Phumelela Gaming

Phumelela Gaming and Leisure Limited

INTEGRATED REPORT 2016

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Financial statements

Salient information

Other publications online

Notice of annual general meeting
Notice of annual general meeting can be found at www.irphumelela.com/financials/Phumelela_AGM_16.pdf

Sustainability report
Our sustainability report can be found at www.irphumelela.com/sustainability

King III report
Our King III report can be found at www.irphumelela.com/financials/KingIII_Assessment_2016.pdf

www.phumelela.com

WELCOME TO
PHUMELELA GAMING AND LEISURE LIMITED

We are one of South Africa's leading horseracing and betting companies. Our TAB trademark is one of the most recognised and trusted brands in the gambling industry.

Online, on the phone and on the move, we aim to provide betting and gaming services wherever and whenever a customer wants to take a bet.

KEY FEATURES OF THE TRADING YEAR

STRONG GROWTH
from fixed odds and international operations

DIVERSIFICATION
strategy locally and internationally
GATHERING MOMENTUM

Arena Racing Company
MEDIA RIGHTS DEAL
in UK effective 1 June 2016

ONGOING INVESTMENT
in horseracing facilities and infrastructure

Earnings per share up
54% to 163,62 CENTS

CONTINUED GROWTH
in tote betting on soccer

Headline earnings per share up
41% to 164,51 CENTS

Final gross dividend increased by
17% to 70 CENTS

SCOPE OF THE REPORT

We are pleased to present our stakeholders with the Integrated Report of Phumelela Gaming and Leisure Limited ("Phumelela") for the period 1 August 2015 to 31 July 2016. Our previous report was published in 2015. Phumelela is listed on the JSE under the share code PHM in the travel and leisure sector.

This report covers the financial activities of the Group and the non-financial aspects of the South African operations over which we have management control.

The sustainability section of the report aims to provide stakeholders with an overview of our social and environmental performance which are deemed to be material to the Group. To identify the issues material to our business we review the:

- results of our business risk assessment process;
- Code of Corporate Practice and Conduct set out in the King III reports;
- Phumelela Code of Ethics;
- topics and challenges reported by our peers or raised by industry associations; and
- external initiatives and best practice guidelines, including the GRI G3 guidelines.

In order to conform to the ethos of the sustainability report, that is, to be mindful of the environmental impact of our actions, we have decided to move the sustainability report to the website. Our sustainability report can be found at www.irphumelela.com/sustainability.

Data has been measured according to Phumelela's policies and has been presented for the specific indicators in the report, tabulated or graphed with units where applicable. Our data management systems are continually being improved and we aim to provide additional comparative figures each year.

The majority of our environmental sustainability data is limited to our racing operations as opposed to our betting operations, due to the different nature and sustainability impact of these business functions.

We have applied the Global Reporting Initiative ("GRI") G3 guidelines to assist us in our assessment process and to identify performance indicators relevant to our business. We welcome your feedback and/or questions relating to the sustainability initiatives and data in this report. To do so, please contact Freda Moloi (fredam@phumelela.com).

MISSION, VISION, PURPOSE AND VALUES

Phumelela Gaming and Leisure Limited is a a JSE listed entity which is licensed to operate horseracing and totalisator betting in seven of South Africa's nine provinces.

OUR MISSION

To create exciting opportunities that facilitate betting on sport and other events.

OUR VISION

To be recognised as a global leader in the betting market.

OUR PURPOSE

To grow the sport of thoroughbred horseracing in South Africa on a sustainable basis and make it globally respected and desirable.

BACKGROUND AND NATURE OF THE GROUP OPERATIONS

Phumelela was formed in 1997 and was listed on the JSE in June 2002 in order to facilitate the "corporatisation" of horseracing in Gauteng.

Phumelela's main shareholder, the Thoroughbred Horseracing Trust (35% shareholder), is a not-for-profit entity which was formed at the insistence of the Gauteng Government. The principal objective of the Trust is to "promote the interest of all persons interested in, and affected by, the sport of thoroughbred horseracing in South Africa with a view to the long-term viability of the sport". Additional objectives relate to the promotion of Broad-based black economic empowerment ("B-BBEE") initiatives and affirmative action schemes with the intention of facilitating transformation within horseracing.

Phumelela was formed in 1997 and was listed on the JSE in June 2002 in order to facilitate the "corporatisation" of horseracing in Gauteng.

