



PHUMELELA GAMING AND LEISURE LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1997/016610/06)

Share code: PHM ISIN: ZAE000039269

**The Group’s summarised consolidated financial statements
for the year ended 31 July 2013**

- ★ **PBT FROM INTERNATIONAL OPERATIONS UP 56%**
- ★ **EPS UP 25%**
- ★ **HEPS UP 26%**
- ★ **FINAL DIVIDEND FOR THE YEAR UP 18%**
- ★ **B-BBEE “AAA LEVEL 2 CONTRIBUTOR” STATUS ACCOMPLISHED**

**SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME**

	%	Audited 31 July 2013 R’000	Audited 31 July 2012 R’000
	change		
Income			
– Local operations	6	901 797	848 020
– International operations	28	113 029	88 514
	8	1 014 826	936 534
Gross betting income			
– Local operations	6	875 827	823 717
Net betting income			
– Local operations	6	707 853	668 362
Other operating income			
– Local operations	12	182 356	163 400
– International operations	28	114 137	89 044
Investment income			
– Local operations	(31)	1 753	2 527
– International operations		42	70
Net income		1 006 141	923 403
Operating expenses and overheads			
– Stakes	6	(175 689)	(165 149)



– Local operations	11	(661 529)	(595 548)
– International operations	4	(43 733)	(42 144)
Profit before finance costs, income tax, depreciation and amortisation	4	125 190	120 562
Depreciation and amortisation	5	(39 886)	(38 016)
Profit from operations	3	85 304	82 546
Finance costs			
– Local operations		(779)	(1 409)
Profit before share of profit of equity accounted investees	4	84 525	81 137
Share of profit of equity accounted investees			
– Premier Gateway International	73	25 895	14 981
– Automatic Systems Limited	44	810	563
Profit before income tax expense	15	111 230	96 681
Income tax expense		(25 257)	(27 801)
Profit for the year	25	85 973	68 880
Other comprehensive income net of taxation			
– Exchange differences on translating foreign operations		2 204	749
Total comprehensive income for the year	27	88 177	69 629
Profit attributable to:			
Equity holders of the parent	25	85 871	68 674
Non-controlling interest		102	206
Profit for the year	25	85 973	68 880
Total comprehensive income attributable to:			
Equity holders of the parent	27	88 075	69 423
Non-controlling interest		102	206
Total comprehensive income for the year	27	88 177	69 629
Earnings per share (cents)			
– Basic	25	113.61	90.85
– Diluted basic	24	110.85	89.09



**SUPPLEMENTARY STATEMENT OF COMPREHENSIVE INCOME
INFORMATION**

	%	Audited 31 July 2013 R'000	Audited 31 July 2012 R'000
Reconciliation of headline earnings			
Earnings attributable to equity holders of parent	25	85 871	68 674
Adjusted for:			
Net loss on disposal of property, plant and equipment		901	146
Tax effect		(252)	(41)
Headline earnings	26	86 520	68 779
Headline earnings per share (cents)	26	114.46	90.99
Diluted headline earnings per share (cents)	25	111.69	89.23
Net asset value per share (cents)	7	571.58	534.05
Dividend to shareholders			
<i>Interim dividend</i>			
Dividend per ordinary share (cents)	12	28.00	25.00
<i>Final dividend</i>			
Dividend per ordinary share (cents)	18	60.00	51.00
Number of shares in issue		75 586 838	75 586 838
Weighted average number of shares in issue for basic and headline earnings per share calculation		75 586 838	75 586 838
Weighted average number of shares in issue for diluted and headline earnings per share calculation		77 466 301	77 083 215



SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited 31 July 2013 R'000	Audited 31 July 2012 R'000
ASSETS		
Non-current assets	495 400	415 390
Property, plant and equipment	404 467	348 935
Goodwill	12 227	12 227
Intangible assets	45 529	37 863
Interest in equity accounted investees	15 765	10 032
Investments	718	1 161
Long term loan	7 434	
Deferred taxation asset	9 260	5 172
Current assets	149 028	176 567
Inventories	5 629	5 707
Trade and other receivables	82 657	68 739
Income tax receivable	542	5 100
Cash and cash equivalents	60 200	97 021
Total assets	644 428	591 957
EQUITY AND LIABILITIES		
Total equity	432 345	403 881
Share capital and premium	1 890	1 890
Retained earnings	427 477	401 319
Non-distributable reserves	2 670	466
Equity attributable to ordinary shareholders	432 037	403 675
Non-controlling interest	308	206
Non-current liabilities	3 734	5 809
Deferred taxation liability	2 074	4 160
Retirement benefit obligations	1 660	1 649
Current liabilities	208 349	182 267
Trade and other payables	204 608	179 267
Contingent consideration liability	3 000	3 000
Income tax payable	741	
Total equity and liabilities	644 428	591 957



SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

	Audited	Audited
	31 July	31 July
	2013	2012
	R'000	R'000
Net cash inflow from operating activities	66 706	53 883
Cash generated by operations	124 747	125 600
Movements in working capital	26 787	14 161
Cash generated by operating activities	151 534	139 761
Income tax paid	(26 131)	(35 667)
Dividends paid to shareholders	(59 713)	(51 399)
Interest received	1 795	2 597
Finance costs paid	(779)	(1 409)
Net cash outflow from investing activities	(83 010)	(85 250)
Acquisition of non-controlling interest in Betting World (Pty) Limited		(16 978)
Acquisition of property, plant and equipment and intangible assets	(104 423)	(58 348)
Proceeds on disposal of property, plant and equipment and intangibles	440	6 500
Disposal of controlling interest in Phumelela Gold International Limited		(25 478)
Loans advanced		(270)
Advanced to equity accounted investee		(608)
Dividends received from equity accounted investee	20 973	9 932
Net cash outflow from financing activities		
Loans advanced	(22 721)	(5 362)
Net decrease in cash and cash equivalents	(39 025)	(36 729)
Effect of conversion of foreign operations on cash and cash equivalents	2 204	749
Cash and cash equivalents at beginning of year	97 021	133 001
Cash and cash equivalents at end of year	60 200	97 021



SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Non-distributable reserves R'000	Retained earnings R'000
Balance at 31 July 2011	1 890	(283)	386 159
Total comprehensive income for the year		749	68 674
– Profit for the year			68 674
– Foreign currency translation reserve		749	
Share based payment			7 660
Transactions with owners recorded directly in equity			
– Acquisition of non-controlling interest in Betting World (Pty) Limited			(9 775)
– Dividends paid to equity holders			(51 399)
Balance at 31 July 2012	1 890	466	401 319
Total comprehensive income for the year		2 204	85 871
– Profit for the year			85 871
– Foreign currency translation reserve		2 204	
Transactions with owners recorded directly in equity			
– Dividends paid to equity holders			(59 713)
Balance at 31 July 2013	1 890	2 670	427 477

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont)

	Shareholders equity R'000	Non-controlling interest R'000	Total equity R'000
Balance at 31 July 2011	387 766	23 025	410 791
Total comprehensive income for the year	69 423	206	69 629
– Profit for the year	68 674	206	68 880
– Foreign currency translation reserve	749		749
Share based payment	7 660		7 660



Transactions with owners recorded directly in equity

– Acquisition of non-controlling interest in Betting World (Pty) Limited	(9 775)	(23 025)	(32 800)
– Dividends paid to equity holders	(51 399)		(51 399)
Balance at 31 July 2012	403 675	206	403 881
Total comprehensive income for the year	88 075	102	88 177
– Profit for the year	85 871	102	85 973
– Foreign currency translation reserve	2 204		2 204
Transactions with owners recorded directly in equity			
– Dividends paid to equity holders	(59 713)		(59 713)
Balance at 31 July 2013	432 037	308	432 345

