Phumelela Gaming

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 preliminary consolidated financial statements for the year ended 31 July 2014

Key features of the trading year

- Profit before tax from international operations up 47%
- Earnings per share up 29% to 146 cents
- Headline earnings per share up 15% to 132 cents
- Final dividend of 60 cents declared
- Fixed odds retail footprint increased by 42% to 57 outlets
- Growing attendance at local thoroughbred horserace meetings

Summarised consolidated statement of comprehensive income

	% change	Audited 12 months 31 July 2014 R'000	Audited 12 months 31 July 2013 R'000
Income			
– Local operations	7	**967 406**	901 797
– International operations	99	**224 703**	113 029
	17	**1 192 109**	1 014 826
Gross betting income			
– Local operations	6	**927 253**	875 827
Net betting income			
– Local operations	5	**746 591**	707 853
Other operating income			
– Local operations	7	**195 421**	182 356
– International operations	105	**234 466**	114 137
Investment income			
– Local operations	(30)	**1 228**	1 753
– International operations		**1 587**	42
Net income	17	**1 179 293**	1 006 141
Operating expenses and overheads			
– Stakes	6	**(186 299)**	(175 689)
– Local operations	10	**(729 641)**	(661 529)
– International operations	271	**(162 147)**	(43 734)
Profit before finance costs, income tax, depreciation and amortisation	(19)	**101 206**	125 189
Depreciation and amortisation	(1)	**(39 373)**	(39 885)
Profit from operations	(28)	**61 833**	85 304
Finance costs			
– Local operations	52	**(1 183)**	(779)
Profit before share of profit of equity-accounted investees	(28)	**60 650**	84 525
Profit on conversion of equity-accounted investee to investment		**11 135**	
Share of profit of equity-accounted investees	117	**57 983**	26 705
Profit before income tax expense	17	**129 768**	111 230
Income tax expense	(23)	**(19 373)**	(25 257)
Profit for the year	28	**110 395**	85 973
Other comprehensive income net of taxation			
Items that may subsequently be reclassified to profit or loss			
– Foreign currency translation reserve	(250)	**(3 313)**	2 204
Item that will never be reclassified to profit or loss			
– Remeasurement of defined benefit obligation		**1 223**	
– Tax effect		**(342)**	
Total comprehensive income for the year	22	**107 963**	88 177
Profit attributable to:			
Ordinary equity holders of the parent	29	**110 409**	85 871
Non-controlling interest		**(14)**	102
Profit for the year	28	**110 395**	85 973
Total comprehensive income attributable to:			
Ordinary equity holders of the parent	22	**107 977**	88 075
Non-controlling interest		**(14)**	102
Total comprehensive income for the year	21	**107 963**	88 177
Earnings per ordinary share (cents)			
– Basic	29	**146,07**	113,61
– Diluted	26	**139,13**	110,85

Supplementary statement of comprehensive income information

	% change	Audited 12 months 31 July 2014 R'000	Audited 12 months 31 July 2013 R'000
Reconciliation of headline earnings			
Earnings attributable to equity holders of parent	29	110 409	85 871
Adjusted for:			
Profit on conversion of equity-accounted investee to investment		(11 135)	
Net loss on disposal of property, plant and equipment		804	901
Tax effect		(225)	(252)
Headline earnings	15	99 853	86 520
Headline earnings per share (cents)	15	132,10	114,46
Diluted headline earnings per share (cents)	13	125,83	111,69
Net asset value per share (cents)	11	633,04	571,58
Dividend to shareholders			
Interim dividend			
Dividend per ordinary share (cents)		28,00	28,00
Final dividend			
Dividend per ordinary share (cents)		60,00	60,00
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 earnings per share calculation		79 356 413	77 466 301

