



Phumelela Gaming

**UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL RESULTS**
FOR THE SIX MONTHS ENDED 31 JANUARY 2016
AND DIVIDEND DECLARATION



Phumelela Gaming and Leisure Limited
(Incorporated in the Republic of South Africa) Registration number 1997/016610/06
Share code: PHM ISIN ZAE 000039269
("Phumelela" or "the Company")



OPERATIONAL FEATURES OF THE PERIOD

- **CONTINUED GROWTH** IN FIXED ODDS BETTING AND TOTE BETTING ON SOCCER
- EXEMPLARY CONTRIBUTION BY THE GROUP'S **INTERNATIONAL OPERATIONS**
- INTERBET ONLINE BOOKMAKING BUSINESS AND BETTING EXCHANGE IS PROVING TO BE AN **EXCITING AND PROFITABLE INVESTMENT**

FINANCIAL FEATURES OF THE PERIOD

- EARNINGS PER SHARE **INCREASED BY 32%**
- HEADLINE EARNINGS PER SHARE **INCREASED BY 33%**
- INTERIM DIVIDEND **INCREASED BY 21%**
- **NEGLIGIBLE** DEBT

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | % | Unaudited 6 months 31 Jan 2016 R'000 | Unaudited 6 months 31 Jan 2015 R'000 | Audited 12 months 31 Jul 2015 R'000 |
|------------------------------------------------------------------------|--------|-------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|
| | Change | | | |
| Income | | | | |
| – Local operations | 18 | 659 746 | 561 124 | 1 067 444 |
| – International operations | 29 | 126 726 | 98 550 | 198 761 |
| | 19 | 786 472 | 659 674 | 1 266 205 |
| Gross betting income | | | | |
| – Local operations | 17 | 617 803 | 525 921 | 1 044 329 |
| Net betting income | | | | |
| – Local operations | 18 | 497 189 | 422 745 | 840 506 |
| Other operating income | | | | |
| – Local operations | 6 | 119 576 | 112 331 | 230 269 |
| – International operations | 26 | 132 200 | 104 611 | 205 416 |
| Investment income | | | | |
| – Local operations | (58) | 503 | 1 184 | 1 692 |
| – International operations | (96) | 16 | 362 | 382 |
| Net income | 17 | 749 484 | 641 233 | 1 278 265 |
| Operating expenses and overheads | | | | |
| – Stakes | 3 | (96 790) | (93 971) | (189 772) |
| – Local operations | 21 | (495 217) | (410 764) | (819 763) |
| – International operations | 44 | (95 447) | (66 482) | (139 604) |
| Profit before finance costs, income tax, depreciation and amortisation | (11) | 62 030 | 70 016 | 129 126 |
| Depreciation and amortisation | 18 | (28 860) | (24 365) | (49 825) |
| Profit from operations | (27) | 33 170 | 45 651 | 79 301 |
| Finance costs | | | | |
| – Local operations | 78 | (3 412) | (1 919) | (5 828) |
| Profit before share of profit of equity accounted investees | (32) | 29 758 | 43 732 | 73 473 |
| Equity accounted investee impaired | | | | (8 545) |
| Share of profit of equity accounted investees | 119 | 43 413 | 19 866 | 47 060 |
| Profit before fair value adjustment | 15 | 73 171 | 63 598 | 111 988 |
| Fair value adjustment to investment | | 2 001 | (4 607) | (12 753) |
| Profit before income tax expense | 27 | 75 172 | 58 991 | 99 235 |
| Income tax expense | 10 | (10 199) | (9 261) | (19 713) |
| Profit for the period | 31 | 64 973 | 49 730 | 79 522 |
| Other comprehensive income net of taxation | | | | |
| Items that may subsequently be reclassified to profit or loss | | | | |
| – Exchange differences on translating foreign operations | (60) | 105 | 262 | 780 |
| Total comprehensive income for the period | 30 | 65 078 | 49 992 | 80 302 |
| Profit attributable to: | | | | |
| Ordinary equity holders of the parent | 31 | 64 973 | 49 723 | 79 516 |
| Non-controlling interest | | | 7 | 6 |
| Profit for the period | 31 | 64 973 | 49 730 | 79 522 |
| Total comprehensive income attributable to: | | | | |
| Ordinary equity holders of the parent | 30 | 65 078 | 49 985 | 80 296 |
| Non-controlling interest | | | 7 | 6 |
| Total comprehensive income for the period | 30 | 65 078 | 49 992 | 80 302 |
| Earnings per ordinary share (cents) | | | | |
| – Basic | 32 | 87,18 | 65,96 | 105,98 |
| – Diluted | 31 | 82,66 | 63,23 | 101,14 |

