Phumelela Gaming

Phumelela Gaming and Leisure Limited

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

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

CONTENTS

The Group is facing tough trading conditions in South Africa, but International operations nevertheless performed satisfactorily during the period.

OPERATIONAL FEATURES OF THE PERIOD

- Horse racing requires a national reorganisation as the original funding model is now broken
- Betting turnovers remain under pressure in South Africa
- International operations performed satisfactorily

FINANCIAL FEATURES OF THE PERIOD

- Equity accounted profits R91,4 million (profits of R88,6 million)
- International profits of R113,1 million (profit of R113,5 million)
- Local operations lost a combined R115,1 million (loss of R61,4 million)
- Headline loss per share of 0,89 cents (headline earnings per share of 68,02 cents)
- Attributable profit per share of 0,08 cents (attributable profit of 70,05 cents per share)
- No interim dividend declared
- Net debt to equity ratio, including right of use asset, 38% (stable like for like)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% Change	**Unaudited 6 months 31 Jan 2020 R'000**	Unaudited 6 months 31 Jan 2019 R'000	Audited 12 months 31 Jul 2019 R'000
Income	(9)	**692 993**	764 939	1 416 110
Betting income				
– Local operations	(11)	**515 400**	582 351	1 066 907
Other operating income				
– Local operations	(29)	**97 933**	138 625	253 531
– International operations	(3)	**165 981**	170 320	323 878
Investment income				
– Local operations	(7)	**6 857**	7 369	13 147
– International operations	(100)	**1**	817	826
Net income	(13)	**786 172**	899 482	1 658 289
Operating expenses and overheads				
– Value added tax include in betting income	(9)	**(64 590)**	(71 010)	(129 969)
– Betting taxes	(11)	**(41 887)**	(46 905)	(86 526)
– Stakes	(12)	**(91 294)**	(103 770)	(216 440)
– Local operations	(7)	**(469 580)**	(505 095)	(1 031 255)
– Rental charge local		**(16 374)**	(37 270)	(75 135)
– Section 189 retrenchment and restructure programme				(29 992)
– Allowance for expected credit losses		**(8 453)**	(1 078)	(25 761)
– International operations	(6)	**(111 206)**	(118 199)	(226 990)
– Rental charge International		**(2 547)**	(2 861)	(5 511)
(Loss)/profit before finance costs, income tax, depreciation and amortisation	(249)	**(19 759)**	13 294	(169 290)
Depreciation and amortisation		**(33 921)**	(34 786)	(70 532)
Right of use asset charge		**(18 451)**		
Loss from operations	236	**(72 131)**	(21 492)	(239 822)
Finance costs		**(17 293)**	(18 286)	(35 488)
Relating to right of use assets				
– Local operations		**(4 033)**		
(Loss)/profit before share of profit of equity accounted investees		**(93 457)**	(39 778)	(275 310)
Share of profit of equity accounted investees	3	**91 428**	88 624	163 310
(Loss)/profit before fair value adjustment	(104)	**(2 029)**	48 846	(112 000)
Fair value adjustment to investment		**–**	3 229	2 964
(Loss)/profit before income tax expense	(104)	**(2 029)**	52 075	(109 036)
Income tax expense		**2 109**	16 999	13 220

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME CONTINUED

	% Change	Unaudited 6 months 31 Jan 2020 R'000	Unaudited 6 months 31 Jan 2019 R'000	Audited 12 months 31 Jul 2019 R'000
(Loss)/profit for the period	(100)	**80**	69 074	(95 816)
Other comprehensive income net of taxation				
Items that may subsequently be reclassified to profit or loss				
– Exchange differences on translation of foreign subsidiaries		**324**	(166)	(157)
Write back of non controlling interest deemed irrecoverable		**(10 807)**		
Total comprehensive income for the period	(115)	**(10 403)**	68 908	(95 973)
(Loss)/profit attributable to:				
Ordinary equity holders of the parent		**80**	70 026	(92 293)
Non-controlling interest		**–**	(952)	(3 523)
(Loss)/profit for the period		**80**	69 074	(95 816)
Total comprehensive income attributable to:				
Ordinary equity holders of the parent		**(10 403)**	69 860	(92 450)
Non-controlling interest		**–**	(952)	(3 523)
Total comprehensive income for the period		**(10 403)**	68 908	(95 973)
Earnings per ordinary share (cents)				
– Basic	(100)	**0,08**	70,05	(92,32)
– Diluted	(100)	**0,08**	70,05	(92,32)