Summarised consolidated statement of financial position

	Audited as at 31 July 2014 R'000	Audited as at 31 July 2013 R'000
ASSETS		
Non-current assets	**567 518**	495 400
Property, plant and equipment	**426 712**	404 467
Goodwill	**12 362**	12 227
Intangible assets	**48 733**	45 529
Interest in equity-accounted investees	**34 954**	15 765
Investments	**18 263**	718
Long-term secured loan	**19 929**	7 434
Deferred taxation asset	**6 565**	9 260
Current assets	**220 537**	149 028
Inventories	**5 849**	5 629
Trade and other receivables	**114 705**	81 089
Pension fund surplus	**973**	1 568
Income tax receivable	**4 106**	542
Cash and cash equivalents	**94 904**	60 200
Total assets	**788 055**	644 428
EQUITY AND LIABILITIES		
Total equity	**478 791**	432 345
Share capital and premium	**1 890**	1 890
Retained earnings	**477 250**	427 477
Non-distributable reserves	**(643)**	2 670
Equity attributable to ordinary shareholders	**478 497**	432 037
Non-controlling interest	**294**	308
Non-current liabilities	**9 397**	3 734
Deferred taxation liability	**2 555**	2 074
Retirement benefit obligations		1 660
Borrowings	**6 317**	
Finance lease liability	**525**	
Current liabilities	**299 867**	208 349
Trade and other payables	**285 999**	197 464
Borrowings	**2 400**	
Contingent consideration liability	**4 056**	3 000
Income tax payable	**408**	741
Betting dividends payable	**7 004**	7 144
Total equity and liabilities	**788 055**	644 428

Summarised consolidated statements of cash flow

	Audited 12 months 31 July 2014 R'000	Audited 12 months 31 July 2013 R'000
Net cash inflow from operating activities	40 724	66 706
Cash generated by operations	103 360	124 747
Movements in working capital	22 685	26 787
Cash generated by operating activities	126 045	151 534
Income tax paid	(20 436)	(26 131)
Dividends paid to shareholders	(66 517)	(59 713)
Interest received	2 815	1 795
Finance costs paid	(1 183)	(779)
Net cash outflow from investing activities	(11 293)	(105 731)
Acquisition of property, plant and equipment and intangible assets	(66 565)	(104 423)
Proceeds on disposal of property, plant and equipment and intangible assets	2 244	440
Dissolution of Phumelela Gold Enterprises joint operation	24 031	
Investment in equity-accounted investee and investment	(9 650)	
Loans advanced	(12 495)	(22 721)
Dividend received from equity-accounted investees	51 142	20 973
Net cash inflow from financing activities	8 586	
Repayment of finance leases	(131)	
Short-term finance raised	8 717	
Net increase/(decrease) in cash and cash equivalents	38 017	(39 025)
Effect of conversion of foreign operations on cash and cash equivalents	(3 313)	2 204
Cash and cash equivalents at beginning of year	60 200	97 021
Cash and cash equivalents at end of year	94 904	60 200

Summarised consolidated statements of changes in equity

	Share capital R'000	Non-distri-butable reserves R'000	Retained earnings R'000	Equity attributable to ordinary share-holders R'000	Non-controlling interest R'000	Total equity R'000
Balance at 31 July 2012	1 890	466	401 319	403 675	206	403 881
Total comprehensive income for the year		2 204	85 871	88 075	102	88 177
– Profit for the year			85 871	85 871	102	85 973
– Foreign currency translation reserve		2 204		2 204		2 204
Transactions with owners recorded directly in equity						
– Dividends paid to equity holders			(59 713)	(59 713)		(59 713)
Balance at 31 July 2013	1 890	2 670	427 477	432 037	308	432 345
Total comprehensive income for the year		(3 313)	111 290	107 977	(14)	107 963
– Profit for the year			110 409	110 409	(14)	110 395
– Remeasurement of defined benefit obligation			881	881		881
– Foreign currency translation reserve		(3 313)		(3 313)		(3 313)
Transactions with owners recorded directly in equity						
– Share-based payment			5 000	5 000		5 000
– Dividends paid to equity holders			(66 517)	(66 517)		(66 517)
Balance at 31 July 2014	1 890	(643)	477 250	478 497	294	478 791

Review

Group results

For the first six months of the financial year, during which earnings per share increased by 32%, the Group's result was underpinned by a very pleasing performance from international operations. This positive momentum continued in the second half with a weaker Rand providing a further benefit.