REVIEW OF RESULTS

Group results

Group profit before income tax (PBT) increased by 15%, earnings per share (EPS) by 25% and headline earnings per share (HEPS) by 26%. Group PBT was underpinned by a 56% surge in PBT from international operations assisted by a 72% increase in share of profits from equity accounted investees (primarily the Group’s offshore interest in the Isle of Man (“IOM”) totalisator (“tote”), a 28% increase in income from the export of South African thoroughbred horseracing media rights and concomitant betting thereon and a further weakening of the Rand. Despite a pleasing 60% increase in net betting income from tote betting on sports pools other than horseracing (“Sports Pools”) and a 197% increase in net betting income from fixed odds betting on lucky numbers, PBT from local operations declined by 59%.

Excluding fixed odds operations, PBT from local operations decreased by 182% resulting in a loss of R7,7 million, mainly due to increased operating costs and a 5% decline in tote revenues on horseracing negatively impacted by a decline in local race meetings due to inclement weather conditions.



PBT from fixed odds operations decreased by 12% impacted by increased operating expenses incurred in advance of the planned roll out of further retail outlets in the 2014 financial year.

Group income increased by 8% to R1 billion (2012: R937 million) and comprises local operations up 6% to R902 million (2012: R848 million) and international operations up 28% to R113 million (2012: R89 million).

Overall net betting income comprising local operations increased by 6% to R708 million (2012: R668 million). Net betting income from tote operations benefitted from a 60% increase on sports pools and increased by 5% to R603 million (2012: R575 million). Net betting income from fixed odds operations benefitted from increased betting on sports other than horseracing and lucky numbers and increased by 12% to R105 million (2012: R93 million).

Other operating income comprises, inter alia, commission received from international totes betting on South African racing, fees paid by offshore customers for the rights to display South African racing, local bookmakers' levies, unclaimed dividends and breakages, Tellytrack subscriptions, share of profits from Limited Payout Machines ("LPM's") installed in retail outlets and stable rentals. Other operating income increased by 17% to R296 million (2012: R252 million).

Investment income decreased by 31% to R1,8 million (2012: R2,6 million) primarily due to the decrease in cash and cash equivalents.

Operating expenses increased by 10% to R881 million (2012: R803 million) inclusive of stakes that increased by 6% to R176 million (2012: R165 million).



Profit before finance costs, income tax, depreciation and amortization increased by 4% to R125 million (2012: R121 million).

The Group invested a further R104 million in its capital infrastructure and as a consequence the depreciation and amortization charge increased by 5% to R40 million (2012: R38 million). Included in capital expenditure is R40 million invested in a synthetic track and general upgrade of facilities at the Fairview racecourse in the Eastern Cape. This project was completed after year end. Assets under construction are not depreciated until they are ready for use and no depreciation has accordingly been provided for the project in the reporting period.

Share of profit from equity accounted investees surged by 72% to R26,7 million (2012: R15,5 million) comprising R25,9 million (2012: R15 million) from the IOM tote and R0,8 million (2012: R0,6 million) from Automatic Systems Limited (ASL - a company listed on the Mauritius Stock Exchange and one of two licensed tote operators on the island).

Profit before income tax increased by 15% to R111 million (2012: R97 million) whilst profit after income tax benefitted from Secondary Tax on Companies being replaced by a Dividend Tax and increased by 25% to R86 million (2012: R69 million).

EPS increased by 25% to 113,61 cents per share (2012: 90,85 cents per share) whilst headline earnings and HEPS increased by 26% to R87 million (2012: R69 million) and 114,46 cents per share (2012: 90,99 cents per share) respectively. Diluted HEPS increased by 25% to 111,69 cents per share (2012: 89,23 cents per share).

Local operations

Income from local operations increased by 6% to R902 million (2012: R848 million) with income from fixed odds operations up 17% to R125 million (2012: R107 million)



and income from tote, racing and other operations up 5% to R777 million (2012: R741 million).

