Phumelela Gaming

Phumelela Gaming and Leisure Limited

PRELIMINARY ANNUAL FINANCIAL RESULTS
FOR THE YEAR ENDED 31 JULY 2017 AND DIVIDEND DECLARATION

Phumelela Gaming and Leisure Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1997/016610/06)
Share Code: PHM ISIN: ZAE000039269

OPERATIONAL FEATURES OF THE YEAR

- Supabets and Interbet investments provide **EXCELLENT SYNERGISTIC BENEFITS**
- Fixed odds returned a **PLEASING RESULT**
- Supabets and Interbet are making a **HEALTHY CONTRIBUTION**
- **CONTINUING TO INVEST** in South African horseracing
- International division **INCREASED PROFITS** despite adverse currency movements

FINANCIAL FEATURES OF THE YEAR

- Earnings per share up **3%** to **168,46 CENTS**
- Headline earnings per share in constant currency up **30%** to **214,34 CENTS**
- Headline earnings per share up **2%** to **167,96 CENTS**

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	Audited 12 months 31 Jul 2017 R'000	Audited 12 months 31 Jul 2016 R'000
Income			
– Local operations	(1)	**1 213 025**	1 226 382
– International operations	12	**307 490**	274 415
	1	**1 520 515**	1 500 797
Gross betting income			
– Local operations	(2)	**1 176 913**	1 198 796
Net betting income			
– Local operations	(2)	**948 603**	965 551
Other operating income			
– Local operations	12	**281 654**	252 603
– International operations	12	**306 844**	273 840
Investment income			
– Local operations	220	**15 200**	4 756
– International operations		**646**	575
Net income	4	**1 552 947**	1 497 325
Operating expenses and overheads			
– Stakes	3	**(208 756)**	(202 871)
– Local operations	2	**(1 010 038)**	(991 104)
– International operations	8	**(213 917)**	(198 781)
Profit before finance costs, income tax, depreciation and amortisation	15	**120 236**	104 569
Depreciation and amortisation	16	**(71 207)**	(61 471)
Profit from operations	14	**49 029**	43 098
Finance costs			
– Local operations	117	**(20 323)**	(9 368)
Profit before share of profit of equity accounted investees and fair value adjustment to investment	(15)	**28 706**	33 730
Share of profit of equity accounted investees	29	**122 591**	94 694
Profit before fair value adjustment	18	**151 297**	128 424
Fair value adjustment to investment		**946**	5 578
Profit before income tax expense	14	**152 243**	134 002
Income tax expense	(25)	**(9 641)**	(12 912)

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME CONTINUED

	% change	**Audited 12 months 31 Jul 2017 R'000**	Audited 12 months 31 Jul 2016 R'000
Profit for the year	18	**142 602**	121 090
Other comprehensive income for the year			
Items that may subsequently be reclassified to profit or loss			
– Exchange differences on translating foreign operations	(74)	**(151)**	(579)
Total comprehensive income for the year	18	**142 451**	120 511
Profit attributable to:			
Ordinary equity holders of the parent	20	**146 520**	121 944
Non-controlling interest		**(3 918)**	(854)
Profit for the year	18	**142 602**	121 090
Total comprehensive income attributable to:			
Ordinary equity holders of the parent	21	**146 369**	121 365
Non-controlling interest		**(3 918)**	(854)
Total comprehensive income for the year	18	**142 451**	120 511
Earnings per ordinary share (cents)			
– Basic	3	**168,46**	163,62
– Diluted	4	**160,84**	155,01