The results of the local operations reflect the negative impact of reduced betting on international racing and high legal costs.

The legal costs were incurred in answering complaints lodged with the Competition Commission and the Public Protector against Phumelela and Tellytrack's reply to complaints lodged at certain gambling boards.

Following the refusal by bookmakers to pay a fair value for the right to display international content in their betting shops, the international racing operators instructed Tellytrack to remove their content from Multichoice's channel 239 and to make such content available only to bookmakers who were prepared to pay for the rights to commercially exploit the content.

Consequently, the Group's customers who could not watch live international racing from home reduced their betting on international racing content.

Despite these negative factors detracting from local earnings in the second half, the Group nevertheless produced a very satisfactory result for the year with profit after tax increasing by 28% to R110,4 million and headline earnings increasing by 15% to R99,9 million.

The Group now holds a direct investment in Automatic Systems Limited (Mauritius) rather than indirectly through Phumelela Gold Enterprises ("PGE") with the result that a profit of R11,1 million on unbundling was recorded. This profit is excluded from headline earnings.

International operations in foreign currency are fundamentally important to the financial wellbeing of Phumelela and continue to enjoy real growth. The weakness of the South African Rand further enhanced this contribution. Profit before tax from international operations increased by 47% to R142 million, benefiting from the export of South African thoroughbred horseracing media rights together with the concomitant betting thereon and from the Group's Isle of Man joint operation.

Local operations made a loss of R12,6 million compared with a profit before tax of R14,3 million in the prior year. Horse racing and tote betting thereon continues to be loss making with tote betting on sports other than horseracing and fixed odds contributing positively to Group profitability. Litigation involving the Tellytrack joint operation, in which Phumelela has a 61% interest, has been time consuming and costly and a related effect has been a reduction in turnover and earnings derived from local betting on international race meetings.

Nevertheless, local on-course attendances, betting and hospitality have shown encouraging growth during the year with on-course attendance up by 20%. Tote betting on sports other than horseracing increased by 34% and now exceeds tote betting on international horseracing.

Costs associated with growing the retail footprint of Betting World had a temporary negative effect on fixed odds profitability but the appropriateness of the growth strategy was reinforced by a 95% increase in the fixed odds numbers betting handle.

Income from local operations increased by 7% to R967 million. With effect from 1 August 2013 the PGE international joint operation was dissolved and accounted for as a wholly owned operating division. The prior year reflects a 61% proportional consolidation. As a result, on a similar comparative basis international income increased by 21% to R225 million and total income for the Group increased by 10% to R1,2 billion.

Total net betting income from local totalisator and fixed odds operations increased by 5% to R747 million. Net betting income from tote operations, assisted by a 34% increase in tote bets on sports other than horseracing increased by 5% to R633 million, while net betting income from fixed odds operations increased by 9% to R114 million.

Other operating income increased by 16% on a similar comparative basis to R430 million. This income includes commission received from international totes and off-shore bookmakers for the rights to display and bet on South African racing, gambling board levies, unclaimed dividends and breakages, Tellytrack subscriptions, share of profits from Limited Payout Machines ("LPMs") installed in retail outlets and stable rentals.

Local operating expenses increased by 10% to R730 million and on a similar comparative basis international expenses increased by 21%.

Stakes paid out on horseracing increased by 6% to R186 million.

Profit before finance costs, income tax, depreciation and amortisation was R101 million for the year versus R108 million on a similar comparative basis in the prior year.

The Group's share of profit from equity-accounted investees, primarily from Premier Gateway International Limited (Isle of Man), was R58 million compared with R44 million in the prior year on a similar comparative basis.

Operational review of local operations

The provision of increased weekly betting opportunities resulted in a 33% increase in net tote betting income on soccer to R189 million.