Net betting income increased by 6% to R708 million (2012: R668 million) comprising tote operations which increased by 5% to R603 million (2012: R575 million) and fixed odds operations which increased by 12% to R105 million (2012: R93 million).

Net betting income from tote operations was underpinned by a 60% increase in Sports Pools betting income to R142 million (2012: R89 million) comprising soccer (99,7%) and rugby (0,3%) pools. Soccer pools were driven by a substantial increase in betting opportunities offered more regularly. Net betting income from local and imported horseracing product decreased by 5% to R461 million (2012: R486 million) primarily due to a reduction in the number of local race meetings impacted by inclement weather conditions. Net betting income from bookmaker related tote agencies decreased by 17% with a number of bookmakers opting to cease agent operations in favour of offering the “Open Bet”.

Fixed odds betting handle comprising 61% (2012: 71%) on horseracing, 22% (2012: 23%) on other sports and 17% (2012: 6%) on lucky numbers, increased by 13%. Despite a marginal decrease in betting margins, net betting income increased by 12% with net betting income on horseracing down 15% to R55 million (2012: R64 million), on other sports up 4% to R20 million (2012: R19 million) and on lucky numbers up 197% to R30 million (2012: R10 million). Fixed odds betting on horseracing was negatively impacted by the decrease in the number of local race meetings whilst betting on other sports (predominantly soccer) was impacted by increased competition and lucky numbers betting.



Other income increased by 12% to R182 million (2012: R163 million) and includes bookmaker levies R54 million (up 23%), unclaimed dividends and breakages R29 million (up 11%) and LPM income R17 million (up 14%).

Operating expenses increased by 10% to R837 million (2012: R761 million). Excluding stakes, which increased by 6% to R176 million (2012: R165 million), operating expenses increased by 11% to R662 million (2012: R596 million) comprising fixed odds operating expenses up 23% to R86 million (2012: R70 million) and other local operating expenses up 10% to R576 million (2012: R526 million). Fixed odds operating expenses include pre-trade expenses incurred on additional staff, lease rentals, training and betting coupons required for the roll out of a further 16 retail outlets in the 2014 financial year. Other local operating expenses increased primarily due to employee, training, water and lights, rates and taxes, transport, security, lease rentals and CSI expenditure.

PBT from local operations decreased by 59% to R14 million (2012: R34 million) with PBT from fixed odds operations down 12% to R22 million (2012: R25 million) and other local operations down 182% to a loss of R8 million (2012: R9 million profit).

International operations

Income from other international operations increased by 28% to R113 million (2012: R89 million) assisted by the weakening of the Rand and increased revenues from France (282%), Australia (14%), Singapore (9%) and the UK (16%) primarily due to increased demand for South African racing and concomitant betting thereon.

Operating expenses increased by 4% to R44 million (2012: R42 million).

The Group's share of profit from its equity accounted investees Premier Gateway International Limited (IOM) and Automatic Systems Limited surged 72% to R27 million



(2012: R16 million), primarily due to Tabcorp (Australia) having commenced trade with the IOM.

PBT from international operations increased by 56% to R97 million (2012: R62 million) and equates to 87% (2012: 64%) of the Group's PBT.

FINANCIAL POSITION

The Group has total assets of R644 million (2012: R592 million) including cash resources of R60 million (2012: R97 million) and insignificant gearing. The Group's net asset value per share increased by 7% to 571,58 cents per share (2012: 534,05 cents per share).

Cash generated by operating activities of R152 million (2012: R140 million) was utilised to pay income tax of R26 million (2012: R36 million) and dividends of R60 million (2012: R51 million). A further R104 million (2012: R58 million) was utilised for capital expenditure (inclusive of R40 million invested in a synthetic racing surface "Polytrack" and general upgrade of facilities at Fairview racecourse in the Eastern Cape).