SUPPLEMENTARY STATEMENT OF COMPREHENSIVE INCOME INFORMATION

| | | Unaudited 6 months 31 Jan 2016 R'000 | Unaudited 6 months 31 Jan 2015 R'000 | Audited 12 months 31 Jul 2015 R'000 |
|---------------------------------------------------------------------------------------------------------------|--------|-------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|
| | % | | | |
| | Change | | | |
| Reconciliation of headline earnings | | | | |
| Earnings attributable to equity holders of parent | 31 | 64 973 | 49 723 | 79 516 |
| Adjusted for: | | | | |
| Equity accounted investee impaired | | | | 8 545 |
| Net loss/(profit) on disposal of property, plant and equipment | | 28 | (283) | (315) |
| Tax effect | | (8) | 79 | 88 |
| Headline earnings | 31 | 64 993 | 49 519 | 87 834 |
| Headline earnings per share (cents) | 33 | 87,21 | 65,69 | 117,06 |
| Diluted headline earnings per share (cents) | 31 | 82,69 | 62,97 | 111,72 |
| Net asset value per share (cents) | 7 | 636,17 | 595,91 | 600,79 |
| Reconciliation of headline earnings to adjusted headline earnings | | | | |
| Headline earnings | | 64 993 | 49 519 | 87 834 |
| Fair value adjustment to investment | | (2 001) | 4 607 | 12 753 |
| Tax effect | | 373 | | (2 380) |
| Legal and consulting fees associated with combating abuse of intellectual, property and related legal matters | | 1 569 | | 11 045 |
| Tax effect | | (439) | | (3 093) |
| Adjusted headline earnings | 19 | 64 495 | 54 126 | 106 159 |
| Adjusted headline earnings per share (cents) | 21 | 86,54 | 71,80 | 141,48 |
| Dividend to shareholders | | | | |
| <i>Interim dividend</i> | | | | |
| Dividend per ordinary share (cents) | 21 | 34,00 | 28,00 | 28,00 |
| <i>Final dividend</i> | | | | |
| Dividend per ordinary share (cents) | | | | 60,00 |
| Number of shares in issue | | 74 525 485 | 74 438 486 | 74 525 485 |
| Weighted average number of shares in issue for basic and headline earnings per share calculation | | 74 525 485 | 75 380 149 | 75 032 549 |
| Weighted average number of shares in issue for diluted earnings per share calculation | | 78 599 551 | 78 641 878 | 78 616 685 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Unaudited as at 31 Jan 2016 R'000 | Unaudited as at 31 Jan 2015 R'000 | Audited as at 31 Jul 2015 R'000 |
|----------------------------------------------|----------------------------------------------------------|-----------------------------------------------|---------------------------------------------|
| ASSETS | | | |
| Non-current assets | 588 338 | 536 438 | 575 088 |
| Property, plant and equipment | 452 723 | 426 342 | 444 682 |
| Goodwill | 12 362 | 12 362 | 12 362 |
| Intangible assets | 52 127 | 48 944 | 52 104 |
| Interest in equity accounted investees | 56 396 | 27 111 | 51 732 |
| Investments | 692 | 696 | 695 |
| Long-term loan | 11 128 | 13 995 | 10 603 |
| Deferred taxation asset | 2 910 | 6 988 | 2 910 |
| Current assets | 275 573 | 263 440 | 200 751 |
| Inventories | 1 864 | 964 | 879 |
| Trade and other receivables | 148 771 | 160 341 | 100 812 |
| Pension fund surplus | 7 075 | 973 | 7 075 |
| Income tax receivable | 10 082 | 9 177 | 10 941 |
| Assets held for sale | 25 047 | 25 022 | 23 046 |
| Cash and cash equivalents | 82 734 | 66 963 | 57 998 |
| Total assets | 863 911 | 799 878 | 775 839 |
| EQUITY AND LIABILITIES | | | |
| Total equity | 474 106 | 443 887 | 447 743 |
| Share capital and premium | 1 863 | 1 862 | 1 863 |
| Retained earnings | 472 001 | 442 105 | 445 743 |
| Non-distributable reserves | 242 | (381) | 137 |
| Equity attributable to ordinary shareholders | 474 106 | 443 586 | 447 743 |
| Non-controlling interest | | 301 | |
| Non-current liabilities | 68 226 | 32 994 | 54 735 |
| Deferred taxation liability | 4 652 | 2 555 | 4 652 |
| Finance lease liability | 179 | 693 | 488 |
| Borrowings | 63 395 | 29 746 | 49 595 |
| Current liabilities | 321 579 | 322 997 | 273 361 |
| Trade and other payables | 278 236 | 264 555 | 249 707 |
| Bank overdrafts | 21 831 | 30 290 | 11 537 |
| Short term borrowings | 2 400 | 13 691 | 2 400 |
| Contingent consideration liability | 707 | 1 056 | 707 |
| Income tax payable | | 35 | 1 625 |
| Betting dividends payable | 18 405 | 13 370 | 7 385 |
| Total equity and liabilities | 863 911 | 799 878 | 775 839 |

