



PHUMELELA GAMING AND LEISURE LIMITED

(Registration number 1997/016610/06)

The Group's unaudited condensed consolidated interim financial statements for the six months ended 31 January 2011

★ **PBT FROM INTERNATIONAL OPERATIONS UP 20%**
★ **ONGOING PBT FROM BETTING WORLD UP 12%**
★ **ONGOING PBT FROM LOCAL OPERATIONS DOWN 16%**
★ **PAT DOWN 15% ★ HEPS DOWN 9% ★ CASH RESERVES OF R99 MILLION**
★ **DIVIDEND TO SHAREHOLDERS MAINTAINED**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 Jan 2011 R'000	Unaudited 31 Jan 2010 R'000	Audited 31 Jul 2010 R'000
ASSETS			
Non-current assets	379 935	385 611	378 558
Property, plant and equipment	325 580	332 957	325 340
Intangible assets	46 337	42 369	44 717
Deferred tax asset	3 344	4 613	3 344
Interest in equity accounted investee	3 783	4 781	4 266
Investments	891	891	891
Current assets	179 833	148 656	198 438
Inventories	5 897	5 833	5 738
Trade and other receivables	70 859	82 100	68 212
Income tax receivable	4 205	1 620	6 943
Cash and cash equivalents	98 872	59 103	117 545
Total assets	559 768	534 267	576 996
EQUITY AND LIABILITIES			
Total equity	399 009	386 921	394 682
Share capital and premium	1 890	1 890	1 890
Retained earnings	376 442	369 172	375 199
Non-distributable reserves	(840)	(545)	(1 030)
Equity attributable to ordinary shareholders	377 492	370 517	376 059
Non-controlling interest	21 517	16 404	18 623
Non-current liabilities	5 728	6 823	5 670
Deferred tax liability	3 909	5 418	3 851
Retirement benefit obligations	1 819	1 366	1 819
Finance lease liabilities		39	
Current liabilities	155 031	140 523	176 644
Trade and other payables	142 909	129 378	164 521
Short-term loans from non-controlling interests	8 550	7 414	8 968
Contingent consideration liability	3 000	3 000	3 000
Income tax payable	572	731	155
Total equity and liabilities	559 768	534 267	576 996

REVIEW OF RESULTS

GROUP RESULTS

Local trading conditions, particularly for the group's bookmaker and other agent totalisator operations, remained challenging whilst Rand strength against the major trading currencies impacted negatively on the group's international operations. Despite this, profit before income tax (PBT) from the Group's international and ongoing fixed odds (Betting World) operations increased by a pleasing 20% and 12% respectively.

Total income decreased by 1% to R443,4 million (2010: R447,3 million), the decrease primarily due to income from the terminated Racing UK ("RUK") rights agreement included in the comparative period (the agreement was terminated on 28 February 2010). Excluding RUK income, total income increased by 5%.

Total net betting income increased by 3% to R333,5 million (2010: R323,9 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 11% to R97,6 million (2010: R109,7 million). Excluding RUK income in the comparative period, other operating income increased by 16%.

As a consequence of increased foreign currency denominated assets and a softening in investment returns, investment income decreased by 5% to R1,9 million (2010: R2 million).

Operating expenses and overheads were well contained and increased marginally to R261,6 million (2010: R261,9 million).

impacting negatively on handle. However the launch of the 'All to come' bet in October 2010 was well received and impacted positively on totalisator win and place pools.

Totalisator handle on local and imported horseracing as well as the Group's soccer sports bet increased by 1% to R1,41 billion (2010: R1,39 billion). Growth in soccer pools was curtailed by a decline in the number of betting opportunities to 224 (2010: 254) with the local Premier Soccer League having started earlier in the comparative period to accommodate the 2010 Soccer world cup tournament.

Net betting income increased by 3% to R318,7 million (2010: R309,7 million) with Betting World up 12% to R41,8 million (2010: R37,2 million) and totalisator operations up 2% to R277 million (2010: R272,4 million).

Betting World's net betting income was assisted by an improved gross margin of 15,9% (2010: 15,1%), 6% growth in net betting income from bets placed on horse racing, 17% on sport and 178% on numbers.