A 17% fall in tote betting handle on international racing was due to weather-related disruptions and the suspension of the visual broadcast of content on the Tellytrack channel at the instruction of the international content service providers. As a consequence, net betting income on local and imported horseracing content fell by 4% to R444 million.

By year end Betting World had 57 outlets, an increase of 42%, and its bespoke fixed odds betting software is fully operational. Fixed odds betting handle increased by 18%, of which 48% (61%) was on horseracing, 23% (22%) on other sports and 29% (17%) on numbers. Betting margins were negatively impacted by unfavourable horseracing and soccer results, with the result that net betting income on horseracing decreased by 17% to R46 million and on other sports by 1% to R20 million. Net betting income on numbers benefited from the retail expansion, increasing by 61% to R49 million.

Other income increased by 7% to R195 million with LPM income up 6% to R18 million, gambling board levies down 2% to R53 million, unclaimed dividends and breakages up 2% to R30 million and royalties/commingling fees up 8% to R37 million.

Operating expense growth of 10% was elevated by investment in the retail expansion and legal and consultancy fees in relation to the Tellytrack/bookmakers dispute.

Operational review of international operations

Increased revenues from major trading partners were due to increased demand for South African racing and concomitant betting thereon and Rand weakness.

The Group has focused on expanding South African content abroad and has the advantage that horserace meetings are staged and visual content exported 364 days a year. Inbound horseracing content supplements local content.

Licence fees payable for South African racing content increased by 25%, while normal operating expenses increased by 21%. Expenses include legal and consultant fees and host track fees paid to generate the increased income.

Financial position

The Group has cash on hand of R95 million, up from R60 million in the prior year, and negligible short-term borrowings.

Of the total assets of R788 million, property, plant and equipment accounts for R427 million at carrying value.

Net asset value per share has increased by 11% to 633,04 cents.

Cash generated from operations, after retention of cash from working capital, amounted to R126 million. From this, R20 million was utilised for payment of income tax, R67 million for dividends to shareholders, R67 million for capital expenditure and a further R12 million was extended to Kenilworth Racing as a bridging finance loan.

The dissolution of the PGE joint operation resulted in an increase in cash reserves of R24 million. Dividends received from equity-accounted investees amounted to R51 million.

Share capital

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

Summarised consolidated 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.

Review continued

SUMMARISED SEGMENTAL ANALYSIS

	% change	12 months 31 July 2014 R'000	12 months 31 July 2013 R'000	*Proforma similar comparative value** % change	*Proforma similar comparative value** 12 months 31 July 2013 R'000
LOCAL					
Excluding fixed odds					
Income	7	**831 567**	777 178	7	777 178
Net betting income	5	**632 592**	603 052	5	603 052
– Horseracing	(4)	**443 746**	461 046	(4)	461 046
– Other sports	33	**188 846**	142 006	33	142 006
Other income	6	**184 849**	173 659	6	173 659
Investment income	(25)	**999**	1 334	(25)	1 334
Net income	5	**818 440**	778 045	5	778 045
Stakes	6	**(186 299)**	(175 689)	6	(175 689)
Operating expenses	9	**(625 009)**	(575 965)	9	(575 965)
Profit before depreciation and amortisation	(73)	**7 132**	26 391	(73)	26 391
Depreciation and amortisation	(16)	**(28 039)**	(33 281)	(16)	(33 281)
Loss before finance costs and income tax expense	203	**(20 907)**	(6 890)	203	(6 890)
Finance costs	(20)	**(626)**	(779)	(20)	(779)
Loss from operations	181	**(21 533)**	(7 669)	181	(7 669)
Share of profit of equity-accounted investee		**474**			
Loss before income tax expense	175	**(21 059)**	(7 669)	175	(7 669)
Fixed odds					
Income	9	**135 840**	124 619	9	124 619
Net betting income	9	**113 999**	104 801	9	104 801
– Horseracing	(17)	**45 720**	54 847	(17)	54 847
– Other sports	(1)	**19 503**	19 727	(1)	19 727
– Other	61	**48 776**	30 227	61	30 227
Other income	22	**10 572**	8 697	22	8 697
Investment income	(45)	**229**	419	(45)	419
Net income	10	**124 800**	113 917	10	113 917
Operating expenses	22	**(104 632)**	(85 565)	22	(85 565)
Profit before depreciation and amortisation	(29)	**20 168**	28 352	(29)	28 352
Depreciation and amortisation	74	**(11 198)**	(6 433)	74	(6 433)
Profit before finance costs and income tax expense	(59)	**8 970**	21 919	(59)	21 919
Finance costs		**(557)**			
Profit before income tax expense	(62)	**8 413**	21 919	(62)	21 919