SUPPLEMENTARY STATEMENT OF COMPREHENSIVE INCOME INFORMATION

	% change	**Audited 12 months 31 Jul 2017 R'000**	Audited 12 months 31 Jul 2016 R'000
Reconciliation of headline earnings			
Earnings attributable to equity holders of parent	20	**146 520**	121 944
Adjusted for:			
Net loss/(profit) on disposal of property, plant and equipment		**(605)**	916
Tax effect		**169**	(256)
Headline earnings	19	**146 084**	122 604
Headline earnings per share (cents)	2	**167,96**	164,51
Diluted headline earnings per share (cents)	3	**160,36**	155,85
Net asset value per share (cents)	47	**1 014,17**	688,33
Dividend to shareholders			
Interim dividend			
Dividend per ordinary share (cents)		**34,00**	34,00
Final dividend			
Dividend per ordinary share (cents)		**70,00**	70,00
Number of shares in issue	36	**101 559 769**	74 535 485
Weighted average number of shares in issue for basic, headline and adjusted headline earnings per share calculation	17	**86 974 276**	74 528 006
Weighted average number of shares in issue for diluted earnings per share calculation	16	**91 097 698**	78 669 669

SUPPLEMENTARY PRO FORMA INFORMATION

The pro forma constant currency financial information has been compiled by the directors to illustrate the impact of foreign currency movements on the Group's reported financial performance for the year ended 31 July 2017 for illustrative purposes only. This information is the responsibility of the directors. Due to the nature of this information, it may not fairly present the Group's financial position, changes in equity and results of operations or cash flows. An unmodified reasonable assurance report has been issued by the Group's auditor, KPMG Inc. in terms of ISAE 3420 Assurance Engagements to Report on the Compilation of the Pro Forma Information in a Prospectus, and is available for inspection at the Company's registered office. The pro forma information has been compiled in terms of the JSE Listings Requirements and the Revised Guide on Pro Forma Information by SAICA.

The average Rand exchange rate strengthened against the major currencies in which the Group is exposed to, namely British pound (21,43 in 2016 to 17,10 in 2017), the Australian dollar (10,69 in 2016 to 10,22 in 2017), the United States dollar(14,65 in 2016 to 13,57 in 2017) and the Euro (16,20 in 2016 to 14,92 in 2017). The constant currency adjustment, detailed below, has been prepared on the basis of applying the 2016 average Rand exchange rates to the 2017 foreign denominated net profits and foreign equity earnings recorded in the 2017 statement of comprehensive income.

	% change	**12 months 31 Jul 2017 R'000**	12 months 31 Jul 2016 R'000
Reconciliation of headline earnings to adjusted headline earnings			
Headline earnings		**146 084**	122 604
Constant currency adjustment		**40 336**	
Adjusted headline earnings	52	**186 420**	122 604
Adjusted headline earnings per share in constant currency (cents)	30	**214,34**	164,51

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited as at 31 Jul 2017 R'000	Audited as at 31 Jul 2016 R'000
ASSETS		
Non-current assets	**1 280 609**	635 466
Property, plant and equipment	**468 388**	458 914
Goodwill	**15 206**	15 206
Intangible assets	**51 939**	51 455
Investments	**11 562**	692
Interest in equity accounted investees	**638 074**	75 460
Investment property	**18 700**	
Long-term loan	**64 309**	24 790
Deferred taxation asset	**12 431**	8 949
Current assets	**259 200**	308 484
Inventories	**2 466**	1 920
Trade and other receivables	**129 855**	137 849
Income tax receivable	**19 395**	19 233
Defined benefit funds	**9 029**	8 183
Assets held for sale		28 624
Cash and cash equivalents	**98 455**	112 675
Total assets	**1 539 809**	943 950
EQUITY AND LIABILITIES		
Total equity	**1 029 993**	513 051
Share capital and premium	**473 826**	1 863
Retained earnings	**560 678**	511 630
Translation reserve	**(593)**	(442)
Equity attributable to ordinary shareholders	**1 033 911**	513 051
Non-controlling interest	**(3 918)**	
Non-current liabilities	**123 370**	64 489
Deferred taxation liability	**1 393**	1 531
Borrowings	**121 977**	62 895
Finance lease liability		63
Current liabilities	**386 446**	366 410
Trade and other payables	**267 146**	310 095
Short-term borrowings	**2 400**	2 926
Contingent consideration liability	**101 434**	707
Income tax payable	**24**	1 683
Betting dividends payable	**13 621**	15 994
Bank overdraft	**1 821**	35 005
Total equity and liabilities	**1 539 809**	943 950