Operating expenses and overheads increased by 6% to R338,7 million (2010: R320,4 million). Excluding stakes which decreased by 2% to R78 million (2010: R79,4 million), operating expenses and overheads increased by 8% to R260,7 million (2010: R241,1 million) primarily due to employee, marketing and advertising, security, 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 comparative period, decreased by 24% to R36,8 million (2010: R48,2 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 16% to R36,8 million (2010: R43,7 million) with Betting World up 12% to R9,9 million (2010: R8,9 million) and totalisator, racing and other operations down 23% to R26,9 million (2010: R34,8 million).

INTERNATIONAL OPERATIONS

Since the loss of the RUK rights significant progress has been made, both operationally and financially, in positioning South African racing internationally whilst leveraging off the opportunities presented in the UK, Europe, Asia and Australia and by the Group's Isle of Man totalisator operation. Strategic relations have been forged with Australia and Italy who collectively make up 27% of international revenue for the period under review.

Income from international operations was negatively impacted by the strength of the Rand and the loss of the RUK rights and decreased by 28% to R39,8 million (2010: R55 million). At constant currencies revenue decreased by 21%. Excluding RUK revenue, revenue increased by 34% and at constant currencies by 46%.

Net betting income from the Group's Isle of Man totalisator operation increased by 4% to R14,8 million (2010: R14,2 million) whilst income generated from other international initiatives was negatively impacted by the loss of the RUK rights and decreased by 38% to R25,2 million (2010: R40,7 million). At constant currencies, net betting income increased by a pleasing 16% and income from other international initiatives decreased by 34%.

Operating expenses and overheads were positively impacted by Rand strength and the loss of the RUK rights decreasing by 44% to R22,9 million (2010: R40,8 million).

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) decreased by 27% to R411 000 (2010: R560 000).

PBT increased by 20% to R17,4 million (2010: R14,5 million) and equates to 32% (2010:25%) of the Group's PBT. At constant currencies and despite the loss of the RUK rights PBT increased by 31%.

FINANCIAL POSITION

The Group has total assets of R559,8 million (2010: R534,3 million) including cash resources of R98,9 million (2010: R59,1 million) and insignificant gearing. The Group's net asset value per share increased by 2% to 499,41 cents per share.

Cash generated from operations of R72 million was utilised to fund an increase in working capital of R24,4 million (primarily due to a decrease in trade and other payables that included approximately R7 million in betting dividends payable to punters after the Vodacom Durban July meeting held on 31 July 2010), pay income tax of R16,1 million and dividends of R32,5 million. A further R19,8 million was utilised for capital expenditure and software development. Net cash inflows from financing activities of R0,6 million include a dividend of R1 million received from the Group's equity accounted investee.

SHARE CAPITAL

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months 31 Jan 2011 % change R'000	Unaudited 6 months 31 Jan 2010 R'000	Audited 12 months 31 Jul 2010 R'000
Income (Revenue including Gross Betting Income)			
– Local operations	3 403 662	392 327	754 269
– International operations	(28) 39 786	55 023	95 274
	(1) 443 448	447 350	849 543
Gross betting income			
– Local operations	3 392 329	382 499	735 067
– International operations	4 14 855	14 287	29 532
	3 407 184	396 786	764 599
Net betting income			
– Local operations	3 318 740	309 677	596 493
– International operations	4 14 769	14 210	29 375
	3 333 509	323 887	625 868
Other operating income			
– Local operations	5 72 365	68 927	144 883
– International operations	(38) 25 231	40 736	65 707
Investment income			
– Local operations	(13) 1 718	1 978	2 880
– International operations			36
Net income	(1) 432 983	435 528	839 374
Operating expenses and overheads			
– Stakes	(2) (78 046)	(79 350)	(157 986)
– Local operations	8 (260 666)	(241 059)	(485 452)
– International operations	(44) (22 925)	(40 754)	(69 270)
Profit before finance costs, income tax, depreciation and amortisation	(4) 71 346	74 365	126 666
Depreciation and amortisation	5 (17 164)	(16 316)	(32 803)
Profit from operations	(7) 54 182	58 049	93 863
Finance costs	(6) (357)	(380)	(781)
Profit before share of profit of equity accounted investee	(7) 53 825	57 669	93 082
Profit on step-up of Betting World from equity accounted investee to subsidiary		4 443	4 443
Share of profit of equity accounted investee			
– Automatic Systems Limited	(27) 411	560	1 028
Profit before income tax expense	(13) 54 236	62 672	98 553
Income tax expense	(19 347)	(21 537)	(30 485)
Profit for the period	(15) 34 889	41 135	68 068
Other comprehensive income/(expense) net of taxation			
– Exchange differences on translating of foreign operations	136 190	(532)	(1,017)
Total comprehensive income for the period	(14) 35 079	40 603	67 051
Profit or loss attributable to:			
Equity holders of the parent	(17) 31 995	38 624	63 338
Non-controlling interest		2 511	4 730
Profit for the period	(15) 34 889	41 135	68 068
Total comprehensive income attributable to:			
Equity holders of the parent	(16) 32 185	38 092	62 321
Non-controlling interest		2 511	4 730
Total comprehensive income for the period	(14) 35 079	40 603	67 051
Earnings per share (cents)			
– Basic	(17) 42.33	51.10	83.79
– Diluted	(18) 42.14	51.10	83.43