	% change	12 months 31 July 2014 R'000	12 months 31 July 2013 R'000	Proforma similar comparative value* % change	Proforma similar comparative value* 12 months 31 July 2013 R'000
INTERNATIONAL					
Income	99	**224 702**	113 029	21	185 293
Other income	105	**234 466**	114 137	25	187 110
Investment income		**1 587**	42		69
Net income	107	**236 053**	114 179	26	187 179
Intellectual property rights fees		**(82 504)**		33	(62 004)
Operating expenses	82	**(79 643)**	(43 733)	11	(71 694)
Profit before depreciation and amortisation	5	**73 906**	70 446	38	53 481
Depreciation and amortisation	(20)	**(136)**	(171)	(51)	(280)
Profit from operations	5	**73 770**	70 275	39	53 201
Profit on conversion of equity-accounted investee to investment		**11 135**			
Share of profit of equity-accounted investees	115	**57 509**	26 705	31	43 779
Profit before income tax expense	47	**142 414**	96 980	47	96 980
TOTAL FOR THE GROUP					
Income	17	**1 192 109**	1 014 826	10	1 087 090
Net betting income	5	**746 591**	707 853	5	707 853
– Horseracing	(5)	**489 466**	515 893	(5)	515 893
– Other sports	29	**208 349**	161 733	29	161 733
– Other	61	**48 776**	30 227	61	30 227
Other income	45	**429 887**	296 493	16	369 466
Investment income	57	**2 815**	1 795	55	1 822
Net income	17	**1 179 293**	1 006 141	9	1 079 141
Stakes	6	**(186 299)**	(175 689)	6	(175 689)
Intellectual property rights fees		**(82 504)**		33	(62 004)
Operating expenses	15	**(809 284)**	(705 263)	10	(733 224)
Profit before depreciation and amortisation	(19)	**101 206**	125 189	(6)	108 224
Depreciation and amortisation	(1)	**(39 373)**	(39 885)	(2)	(39 994)
Profit before finance costs and income tax expense	(28)	**61 833**	85 304	(9)	68 230
Finance costs	52	**(1 183)**	(779)	52	(779)
Profit before share of equity-accounted investee	(28)	**60 650**	84 525	(10)	67 451
Profit on conversion of equity-accounted investee to investment		**11 135**			
Share of profit of equity-accounted investees	117	**57 983**	26 705	32	43 779
Profit before income tax expense	17	**129 768**	111 230	17	111 230

** The proforma supplementary information for the 12 months ended 31 July 2013 represents what the figures would have been had the PGE joint operation been dissolved and replaced by the Tellytrack joint operation on 1 August 2012 (similar comparative basis). It is provided to enable users to better understand the results of the Group.*

Review continued

Capital commitments

Commitments in respect of capital expenditure approved by directors.

	2014 R'000	2013 R'000
Contracted for	4 939	2 162
Not contracted for	97 856	81 600

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 2014 comprises of the Company and its subsidiaries and the Group's interests in equity-accounted investees and joint operations.

Statement of compliance and presentation

The summary 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 Listings Requirements for preliminary reports of the JSE Limited and the requirements of the South African Companies Act applicable to summary financial statements. 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 2014.