SUPPLEMENTARY STATEMENT OF COMPREHENSIVE INCOME INFORMATION

	% Change	**Unaudited 6 months 31 Jan 2020 R'000**	Unaudited 6 months 31 Jan 2019 R'000	Audited 12 months 31 Jul 2019 R'000
Reconciliation of headline earnings				
Earnings attributable to equity holders of the parent	(99,9)	**80**	70 026	(92 293)
Adjusted for:				
Profit on sale of property, plant and equipment		**(1 341)**	(2 812)	(9 184)
Tax effect		**375**	787	3 308
Headline earnings	(101,3)	**(886)**	68 001	(98 169)
Headline earnings per share (cents)	(101,3)	**(0,89)**	68,02	(98,20)
Diluted headline earnings per share (cents)	(101,3)	**(0,89)**	68,02	(98,20)
Net asset value per share (cents)	(15,0)	**842,30**	990,58	849,94
Dividend to shareholders				
Interim dividend				
Dividend per ordinary share (cents)				
Final dividend				
Dividend per ordinary share (cents)				
Number of shares in issue		**99 969 347**	99 969 347	99 969 347
Weighted average number of shares in issue for basic and headline earnings per share calculation		**99 969 347**	99 969 347	99 969 347
Weighted average number of shares in issue for diluted earnings per share calculation		**99 969 347**	99 969 347	99 969 347

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 31 Jan 2020 R'000	Unaudited as at 31 Jan 2019 R'000	Audited as at 31 Jul 2019 R'000
ASSETS	**1 321 044**	1 393 419	1 322 828
Non-current assets	**408 940**	467 169	439 836
Property, plant and equipment	**12 362**	12 362	12 362
Goodwill	**40 981**	43 612	42 694
Intangible assets	**47 337**		
Interest in equity accounted investees	**699 275**	714 700	710 367
Investments		15 337	
Investment property	**18 700**	18 700	18 700
Long-term loans	**43 918**	66 958	50 830
Deferred taxation asset	**49 531**	54 581	48 039
Current assets	**309 059**	269 928	268 773
Inventories	**4 254**	5 368	4 249
Trade and other receivables	**186 391**	160 882	131 353
Defined benefit funds	**14 650**	14 650	14 650
Income tax receivable	**25 642**	20 345	27 186
Cash and cash equivalents	**78 122**	68 683	91 335
Total assets	**1 630 103**	1 663 347	1 591 601
EQUITY AND LIABILITIES			
Total equity	**842 038**	990 279	849 684
Equity attributable to ordinary shareholders	**842 038**	998 515	860 491
Share capital and premium	**473 786**	473 786	473 786
Retained earnings	**368 055**	524 865	386 832
Non-distributable reserves	**197**	(136)	(127)
Non-controlling interest	**–**	(8 236)	(10 807)
Non-current liabilities	**27 119**	320 411	1 498
Deferred taxation liability	**1 309**	96	1 309
Long term liability for right of use assets	**25 810**		
Borrowings	**–**	320 315	189
Current liabilities	**760 946**	352 657	740 419
Trade and other payables	**374 200**	272 439	359 976
Short term portion of liability for the right of use assets	**27 898**		
Borrowings	**280 667**	640	300 640
Contingent consideration liability	**28 806**	28 806	28 806
Income tax payable		24	
Betting dividends payable	**11 142**	12 700	10 142
Bank overdrafts	**38 233**	38 048	40 855
Total equity and liabilities	**1 630 103**	1 663 347	1 591 601

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	Unaudited 6 months 31 Jan 2020 R'000	Unaudited 6 months 31 Jan 2019 R'000	Audited 12 months 31 Jul 2019 R'000
Net cash (outflow)/inflow from operating activities	**(72 582)**	(116 721)	(173 872)
Cash generated from operations	**(26 628)**	(2 688)	(145 708)
Movements in working capital	**(35 727)**	(38 029)	60 851
Cash generated from operating activities	**(62 355)**	(40 717)	(84 857)
Income tax paid	**1 544**	(3 143)	(1 691)
Investment income	**5 522**	7 406	10 145
Finance costs	**(17 293)**	(18 286)	(35 488)
Dividends paid to shareholders		(61 981)	(61 981)
Net cash outflow from investing activities	**102 034**	28 458	125 571
Acquisition of property, plant and equipment and intangible assets	**(1 302)**	(36 532)	(56 749)
Proceeds on disposal of property, plant and equipment and intangible assets	**–**	20	17 101
Investment in equity accounted investees	**(2 163)**	(2 942)	(4 342)
Proceeds on sale of investment			14 380
Net loans (advanced)/repaid	**8 248**	(2 838)	6 339
Dividend received from equity accounted investee	**97 251**	70 750	148 842
Net cash outflow from financing activities	**(40 367)**	18 869	(1 257)
Net borrowings raised	**(20 162)**	18 869	(1 257)
Right of use asset payments	**(20 205)**		
Net (decrease)/increase in cash and cash equivalents	**(10 915)**	(69 394)	(49 558)
Effect of exchange fluctuations on cash and cash equivalents	**324**	(166)	(157)
Cash and cash equivalents at beginning of period	**50 480**	100 195	100 195
Cash and cash equivalents at end of period	**39 889**	30 635	50 480
Make up of balance of cash and cash equivalents			
Cash and cash equivalents	**78 122**	68 683	91 335
Bank overdraft	**(38 233)**	(38 048)	(40 855)
Cash and cash equivalents at end of period	**39 889**	30 635	50 480

