now international operation's biggest customer followed by the UK, Italy and Singapore. Effective from 1 June 2011 the UK's standing will be significantly enhanced by the agreement concluded with Satellite Information Services Limited (SIS) for the licence rights to South African racing data, audio and visual broadcasts. The agreement is for a five year term at an annual consideration double that received from the previous licensee.

Net betting income from the Group's Isle of Man totalisator operation increased by 55% to R45,6 million (2010: R29,4 million), the benefits of increased betting volumes on enhanced customer betting opportunities flowing through, whilst income generated from other international initiatives was negatively impacted by the loss of the RUK rights and decreased by 21% to R52,1 million (2010: R65,7 million).

Operating expenses and overheads were positively impacted by the loss of the RUK rights, Rand strength and savings achieved on consultants and satellite communication costs decreasing by 12% to R60,7 million (2010: R69,3 million).

The Group's share of profit from its equity accounted investee, Automatic Systems Limited (ASL - a company listed on the Mauritius Stock Exchange and one of two licensed totalisator operators on the island) decreased by 67% to R336 000 (2010: R1 million). ASL's earnings were impacted by strong competition from the Lottery and the licensing of fixed odds operations.

PBT increased by 43% to R38,3 million (2010: R26,7 million) and equates to 39% (2010:28%) of the Group's PBT.

#### FINANCIAL POSITION

The Group has total assets of R604,5 million (2010: R577 million) including cash resources of R133 million (2010: R117,5 million) and insignificant gearing. The Group's net asset value per share increased by 3% to 513,01 cents per share.

Cash generated from operations increased by 5% to R129,6 million (2010: R123,3 million) and was utilised to pay income tax of R23,4 million (2010: R32 million) and dividends of R51,4 million (2010: R51,4 million). A further R53,8 million (2010: R58,4 million) was utilised for capital expenditure and software development. Net cash outflows from financing activities totaled R3,6 million in short term loan repayments.

#### SHARE CAPITAL

There was no movement in share capital during the year under review.

#### CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by directors.

	2011 R'000	2010 R'000
Contracted for	4 221	2 817
Not contracted for	55 400	45 740

#### REPORTING ENTITY

Phumelela Gaming and Leisure Limited is a company domiciled in South Africa. The summarised consolidated financial statements as at and for the year ended 31 July 2011 comprises of the company and its subsidiaries and the Group's interests in equity accounted investees.

#### STATEMENT OF COMPLIANCE

The summarised preliminary consolidated financial statements have been prepared in accordance with the recognition and measurement criteria of IFRS, its interpretations adopted by the International Accounting Standards Board (IASB), the presentation and the disclosure requirements of IAS 34 – Interim Financial Reporting, South African Statements and Interpretations of Statements of Generally Accepted Accounting Practice (AC 500 series), the Listings Requirements of the JSE Limited and the requirements of the South African Companies Act.

The Board is committed to the highest standards of corporate governance throughout the Group, endorses the recommendations set out in King III and supports the Code of Corporate Practices and Conduct setout therein.

#### BASIS OF PRESENTATION

The summarised consolidated financial statements are presented in South African Rands rounded to the nearest thousand on the historical cost basis, except for certain derivative financial instruments that are recognised at fair value.

The accounting policies are those presented in the annual financial statements for the year ended 31 July 2011 and have been applied consistently to the periods presented in these consolidated financial statements and by all Group entities. During the year under review the Group adopted all IFRS and interpretations effective and deemed applicable to the Group. None of these standards and interpretations had a material impact on the results.

#### REPORTS OF THE INDEPENDENT AUDITORS

The unmodified audit reports of KPMG Inc., the independent auditors, on the annual financial statements and the summarised financial statements contained herein for the year ended 31 July 2011, dated 29 September 2011, are available for inspection at the registered office of the Company.

#### CONDENSED 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. The reporting segments are set out as local and international operations with local further segmented into fixed odds and totalisator and other operations.

	% change	Audited 31 July 2011 R'000	Audited 31 July 2010 R'000
<b>LOCAL</b>			
<b>Excluding fixed odds</b>			
Income	4	700 500	672 689
Net income	4	688 712	664 661
Stakes	(3)	(153 863)	(157 986)
Operating expenses	9	(463 358)	(426 018)
Profit before depreciation and amortisation	(11)	71 491	80 657
Depreciation and amortisation		(28 876)	(28 410)
Profit before finance costs and taxation	(18)	42 615	52 247
Finance costs	33	(36)	(27)
Profit before income tax	(18)	42 579	52 220
<b>Fixed odds</b>			
Income	7	87 385	81 580
Net income	8	85 882	79 595
Operating expenses	8	(64 397)	(59 434)
Profit before depreciation and amortisation	7	21 485	20 161
Depreciation and amortisation	(11)	(3 750)	(4 208)
Profit before finance costs and taxation	11	17 735	15 953
Finance costs	(45)	(416)	(754)
Profit from operations	14	17 319	15 199
Profit on step up of Betting World becoming a subsidiary			4 443
Profit before income tax	(12)	17 319	19 642
<b>INTERNATIONAL</b>			
Income		95 287	95 274
Net income	4	99 120	95 118
Operating expenses	(12)	(60 667)	(69 270)
Profit before depreciation and amortisation	49	38 453	25 848
Depreciation and amortisation		(436)	(185)
Profit before finance costs and taxation	48	38 017	25 663
Finance costs		(61)	
Profit from operations	48	37 956	25 663
Share of profit of equity accounted investee	(67)	336	1 028
Profit before income tax	43	38 292	26 691
<b>TOTAL FOR THE GROUP</b>			
Income	4	883 172	849 543
Net income	4	873 715	839 374
Stakes	(3)	(153 863)	(157 986)
Operating expenses	6	(588 423)	(554 722)
Profit before depreciation and amortisation	4	131 429	126 666
Depreciation and amortisation		(33 062)	(32 803)
Profit before finance costs and taxation	5	98 367	93 863
Finance costs		(513)	(781)
Profit before share of equity accounted investee	5	97 854	93 082
Share of profit of equity accounted investee	(67)	336	1 028
Profit from operations	4	98 190	94 110
Profit on step up of Betting World becoming a subsidiary			4 443
Profit before income tax		98 190	98 553