"Corporatisation" came about at the behest of the Gauteng provincial Government in order for the sport to remain competitive within a burgeoning gambling market that was about to legalise casinos and a national lottery in South Africa. A critical element of the restructuring was a commitment to rationalise the horseracing infrastructure in order to, inter alia, "facilitate transformation, transparency, accountability and create a sustainable business model". The three racing clubs that had run racing in the region until then transferred their assets to the new company (Phumelela) which took over the management of the sport in the province.

Horseracing in the Northern Cape, the Free State and Eastern Cape, subsequently joined the corporatisation process under the Phumelela umbrella. The tote business in the North West province was acquired by Phumelela shortly thereafter. The corporatisation process was a financial and competitive imperative given the significant challenges that faced the sport at the time, in particular the cycle of decline in betting turnovers, owners, horses, trainers, jockeys, prize money and financial reserves, all exacerbated by high betting taxes and the imminent legalisation of other forms of gambling (casinos and the national lottery). It is important to record that it was a political imperative imposed by Government with a goal to transform the sport to a "transparent, accountable, professionally managed, governed and profit-driven enterprise with appropriate black economic empowerment credentials".

The Racing Association, with a membership comprising owners and former racing club members, was established to represent the interests of owners. The Racing Association is run by a board of directors elected from the ranks of its members. The directors appoint five of the seven trustees to the Thoroughbred Horseracing Trust, which holds racing's 35% share in Phumelela. Two trustees are appointed by SASCOC.

Phumelela is both a licensed totalisator and racing operator. In order to increase horseracing's competitiveness, it has recognised that collaboration and cooperation is vital to address the needs of horseracing as a sport. Accordingly, Gold Circle, Kenilworth Racing and Phumelela have cooperated in a number of areas – specifically the creation of a combined tote ("Saftote") and a joint operation called the Tellytrack partnership which manages the production of televised horseracing as both a local ("Tellytrack") and an export product. Gold Circle, Kenilworth and Phumelela also manage the production of one national horseracing database which is the core intellectual property upon which informed betting is based.

Phumelela has made significant strides in broadening its revenue base in terms of:

- sports totalisator betting on soccer and rugby;
- its international operations through the establishment of a totalisator on the Isle of Man and through the export of South African horseracing (televised coverage and racing data);
- fixed odds betting opportunities offered through the Group's wholly owned subsidiary company, Betting World Proprietary Limited (a licensed bookmaking concern); and
- limited payout machines.

In terms of a management agreement concluded with Kenilworth Racing, Phumelela manages the business of horseracing and totalisator betting in the Western Cape.

PHUMELELA TOTALISATOR BETTING OUTLETS:

143 *branches.* **60** *agencies.* *Betting World fixed odds* **75** *outlets.*

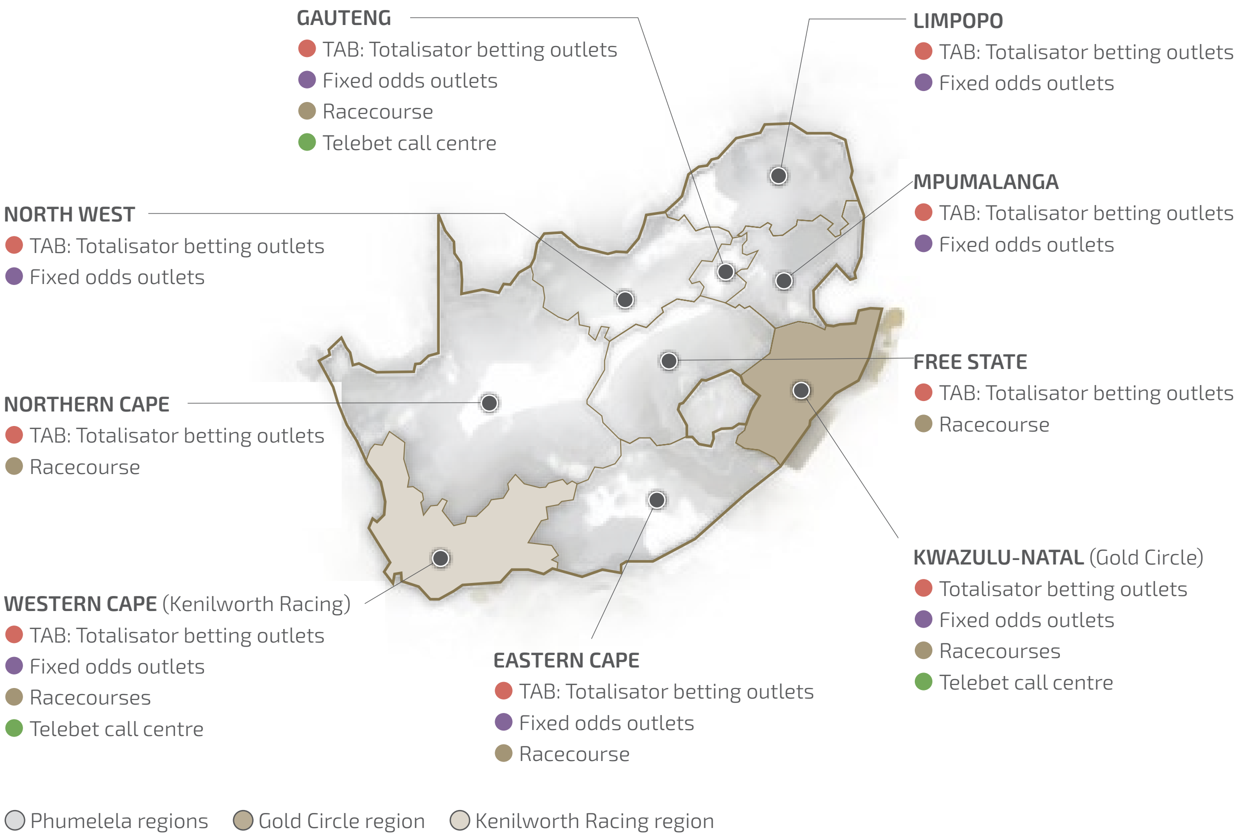
TAB: TOTALISATOR BETTING OUTLETS			
Phumelela regions	Branches	Agents	Total
Gauteng	79	34	113
Limpopo	15	8	23
Mpumalanga	10	4	14
Free State	15	2	17
Northern Cape	2		2
Eastern Cape	12	8	20
North West	10	4	14
Total	**143**	**60**	**203**

FIXED ODDS OUTLETS			
Gauteng	17	Western Cape	27
Limpopo	12	Eastern Cape	9
Mpumalanga	5	North West	2
KwaZulu-Natal	3		

RACECOURSES	
Phumelela regions	
Gauteng	Turffontein (Johannesburg)
Free State	Vaal (Vereeniging)
Northern Cape	Flamingo Park (Kimberley)
Eastern Cape	Fairview (Port Elizabeth)
Gold Circle region	
KwaZulu-Natal	Greyville (Durban)
	Scottsville (Pietermaritzburg)
Kenilworth Racing region	
Western Cape	Kenilworth (Cape Town)
	Durbanville (Cape Town)

TELEBET CALL CENTRES		
Phumelela region	Gold Circle region	Kenilworth Racing
Gauteng	KwaZulu-Natal	Western Cape

OPERATIONAL GEOGRAPHY SOUTH AFRICA



PHUMELELA AT A GLANCE

HORSERACING AND DESTINATION MARKETING BUSINESS

BETTING AND INFORMATION BUSINESS

BUSINESS DRIVERS OF AN INTERDEPENDENT BUSINESS

SCOPE OF PRODUCTS AND SERVICES

- Horseracing events, stabling and training facilities
- Horseracing and betting information
- Horseracing publications
- Television production/ broadcasting
- Sports betting and information

ANCHORED IN SOUTH AFRICA

- Revenue
- Resources
- Intellectual property
- Assets

SCOPE OF GEOGRAPHICAL REACH

- six continents
- 46 countries
- South Africa

BUSINESS DRIVERS OF AN INTERDEPENDENT BUSINESS

INFRASTRUCTURE

- Racing
- Retail
- Technology
- Hospitality
- Systems/processes
- Media
- Publishing
- Security

THE CUSTOMER

- Customer experience
- Retention
- Loyalty programmes
- Customer facilities
- Increased share of wallet
- Acquisition