SUPPLEMENTARY STATEMENT

Reconciliation of headline earnings

Earnings attributable to equity holders of parent	(17) 31 995	38 624	63 338
Adjusted for:			
Net loss on disposal of property, plant and equipment		667	234
Tax effect		(187)	(66)
Profit on step-up of Betting World from equity accounted investee to subsidiary			(4 443)
Tax effect		1 244	622
Headline earnings	(9) 32 475	35 600	59 685
Headline earnings per share (cents)	(9) 42.96	47.10	78.96
Diluted headline earnings per share (cents)	(9) 42.77	47.10	78.62

	% change	Unaudited 31 Jan 2011 R'000	Unaudited 31 Jan 2010 R'000	Audited 31 Jul 2010 R'000
LOCAL CONTINUED				
Excluding fixed odds continued				
Profit before finance costs and income tax	(23)	26 868	34 871	52 247
Finance costs	(27)	(11)	(15)	(27)
Profit before income tax expense	(23)	26 857	34 856	52 220
Fixed odds (Betting World)				
Income (Revenue including Gross Betting Income)	10	47 637	43 338	81 580
Net income	15	45 336	39 491	79 595
Operating expenses	18	(33 223)	(28 170)	(59 434)
Profit before finance costs, income tax, depreciation and amortisation	7	12 113	11 321	20 161
Depreciation and amortisation	(12)	(1 826)	(2 075)	(4 208)
Profit before finance costs and income tax	11	10 287	9 246	15 953
Finance costs	(5)	(346)	(365)	(754)
Profit from operations	12	9 941	8 881	15 199
Profit on step-up of Betting World from equity accounted investee to subsidiary	(100)		4 443	4 443
Profit before income tax expense	(25)	9 941	13 324	19 642

INTERNATIONAL

Income (Revenue including Gross Betting Income)	(28)	39 786	55 023	95 274
Net income	(27)	40 160	54 946	95 118
Net operating expenses	(44)	(22 925)	(40 754)	(69 270)
Profit before finance costs, income tax, depreciation and amortisation	21	17 235	14 192	25 848
Depreciation and amortisation	(20)	(208)	(260)	(185)
Profit before share of profit of equity accounted investee	22	17 027	13 932	25 663
Share of profit of equity accounted investee	(27)	411	560	1 028
Profit before income tax expense	20	17 438	14 492	26 691

GROUP

Income (Revenue including Gross Betting Income)	(1)	443 448	447 350	849 543
Net income	(1)	432 983	435 528	839 374
Stakes	(2)	(78 046)	(79 350)	(157 986)
Other net operating expenses	1	(283 591)	(281 813)	(554 722)
Profit before finance costs, income tax, depreciation and amortisation	(4)	71 346	74 365	126 666
Depreciation and amortisation	5	(17 164)	(16 316)	(32 803)
Profit before finance costs and income tax	(7)	54 182	58 049	93 863
Finance costs	(6)	(357)	(380)	(781)
Profit before share of profit of equity accounted investee	(7)	53 825	57 669	93 082
Share of profit of equity accounted investee	(27)	411	560	1 028
Profit from operations	(7)	54 236	58 229	94 110
Profit on step-up of Betting World from equity accounted investee to subsidiary	(100)		4 443	4 443
Profit before income tax expense	(13)	54 236	62 672	98 553

CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by directors.