SUMMARISED CONSOLIDATED STATEMENTS OF CASH FLOW

	Audited 12 months 31 Jul 2017 R'000	Audited 12 months 31 Jul 2016 R'000
Net cash (outflow)/inflow from operating activities	**(62 201)**	38 594
Cash generated by operations	**88 771**	113 046
Movements in working capital	**(43 022)**	29 949
Cash generated by operating activities	**45 749**	142 995
Income tax paid	**(15 082)**	(30 306)
Investment income received	**11 957**	5 330
Finance costs paid	**(17 950)**	(9 368)
Dividends to shareholders	**(86 875)**	(70 057)
Net cash outflow from investing activities	**(250 879)**	(19 549)
Acquisition of property, plant and equipment and intangible assets	**(82 223)**	(76 443)
Proceeds on disposal of property, plant and equipment, intangible assets and investments	**1 664**	2 086
Acquisition of a subsidiary/investment in equity accounted investees	**(255 010)**	(1 710)
Contingent liability paid	**(330)**	
Net loans advanced	**(24 432)**	(14 448)
Dividend received from equity accounted investees	**109 452**	70 966
Net cash inflow from financing activities	**332 195**	12 743
Repayment of finance leases	**(425)**	(557)
Net borrowings raised	**58 556**	13 300
Share capital raised	**288 340**	
Shares repurchased and options issued	**(14 276)**	
Net increase in cash and cash equivalents	**19 115**	31 788
Effect of conversion of foreign operations on cash and cash equivalents	**(151)**	(579)
Cash and cash equivalents at beginning of year	**77 670**	46 461
Cash and cash equivalents at end of year	**96 634**	77 670
Make up of balance of cash and cash equivalents		
Cash and cash equivalents	**98 455**	112 675
Bank overdraft	**(1 821)**	(35 005)
Cash and cash equivalents at end of year	**96 634**	77 670

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital and premium R'000	Trans-lation reserves R'000	Retained earnings R'000	Equity attri-butable to ordinary share-holders R'000	Non-con-trolling interest R'000	Total equity R'000
Balance at 31 July 2015	1 863	137	445 743	447 743		447 743
Total comprehensive income for the year		(579)	121 944	121 365	(854)	120 511
– Profit for the year			121 944	121 944	(854)	121 090
– Foreign currency translation reserve		(579)		(579)		(579)
Transactions with owners recorded directly in equity						
– Purchase of controlling interest in subsidiary					854	854
– Share-based payment			14 000	14 000		14 000
– Dividends paid to equity holders			(70 057)	(70 057)		(70 057)
Balance at 31 July 2016	1 863	(442)	511 630	513 051		513 051
Total comprehensive income for the year		**(151)**	**146 520**	**146 369**	**(3 918)**	**142 451**
– Profit for the year			**146 520**	**146 520**	**(3 918)**	**142 602**
– Foreign currency translation reserve		**(151)**		**(151)**		**(151)**
Transactions with owners recorded directly in equity						
– Share issue - Rights offer	**288 713**			**288 713**		**288 713**
– Share issue - Acquisition shares	**183 582**			**183 582**		**183 582**
– Direct listing costs	**(373)**			**(373)**		**(373)**
– Share based payment			**3 720**	**3 720**		**3 720**
– Shares repurchased	**(12)**		**(10 588)**	**(10 600)**		**(10 600)**
– Shares issued in terms of the share option scheme	**53**		**(3 729)**	**(3 676)**		**(3 676)**
– Dividends paid to equity holders			**(86 875)**	**(86 875)**		**(86 875)**
Balance at 31 July 2017	**473 826**	**(593)**	**560 678**	**1 033 911**	**(3 918)**	**1 029 993**

RESULTS ANALYSIS

RESULTS OVERVIEW

The Group result for 2017 is characterised by continued good growth from international revenue sources, a pleasing performance from our wholly owned fixed odds business as well as our investments in Supabets and Interbet, and a disappointing performance from our traditional Tote operations.