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Non-distri-butable reserves R'000	Retained earnings R'000	Equity attribu-table to ordinary share-holders R'000	Non-con-trolling interest R'000	Total equity R'000
Balance at 31 July 2018	473 786	30	546 092	1 019 908	(7 284)	1 012 624
Total comprehensive income for the period	–	(166)	70 026	69 860	(952)	68 908
– Profit for the period			70 026	70 026	(952)	69 074
– Other comprehensive income		(166)		(166)		(166)
Transactions with owners recorded directly in equity						
– Share based payment			(4 986)	(4 986)		(4 986)
– Accounts receivable reversed on adoption of IFRS 15			(24 286)	(24 286)		(24 286)
– Dividends paid to equity holders			(61 981)	(61 981)		(61 981)
Balance at 31 January 2019	473 786	(136)	524 865	998 515	(8 236)	990 279
Total comprehensive income for the period	–	9	(162 319)	(162 310)	(2 571)	(164 881)
– Profit for the period			(162 319)	(162 319)	(2 571)	(2 571)
– Foreign currency translation reserve		9		9		9
Transactions with owners recorded directly in equity						
– Accounts receivable reversed on adoption of IFRS 15			24 286	24 286		24 286
Balance at 31 July 2019	473 786	(127)	386 832	860 491	(10 807)	849 684
Total comprehensive income for the period	**–**	**324**	**(10 727)**	**(10 403)**	**10 807**	**404**
– Profit for the period			**(10 727)**	**(10 727)**		**(10 727)**
– Other comprehensive income		**324**		**324**	**10 807**	**11 131**
Transactions with owners recorded directly in equity						
Common control adjustment arising in equity accounted investees			**(8 050)**	**(8 050)**		**(8 050)**
Balance at 31 January 2020	**473 786**	**197**	**368 055**	**842 038**	**–**	**842 038**

COMMENTARY

GROUP OVERVIEW

International operations contributed R113,1 million in pre-tax profit, in line with the prior period, but local operations lost a combined R115,1 million, up from a combined loss of R61,4 million. Equity accounted profits were R91,4 million compared with R88,6 million. The Group headline loss of R0,9 million compares with headline earnings of R68,0 million whilst at an attributable level the profit recorded is negligible and compares with an attributable profit of R70,0 million in the prior period. Weighted average shares in issue are unchanged. Excluding the effects of IFRS 16, the net debt to equity ratio was stable at 32%.

The Group result was assisted by the cost savings from store closures and retrenchments effected in 2019. Over 15% of the Group's workforce was retrenched and 25 premises shut. A cumulative R57 million has been incurred over two financial years in restructuring charges. Capex has been curtailed.

The withholding of the Group's 50% share of the 6% levy on punters' winnings on fixed-odds bets on horse racing in Gauteng with effect from April 2019 resulted in an approximate R35 million loss of income for the period and has an annualised negative impact of approximately R75 million. There is a downward slide in the Tote due to the practice of bookmakers placing bets based on the odds of the totalisator.

The funding model, as originally put in place at the time of corporatisation of the horse racing industry, is broken. Urgent steps are now needed to unify the sport within a single umbrella body.

Phumelela has successful and profitable International media and tote operations, but a crossover point was reached last year where the success of International is insufficient to offset escalating losses in running South African horse racing. This International income requires that we have a sustainable horse racing base in South Africa.

Premier Gateway International ("PGI") on the Isle of Man, our joint venture with Tabcorp, improved its contribution. The International Media business benefitted from interest abroad in live South African horse racing, but this past year has seen reduced income from the UK as a result of restrictions in that country on fixed odds betting terminals, leading to numerous store closures.

BETTING OPERATIONS

The Betting Operations segment comprise over-the-counter ("OTC") retail outlets and non-OTC, which includes internet and telephone betting in South Africa and internationally. Equity-accounted income from the jointly owned PGI tote operator on the Isle of Man is included in the non-OTC segment.

Wholly owned Betting World has reduced both its headcount and retail footprint. Twenty-five Tab premises have been shut and merged into Betting World branches.

Consolidated betting income in South Africa reduced by 11% with fixed odds down by 11% and Tote down 12%.

The write off of a minority interest in Betting World Eastern Cape deemed irrecoverable affected the Betting result by R10,8 million. In the year ending 31 July 2019, there was a bad debt provision against the North West franchise operation, Omphe Tshiamo, and a long-term loan was impaired.

The PGI joint venture located on the Isle of Man traded positively, and equity accounted income was higher.

Profit before equity accounted income, including the Betting World Eastern Cape write off, was R170,7 million compared with R204,1 million. Equity accounted income was R91,3 million compared with R88,6 million with International contributing R65,1 million or 71%. Total segment pre-tax income was down by 10% to R262,1 million.