The summarised consolidated financial information is presented in South African Rand rounded to the nearest thousand, which is the Company's functional and Group's presentation currency. They are 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 in terms of International Financial Reporting Standards and are consistent with those applied for the year ended 31 July 2013, except for new standards and interpretations that became effective on 1 August 2013 and deemed applicable to the Group. The adoption of these standards and interpretations had a limited effect on the results for the year and did not require the restatement of any prior year figures.

In preparing these summarised preliminary consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 July 2013.

Significant accounting policies

Except as described below, the accounting policies applied in these summarised preliminary consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 July 2013. The following changes in accounting policies are expected to be reflected in the Group's consolidated financial statements as at and for the year ended 31 July 2014.

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 August 2013.

IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 13 – Fair Value Measurement
IAS 19 – Employee Benefits

The nature and the effect of the changes are further explained below.

IFRS 10 – Consolidated Financial Statements
IFRS 10 addresses the divergence arising from the control-based principles in IAS 27 and the risks and rewards based approach in SIC 12, and in addition, provides greater guidance on de facto control.

Management has reassessed the control conclusion for each of its investees at 1 August 2013. No changes were identified and the adoption of this new standard has thus had no impact on the financial results.

IFRS 11 – Joint Arrangements
IFRS 11 identifies two types of joint arrangements, joint operations and joint ventures, and prohibits the use of proportionate consolidation for joint ventures.

Management has re-evaluated the Group's involvement in the various joint arrangements and no changes in the accounting treatments were identified.

IFRS 13 – Fair Value Measurement
IFRS 13 is a single cohesive standard consolidating the principles of fair value measurement and disclosures for financial reporting.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

IAS 19 – Employee Benefits
The revised IAS 19 changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value for the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a "net interest" amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The adoption of the changes to this statement have had a limited impact on the results of the Group as previously reported. No adjustment has been made to the results for the year to 31 July 2013 as the amounts are considered to be immaterial. The impact of the change in policy have been included in the results for the year to 31 July 2014.

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 CA(SA), Chief Financial Officer, was responsible for supervising the preparation of the annual financial statements and preparing the summarised financial statements.

Review continued

Report of the independent auditors

The auditors, KPMG Inc., have issued their opinion on the Group's consolidated financial statements for the year ended 31 July 2014. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified opinion. A copy of the auditors' report together with a copy of the audited consolidated financial statements are available at the Company's registered office.

These summarised provisional consolidated financial statements have been derived from the Group's consolidated financial statements and are consistent in all material respects with the Group's consolidated financial statements. These summarised provisional consolidated financial statements have been audited by the Group's auditors who have issued an unmodified opinion. The auditors' report does not necessarily report on all of the information contained in this announcement. Any reference to future financial information included in this announcement has not been reviewed or reported on by the auditors. Shareholders are advised, that in order to obtain a full understanding of the nature of the auditors' engagement they should obtain a copy of that report together with the accompanying financial information from the Company's registered office.

Subsequent events

There are no significant subsequent events that have an impact on the financial information at 31 July 2014.

Corporate interests

As reported previously, 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 has 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.

On 9 September 2014 the Gauteng, KwaZulu-Natal and Western Cape bookmaker associations issued a press release containing details of notices issued to a number of regulatory bodies and including a legal opinion asserting that certain totalisator bets offered by Phumelela, Gold Circle and Kenilworth Racing are unlawful. The bet types offered by the totalisator operators on sports other than horseracing are exempted from the provisions of the Lotteries Act and have been authorised and approved by the relevant provincial gambling boards. In 2003 the Minister of Trade and Industry and the National Lotteries Board instituted criminal and civil proceedings against Phumelela, in which they applied for an order declaring that Phumelela was contravening the Lotteries Act. The applicants withdrew the civil application on 25 June 2004 and tendered Phumelela's taxed party and party costs. During the financial year ended 31 July 2014, provincial betting taxes amounting to approximately R31 million were paid over to all provinces on these totalisator bets.

Phumelela has instructed its legal advisers to answer these notices in the appropriate forums and to take all such steps as are available to it to protect its interests.