SHARE CAPITAL

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



CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by directors.

	2013 R'000	2012 R'000
Contracted for	2 162	4 178
Not contracted for	81 600	121 476

Capital commitments will be financed out of cash and cash equivalents on hand or borrowing facilities as and when required.

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 2013 comprises of the company and its subsidiaries and the Group's interests in equity accounted investees.

RELATED PARTIES

There have been no significant changes in related party relationships since the previous year.

Other than in the normal course of business, there have been no significant transactions during the year with equity accounted investees, joint operations and other related parties.



STATEMENT OF COMPLIANCE AND PRESENTATION

The summarised consolidated financial statements have been prepared in accordance with the framework concepts, the recognition and measurement requirements of IFRS, the presentation and the disclosure requirements of IAS 34 – Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listing Requirements of the JSE Limited and the requirements of the South African Companies Act. The financial information does not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 July 2013.

The summarised consolidated financial information is presented in South African Rands rounded to the nearest thousand, which is the Company's functional and Group's presentation currency. It is prepared on the historical cost basis, except for certain derivative financial instruments that are recognised at fair value.

The accounting policies applied in the presentation of the summarised consolidated financial information are consistent with those applied for the year ended 31 July 2012, except for new standards and interpretations that became effective on 1 August 2012 and deemed applicable to the Group. The adoption of these standards and interpretations had no impact on the results for the year nor has it required the restatement of any prior year figures.

The Board endorses the recommendations set out in King III and supports the Code of Corporate Practices and Conduct set out therein.

Mr. B. McLoughlin C.A. (S.A.) Chief Financial Officer was responsible for supervising the preparation of the annual financial statements and preparing the summarised financial statements.



REPORT OF THE INDEPENDENT AUDITORS

The unmodified audit report of KPMG Inc., the independent auditors, on the annual financial statements for the year ended 31 July 2013, dated 30 September 2013, is available for inspection at the registered office of the Company.

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 tote and other operations.

SUMMARISED SEGMENTAL ANALYSIS

	%	Audited	Audited
	change	31 July	31 July
		2013	2012
		R'000	R'000
LOCAL			
Excluding fixed odds			
Income	5	777 178	741 114
Net betting income			
- Horseracing	(5)	461 046	486 159
- Other sports	60	142 006	88 822
Net betting income	5	603 052	574 981
Other income	10	173 659	157 250
Investment income	(37)	1 334	2 131
Net income	6	778 045	734 362
Stakes	6	(175 689)	(165 149)
Operating expenses	10	(575 965)	(525 771)
Profit before depreciation and amortisation	(39)	26 391	43 442
Depreciation and amortisation	2	(33 281)	(32 739)



Profit before finance costs and taxation	(164)	(6 890)	10 703
Finance costs	(44)	(779)	(1 398)
(Loss)/profit before income tax expense	(182)	(7 669)	9 305

Fixed odds

Income	17	124 619	106 906
Net betting income			
- Horseracing	(15)	54 847	64 189
- Other sports	4	19 727	19 029
- Other	197	30 227	10 163
Net betting income	12	104 801	93 381
Other income	41	8 697	6 150
Investment income		419	396
Net income	14	113 917	99 927
Operating expenses	23	(85 565)	(69 777)
Profit before depreciation and amortisation	(6)	28 352	30 150
Depreciation and amortisation	26	(6 433)	(5 103)
Profit before finance costs and taxation	(12)	21 919	25 047
Finance costs			(11)
Profit before income tax expense	(12)	21 919	25 036

INTERNATIONAL

Income	28	113 029	88 514
Other income	28	114 137	89 044
Investment income	(40)	42	70
Net income	28	114 179	89 114
Operating expenses	4	(43 733)	(42 144)
Profit before depreciation and amortisation	50	70 446	46 970
Depreciation and amortisation		(171)	(174)
Profit from operations	50	70 275	46 796
Share of profit of equity accounted investees	72	26 705	15 544
Profit before income tax expense	56	96 980	62 340