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

| | Unaudited 6 months 31 Jan 2016 R'000 | Unaudited 6 months 31 Jan 2015 R'000 | Audited 12 months 31 Jul 2015 R'000 |
|-----------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|
| Net cash (outflow)/inflow from operating activities | (431) | (20 642) | 3 761 |
| Cash generated by operations | 67 537 | 69 719 | 117 405 |
| Movements in working capital | (9 395) | (29 614) | (23 446) |
| Cash generated by operating activities | 58 142 | 40 105 | 93 959 |
| Income tax paid | (10 965) | (15 127) | (19 579) |
| Investment income received | 519 | 1 546 | 1 598 |
| Finance costs paid | (3 412) | (1 919) | (5 828) |
| Dividends to shareholders | (44 715) | (45 247) | (66 389) |
| Net cash inflow/(outflow) from investing activities | 1 277 | (31 086) | (54 057) |
| Acquisition of property, plant and equipment and intangible assets | (37 585) | (31 225) | (84 037) |
| Proceeds on disposal of property, plant and equipment and intangible assets | 633 | 338 | 1 322 |
| Investment in equity accounted investee and contingent settlements on investments | 3 | (34 313) | (33 801) |
| Loans (advanced)/recouped | (525) | 6 404 | 10 271 |
| Dividends received from equity accounted investees | 38 751 | 27 710 | 52 188 |
| Net cash inflow/(outflow) from financing activities | 13 491 | (6 765) | 1 073 |
| Finance lease payments | (309) | (335) | (474) |
| Non-controlling interest acquired | | | (130) |
| Net borrowings raised | 13 800 | 34 719 | 43 278 |
| Shares repurchased | | (41 149) | (41 601) |
| Net increase/(decrease) in cash and cash equivalents | 14 337 | (58 493) | (49 223) |
| Effect of exchange fluctuations on cash and cash equivalents | 105 | 262 | 780 |
| Cash and cash equivalents at beginning of period | 46 461 | 94 904 | 94 904 |
| Cash and cash equivalents at end of period | 60 903 | 36 673 | 46 461 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share Capital R'000 | Non- distributable 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 2014 | 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 |
| Transactions with owners recorded directly in equity | | | | | | |
| – Share based payment | | | 1 500 | 1 500 | | 1 500 |
| – 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) |
| Balance at 31 January 2015 | 1 862 | (381) | 442 105 | 443 586 | 301 | 443 887 |
| Total comprehensive income for the period | | 518 | 29 793 | 30 311 | (1) | 30 310 |
| – Profit for the period | | | 29 793 | 29 793 | (1) | 29 792 |
| – Foreign currency translation reserve | | 518 | | 518 | | 518 |
| Transactions with owners recorded directly in equity | | | | | | |
| – Share based payment | | | (4 730) | (4 730) | | (4 730) |
| – Loss on purchase of non-controlling interest | | | (130) | (130) | | (130) |
| – Shares repurchased | (27) | | 1 199 | 1 172 | | 1 172 |
| – Shares issued in terms of executive share option scheme | 28 | | (1 652) | (1 624) | | (1 624) |
| – Dividends paid to equity holders | | | (20 842) | (20 842) | (300) | (21 142) |
| Balance at 31 July 2015 | 1 863 | 137 | 445 743 | 447 743 | | 447 743 |
| Total comprehensive income for the period | | 105 | 64 973 | 65 078 | | 65 078 |
| – Profit for the period | | | 64 973 | 64 973 | | 64 973 |
| – Foreign currency translation reserve | | 105 | | 105 | | 105 |
| Transactions with owners recorded directly in equity | | | | | | |
| – Share based payment | | | 6 000 | 6 000 | | 6 000 |
| – Dividends paid to equity holders | | | (44 715) | (44 715) | | (44 715) |
| Balance at 31 January 2016 | 1 863 | 242 | 472 001 | 474 106 | | 474 106 |

