



# 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 unaudited condensed consolidated  
interim financial results** for the six months ended 31 January 2015  
and dividend declaration



## Key features of the period

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- ▶ Excellent performance from fixed odds and tote betting on sports other than horseracing
  - ▶ Operating profit from fixed odds increased **to R15 million from R7 million**
  - ▶ High legal costs associated with combating abuse of intellectual property by certain bookmakers and related matters
  - ▶ **Commercial initiatives** well advanced to counter new competitive dynamics affecting Isle of Man operations
  - ▶ Earnings per share reduced by 4% to 65,96 cents from 68,43 cents
  - ▶ Headline earnings per share decreased by 3% **to 65,69 cents from 67,77 cents**
  - ▶ Headline earnings per share excluding mark to market loss on ASL (Mauritius) investment **increased by 6% to 71,80 cents**
  - ▶ A maintained interim dividend of **28 cents declared**
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## Condensed consolidated statement of comprehensive income

	% change	Unaudited 6 months 31 Jan 2015 R'000	Unaudited 6 months 31 Jan 2014 R'000	Audited 12 months 31 Jul 2014 R'000
Income				
– Local operations	18	561 124	474 533	967 407
– International operations	(12)	98 550	112 095	224 702
	12	659 674	586 628	1 192 109
Gross betting income				
– Local operations	13	525 921	464 606	927 253
Net betting income				
– Local operations	13	422 745	373 871	746 591
Other operating income				
– Local operations	9	112 331	102 828	195 421
– International operations	(7)	104 611	112 468	234 466
Investment income				
– Local operations	339	1 184	270	1 228
– International operations	1 624	362	21	1 587
Net income	9	641 233	589 458	1 179 293
Operating expenses and overheads				
– Stakes	2	(93 971)	(92 110)	(186 299)
– Local operations	14	(410 764)	(360 560)	(729 641)
– International operations	(13)	(71 089)	(81 505)	(162 147)
Profit before finance costs, income tax, depreciation and amortisation	18	65 409	55 283	101 206
Depreciation and amortisation	(1)	(24 365)	(24 568)	(39 373)
Profit from operations	34	41 044	30 715	61 833
Finance costs				
– Local operations	797	(1 919)	(214)	(1 183)
Profit before share of profit of equity accounted investees	28	39 125	30 501	60 650
Profit on conversion of equity accounted investee to investment				11 135
Share of profit of equity accounted investees	(38)	19 866	31 926	57 983
Profit before income tax expense	(6)	58 991	62 427	129 768
Income tax expense	(13)	(9 261)	(10 692)	(19 373)
Profit for the period	(4)	49 730	51 735	110 395
Other comprehensive income net of taxation				
Items that may subsequently be reclassified to profit or loss				
– Exchange differences on translating foreign operations	(91)	262	2 793	(3 313)
Items that will never be reclassified to profit or loss				
– Remeasurement of defined benefit obligation				1 223
– Tax effect				(342)
Total comprehensive income for the period	(8)	49 992	54 528	107 963
<b>Profit attributable to:</b>				
Ordinary equity holders of the parent	(4)	49 723	51 727	110 409
Non-controlling interest		7	8	(14)
Profit for the period	(4)	49 730	51 735	110 395
<b>Total comprehensive income attributable to:</b>				
Ordinary equity holders of the parent	(8)	49 985	54 520	107 977
Non-controlling interest		7	8	(14)
Total comprehensive income for the period	(8)	49 992	54 528	107 963
Earnings per ordinary share (cents)				
– Basic	(4)	65,96	68,43	146,07
– Diluted	(4)	63,23	65,64	139,13