Phumelela has continued to deliver on its strategy of diversifying revenue sources through the introduction of new betting products, the addition of international territories and by investing in businesses that are complementary and value-adding.

Our diversification and internationalisation strategy is serving us well, underpinning the competitiveness of Phumelela and the commercial viability of our business model.

Equity accounted profits from local and international sources contributed 81% of Group pre-tax profit. Although accounted for by the equity method, there is active executive management involvement in our strategic Premier Gateway International ("PGI"), Interbet and Supabets joint ventures.

The acquisition of a 50% shareholding in Supabets and the increase in our shareholding in Interbet from 26% to 50% both became effective on 1 March 2017. The Supabets investment was funded through the rights offer and issue of shares to the seller.

International operations are the single largest source of pre-tax profit for Phumelela, which reflects our strategy over many years to internationalise our business. These profits are earned in various currencies with the British pound the most significant.

Horseracing is an integral part of our total product offering and inseparable from the success we have achieved internationally. We continue to invest in supporting a high-quality South African racing product and experience.

On average, the rand strengthened by 20% versus the British pound. International profits, comprising consolidated profit from our international division and equity accounted profits generated by PGI, increased in Rand by a pleasing 11%. In constant currency these profits increased by 37%.

There was welcome shareholder support for the Supabets rights offer, which was an endorsement of our earnings per share accretive and return on equity enhancing investment objective.

In the past five years, Group attributable profit has increased by 113% and earnings per share by 85%, a compound growth of 16% and 13% respectively. This has been achieved because of our diversification and internationalisation initiatives and by ensuring the betting offering is relevant, accessible through bricks and mortar or online, and affordable.

RESULTS OVERVIEW CONTINUED

The Group has contained expenses well and is striving to do better despite the macro economic challenges we face.

The Group has needed to modernise and reposition its traditional business of administering horseracing and conducting Tote betting thereon. Accordingly, the senior management structure has been streamlined, with clearly delineated key performance objectives that align with the evolving nature of the Group. A national retail manager has been appointed with experience outside of our industry to apply fresh thinking to our technology, store design, and customer experience initiatives. Our Tote and fixed odds management teams have been merged so as to minimise duplication and streamline costs and we have made early retirement and voluntary retrenchment offers as part of the process of modernisation and repositioning our business. We have embarked upon a strategy to use technology more effectively and as our first initiative, free Wi-Fi is now being offered in all our stores. We are continually developing new betting applications, especially for smartphones.

Phumelela continues to fight for a fairer funding dispensation for the sport of thoroughbred horseracing. Civil and criminal lawsuits filed against bookmakers for unlawfully displaying Tellytrack are ongoing.

GROUP FINANCIAL ANALYSIS

Total income was up by 1% overall to R1,5 billion, with local income down marginally at R1,2 billion and international income up by 12% to R307,5 million. Income in fixed odds accelerated in the second half of the year, ending 35% higher. Disappointingly Tote betting recorded a decline in income.

Combined local and international operating expenses, prize monies and levies increased by 3% to R1,4 billion.

Depreciation and amortisation increased by 16% to R71,2 million, reflecting continued reinvestment in local Tote and fixed odds operations. Capital expenditure of R82,2 million was 8% higher, of which R42,1 million was spent on horseracing infrastructure and Tote betting and R40,1 million in fixed odds. Investments include a water saving catchment dam at the Vaal and an electricity-saving LED lighting installation at Turffontein, on which a three-year payback is anticipated.

Expenses in the local Tote and horseracing operations were flat on the prior year and fixed odds expenses increased by 9%, a relatively contained increase given the rapid growth and development of this business.