RESULTS ANALYSIS

PHUMELELA CONTINUES TO ADAPT AND INVEST IN SECURING ITS FUTURE

The period under review was characterised by solid progress in all business areas and ongoing initiatives to secure a sustainable financial future by diversifying and internationalising. Betting on sports other than horseracing and international income underpinned a pleasing overall result.

Total income grew by 19% to R786,5 million with local income growing by 18% to R659,7 million and international income growing by 29% to R126,7 million.

Local net betting income grew by 18% to R497,2 million and other local income grew by 6% to R119,6 million. Other operating income from international operations grew by 26% to R132,2 million. Net income, after investment income of R0,5 million, was 17% higher at R749,5 million.

Including international and local equity accounted profits of R43,4 million, which was up by 119%, group pre-tax profit increased by 27% to R75,2 million.

Net attributable income and headline earnings increased by 31% to R65,0 million, assisted by a positive fair value adjustment and a slightly lower effective tax rate.

Adjusted headline earnings increased by 19% to R64,5 million. The adjusted result excludes the legal and consulting fees associated with combatting piracy of the group's intellectual property and the mark to market adjustment for the investment held in Automatic Systems Limited ("ASL").

In order to fulfil obligations in respect of shares exercisable in terms of the executive option schemes, the company previously repurchased shares and so the weighted average number of shares in issue was 1.13% lower. Consequently, earnings per share grew marginally more than total earnings.

Earnings per share increased by 32%, headline earnings per share increased by 33%, and adjusted headline earnings per share increased by 21%.

This pleasing result is against a backdrop of a weak domestic economy and a weakening in the Rand. Against the British pound, the Rand averaged R21.54 for the period compared with R17.75, which is an 18% weakening that resulted in more Rand recognised on translation of foreign currency. The group benefitted from a foreign exchange gain of R9,6 million.

Income and profitability accelerated across the retail footprint. International operations performed significantly better in both foreign currency terms and in Rand and are on a firm footing for further growth on the back of a world-class South African thoroughbred horseracing export product.

Pre-tax profits from tote betting on sports other than horseracing, from the Group's fixed odds business and limited pay-out machines grew by 34% in the period to R128 million. Despite this enormous achievement, the local operations incurred a loss this period of R7 million.

Phumelela has been calling for a fairer funding dispensation for the sport of thoroughbred horseracing. The losses incurred in the Group's traditional business of staging horseracing and conducting tote betting thereon also give financial context to the necessary legal fight against flagrant piracy of the group's intellectual property by certain bookmakers.

SOUTH AFRICA OPERATIONS

Fixed odds operations performed strongly and returned materially increased profits. Net fixed odds betting income on horseracing, sports other than horseracing, and numbers betting all showed significant growth. Money wagered on fixed odds increased by 46%.