## Supplementary statement of comprehensive income information

		Unaudited 6 months 31 Jan 2015 R'000	Unaudited 6 months 31 Jan 2014 R'000	Audited 12 months 31 Jul 2014 R'000
	% change			
<b>Reconciliation of headline earnings</b>				
Earnings attributable to equity holders of the parent	(4)	49 723	51 727	110 409
Adjusted for:				
Profit on conversion of equity accounted investee to investment				(11 135)
Net (profit)/loss on disposal of property, plant and equipment		(283)	(694)	804
Tax effect		79	194	(225)
Headline earnings	(3)	49 519	51 227	99 853
Headline earnings per share (cents)	(3)	65,69	67,77	132,10
Diluted headline earnings per share (cents)	(3)	62,97	65,01	125,83
Net asset value per share (cents)	2	595,91	585,69	633,04
<b>Reconciliation of headline earnings to adjusted headline earnings</b>				
Headline earnings		49 519	51 227	99 853
Loss/(profit) on remeasurement of investment		4 607		(1 478)
Adjusted headline earnings	6	54 126	51 227	98 375
Adjusted headline earnings per share (cents)	6	71,80	67,77	130,15
<b>Dividend to shareholders</b>				
<i>Interim dividend</i>				
Dividend per ordinary share (cents)		28,00	28,00	28,00
<i>Final dividend</i>				
Dividend per ordinary share (cents)				60,00
Number of shares in issue		74 438 486	75 586 838	75 586 838
Weighted average number of shares in issue for basic and headline earnings per share calculation		75 380 149	75 586 838	75 586 838
Weighted average number of shares in issue for diluted earnings per share calculation		78 641 878	78 799 418	79 356 413



## Condensed consolidated statement of financial position

	Unaudited as at 31 Jan 2015 R'000	Unaudited as at 31 Jan 2014 R'000	Audited as at 31 Jul 2014 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>536 438</b>	540 009	567 518
Property, plant and equipment	426 342	407 994	426 712
Goodwill	12 362	12 362	12 362
Intangible assets	48 944	48 016	48 733
Interest in equity accounted investees	27 111	26 989	34 954
Investments	696	718	18 263
Long-term loan	13 995	34 670	19 929
Deferred taxation asset	6 988	9 260	6 565
<b>Current assets</b>	<b>263 440</b>	239 677	220 537
Inventories	964	6 920	5 849
Trade and other receivables	160 341	137 270	114 705
Pension fund surplus	973	1 568	973
Income tax receivable	9 177	4 807	4 106
Assets held for sale	25 022		
Cash and cash equivalents	66 963	89 112	94 904
<b>Total assets</b>	<b>799 878</b>	779 686	788 055
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>443 887</b>	443 021	478 791
Share capital and premium	1 862	1 890	1 890
Retained earnings	442 105	435 352	477 250
Non-distributable reserves	(381)	5 463	(643)
Equity attributable to ordinary shareholders	443 586	442 705	478 497
Non-controlling interest	301	316	294
<b>Non-current liabilities</b>	<b>32 994</b>	3 993	9 397
Deferred taxation liability	2 555	2 096	2 555
Finance lease liability	693	237	525
Borrowings	29 746		6 317
Retirement benefit obligations		1 660	
<b>Current liabilities</b>	<b>322 997</b>	332 672	299 867
Trade and other payables	264 555	282 861	285 999
Bank overdrafts	30 290	31 441	
Short-term borrowings	13 691	7 768	2 400
Contingent consideration liability	1 056	3 000	4 056
Income tax payable	35	526	408
Betting dividends payable	13 370	7 076	7 004
<b>Total equity and liabilities</b>	<b>799 878</b>	779 686	788 055

## Condensed consolidated statements of cash flow

	Unaudited 6 months 31 Jan 2015 R'000	Unaudited 6 months 31 Jan 2014 R'000	Audited 12 months 31 Jul 2014 R'000
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(20 642)</b>	<b>(885)</b>	<b>40 724</b>
Cash generated by operations	69 719	55 798	103 360
Movements in working capital	(29 614)	3 742	22 685
Cash generated by operating activities	40 105	59 540	126 045
Income tax paid	(15 127)	(15 150)	(20 436)
Investment income received	1 546	291	2 815
Finance costs paid	(1 919)	(214)	(1 183)
Dividends to shareholders	(45 247)	(45 352)	(66 517)
<b>Net cash outflow from investing activities</b>	<b>(31 086)</b>	<b>(11 806)</b>	<b>(11 293)</b>
Acquisition of property, plant and equipment and intangible assets	(31 225)	(30 742)	(66 565)
Proceeds on disposal of property, plant and equipment and intangible assets	338	1 610	2 244
Dissolution of PGE joint operation		24 032	24 031
Prepayment and contingent settlements on investments	(34 313)		
Investment in equity accounted investee and investment		(7 231)	(9 650)
Loans advanced	6 404	(27 236)	(12 495)
Dividends received from equity accounted investee	27 710	27 761	51 142
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(6 765)</b>	<b>7 369</b>	<b>8 586</b>
Finance lease payments	(335)	(31)	(131)
Finance raised	34 719	7 400	8 717
Shares repurchased	(41 149)		
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(58 493)</b>	<b>(5 322)</b>	<b>38 017</b>
Effect of exchange fluctuations on cash and cash equivalents	262	2 793	(3 313)
Cash and cash equivalents at beginning of period	94 904	60 200	60 200
<b>Cash and cash equivalents at end of period</b>	<b>36 673</b>	<b>57 671</b>	<b>94 904</b>