The segment analysis presented below includes the effect of IFRS 16 leases and thus expenses and profits as presented for the six months ended 31 January 2019 are not directly comparable with this period. Under a modified retrospective approach, the Group applies IFRS 16 from 1 August 2019 and does not restate its prior-period financial information. Betting is predominantly affected due to its retail store footprint. All else equal, operating expenses would be lower and thus EBITDA higher, there is a smoothed depreciation expense and a finance cost rather than a rental expense recognised whilst the balance sheet now shows a right of use asset and lease liability.

MEDIA OPERATIONS

Media Operations comprise the selling of media and data rights of South African horseracing locally and internationally. Administering horse racing is key to Media Operations with South African horse racing content the engine that feeds international operations and sports betting on horse racing.

Demand from international betting operators for the media and data rights of South African thoroughbred horse racing was pleasing and commingled media and data rights fees from foreign countries has been growing.

The media rights and local horse racing cost engine lost R248,0 million for the period, less than 2% higher than the R244,2 million in the prior period thanks to efforts by management to try and partly counteract the effects of the levy withdrawal. International made a R48,0 million profit compared with R50.1 million in the prior period. The combined loss was therefore R200,0 million, a 3% increase from the R194,1 million previously.

Stakes, calculated retrospectively, according to a formula contained in an agreement with the Racing Association, have declined by 13% for the 2019/20 season and will decline further. For the six months, Phumelela paid over R91,3 million in stakes compared with R103,8 million.

GROUP FINANCIAL ANALYSIS

Shareholders' attention is drawn to the following accounting standards.

- For the year ended 31 July 2019 the Group implemented IFRS 15 which addresses revenue recognition of customer contracts, requiring that revenue and related costs are only recognised when a performance obligation has been satisfied and so the timing of when revenue is recognised and the amount thereof. This standard only pertained to Tellytrack and there was no significant effect.
- For the year ended 31 July 2019 the Group implemented IFRS 9 which addresses expected loss provisioning but has not affected disclosure. The impairment model was changed from an incurred loss model to an expected credit loss model. This standard was applied in respect of the provisions against the North West franchise debt.
- With effect from 1 August 2019, the Group adopted IFRS 16 Leases. In the financial statements for the year ended 31 July 2019 an initial assessment of the impact was provided.
  - A modified retrospective approach was adopted whereby prior financial information is not restated.
  - The primary differences between IAS 17 and IFRS 16 is that the statement of financial position now reflects a right of use asset and lease liability whilst the income statement reflects a smoothed depreciation expense and a finance cost rather than a rental expense recognised.
  - As of 1 August 2019, the Group recognised right-of-use assets to the value of R68 million and lease liabilities of R68 million. There was derecognition of operating lease straight-line liabilities of R4 million, offset against the right of use asset.
  - There is no cash effect nor a material earnings effect.

Consolidated net income decreased by 13% to R786,2 million of which local income accounted for 79% compared with 81% in the prior period. Betting Operations contributed 72%, Media 26%, and Administrative and Support Services the balance. Local income declined by 15% and International income declined by 3%.

COMMENTARY CONTINUED

As the Group has applied IFRS 16 with effect from 1 August 2019, and has not restated prior-period financial information, there is significant change above the loss before tax line relative to the prior period. There is now a smoothed depreciation expense and a finance cost rather than a rental expense. Local rent of R16,4 million is therefore much lower than R37,3 million in the prior period. Depreciation and amortisation of R52,4 million compares with R34,8 million in the prior period and included within that is a right of use asset charge of R18,5 million with R33,9 million being normal depreciation and amortisation and thus directly comparable with the R34,8 million in the prior period. Finance costs are now R21,3 million, up from R18.3 million but within that is an IFRS 16 finance charge of R4,0 million with the balance of R17,3 million directly comparable with the R18.3 million in the prior period.

Group cash operating expenses were tightly controlled with savings identified wherever feasible. Retrenchments and store closures in the prior financial year have reduced the cost of doing business. An allowance for expected credit losses of R8,5 million includes R4,3 million in Zimbabwe. There remains upward pressure on wages and administered and municipal charges and so further cuts may be necessary if revenue remains weak.

A loss from operations of R93,5 million, before share of equity accounted investees, is up from a loss of R39,8 million in the corresponding period, which included the full benefit of the now withdrawn 3% levy. The loss from Media, which houses the horse racing engine, was R200,0 million, Betting contributed a profit of R170.7 million and the costs of Administration & Support Services was R64,1 million.

Profits from equity accounted investees grew by 3% to R91,4 million and comprises the Group's share of profits from PGI (up 3% to R65,1 million), Supabets (up 20% to R18.8 million), Interbet (down 13% to R7,5 million), SW Security (R0,7 million) and Supaworld (a loss of R0,7 million). Equity accounted profits once again were insufficient to absorb domestic losses.

Due to losses in the domestic operations, the Group recorded a tax credit of R2,1 million. No cash tax was paid and a refund of R1,5 million was received. The deferred tax asset on the balance sheet increased from R48 million at year end to R49,5 million. Tax losses are available for utilisation against future taxable income. Equity-accounted investees Supabets, Interbet, and SW Security are profitable and pay tax at the South African corporate tax rate.