Fixed odds betting on numbers continue to experience exceptional growth and doubled during the period. Fixed odds betting on sports other than horseracing remains popular, and grew by 29%.

Net betting income from local tote and fixed odds operations grew by 18% and other income from local operations grew by 6%. The increase in tote betting income was due entirely to tote betting on sports other than horseracing, which now comprises a 33% share of total tote bets.

Total operating expenses in the local tote and fixed odds operations grew by 21% and reflects the growth in the expanded retail footprint, IFRS 2 share-based payment charges for options expected to vest by year end, incentive bonus payments and legal and consulting fees associated with combatting piracy of the group's intellectual property by bookmakers and related legal matters.

Like-for-like normalised expenses in the local tote operations grew by 8%. Across both tote and fixed odds operations like-for-like expenses grew by 15%, largely a reflection of investment in retail. Day to day operating expenses in the local operations remain tightly controlled.

Prize monies increased by 3% in accordance with the agreement with the Racing Association.

The 26% investment in Interbet positively affected equity accounted income and investment returns.

Civil and criminal lawsuits have been filed and will be filed against all local bookmakers who are unlawfully displaying Tellytrack. As at reporting date, 232 bookmakers have subscribed to Tellytrack.

INTERNATIONAL OPERATIONS

Phumelela's 50% investment in Premier Gateway International (PGI), located on the Isle of Man, together with the export of live broadcast of South African horseracing to six continents, contributed positively for the period. The combined pre-tax profit contribution of R77,5 million comprises 106% of group pre-tax profit before the ASL fair value adjustment compared with 91% in 2015.

International demand for South African horseracing content and betting thereon remained buoyant with the result that net income from international operations increased by 26% to R132 million.



RESULTS ANALYSIS continued

Operating expenses increased by 44% to R95,5 million. More than half of the expense comprises intellectual property rights fees and the remainder normal running costs.

The mark to market gain on ASL of R2 million compared to a loss last year. The group's investment in ASL is held for sale.

FINANCIAL POSITION

Despite increases in costs associated with staging thoroughbred horseracing in South Africa, Phumelela continues to invest in the sport and ensuring that there is a sound basis for exporting excellent content globally. Furthermore, as investments in complementary activities yield improving returns the cash flow and financial position of the group is bolstered.

Cash generated from operating activities was R58,1 million and benefitted from reduced working capital of R9 million.

Capital expenditure, including stay in business and expansion, was R37,6 million compared to R31,2 million last year.

Dividends paid to equity shareholders amounted to R44,7 million.

Total assets are R864 million, which includes property, plant and equipment at a carrying value of R453 million, goodwill and intangibles valued at R64 million, and equity accounted investees valued at R56 million.

Attributable equity amounts to R474 million and represents net asset value per share of 636,17 cents.

Net debt is a negligible R4,9 million and represents a debt to equity ratio of 1%.

The group has adequate banking facilities and reserve borrowing capacity.

SHARE CAPITAL

There was no movement in authorised or issued share capital during the period.

INVESTMENTS

In September 2015 the Group concluded an agreement to acquire a 51% shareholding in Afribet Pty Ltd, a retail bookmaking concern licensed in the Eastern Cape. The Eastern Cape Gambling and Betting Board granted approval on 14 December 2015 and suspensive conditions were fulfilled post the half year end.

On 9 December 2015 Phumelela announced that the Company had agreed with Supabets SA Holdings Pty Ltd ("Supabets") and its controlling shareholder, the Anastassopoulos Family

Investments Holding Company Pty Ltd ("AF"), to acquire 50% of the shares in Supabets. Supabets is one of the leading and fastest growing sports betting and gaming groups in Africa with a specific focus in the high growth fixed odds sports betting market. Founded in 2008, Supabets has grown substantially in a relatively short time and has captured a meaningful share of the South African sports betting market through its unique product offering, high customer service standards, strategically located retail network and strong brand recognition. This investment is subject to the fulfilment of certain conditions precedent including, *inter alia*, regulatory approvals, Supabets and AF restructuring and the completion of a due diligence investigation. The group expects implementation in the latter half of the calendar year.