## Condensed consolidated statement of changes in equity

	Share capital R'000	Non-distributable reserves R'000	Retained earnings R'000	Equity attributable to ordinary shareholders R'000	Non-controlling interest R'000	Total equity R'000
<b>Balance at 31 July 2013</b>	1 890	2 670	427 477	432 037	308	432 345
Total comprehensive income for the period		2 793	51 727	54 520	8	54 528
– Profit for the period			51 727	51 727	8	51 735
– Foreign currency translation reserve		2 793		2 793		2 793
Share-based payment			1 500	1 500		1 500
Transactions with owners recorded directly in equity						
– Dividends paid to equity holders			(45 352)	(45 352)		(45 352)
<b>Balance at 31 January 2014</b>	1 890	5 463	435 352	442 705	316	443 021
Total comprehensive income for the period		(6 106)	59 563	53 457	(22)	53 435
– Profit for the period			58 682	58 682	(22)	58 660
– Remeasurement of defined benefit obligation			881	881		881
– Foreign currency translation reserve		(6 106)		(6 106)		(6 106)
Share-based payment			3 500	3 500		3 500
Transactions with owners recorded directly in equity						
– Dividends paid to equity holders			(21 165)	(21 165)		(21 165)
<b>Balance at 31 July 2014</b>	1 890	(643)	477 250	478 497	294	478 791
Total comprehensive income for the period		262	49 723	49 985	7	49 992
– Profit for the period			49 723	49 723	7	49 730
– Foreign currency translation reserve		262		262		262
Share-based payment			1 500	1 500		1 500
Transactions with owners recorded directly in equity						
– Shares repurchased	(28)		(20 990)	(21 018)		(21 018)
– Shares issued in terms of executive share option scheme			(20 131)	(20 131)		(20 131)
– Dividends paid to equity holders			(45 247)	(45 247)		(45 247)
<b>Balance at 31 January 2015</b>	1 862	(381)	442 105	443 586	301	443 887

## Results analysis

### Diversification strategy paying dividends

Phumelela's long-standing proactive strategy to innovate and diversify income streams is manifest in these results with positive momentum building in the Group's fixed odds business. Our meaningful investment in retail fixed odds and tote betting shops is realising improving returns, as evidenced by a 114% rise in fixed odds operating profit to R15 million for the period under review.

We have stepped up efforts to diversify into complementary betting offerings and grow income from non-traditional sources. In addition, we have internationalised South African horseracing content and betting thereon and we have further exciting geographic expansion initiatives in the pipeline.

Profit from tote betting on sports other than horseracing, limited payout machines and fixed odds is sustaining the local operations. Net tote betting income on soccer increased by 24% to R116 million, net fixed odds betting income on sports other than horseracing increased by 206% to R17 million and fixed odds net betting income on numbers increased by 37% to R31 million. Net betting income from fixed odds overall grew strongly by 39% to R75 million.

These growth percentages illustrate the degree to which Phumelela's complementary soccer, numbers and other sport betting offerings are finding favour with customers. This is being facilitated through the provision of increased weekly betting opportunities via an expanding retail footprint.

Betting World ended the period with 60 retail outlets and a further 22 licence applications are pending. The number of retail outlets has grown by 50% in less than two years.

Net betting income from local tote operations increased by 9% to R348 million, with growth driven predominantly by sports other than horseracing as net betting income from local and imported horseracing grew by a mere 2% to R232 million. The Group's total net betting income grew by 13% to R423 million.

Tote betting volumes on horseracing, lost as a result of the temporary suspension of the broadcast of international content on the Tellytrack channel last financial year, have increased markedly but have not yet fully recovered.

Tellytrack subscriptions (included in other income) increased by 12% to R11 million. Commission received from international totes, other than the Isle of Man Tote, betting on South African racing was up by 5% while fees paid by offshore bookmakers' for the rights to display South African racing was up by 14%.