The Group made a small profit attributable to ordinary shareholders of R80,000 compared to a profit of R70,0 million in the prior year within which was approximately R35 million from the 3% levy and a R17 million tax credit. The profit translates to 0,08 cents per share compared to a profit of 70,05 cents per share.

A headline loss of R886,000 compares with a headline profit of R68 million in the prior period. This loss translates to 0,89 cents compared to earnings of 68,02 cents previously.

The weighted average number of shares in issue is unchanged at 99 969 347, the same number as shares in issue net of treasury shares. There was no movement in either shares bought back, or shares issued in terms of share options.

Operating activities absorbed cash of R62,4 million. Operations absorbed cash of R26,6 million and there was R35,7 million in cash absorbed in working capital.

No dividends were paid to shareholders.

Net dividends received from equity accounted investees amounted to R97,3 million, up 37%.

Gross debt of R401,4 million now includes a R53,7 million right of use asset liability. Net of cash of R78,1 million results in a net debt position of R323,3 million, compared with R279 million as of 31 July 2019. Included in net debt is a remaining contingent consideration payable in respect of Supabets of R28.8 million with payment dependent on conditions pertaining to the sales agreement. The debt to ordinary shareholders equity ratio increased to 38% from 32% due to the inclusion of right of use liabilities, which are equivalent to 6% of equity.

Losses in domestic horse racing and a poor level of local gaming profitability, collectively making a pre-tax loss of R115,1 million, was largely compensated by strong international cash flows and profits, which amounted to R113,1 million for the six months. However, in the prior period the pre-tax loss in local operations was R61,4 million and International contributed profits of R113,5 million meaning at the Group level there was a pre-tax profit of R52,1 million. If the 3% levy is backed out of the prior period loss, then local operations would have generated a loss of approximately R96 million.

With the burden of subsidising racing no longer financially tenable it is therefore imperative that there be ongoing cost control, a focus on betting operations growing their turnover and regaining market share and a new dispensation to take racing forward. Absent racing, Phumelela has the potential to be a sustainable gaming business with prospects.

The Group has total assets of R1 630,1 million of which long term assets are R1 321,0 million, the largest component being equity accounted investees to the value of R699,3 million. Ordinary shareholders equity on 31 January 2020 is R842,0 million which translates to a net asset value of 842,30 cents per share.

SHARE CAPITAL

There has been no change in the authorised or issued share capital of the Company.

On 31 January 2020, issued share capital amounted to 99 969 347 shares, net of 2 531 211 treasury shares.

SUMMARISED CONSOLIDATED SEGMENTAL ANALYSIS

The Group offers betting opportunities on South African and international sports and numbers and sells live media and data of South African horse racing content locally and internationally. Reporting disclosure corresponds to management reporting lines.

	Total			Betting operations		
	Jan 2020 R'000	Jan 2019 R'000	Jul 2019 R'000	**Jan 2020 R'000**	Jan 2019 R'000	Jul 2019 R'000
Income						
Net betting income	**515 400**	582 351	1 066 907	**515 400**	582 351	1 066 907
Other income	**263 914**	308 945	577 409	**50 526**	46 813	118 846
Investment income	**6 858**	8 185	13 973			
Total income	**786 172**	899 481	1 658 289	**565 926**	629 164	1 185 753
Expenses						
Stakes	**91 294**	103 770	216 440			
Intellectual property rights fees	**84 472**	103 856	200 550	**15 630**	34 338	117 734
Operating expenses	**523 689**	560 644	1 164 101	**230 024**	253 557	550 040
Value added and betting taxes	**106 477**	117 915	216 496	**106 477**	117 915	216 496
Voluntry retrenchment expense	**–**	–	29 992			29 992
Total expenses	**805 931**	886 186	1 827 579	**352 131**	405 810	914 262
Profit/(loss) before depreciation and amortisation and finance costs	**(19 759)**	13 295	(169 290)	**213 796**	223 354	271 491
Depreciation and amortisation	**52 372**	34 786	70 532	**39 049**	19 230	39 687
Finance costs	**21 326**	18 286	35 488	**4 033**		
Revaluations of investments	**–**	(3 229)	(2 964)			
Profit/(loss) beforeshare of equity accounted income	**(93 457)**	(36 549)	(272 346)	**170 714**	204 124	231 804
Share of profit on equity accounted income	**91 428**	88 624	163 310	**91 428**	88 624	163 310
Profit and loss before tax	**(2 029)**	52 075	(109 036)	**262 142**	292 748	395 114
Local operations	**(115 102)**	(61 410)	(332 422)	**197 034**	229 325	262 030
International operations	**113 073**	113 485	223 386	**65 108**	63 423	133 084
Profit/(loss) before income tax expense	**(2 029)**	52 075	(109 036)	**262 142**	292 748	395 114