	2011 R'000	2010 R'000
Contracted for	811	5 500
Not contracted for	26 726	11 391

REPORTING ENTITY

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

STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements for the six months ended 31 January 2011 have been prepared in accordance with IAS34 – Interim Financial Reporting, the requirements of the South African Companies Act and the AC500 series as issued by the Accounting Profession Board. They do 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 2010. The amounts disclosed are not audited, except if indicated otherwise.

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 condensed consolidated interim financial statements are presented in South African Rands

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Diluted headline earnings per share (cents)	(9)	42.77	47.10	78.62
Net asset value per share (cents)	2	499.41	490.22	497.52

Distributions to shareholders

Interim dividend /distribution

Distribution out of share premium (cents)		7.50	7.50
Dividend per ordinary share (cents)	25.00	17.50	17.50

Final dividend

Dividend per ordinary share (cents)			43.00
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Number of shares in issue	75 586 838	75 582 338	75 586 838
Weighted average number of shares in issue for basic and headline earnings per share calculation	75 586 838	75 590 240	75 590 417
Weighted average number of shares in issue for diluted earnings per share calculation	75 932 071	75 590 240	75 917 090

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 31 Jan 2011 R'000	Unaudited 31 Jan 2010 R'000	Audited 31 Jul 2010 R'000
Net cash inflow from operating activities	491	10 972	82 153
Cash generated by operations	72 025	74 296	123 279
Movements in working capital	(24 418)	(15 531)	39 905
Cash generated from operating activities	47 607	58 765	163 184
Taxation paid	(16 135)	(16 885)	(32 034)
Investment income	1 878	1 978	2 916
Finance costs	(357)	(380)	(511)
Distributions to shareholders	(32 502)	(32 506)	(51 402)
Net cash outflow from investing activities	(19 720)	(51 961)	(64 930)
Acquisition of Betting World		(7 961)	(9 507)
Acquisition of property, plant, equipment and intangibles	(19 853)	(44 057)	(58 409)
Proceeds on disposal of property, plant and equipment	133	57	2 986
Net cash inflow/(outflow) from financing activities	556	(89)	141
Issue of share capital			14
Share re-purchases		(89)	(89)
Net decrease in short-term loans	(418)		(480)
Dividend received from equity accounted investee	974		696
Net (decrease)/increase in cash and cash equivalents	(18 673)	(41 078)	17 364
Cash and cash equivalents at beginning of period	117 545	100 181	100 181
Cash and cash equivalents at end of period	98 872	59 103	117 545
Foreign currency denominated monetary assets	31 153	13 616	27 008

Operating expenses and overheads were well contained and increased marginally to R361,6 million (2010: R361,2 million).

Profit before finance costs, income tax, depreciation and amortisation decreased by 4% to R71,3 million (2010: R74,4 million).

The Group continues to invest in its capital infrastructure and as a consequence the depreciation and amortisation charge increased by 5% to R17,2 million (2010: R16,3 million).

Profit from operations decreased by 7% to R54,2 million (2010: R58 million).

Profit before income tax expense, which includes a R4,4 million profit on step-up of Betting World becoming a subsidiary in the comparative period, decreased by 13% to R54,2 million (2010: R62,7 million). Attributable earnings decreased by 17% to R32 million (2010: R38,6 million).

Headline earnings and headline earnings per share (HEPS) decreased by 9% to R32,5 million (2010: R35,6 million) and 42,96 cents per share (2010: 47,10 cents per share) respectively. Diluted HEPS also decreased by 9% to 42,77 cents per share (2010: 47,10 cents per share).

LOCAL OPERATIONS

Income from local operations increased by 3% to R403,7 million (2010: R392,3 million) with income from Betting World up a pleasing 10% to R47,6 million (2010: R43,3 million) and income from totalisator, racing and other operations up 2% to R356 million (2010: R349 million).