Operating profit increased by 14% to R49,0 million, which comprises a local operating loss of R44,5 million, an increase of 38%, and an international operating profit of R93,5 million, an increase of 24%.

GROUP FINANCIAL ANALYSIS CONTINUED

Local finance costs of R20,3 million, up from R9,4 million, is a consequence of higher borrowings.

The Group's profits from equity accounted investees increased by a pleasing 29%, mainly as a result of the profits from Supabets and Interbet and the additional profits from PGI.

Net attributable income increased by 18% to R142,6 million, assisted by a lower effective tax rate. Profit attributable to ordinary shareholders increased by 20% to R146,5 million.

Headline earnings increased by 19% to R146,1 million. On a constant currency basis headline earnings increased by 52% to R186,4 million.

The weighted average number of shares in issue increased by 17% to 87,0 million and on a fully diluted basis there was a 16% increase in weighted average shares to 91,1 million, with 2,1 million in treasury shares issued in respect of share option obligations. 500 000 shares, at a cost of R10,6 million, were bought back on the open market.

Earnings per share increased by 3% to 168,46 cents and headline earnings per share by 2% to 167,96 cents. Constant currency headline earnings per share increased by 30% to 214,34 cents.

Cash generated from operations declined to R88,8 million from R113,0 million and cash generated by operating activities declined to R45,7 million from R143 million due to working capital absorption of R43,0 million.

The statement of financial position reflects gross debt of R126,2 million and cash of R98,5 million, resulting in a net debt position of R27,8 million or a debt to equity ratio of only 2,7%. However, there is a contingent consideration payable in respect of Supabets of R101 million that will be paid in due course. The effective net debt as at 31 July 2017 is therefore R129 million or a debt to equity ratio of 12,5%.

Dividends paid to shareholders amounted to R86,9 million. Net asset value per share is 1 014,17 cents, an increase of 47%.

Total assets increased by 63% to R1 539,8 million, which includes property, plant and equipment at a carrying value of R468,4 million, goodwill and intangibles at R67,1 million, and equity accounted investees carried at R638,1 million.

The Group retains a strong financial position and has sufficient cash flow and borrowing capacity to meet its ongoing operational needs.

Return on average equity has been affected by the substantially changed capital structure, decreasing to 18% from 25% but remaining above our cost of capital.

SHARE CAPITAL

There has been no change in the authorised share capital of the Company during the year.

Issued share capital increased by 27 024 284 shares as follows:

- 2 125 611 issued from treasury stock to fulfil obligations in respect of shares exercisable per the executive option schemes;
- 16 602 230 rights offer shares were issued in part to fund the purchase of Supabets SA Holdings Proprietary Limited ("Supabets");
- 8 796 443 shares were issued to the seller in terms of the Supabets purchase consideration;
- 500 000 shares repurchased by the Company to fulfil obligations in respect of shares exercisable per the executive option schemes.

At 31 July 2017 issued share capital amounted to 101 559 769 shares, net of 940 789 treasury shares.

SUMMARISED CONSOLIDATED SEGMENTAL ANALYSIS

The Group stages horseracing events in South Africa, offers betting opportunities on South African and international sports and numbers, and exports televisual horseracing content internationally. Reporting disclosure corresponds to management reporting lines.

Summarised segmental analysis

	% change	**31 Jul 2017 R'000**	31 Jul 2016 R'000
Local sports betting and media gross income	(1)	**1 213 025**	1 226 382
International ventures gross income	12	**307 490**	274 415
Total local and international income	1	**1 520 515**	1 500 797
Local tote and fixed odds net betting and other income	2	**1 245 457**	1 222 910
International other income	12	**307 490**	274 415
Total local and international net income	4	**1 552 947**	1 497 325
Local expenses, stakes and levies	3	**(1 289 929)**	(1 255 160)
International expenses	7	**(213 989)**	(199 067)
Total expenses	3	**(1 503 918)**	(1 454 227)
Local operating loss	38	**(44 472)**	(32 250)
Local finance costs	117	**(20 323)**	(9 368)
Local loss from operations	56	**(64 795)**	(41 618)
International pre-tax profit	24	**93 501**	75 348
International and local equity accounted profits	29	**122 591**	94 694
Total Group pre-tax profit	18	**151 297**	128 424
Fair value adjustment to investment		**946**	5 578
Profit before income tax expense	14	**152 243**	134 002

Note: *Segmental information extracted from audited financial statements.*

CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by directors.