The Group's share of profits from limited payout machines installed in retail outlets grew by 20% to R11 million. Unclaimed dividends and breakages were unchanged at R16 million. Gambling Board levies increased by 16% to R29 million. Stable rentals were up by 4%.

The 12% increased in expenses in the local tote operations includes legal and consulting fees associated with combating abuse of intellectual property by bookmakers and related legal matters. Operating expenses in our fixed odds operations increased by 24%, mainly as a result of the increase in the number of retail outlets.

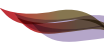
Prize monies increased by 2% to R94 million in accordance with the agreement with the Racing Association.

Profit before tax from local operations amounted to R5,9 million compared with a loss of R0,4 million in the comparative period.

In the period under review, our associate company Premier Gateway International Limited (PGI) encountered significant competition from new entrants to the market. Margins came under pressure and PGI was disadvantaged by contractually being required to incur currency conversions from Euro to Rand to Euro when placing bets and back when returning winnings, while its new competitors were able to place bets and return winnings in Euro without the unnecessary and costly currency conversions. The contract has now been amended and PGI will in future not be required to incur the currency conversions. Share of profit from equity accounted investees is therefore down by 39% to R19 million.

Profit from international operations increased by 24% to R38 million.





Included in international operations is a loss of R5 million on writing down the Group's investment in Automatic Systems Limited (ASL) to market value as a result of the share price of ASL declining during the period.

While profit from international operations increased by 24%, the effect of the ASL mark to market loss of R5 million and the reduction in the share of profit from PGI to R19 million resulted in overall profit before tax from international operations decreasing by 15% to R53 million.

Group profit before finance costs, share of profit from equity accounted investees and the mark to market loss on ASL increased by 49% to R46 million. Further excluding the legal costs incurred in relation to the ongoing Tellytrack/bookmaker litigation, the Group profit increased by 58%.

International operations contributed 90% of Group profit before income tax expense of R59 million.

Attributable profit and earnings per share decreased by 4% to R49,7 million and 65,96 cents respectively and headline earnings and headline earnings per share decreased by 3% to R49,5 million and 65,69 cents respectively.

Adjusted headline earnings, excluding the mark to market remeasurement on the listed ASL investment, increased by 6% to R54 million. Adjusted headline earnings per share on this basis is 71,80 cents.

The weighted average number of shares in issue was 0,27% lower and the number of shares in issue at period close was 1,5% lower as a result of share repurchases in fulfilment of option scheme obligations.

### Financial position

Phumelela retains a sound financial position with total assets of R800 million. Property, plant and equipment at carrying value is R434 million.

Cash generated before movement in working capital was R70 million compared with R56 million in the corresponding period last year.

The Group spent R41 million buying back its own shares to fulfil obligations in respect of shares that may become exercisable in terms of the executive option schemes. Capital expenditure amounted to R31 million and R30 million was applied to working capital. Bridging finance in the amount of R20 million has been committed to the Mashonaland Turf Club and the statement of financial position also includes a long-term secured loan to Kenilworth Racing.

Dividends received from PGI amounted to R27 million.

The Group has moved from a net cash position of R50 million in the comparative period to net debt of R7 million. There are adequate banking facilities and reserve borrowing capacity. The Group has secured adequate credit facilities.

The Group's net asset value per share increased to 595,91 cents.

### Share capital

There was no movement in authorised share capital during the period. In order to fulfil obligations in respect of shares exercisable per the executive option schemes, the Company repurchased 2 200 372 shares. 1 052 266 shares were issued in terms of the executive share option scheme.

### Investment

In December 2014 the Group concluded an agreement to acquire a strategic stake in Uptonvale Services (Pty) Limited, a company that owns a bookmaking concern named Interbet. The agreement is subject to certain conditions precedent that include, inter alia, approval by the Western Cape Gambling and Racing Board.

### Condensed consolidated segmental analysis

The Group stages 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.