Back to contents

	Media			Administration and Support Services		
	Jan 2020 R'000	Jan 2019 R'000	Jul 2019 R'000	**Jan 2020 R'000**	Jan 2019 R'000	Jul 2019 R'000
Income						
Net betting income						
Other income	**209 797**	246 152	449 254	**3 591**	15 980	9 309
Investment income				**6 858**	8 185	13 973
Total income	**209 797**	246 152	449 254	**10 449**	24 165	23 282
Expenses						
Stakes	**91 294**	103 770	216 440			
Intellectual property rights fees	**68 842**	69 518	82 816			
Operating expenses	**239 305**	254 573	489 820	**54 359**	52 514	124 241
Value added and betting taxes						
Voluntry retrenchment expense						–
Total expenses	**399 442**	427 862	789 076	**54 359**	52 514	124 241
Profit/(loss) before depreciation and amortisation and finance costs	**(189 645)**	(181 710)	(339 822)	**(43 910)**	(28 349)	(100 959)
Depreciation and amortisation	**10 384**	12 387	28 259	**2 939**	3 170	2 586
Finance costs				**17 293**	18 286	35 488
Revaluations of investments				**–**	(3 229)	(2 964)
Profit/(loss) beforeshare of equity accounted income	**(200 029)**	(194 096)	(368 081)	**(64 142)**	(46 577)	(136 069)
Share of profit on equity accounted income	**–**			**–**		
Profit and loss before tax	**(200 029)**	(194 096)	(368 081)	**(64 142)**	(46 577)	(136 069)
Local operations	**(247 994)**	(244 158)	(458 383)	**(64 142)**	(46 577)	(136 069)
International operations	**47 965**	50 062	90 302	**–**		
Profit/(loss) before income tax expense	**(200 029)**	(194 096)	(368 081)	**(64 142)**	(46 577)	(136 069)

CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by directors.

	2020 R'000	2019 R'000
Contracted for	**0**	7 880
Not contracted for	**18 698**	90 460

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

INVESTMENTS

Further to the audited financial statements dated 28 November 2019, there has been no further movement with respect to investments which is now recorded at zero following the sale of 421 323 ordinary shares in Automatic Systems Limited in Mauritius during the 2019 financial year.

MATTERS OF CORPORATE INTEREST AND LITIGATION

In terms of disclosure contained in the annual financial statements for the year ended 31 July 2019 there are no further developments in this regard.

Shareholders are reminded that the outcome of the relevant actions noted under Corporate Interests and Litigation, as described in the 2019 annual financial statements, remains uncertain and may have an impact on future earnings.

Further to detailed disclosure on legal matters in the annual results and public disclosures through the Stock Exchange News Service, the following are pertinent to note.

Gambling Regulations – Urgent Application

On 28 March 2019, the Gauteng Member of the Executive Council responsible for Economic Development, Environment, Agriculture and Rural Development ("the MEC") published amendments to the Gauteng Gambling Regulations, 1997 ("the Regulations").

These included an amendment which has the effect of depriving Phumelela of its portion of a betting levy on punters' winnings on bets on horse racing. This levy, which amounts to approximately R75m per year, has been paid to Phumelela since the corporatisation of the racing industry, in order to assist the industry.

Following the publishing of the amended Regulations, Phumelela instituted a High Court application to have the amendment reviewed and set aside as well as an urgent application to stay the implementation of the amended Regulations, pending the outcome of the High Court review application.

The urgent application was removed from the roll by agreement between the parties who entered into negotiations aimed at settling the matter. Although these negotiations are ongoing, Phumelela elected to proceed with its High Court review application. To this end, Phumelela has supplemented its founding papers and the MEC and the Gauteng Gambling Board ("the Board") had to file answering affidavits on or before 25 March 2020. Thereafter, Phumelela will file a replying affidavit and enrol the matter for hearing.

COMMENTARY CONTINUED

Disciplinary Proceedings

On 29 May 2019, the Board upheld the disciplinary committee's recommendation that Phumelela contravened condition 10 of its race-meeting licence and imposed a fine of R5 million, of which R2,5 million is suspended for a period of five years.

Condition 10 requires Phumelela to make available visual broadcasts of race meetings for betting purposes and entitles it to the recover reasonable costs of doing so, provided that such costs are approved by the Board. The disciplinary committee recommended that Phumelela be found guilty of contravening condition 10, on the basis that it requires Phumelela to provide Tellytrack (including international racing) to bookmakers around South Africa on a cost-recovery basis. Phumelela disputes this interpretation of the condition.

The Board directed Phumelela to file an application in respect of the reasonable costs it seeks to recover from bookmakers for making available the Tellytrack service. Phumelela filed its application with the Board on 16 August 2019 and is awaiting the Board's decision in respect thereof.

Phumelela has applied to the High Court to have the decision by the Board reviewed and set aside. As of 17 March 2020, the Board has not delivered a record of the proceedings under review and has applied for an extension to do so. This application is enrolled for 21 April 2020.