	2017 R'000	2016 R'000
Contracted for		4 261
Not contracted for	**125 683**	164 953

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

INVESTMENTS

50% ownership of Supabets SA Holdings Proprietary Limited was transferred to Phumelela with effect from 1 March 2017. The purchase consideration of R437 million was settled by way of a rights offer in the amount of R284 million and shares issued to the sellers.

With effect from 1 March 2017, a further 24% equity interest in Interbet was acquired, increasing Phumelela's shareholding to 50%.

MATTERS OF CORPORATE INTEREST AND LITIGATION

On 22 September 2017, the Johannesburg High Court granted Phumelela's appeal, with costs in the matter relating to the interim directive issued by the Gauteng Gambling Board in October 2014. The parties to the appeal have until 16 October 2017 to apply for leave to appeal the judgment.

Other than the above ruling, there are no further developments on the matters disclosed in the annual financial statements for the year ended 31 July 2016.

Shareholders are reminded that the outcome of the relevant actions noted under Corporate Interests and Litigation, as described in the annual financial statements, remains uncertain and may have an impact on future earnings.

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 2017 comprises the Company and its subsidiaries and the Group's interests in equity accounted investees and joint operations.

STATEMENT OF COMPLIANCE

The preliminary summarised audited consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, and the requirements of the Companies Act applicable to summary financial

statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

BASIS OF PREPARATION

The preliminary summarised audited consolidated financial statements do not include all the information and disclosures required for the audited consolidated financial statements. The preliminary summarised audited consolidated financial statements should be read in conjunction with the audited consolidated financial statements.

The audited consolidated financial statements for the Group as at and for the year ended 31 July 2017 were prepared on the going-concern basis and are available for inspection at the Company's registered office.

The accounting policies applied in the presentation of the preliminary summarised audited consolidated financial statements are in terms of IFRS and are consistent with those applied for the year ended 31 July 2016, except for new standards and interpretations that became effective on 1 August 2016 and deemed applicable to the Group. They are prepared on the historical cost basis, except for certain financial instruments that are recognised at fair value.

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.

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 2017. The auditors were not engaged to report on the summary financial statements. 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 is available at the Company's registered office.

REPORT OF THE INDEPENDENT AUDITORS CONTINUED

The preliminary summarised audited 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. 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. The summarised report is extracted from the audited information but is itself not audited. The directors take full responsibility for the preparation of the preliminary results and the financial information is correctly extracted from the underlying annual financial statements.

SUBSEQUENT EVENTS

There are no significant subsequent events that have an impact on the financial information at 31 July 2017.

RELATED PARTIES

Other than the investments in Supabets and Interbet, there have been no significant transactions during the year with equity accounted investees, joint operations, and other related parties.

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

SOCIAL RESPONSIBILITY AND TRANSFORMATION

The amended B-BBEE Codes of Good Practice have set a challenging bar with the new weightings. Empowerdex has audited the Group as a level 4 with Empowering Supplier status, and the process has allowed the Group to identify areas for improvement.

In the furtherance of the Group's commitment to transformation, the Group has advanced a loan of R20 million to Omphe Tshiamo Investments Proprietary Limited (Omphe Tshiamo) to fund the roll-out of 10 Betting World and Tab franchises in the North West province. Omphe Tshiamo is 95% owned by previously disadvantaged individuals resident in the North West province and the Group owns the remaining 5%. Omphe Tshiamo is planning the roll-out of another 10 franchises and the Group has entered into negotiations with the company and its shareholders to agree the funding thereof. The roll-out of the additional 10 franchises and the funding thereof is subject to the approval of the North West Gambling Board.