## Results analysis continued

### CONDENSED SEGMENTAL ANALYSIS

	% change	Unaudited 6 months 31 Jan 2015 R'000	Unaudited 6 months 31 Jan 2014 R'000	Audited 12 months 31 Jul 2014 R'000
<b>Local – excluding fixed odds</b>				
Income	15	471 706	410 723	831 567
Net betting income	9	348 151	320 260	632 592
– Horseracing	2	231 905	226 529	443 746
– Other sports	24	116 246	93 731	188 846
Other income	9	104 430	95 788	184 849
Investment income	537	1 184	186	999
Net income	9	453 765	416 234	818 440
Stakes	2	(93 971)	(92 110)	(186 299)
Operating expenses	12	(349 742)	(311 497)	(625 009)
Profit before depreciation and amortisation	(20)	10 052	12 627	7 132
Depreciation and amortisation	(10)	(17 885)	(19 891)	(28 039)
Profit before finance costs and income tax expense	8	(7 833)	(7 264)	(20 907)
Finance costs	701	(1 602)	(200)	(626)
Loss from operations	26	(9 435)	(7 464)	(21 533)
Share of profit of equity accounted investee		695		474
Loss before income tax expense	17	(8 740)	(7 464)	(21 059)
<b>Local – fixed odds</b>				
Income	40	89 418	63 810	135 840
Net betting income	39	74 594	53 611	113 999
– Horseracing	5	26 674	25 478	45 720
– Other sports	206	16 954	5 547	19 503
– Other	37	30 966	22 586	48 776
Other income	12	7 901	7 040	10 572
Investment income	(100)		84	229
Net income	36	82 495	60 735	124 800
Operating expenses	24	(61 022)	(49 063)	(104 632)
Profit before depreciation and amortisation	84	21 473	11 672	20 168
Depreciation and amortisation	38	(6 313)	(4 580)	(11 198)
Profit before finance costs and income tax expense	114	15 160	7 092	8 970
Finance costs		(317)	(14)	(557)
Profit from operations	110	14 843	7 078	8 413
Share of loss of equity accounted investee		(217)		
Profit before income tax expense	107	14 626	7 078	8 413

	% change	Unaudited 6 months 31 Jan 2015 R'000	Unaudited 6 months 31 Jan 2014 R'000	Audited 12 months 31 Jul 2014 R'000
<b>International</b>				
Income	(12)	98 550	112 095	224 702
Other income	(7)	104 611	112 468	234 466
Investment income	1 624	362	21	109
Net income	(7)	104 973	112 489	234 575
Intellectual property rights fees	(23)	(32 127)	(41 598)	(82 504)
Operating expenses	(14)	(34 355)	(39 907)	(79 643)
Profit before depreciation and amortisation	24	38 491	30 984	72 428
Depreciation and amortisation	72	(167)	(97)	(136)
Profit from operations	24	38 324	30 887	72 292
Profit on conversion of equity accounted investee to investment				11 135
(Loss)/profit on remeasurement of investment		(4 607)		1 478
Share of profit of equity accounted investee	(39)	19 388	31 926	57 509
Profit before income tax expense	(15)	53 105	62 813	142 414
<b>Total for the Group</b>				
Income	12	659 674	586 628	1 192 109
Net betting income	13	422 745	373 871	746 591
– Horseracing	3	258 579	252 007	489 466
– Other sports	34	133 200	99 278	208 349
– Other	37	30 966	22 586	48 776
Other income	1	216 942	215 296	429 887
Investment income	431	1 546	291	1 337
Net income	9	641 233	589 458	1 177 815
Stakes	2	(93 971)	(92 110)	(186 299)
Intellectual property rights fees		(32 127)	(41 598)	(82 504)
Operating expenses	11	(445 119)	(400 467)	(809 284)
Profit before depreciation and amortisation	27	70 016	55 283	99 728
Depreciation and amortisation	(1)	(24 365)	(24 568)	(39 373)
Profit before finance costs and income tax expense	49	45 651	30 715	60 355
Finance costs	797	(1 919)	(214)	(1 183)
Profit before share of equity accounted investees	43	43 732	30 501	59 172
Profit on conversion of equity accounted investee to investment				11 135
(Loss)/profit on remeasurement of investment		(4 607)		1 478
Share of profit of equity accounted investees	(38)	19 866	31 926	57 983
Profit before income tax expense	(6)	58 991	62 427	129 768

## Results analysis continued

### Capital commitments

Commitments in respect of capital expenditure approved by directors:

	2015 R'000	2014 R'000
Contracted for	4 767	5 781
Not contracted for	66 505	51 328

Not contracted for commitments include R38 million to upgrade and expand the totalisator and fixed odds retail footprint, R9 million to maintain racing operations facilities, machinery, motor vehicles and equipment, R6 million to upgrade broadcasting equipment and R9 million to upgrade and maintain the existing IT equipment and infrastructure.