CONDENSED CONSOLIDATED SEGMENTAL ANALYSIS

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

| | | Unaudited 6 months 31 Jan 2016 R'000 | Unaudited 6 months 31 Jan 2015 R'000 | Audited 12 months 31 Jul 2015 R'000 |
|--------------------------------------------------------|--------------|-------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|
| | % | | | |
| | Change | | | |
| Local sports betting and media gross income | 18 | 659 746 | 561 124 | 1 067 444 |
| International ventures gross income | 29 | 126 726 | 98 550 | 198 761 |
| Total local and international income | 19 | 786 472 | 659 674 | 1 266 205 |
| Local tote and fixed odds net betting and other income | 15 | 617 268 | 536 260 | 1 072 467 |
| International other income | 26 | 132 216 | 104 973 | 205 798 |
| Total local and international net income | 17 | 749 484 | 641 233 | 1 278 265 |
| Local expenses, stakes and levies | 17 | (620 726) | (528 933) | (1 059 070) |
| International expenses | 43 | (95 588) | (66 649) | (139 894) |
| Total expenses | 20 | (716 314) | (595 582) | (1 198 964) |
| Local operating (loss)/profit | (147) | (3 458) | 7 327 | 13 397 |
| Local finance costs | 78 | (3 412) | (1 919) | (5 828) |
| Local (loss)/profit from operations | (227) | (6 870) | 5 408 | 7 569 |
| International pre-tax profit | (4) | 36 628 | 38 324 | 65 904 |
| International and local equity accounted profits | 119 | 43 413 | 19 866 | 47 060 |
| Total Group pre-tax profit | 15 | 73 171 | 63 598 | 120 533 |

RESULTS ANALYSIS continued

CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by directors.

| | 2016 | 2015 |
|--------------------|---------------|--------|
| | R'000 | R'000 |
| Contracted for | 5 062 | 4 767 |
| Not contracted for | 83 140 | 66 505 |

Capital commitments are financed from 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 2016 comprise of the Company and its subsidiaries and the Group's interests in equity accounted investees and a joint operation.

STATEMENT OF COMPLIANCE AND PRESENTATION

The condensed consolidated interim financial statements for the six months ended 31 January 2016 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 2015.

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 2015, except for new standards and interpretations that became effective on 1 August 2015 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 C.A. (S.A.) Chief Financial Officer was responsible for supervising the preparation of this interim report.

SUBSEQUENT EVENTS

There are no significant subsequent events that have an impact on the financial information at 31 January 2016.

CORPORATE INTERESTS

Phumelela is a respondent in consolidated complaints lodged by the Gauteng Off-Course Bookmakers' Association ("GOBA"), the KwaZulu-Natal Bookmakers' Society ("the KZNBS"), and various individual bookmakers with the Competition Commission during 2014 and 2015 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 has lodged a counter complaint with the Competition Commission in relation to certain bookmakers having engaged in a concerted practice by co-operating 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. The complaint has been referred to the Cartels Division of the Competition Commission and is under investigation.

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

On 14 December 2015 Phumelela announced a landmark agreement with Arena Racing Company ("ARC") which ensures that South African horseracing will continue to be available for display in betting shops in the UK and Ireland until at least the end of 2022. From 1 June 2016 until the end of 2022 Phumelela has licensed ARC to supply and distribute audio-visual coverage, including data, of all South African race meetings to all licensed betting offices in the UK and Ireland. ARC will also continue to distribute South African racing to online betting operators in the UK via the At The Races streaming platform Sports Media Stream.

On 9 March 2016 Cabinet approved the National Gambling Policy Review Document which will form the basis of a National Gambling Amendments Act that will be open for broader public comment

RESULTS ANALYSIS continued

upon publication. Whilst a number of Phumelela's concerns have been favourably addressed including the bookmakers' "open bet" and the right to be compensated for the use of the Group's intellectual property, a few pressing issues remain, the most notable being:

- Operators in the business of taking bets or wagers should be prevented from collecting bets on the lottery results or conducting sports pools in terms of a licence issued under gambling legislations across the country. Bets on lottery results and sports pools must only be authorised in terms of the lottery legislation; or
- Operators must be required to contribute a reasonable percentage from their gross gambling revenue into the National Lotteries Distribution Trust Fund ("NLDTF") as shall be prescribed by the Minister after consulting Council.