SOCIAL RESPONSIBILITY AND TRANSFORMATION CONTINUED

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

Mr P Anastassopoulos was appointed to the Board effective from 8 March 2017. Messrs ML Ramafalo and BP Finch resigned from the Board effective 30 June 2017 and 25 August 2017 respectively. The Board extends its appreciation for their contribution and wishes them well in their future endeavours. There was no other change to the composition of the Board.

Mr MP Malungani has notified the Board of his intention to step down at the December 2017 Annual General Meeting. Peter has served the Company and its Board with distinction over the past 20 years. His invaluable contribution as Board member and Chairman will be sorely missed.

PROSPECTS

As a result of the losses incurred in its local Tote and horseracing operations, the Group has embarked upon an initiative to modernise and reposition its business, which includes a significant cost saving initiative. The management structure has been rationalised and changed. Significant new betting products and technologies are being introduced. The Group has made offers of early retirement and voluntary retrenchment to all staff. These offers may be followed by a formal retrenchment process if need be. The Board has approved a lump-sum spend of up to R30 million on the cost reduction initiative. The aforementioned lump sum will be charged to and form part of the costs in determining the Group's earnings per share for the year ending 1 July 2018. A separate and detailed account will be given of the amounts spent and the payback period thereof.

South African trading conditions remain challenging but we continue to be proactive in managing those challenges and identifying new opportunities. We have earmarked eight under-performing fixed odds outlets for joint ventures with Supabets and are in the process of submitting the relevant applications for regulatory approval. The first three of these are expected to commence trading during the course of October. Further joint ventures with Supabets will be considered. We are in the process of implementing the best of Supabets' software into our betting outlets and Supabets will be re-introducing betting on racing, supported and managed by our fixed odds business. The Tabonline website will be replaced with a new website using the best of Interbet's technology. Exciting new bets will be offered in the Group's fixed odds as well as Tote betting businesses.

PROSPECTS CONTINUED

The Group's international operations, namely the export of live televisual South African horseracing and pari-mutuel betting through PGI, are anticipated to have another good year.

Group earnings will be impacted by the aforementioned cost reduction initiatives. Excluding these costs, the Group continues to target growth in normalised earnings per share/headline 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 70 cents per share (56,00 cents per share net of dividend withholding tax at a rate of 20%) payable to shareholders recorded in the register on Friday, 3 November 2017. The issued share capital at the declaration date is 102 500 558 ordinary shares. Shareholders are advised that the last date to trade "*cum distribution*" will be Tuesday, 31 October 2017. As from commencement of business on Wednesday, 1 November 2017 all trading in Phumelela shares will be "*ex dividend*". Payment will be made on Monday, 6 November 2017. Share certificates may not be dematerialised or rematerialised between Wednesday, 1 November 2017 and Friday, 3 November 2017, both days inclusive. The Company's tax reference number is 9171/393/84/7.

For and on behalf of the Board

MP Malungani
Chairman
Turffontein, Johannesburg
6 October 2017

WA du Plessis
Chief Executive Officer

Directors:	MP Malungani (Chairman), WA du Plessis* (Group Chief Executive), AW Heide* (Finance Director and COO), P Anastassopoulos, R Cooper, MJ Jooste, B Kantor, SKC Khampepe, NJ Mboweni (Mrs), VJ Moodley*, Dr E Nkosi, JA Stuart*, CJH van Niekerk, JB Walters *(*Executive)*
Company Secretary:	F Moloi (Mrs)
Sponsor:	Investec Bank Limited
Registered Office:	Turffontein Racecourse, 14 Turf Club Street, Turffontein
Transfer Secretaries:	Computershare Investor Services Proprietary Limited
Share code:	PHM
ISIN:	ZAE000039269
Website:	**www.phumelela.com**

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