Public Protector - High Court Review Application

On 6 May 2019, the Public Protector published her Final Report in respect of the investigation into allegations of maladministration and improper conduct in connection with a memorandum of understanding entered into between the Gauteng Provincial Government and the Gauteng horse racing industry in 1997, which subsequently led to the corporatisation of the horse racing industry.

On 21 June 2019, Phumelela instituted an application to review and set aside the findings and remedial action contained in the Public Protector's Final Report. All affidavits have been filed in Phumelela's application.

On 30 July 2019, Phumelela was granted an interdict staying the implementation of the remedial action ordered by the Public Protector in her Final Report, pending the outcome of its review application. This application was supported by the Gauteng Gambling Board.

The Board has instituted a separate High Court application to review and set aside the findings contained in the Public Protector's Final Report.

COMMENTARY CONTINUED

In January 2020, the President of the Republic of South Africa instituted a High Court third application to review and set aside the aside the findings contained in the Public Protector's Final Report. It is likely that all three review applications will be heard together. To this end, Phumelela will request the Deputy Judge President to allocate a judge to case manage the applications and to ensure that they are hear as soon as possible.

Nadomine Proprietary Limited

On 13 June 2019, Nadomine Proprietary Limited instituted an application against Phumelela and the NHRA for a court order declaring that the licence granted by the NHRA to Phumelela to hold races at Turffontein Racecourse has been cancelled in terms of rule 44.3 of the NHRA Rules.

Phumelela is opposing the application.

On 19 September 2019, Nadomine filed an interlocutory application to compel the production by Phumelela of certain documents listed in a Rule 35(12) notice delivered by Nadomine on 31 July 2019. Phumelela has opposed the interlocutory application and has instituted a counter application for security for costs in view of the vexatious manner in which Nadomine has pursued the litigation. The interlocutory applications must be enrolled for hearing.

REPORTING ENTITY

Phumelela Gaming and Leisure Limited is a company domiciled in South Africa. The condensed consolidated interim financial statements as of 31 January 2020 comprises of the Company and its subsidiaries and the Group's interests in equity-accounted investees and joint operations.

STATEMENT OF COMPLIANCE

The condensed interim unaudited consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for interim reports, and the requirements of the Companies Act applicable to condensed interim financial statements. The Listings Requirements require interim 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

These interim condensed consolidated financial statements have been 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 Reporting Pronouncements as issued by Financial Reporting Standards Council, and include disclosure as required by IAS 34 Interim Financial Reporting and the Companies Act of South Africa. They do not include all the information required for a complete set of IFRS financial statements. In preparing these interim condensed consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income, and expense. Actual results may differ from these estimates. The accounting policies are consistent with those applied in the previous financial year other than the effects of the implementation of IFRS 16 Leases, detailed elsewhere in this report.

Mr B McLoughlin CA (SA), Chief Financial Officer at the date of the interim accounts, prepared the condensed interim consolidated financial statements, under the supervision of Mr AW Heide CA (SA), Group Financial Director at the date of the interim accounts. Both officials, employed by the Company for the full duration of the period, subsequently tendered their resignations. The condensed interim consolidated financial statements were approved by the Board of directors on 29 April 2020.

GOING CONCERN STATEMENT

Shareholders are reminded of the going concern statement disclosed in note 36 of the 2019 integrated annual report. The Group's auditors did place an emphasis of matter on the material uncertainty relating to going concern, but their opinion was not modified. The going concern status is assessed continually in the light of prevailing conditions. Note 36 referred to the fact that the economic climate remains volatile and this may impact the going concern assessment.

The Group's bankers condoned the debt covenant breach at 31 July 2019, subject to a full collateral package and revised debt covenants. Facilities were extended for a further year subject to terms and conditions being adhered to. A R50 million working capital standby credit facility with a 13-month term was made available. A further debt covenant breach occurred at 29 February 2020. Disruptions caused by the COVID-19 lockdown in April 2020 in negotiating a condonement of the breach with the Group's bankers have caused deferment of a resolution to early May 2020.

As regards the impact of COVID-19, in terms of JSE Listings Requirements the Group issued SENS announcements on 20 March 2020 and 20 April 2020 in this regard. The Board has been assessing the impact that the outbreak is having on business operations. The nationwide lockdown in the country is having a detrimental impact on horse racing and on the Tote and fixed odds operations. Since the nationwide lockdown, which came into effect at midnight, 26 March 2020, no revenue has been generated. Whilst business continuity plans are in place, the Group is dealing with circumstances beyond its control as the crisis is an unforeseeable and unavoidable event.

Consequently, and despite the best endeavours of the Board and management, the Group is experiencing a cash flow mismatch and a liquidity hiatus. Whilst costs are being reduced where it is possible to do so, a substantial proportion are fixed costs.