Implementation of the policy in respect of Tote bets on sports other than horseracing would put the Tote operators at a competitive disadvantage to bookmakers and the National Lottery and could potentially have a detrimental effect on Phumelela, horseracing and betting taxes earned by each of the provinces. Phumelela offered Tote bets on sports other than horseracing prior to the introduction of the National Lottery and has done so with approval from the provincial gambling boards ever since. Phumelela believes that the removal of its right to offer Tote bets on sports other than horseracing would be unconstitutional and has engaged Government in this regard.

LITIGATION

Phumelela is a respondent in an application:

- in the High Court of South Africa, Gauteng Division, Johannesburg instituted by, *inter alia*, the KZNBS to enforce the order made by the Gauteng Gambling Board on 9 October 2014 and secure access to the Tellytrack service pending the outcome of the proceedings before the Gauteng Gambling Board and Phumelela's review application;
- instituted by the KZNBS and GOBA in the High Court of South Africa, Gauteng Division, Pretoria. The applicants seek an order interdicting Phumelela from offering totalisator betting on sports other than horseracing. The parties have filed answering affidavits and the matter may be set down by the applicants.

Phumelela is a defendant in an action instituted by the KZNBS in the High Court of South Africa, Gauteng Division, Pretoria in which the KZNBS is 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"). Phumelela lodged exception to the particulars of claim lodged by the KZNBS on, *inter alia*, the ground that it was vague and embarrassing. On 25 August 2015 Judge Potterill ordered that the exception be upheld with costs. The plaintiff subsequently amended its particulars of claim. However, Phumelela again took exception thereto on the aforementioned grounds. The plaintiff must either cure the deficiencies in its particulars of claim or Phumelela will set the exception down for hearing.

Phumelela is the appellant in an appeal against the dismissal of its application to review and set aside a decision made by the Gauteng Gambling Board on 9 October 2014.

The outcome of the relevant actions noted above, and under Corporate Interests, remains uncertain and may have an impact on future earnings.

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.

SOCIAL RESPONSIBILITY

Phumelela is an AAA level two broadly-based black economic empowerment contributor. Phumelela was ranked eighth on the Johannesburg Stock Exchange in the most recent top 100 Most Empowered Companies ranked by Empowerdex.

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

Other than the appointment of Mr. Brian Finch as a director of the Company effective from 8 October 2015, there were no changes to the composition of the Board during the period under review.

PROSPECTS

The landmark agreement with ARC is effective 1 June 2016. A positive contribution in the final two months of this financial year is expected and will contribute meaningfully to group earnings thereafter.

The group's investment in Afribet is not expected to contribute to profits in this financial year, but is expected to do so in the medium and long term.

The Group's substantial investment in growing Betting World's footprint is yielding results with returns expected to continue.

Interbet will contribute positively for a full year in 2016 compared with nine months in 2015.

RESULTS ANALYSIS continued

With a strong balance sheet, there is substantial headroom for investment in new growth vectors.

Phumelela management are vigorously pursuing diversification and expansion opportunities locally and abroad, as evidenced recently by the investment in Interbet and Afribet and the proposed investment in Supabets and are further expanding visual broadcasts and Tote betting in existing as well as new markets.

The group has had a successful first half and is targeting real growth in earnings per share for the remainder of the financial year.

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

CASH DIVIDEND TO SHAREHOLDERS

Notice is hereby given that the Board has declared an interim gross cash dividend from income reserves of 34 cents per share (28,90 cents per share net of dividend withholding tax at a rate of 15%) payable to shareholders recorded in the register on Friday, 20 May 2016. 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 13 May 2016. As from commencement of business on Monday 16 May 2016 all trading in Phumelela shares will be "ex dividend". Payment will be made on Monday 23 May 2016. Share certificates may not be dematerialised or rematerialised between Monday 16 May 2016 and Friday 20 May 2016, 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

15 April 2016

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



Phumelela Gaming

for more information on our business please go to:

www.phumelela.com