#### SUBSEQUENT EVENTS

There are no significant subsequent events that have a material impact on the financial statements at 31 July 2011.

On 1 July 2011, Phumelela and Gold Circle received notice from the Competition Commission of a complaint lodged by Africa Race Group (Pty) Limited alleging, *inter alia*, price fixing and market allocation. The Company has submitted a formal response to the allegations.

The report on the review of the South African gambling industry prepared by the Gambling Review Commission and submitted to the Minister of Trade and Industry was published in July 2011. The Group submitted its comments on the Commission's recommendations on 9 September 2011. The most important part of the Group's submission is its request for a levelling of the playing field between the Group and Gold Circle's Totalisator operation on the one hand and bookmakers on the other. The Group has submitted that bookmaker betting approximates 46% of total betting on horseracing, but contributes only 14% towards the funding of the sport and has requested that government urgently addresses this imbalance.

With effect from 1 August 2011, Tabcorp Holdings Limited (Australia) acquired joint ownership of the Group's Isle of Man Totalisator operation establishing a strategic partnership with Phumelela Gold Enterprises.

Subject to certain conditions precedent, the Company has reached an agreement to acquire a further 41% shareholding in Betting World (Pty) Limited (a fixed odds bookmaker concern) for R38 million. Upon completion Betting World will be a wholly owned subsidiary of the Group.

De-merger discussions between the KwaZulu-Natal and Western Cape chapters of Gold Circle are at an advanced stage. Since the Gold Circle Western Cape business ("GCWC") is not considered viable as a standalone entity it is envisaged that upon the de-merger, the business and assets of GCWC will be acquired by the Thoroughbred Horseracing Trust, the owners of thoroughbred horses in the Western Cape will be eligible to become members of the Racing Association and the day to day racing and betting operations of GCWC will be outsourced to Phumelela. The simultaneous transactions, once agreed between the parties, will be subject to such members', trustees and regulatory approvals as may be required.

#### SOCIAL RESPONSIBILITY

The Group 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 to selected training, sports and community service related projects continue. The Group has adopted appropriate BEE and employment equity, training and procurement policies.

In April 2011 the Group was awarded "AA" (Level Three Contributor) status by Empowerdex (Economic Empowerment Rating Agency).

#### DIRECTORS

With effect from 1 October 2010, Messrs. V J Moodley and J A Stuart were appointed to the Board as executive directors. There were no other changes to the composition of the Board during the year under review.

#### PROSPECTS

The parlous state of global economies and the potential impact of a further recession in the USA and Europe on the South African economy is uncertain. However the Group's international operations will benefit from a full year of the new contract with SIS, should the Rand remain at present levels against the British Pound and the Euro, the Group's earnings from offshore will also benefit. The Group has recently launched the Rugby5 bet and initial pools exceeded expectations. The Group's soccer pool bets continue to grow and the recently launched Soccer10 bet has been very successful. It is hoped that the government will address the imbalance between the Tote and bookmaker betting and their respective contributions to the funding of the sport. Whilst this should have a positive effect on the Group's earnings, it is not realistically expected during the course of this financial year. Management is targeting growth in earnings. This forecast has not been reviewed or reported on by the Company's auditors.

#### DIVIDEND TO SHAREHOLDERS

The Board has resolved to maintain the dividend during recessionary conditions provided that this is justified by operational cash flows. To the extent that profit increases, the Board intends to return to a more conservative dividend cover. Notice is hereby given that the Board has declared a final dividend of 43 cents per share payable to shareholders recorded in the register on Friday, 21 October 2011. Shareholders are advised that the last date to trade "cum distribution" will be Friday, 14 October 2011. As from commencement of business on Monday, 17 October 2011 all trading in Phumelela shares will be "ex distribution". Payment will be made on Monday, 24 October 2011. Share certificates may not be dematerialised or rematerialised between Monday, 17 October 2011 and Friday, 21 October 2011, both days inclusive.

For and on behalf of the Board

**M P MALUNGANI**  
Chairman  
Johannesburg  
29 September 2011

**W A du PLESSIS**  
Group Chief Executive

**Directors:** M P Malungani (Chairman), W A du Plessis\* (Group Chief Executive), A W Heide\* (Finance Director and COO), R Cooper, M J Jooste, B Kantor, S K C Khampepe, N J Mboweni (Mrs), V J Moodley\*, Dr E Nkosi, M L Ramafalo\*,

J A Stuart\*, C J H Van Niekerk, J B Walters (\*Executive)

**Company Secretary:** A F Wintour **Registered Office:** Turffontein Racecourse, 14 Turf Club Street, Turffontein **Transfer Secretaries:** Computershare Investor Services (Pty) Limited

**Share code:** PHM **ISIN:** ZAE000039269 **Sponsor:** Investec Bank Limited **Web site:** www.phumelela.com