Totalisator handle struggled to gain traction in the first half, particularly in independently operated and managed bookmaker and other agent retail outlets. Gold Circle's Gold Cup meeting, historically held in August each year, was not scheduled during the period under review

CONDENSED 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
Balance at 31 July 2009	1 890		(13)	362 103	363 980		363 980
Non-controlling interest on equity accounted investee becoming a subsidiary						13 893	13 893
Total comprehensive income for the period			(532)	38 624	38 092	2 511	40 603
– Profit for the period				38 624	38 624	2 511	41 135
– Foreign currency translation reserve			(532)		(532)		(532)
Share based payment				1 040	1 040		1 040
Share re-purchases				(89)	(89)		(89)
Dividends paid to equity holders of parent				(32 506)	(32 506)		(32 506)
Balance at 31 January 2010	1 890		(545)	369 172	370 517	16 404	386 921
Issue of share capital – options exercised		14			14		14
Total comprehensive income for the period			(485)	24 714	24 229	2 219	26 448
– Profit for the period				24 714	24 714	2 219	26 933
– Foreign currency translation reserve			(485)		(485)		(485)
Share based payment				195	195		195
Share re-purchases				14	–		–
Distributions paid to equity holders of parent				(18 896)	(18 896)		(18 896)
Balance at 31 July 2010	1 890		(1 030)	375 199	376 059	18 623	394 682
Total comprehensive income for the period			190	31 995	32 185	2 894	35 079
– Profit for the period				31 995	31 995	2 894	34 889
– Foreign currency translation reserve			190		190		190
Share based payment				1 750	1 750		1 750
Dividends paid to equity holders of parent				(32 502)	(32 502)		(32 502)
Balance at 31 January 2011	1 890		(840)	376 442	377 492	21 517	399 009

SHARE CAPITAL

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

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.

	Unaudited 31 Jan 2011 R'000	Unaudited 31 Jan 2010 R'000	Audited 31 Jul 2010 R'000
% change			
LOCAL Excluding fixed odds			
Income (Revenue including Gross Betting Income)	2	356 025	348 989
Net income	2	347 487	341 091
Stakes	(2)	(78 046)	(79 350)
Other net operating expenses	7	(227 443)	(212 889)
Profit before finance costs, income tax, depreciation and amortisation	(14)	41 998	48 852
Depreciation and amortisation	8	(15 130)	(13 981)
			672 689
			664 661
			(157 986)
			(426 018)
			80 657
			(28 410)

BASIS OF PRESENTATION

The condensed consolidated interim financial statements are presented in South African Rands rounded to the nearest thousand, unless disclosed otherwise, 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 2010 and have been applied consistently to the periods presented in these condensed consolidated financial statements and by all Group entities. During the period 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.

SUBSEQUENT EVENTS

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

The Group is engaged in talks for a possible merger with the Western Cape racing region following agreement between the KwaZulu-Natal and the Western Cape Boards to unbundle Gold Circle operations.

In terms of a recent agreement concluded between Phumelela Gold Enterprises and Tabcorp Holdings Limited (Australia), the parties have agreed to joint ownership and control of the Group's Isle of Man totalisator operation with the strategic intent of establishing a global tote gateway that facilitates international comingling opportunities. The agreement is conditional on receiving all the necessary regulatory and racing industry approvals.

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 March 2011 the Group was once again awarded "A" (Level Four 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 period under review.

PROSPECTS

Despite difficult trading conditions management is encouraged by a marked improvement in the local betting handle trend from January 2011 to date. If the current momentum is maintained local operations are positioned for growth in the second half. International operations continue to trade well despite Rand strength and the loss of the RUK rights.

The financial forecast has not been reviewed or reported on by the Group's auditors.

Management remains cautiously optimistic of a stronger performance in the second half of the year.

DIVIDEND TO SHAREHOLDERS

Notice is hereby given that the Board has declared an interim dividend of 25 cents per share for the six month period ended 31 January 2011, payable to shareholders recorded in the register on Friday 6 May 2011. Shareholders are advised that the last date to trade "cum distribution" will be Thursday 28 April 2011. As from commencement of business on Friday 29 April 2011 all trading in Phumelela shares will be "ex distribution". Payment will be made on Monday 9 May 2011. Share certificates may not be dematerialised or rematerialised between Friday 29 April 2011 and Friday 6 May 2011, both days inclusive.

For and on behalf of the Board

M P MALUNGANI
Chairman
Johannesburg
8 April 2011

W A du PLESSIS
Group Chief Executive

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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) Ltd

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