The Group's total assets as at 31 January 2020 were valued at R1,63 billion and current and non-current liabilities at R788 million. Total assets exceeded total liabilities by R842 million. However, as the Group was in breach of the covenants imposed by the lenders as at 31 July 2019, but then subsequently condoned, the unsecured revolving credit facility in the amount of R300 million was reflected under current liabilities. The facility is redeemable in full in June 2021. The interim accounts are presented with this facility of R280,7 million reflected within current liabilities. On this basis, current assets are 41% of current liabilities, a current ratio of 0.4x, whereas if the facility were reflected as non-current the current ratio would be 0.6x.

The Group cannot reliably quantify the financial effect for this financial year nor the next financial year caused by COVID-19 and governments' consequent shut-down of most economic activity. The Group can reliably confirm that the financial impacts will be considerable as the cessation of trading entails a loss of income that is irrecoverable. Sporting fixtures around the world have been cancelled and alternative betting types, such as numbers and simulated sports, together with online betting are insufficient to fill the gap.

The National Horse Racing Authority is coordinating representations on behalf of all the key players in horse racing to the National Coronavirus Command Council. The resumption of horse racing behind closed doors with strict protocols in place, as is the case in several horse racing jurisdiction overseas, is an urgent imperative. The entire horse racing value chain is now in jeopardy. The Board acknowledges government's actions during the COVID-19 pandemic to protect citizens from the virus. However, the lockdown is devastating for most businesses and an equitable balance now needs to be found between limiting the impact of the virus on the population and ensuring vital sectors of the economy can survive.

A successful outcome to the Group's negotiations with the Gauteng Government to have the betting levy reinstated and withheld levies repaid would bring material financial relief to the Group but there is no progress to report.

The Group remains engaged in discussions aimed at raising capital. Should these discussions not prove conclusive soon, the Board will have to decide on whether there is any reasonable prospect that the Group's business can be rescued, or whether to make application for voluntary liquidation. The Board's current view is that even if financial relief can be obtained, a relief package should be negotiated as part of a business rescue plan. The Board will make an announcement in this regard in the near future.

SUBSEQUENT EVENTS

There are no significant subsequent events (other than those mentioned in the Going Concern Statement) that have an impact on the financial information on 31 January 2020.

RELATED PARTIES

Betting World Proprietary Limited sold a bookmaker licence to Supaworld Proprietary Limited which is a company jointly owned by Betting World and Supabets. 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

Empowerdex has audited the Group as a level 6 with Empowering Supplier status. The Group continues to identify areas for improvement.

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

Shareholders are referred to the announcement released on SENS on 11 December 2018 advising of the appointment of Colonel Johnny Sexwale to the board of Phumelela subject to approval by the relevant regulatory authorities. The Gambling Board imposed a 12-month cooling off period from termination of his membership with the Gambling Board, ending 1 October 2019. Upon accepting a diplomatic appointment Mr Sexwale is now no longer able to serve on the Board.

With effect from:

- 30 October 2019, Ms Fikile Magubane resigned as a non-executive director and as a member of the Audit and Risk Committee.
- 21 January 2020, Mr Bernard Kantor retired as Chairman and as a non-executive director.
- 21 January 2020, Mr Moses Tembe was appointed as Chairman and relinquished the role of Lead Independent Director.
- 27 March 2020, Mr Andreas Heide, Chief Operating Officer and Group Finance Director, stepped down after 23 years of service to the Group.

The Board thanks Ms Magubane for her services.

COMMENTARY CONTINUED

The Board thanks Mr Kantor for his contribution as chairman since 2017 and his contribution as a director over twenty years.

The Board welcomes Mr Tembe as Chairman.

The Board is grateful to Mr Heide for his service to the Group.

NOTIFICATION OF RESIGNATION OF EXTERNAL AUDITOR

KPMG Inc. ("KPMG") have submitted their formal resignation as the Group's appointed external auditors, dated 30 April 2020. KPMG were appointed on 7 December 2006 and have thus served for thirteen years. Following such a considerable time KPMG wanted to rotate off the Phumelela audit prior to the year-end. We are satisfied as to the conduct, quality and independence of KPMG. The Board of Directors, through the Audit and Risk Committee, wish to inform shareholders that a formal tender process to appoint a new firm of external auditors will commence.

PROSPECTS

As at the date of this results announcement the trading environment over the next six months is unclear and the Board is in no position to provide reliable guidance.

The Group continues to engage in negotiations with the broader horse racing community to seek a resolution to the sustainability of horse racing and find commercially sustainable solutions.

Shareholders are reminded that Phumelela is under cautionary and are advised to continue to exercise caution when dealing in the Company's securities. Shareholders are referred to the Going Concern Statement above.

Any forward-looking statements or forecasts contained in these results have not been reviewed or reported on by the Group auditors.

DIVIDEND TO SHAREHOLDERS

No interim dividend is declared.

For and on behalf of the Board

M Tembe
Chairman

JA Stuart
Group Chief Executive

Turffontein, Johannesburg
4 May 2020

COMPANY INFORMATION

Directors:	M Tembe (Chairman), J A Stuart* (Group Chief Executive), K C Khampepe, S A Mahlalela, N J Mboweni (Mrs), S H Müller, Dr E Nkosi, J B 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**