GROUP

Income	8	1 014 826	936 534
Net betting income			
- Horseracing	(6)	515 893	550 348
- Other sports	50	161 733	107 851
- Other	197	30 227	10 163
Net betting income	6	707 853	668 362
Other income	17	296 493	252 444
Investment income	(31)	1 795	2 597
Net income	9	1 006 141	923 403
Stakes	6	(175 689)	(165 149)
Operating expenses	11	(705 263)	(637 692)
Profit before depreciation and amortisation	4	125 189	120 562
Depreciation and amortisation	5	(39 885)	(38 016)
Profit before finance costs and taxation	3	85 304	82 546
Finance costs		(779)	(1 409)
Profit before share of equity accounted investees	4	84 525	81 137
Share of profit of equity accounted investees	72	26 705	15 544
Profit before income tax expense	15	111 230	96 681

SUBSEQUENT EVENTS

There are no subsequent events that have an impact on the financial statements at 31 July 2013.

CORPORATE INTERESTS

The Group is in the process of unbundling its indirect investment in Automatic Systems Limited (Mauritius) held through Phumelela Gold Enterprises with a view of holding the shares in ASL directly. Phumelela and Gold Circle have agreed to distribute the shares in equal proportion between them.

As reported in the annual financial statements for the year ended 31 July 2011, Phumelela and Gold Circle received notice on 1 July 2011, from the Competition Commission (“the



Commission”) of a complaint lodged by Africa Race Group (Pty) Limited alleging, inter alia, price fixing and market allocation. The Company submitted a formal response to the allegations and awaits the Commission’s findings. The directors consider the possibility of an outflow of resources as remote.

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.

The Group is pleased to announce that it has recently accomplished “AAA Level Two Contributor” status, 2 years ahead of the date stipulated by our license conditions.

DIRECTORS

There was no change to the composition of the Board during the year under review.

OUTLOOK

The Group’s traditional business of horseracing and tote betting thereon remains of concern. Management has made representations to government and the gambling boards and entered into discussions with bookmaker associations with a view to reaching a more equitable funding mechanism for the sport and is hopeful of achieving tangible results during the course of the 2014 financial year.

The Group’s sports pools, fixed odds operations and international operations have started the new year well. Initial indications are that the changes to the Pick 6 rules have had a markedly positive effect on pool sizes. New bets planned for the 2014 financial year include an attractive daily bet with large pools.



The Group continues to target real growth in earnings per share.

Any forward looking statements of forecasts contained in these results have not been reviewed or reported on by the Group auditors.

CASH DIVIDEND TO SHAREHOLDERS

Notice is hereby given that the Board has declared a final gross cash dividend from income reserves of 60 cents per share (51 cents per share net of dividend withholding tax at a rate of 15%) payable to shareholders recorded in the register on Friday 25 October 2013. The Company has no secondary tax on companies' credits available. The issued share capital at the declaration date is 77 101 885 ordinary shares. Shareholders are advised that the last date to trade "cum distribution" will be Friday 18 October 2013. As from commencement of business on Monday 21 October 2013 all trading in Phumelela shares will be "ex distribution". Payment will be made on Monday 28 October 2013. Share certificates may not be dematerialised or rematerialised between Monday 21 October 2013 and Friday 25 October 2013, both days inclusive. The Company's tax reference number is 9171/393/84/7.

For and on behalf of the Board

M P MALUNGANI

Chairman

W A du PLESSIS

Group Chief Executive

Johannesburg

30 September 2013

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: R Gopaul

Registered Office: Turffontein Racecourse, 14 Turf Club Street, Turffontein

Transfer Secretaries: Computershare Investor Services (Pty) Ltd

Share code: PHM **ISIN:** ZAE000039269

Sponsor: Investec Bank Limited

Web site: www.phumelela.com