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 condensed consolidated interim financial statements as at 31 January 2015 comprise the Company and its subsidiaries and the Group's interests in equity accounted investees and joint operations.

### Statement of compliance and presentation

The condensed consolidated interim financial statements for the six months ended 31 January 2015 have been prepared in accordance with IAS 34 – Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listing Requirements of the JSE Limited and the requirements of the South African Companies Act. The financial information does not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 July 2014.

The condensed consolidated financial statements are 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 financial instruments that are recognised at fair value.

The accounting policies applied in the presentation of the condensed consolidated financial statements are in terms of IFRS and consistent with those applied for the year ended 31 July 2014, except for new standards and interpretations that became effective on 1 August 2014 and deemed applicable to the Group. The adoption of these standards and interpretations had no impact on the results for the period nor has it required the restatement of any prior year figures. The amounts disclosed are not audited or reviewed by the auditors, except if indicated otherwise.

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 this interim report.

### Subsequent events

Betting World Nigeria Limited (BWN) which is 26% owned by Betting World, incurred losses during the six-month period ended 31 January 2015. These losses continued beyond the end of January and the Company approached shareholders for additional funding. Shareholders in BWN have to date not been able to agree to provide their proportionate share of the funding and accordingly BWN ceased trading on 13 March 2015. Shareholders of BWN are exploring various alternatives, including providing additional funding, sale or closure of the business. The Group's exposure to BWN, comprising investment in and monies owed by, amount to approximately R11 million.

Other than reported above, there are no significant subsequent events that have an impact on the financial information at 31 January 2015.

### Corporate interests

The Competition Commission complaint lodged by Ms Phindi Kema and Africa Race Group (Pty) Limited referred by the complainant to the Competition Tribunal (the Tribunal) was withdrawn on 15 October 2014. On 16 October 2014 the Tribunal handed down an order awarding costs and party costs to Phumelela.



Phumelela is a respondent in two consolidated complaints lodged by the Gauteng Off-Course Bookmakers' Association and various individual bookmakers with the Competition Commission during 2014 regarding, inter alia, alleged excessive pricing and abuse of a dominant position. The complaints are being investigated by the Competition Commission and Phumelela has submitted extensive information and documents to the Competition Commission to assist it with its investigation. Phumelela is a respondent in a complaint lodged by the KwaZulu-Natal Bookmakers' Society (KZNBS) with the Competition Commission on 3 March 2015. The Competition Commission is yet to approach Phumelela or its representatives regarding this complaint. Phumelela has lodged a counter complaint with the Competition Commission in relation to certain bookmakers having engaged in a concerted practice by cooperating with one another regarding the determination of a uniform price at which they will agree to receive the Tellytrack service. The conduct of these bookmakers constitutes the fixing of a purchase price in contravention of the Competition Act.

On 4 March 2015 the KZNBS lodged a complaint with the Independent Communications Authority of South Africa (ICASA) against Tellytrack, Phumelela, Gold Circle and Kenilworth Racing for contraventions of the Electronic Communications Act pertaining to the provision of commercial broadcast services without the correct licences. The complaints are being investigated by ICASA and the parties are assisting with its investigation.

On 6 September 2013 Phumelela, in terms of its conditions of racecourse licence, submitted an application to the Eastern Cape Gambling and Betting Board (ECGGB) to obtain approval for television signal fees to be levied on Eastern Cape-based bookmakers in respect of horseracing events at Arlington and Fairview. The television signal option was offered as an alternative to Tellytrack. The Gauteng Off-course Bookmakers Association (GOBA) requested the ECGGB to urgently investigate and take steps to ensure that the televised broadcasting of horserace events from Arlington and Fairview continue to be received by GOBA. On 7 April 2015 the ECGGB resolved that:

- it is empowered in terms of Phumelela's racecourse licence conditions, read with the Act to regulate or approve those signal fees which pertain to horseracing events taking place in the Eastern Cape televised to bookmakers which are licensed by the Board (i.e. the Board's jurisdiction);
- the signal fees proposed by Phumelela are reasonable and thus approved;
- Tellytrack is not a subsidiary of Phumelela and that its activities do not fall within the ambit of clause 8(6) of Phumelela's racecourse licence;
- to the extent that Tellytrack is desirous to continue to render a service to Eastern Cape bookmakers, Tellytrack must therefore apply for a certificate of suitability in terms of and in accordance with section 86(1) of the Act within thirty (30) calendar days of this resolution being communicated to Phumelela and/or Tellytrack; and
- the payment by the Board to Phumelela of the 50% portion of the 6% gambling tax in respect of horseracing events and other contingencies is prescribed by Act.