Share option schemes

Shareholders are advised that the Board intends to acquire shares to fulfil obligations in respect of shares that may be exercisable as per the executive and CEO option schemes. The purchase of these shares will be funded from the Group's surplus cash reserves.

Litigation

Phumelela is a respondent in an application instituted by Almenta (Pty) Limited and others in the High Court of South Africa, Gauteng Division, Johannesburg, for, inter alia, an order directing Phumelela not to alter the status quo as at 31 January 2014, with regard to the broadcasting of horseracing events.

Phumelela is a respondent in a Competition Commission complaint by the Africa Race Group which has been referred by the complainant to the Competition Tribunal.

Related parties

With effect from 1 August 2013, the Phumelela Gold Enterprises (PGE) joint operation between Gold Circle (GC) and Phumelela (PGL) was dissolved. Concurrently PGL, GC and Kenilworth Racing (KR) concluded:

- the Tellytrack Partnership Agreement to operate, for the exclusive benefit of the partnership, the Tellytrack Channel;
- a substitute Sport Administration Agreement to regulate the administration of the sport; and
- a Licence Agreement whereby GC and KR grant PGL the right to use and exploit their commercial rights and intellectual property internationally (excluding South Africa and Namibia) for 10 years from the effective date. In consideration for these rights, PGL shall pay GC 24,96% and KR 14,04% of profits derived from international operations.

As a result the international business previously accounted as a division of PGE and proportionately consolidated at 61% was transferred to PGL as a separate operating division and is now accounted for at 100%.

During the year, the Group unbundled its indirect investment in Automatic Systems Limited (Mauritius) held through Phumelela Gold Enterprises and now holds a direct interest.

As a consequence comparative information for international operations may be misleading. A revised comparison is set out in the condensed segmental analysis as proforma information.

Other than reported above, 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.

Social responsibility

Phumelela is a proud AAA Level 2 contributor.

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.

Directors

There were no changes to the composition of the Board during the year under review.

Company Secretary

The Group is sad to announce that the Company Secretary Mr R Gopaul passed away suddenly on Monday, 29 September 2014. Mr AW Heide, the current Financial Director and COO has been appointed interim Company Secretary.

Prospects

The Group's international operations, tote bets on sports, other than horseracing and fixed odds numbers betting, continue to grow. A proactive strategy to diversify and offer innovative betting opportunities internationally has become an essential component of the growth and financial success of Phumelela.

Further opportunities for international development have been identified, including sports betting, and Phumelela will continue to be a leading platform to betting customers for South African and international betting.

Review continued

Under consideration are further initiatives that support the competitive appeal of South African thoroughbred horseracing, which has shown an encouraging renewal of interest, growth and on-course attendance.

Phumelela remains committed to achieving a more equitable contribution to the cost of funding the sport of South African horseracing between bookmakers and totalisator operators. We fully support the Tellytrack initiatives to replace the current model, whereby mere local broadcast production costs are recovered and nothing is paid to international operators, to a model where a fair economic return is earned by South African as well as international racing operators from bookmakers who commercially exploit the live racing picture for betting purposes. Although 174 bookmakers have lawfully subscribed for Tellytrack's services, numerous other bookmakers, who are insisting that Tellytrack must continue to be made available to them on a mere cost recovery basis, have found unlawful means to obtain and display South African and certain international racing in their betting shops. Tellytrack has instituted civil proceedings and is in the process of instituting criminal proceedings against such bookmakers and is determined to take all such measures as are open to it to protect its intellectual property rights, however long it takes and irrespective of cost.

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 31 October 2014. There are no STC credits available for utilisation. 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 24 October 2014. As from commencement of business on Monday 27 October 2014 all trading in Phumelela shares will be "ex dividend". Payment will be made on Monday 3 November 2014. Share certificates may not be dematerialised or rematerialised between Monday 27 October 2014 and Friday 31 October 2014, both days inclusive. The Company's tax reference number is 9171/393/84/7.

For and on behalf of the Board

MP Malungani
Chairman

WA du Plessis
Chief Executive Officer

Turffontein, Johannesburg

3 October 2014