### Litigation

On 9 October 2014 the Gauteng Gambling Board handed down an interim order directing Phumelela to ensure that the status quo ante, regarding the provision of the entire Tellytrack channel to bookmakers, is immediately restored at the price at which the Tellytrack channel was provided in 2013 together with inflation. Phumelela instituted an application in the Gauteng High Court to review and set aside the order made by the Gauteng Gambling Board. In the interim a limited number of bookmakers have reverted to paying the previous fee which is being held in a trust account by the Group's attorneys.

Phumelela is a respondent in an application in the Gauteng High Court instituted by, inter alia, the KZNBS to enforce the order made by the Gauteng Gambling Board on 9 October 2014.

Phumelela is a defendant in an action instituted by the KZNBS in the Gauteng High Court claiming damages from Phumelela pursuant to the alleged infringement by Phumelela of the copyright vesting in the fixed betting odds supplied by the KZNBS distributed by the Bookmaking Odds and Distribution System (BODDS).

The outcome of the relevant actions noted above, and under Corporate interests, remains uncertain and may have an impact on future earnings. Phumelela remains confident of a positive outcome.

### Related parties

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

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

## Results analysis continued

### Social responsibility

Phumelela is an AAA level 2 broad-based black economic empowerment contributor. The Company is proud to report that its most recent verification audit (March 2015) confirmed an improved score to 91,99%, up from 86,12% in the previous year.

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.

Mrs Freda Moloi was appointed Company Secretary effective from 16 February 2015.

### Prospects

Phumelela's traditional business of staging horseracing and conducting tote betting thereon remains loss making. The labour-intensive sport of horseracing, the value chain of which benefits many, including government tax receipts, cannot be sustained if it is to be funded and regulated inequitably. In our guidance last year, we made it quite clear that Phumelela is committed to achieving an equitable funding dispensation that nurtures and grows this important sport. We also said that Tellytrack is determined to take all such measures as are open to it to achieve a fair economic return and to protect its intellectual property rights, however long it takes and irrespective of cost. The events that have unfolded during the period under review have strengthened our resolve to do so.

While PGI continues to operate in a competitive environment, it has an exciting pipeline of new betting opportunities that is expected to compensate for the decline in revenues and provide additional growth opportunities. Commingling, notably into large offshore pools, offers excellent growth prospects. Phumelela will continue to be a leading platform to punters for South African and international betting.

Our initiatives to grow complementary betting opportunities to horseracing are bearing fruit and are providing a solid and profitable underpin to our local activities. The strategic shareholding that we have acquired in Interbet is an exciting new development. Interbet is expected to be earnings accretive to the Group and it dovetails very well with our diversification strategy.

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 an interim gross cash dividend from income reserves of 28 cents per share (23,80 cents per share net of dividend withholding tax at a rate of 15%) payable to shareholders recorded in the register on Friday, 22 May 2015. 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, 15 May 2015. As from commencement of business on Monday, 18 May 2015 all trading in Phumelela shares will be "ex dividend". Payment will be made on Monday, 25 May 2015. Share certificates may not be dematerialised or rematerialised between Monday, 18 May 2015 and Friday, 22 May 2015, both days inclusive. The Company's tax reference number is 9171/393/84/7.

For and on behalf of the Board

**M P Malungani**  
Chairman

**W A du Plessis**  
Chief Executive Officer

Turffontein, Johannesburg

10 April 2015



**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:** F Moloï (Mrs)

**Sponsor:** Investec Bank Limited

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

**Transfer Secretaries:** Computershare Investor Services (Pty) Limited

**Share code:** PHM **ISIN:** ZAE000039269

**Website:** [www.phumelela.com](http://www.phumelela.com)



**Phumelela Gaming**

For more information on our business please go to:

**[www.phumelela.com](http://www.phumelela.com)**