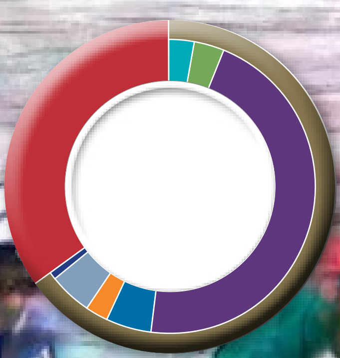
MARKETING

- Brands/events
- Betting information
- Market intelligence
- Promotional activity
- Customer understanding
- Product/service development
- Stakeholder insights
- Channel development and management
- Database/CRM
- Loyalty/recognition programmes
- Publications/website

OUR PEOPLE

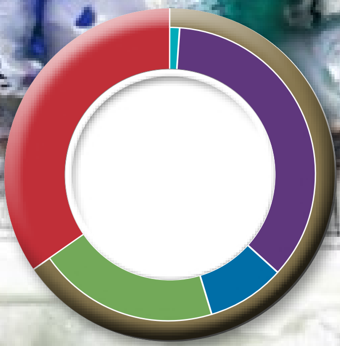
- Performance management
- Brand ambassadors
- Retention and upskilling
- Behaviours
- Recruitment
- Values
- Inspiration/motivation
- One team

PHUMELELA BETTING DATA



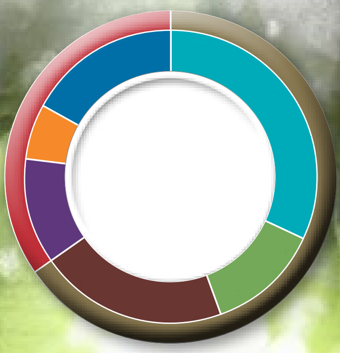
BETTING HANDLE BY OPERATIONAL GEOGRAPHY

	2016 R'million	2015 R'million	2016 %	2015 %
SA totalisator	**3 442**	3 332	**65,3**	69,5
Eastern Cape	**158**	146	**3,0**	3,0
Free State	**166**	157	**3,1**	3,3
Gauteng	**2 428**	2 353	**46,1**	49,1
Limpopo	**251**	237	**4,8**	4,9
Mpumalanga	**143**	147	**2,7**	3,1
North West	**248**	245	**4,7**	5,1
Northern Cape	**48**	47	**0,9**	1,0
Fixed odds	**1 828**	1 465	**34,7**	30,5
	5 270	4 797	**100,0**	100,0



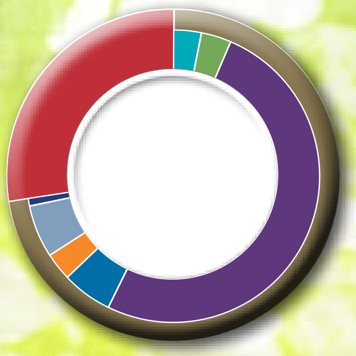
BETTING HANDLE BY BETTING MEDIUM

	2016 R'million	2015 R'million	2016 %	2015 %
SA totalisator	**3 442**	3 332	**65,3**	69,5
On course	**62**	68	**1,2**	1,4
Off course – branches	**1 877**	1 842	**35,6**	38,4
Off course – agents	**454**	441	**8,6**	9,2
Non-over-the-counter	**1 049**	979	**19,9**	20,4
Fixed odds	**1 828**	1 465	**34,7**	30,5
	5 270	4 797	**100,0**	100,0



BETTING HANDLE BY BETTING PRODUCT

	2016 R'million	2015 R'million	2016 %	2015 %
SA totalisator	**3 442**	3 332	**65,3**	69,5
South African horseracing	**1 689**	1 708	**32,1**	35,6
International horseracing	**661**	654	**12,5**	13,6
Other sports	**1 092**	969	**20,7**	20,2
Fixed odds	**1 828**	1 465	**34,7**	30,5
Horseracing	**624**	615	**11,8**	12,8
Other sports	**316**	274	**6,0**	5,7
Numbers	**888**	575	**16,9**	12,0
	5 270	4 797	**100,0**	100,0



NET BETTING INCOME BY OPERATIONAL GEOGRAPHY

	2016 R'million	2015 R'million	2016 %	2015 %
SA totalisator	**702**	679	**72,7**	80,8
Eastern Cape	**31**	37	**3,2**	4,4
Free State	**33**	31	**3,4**	3,6
Gauteng	**489**	465	**50,7**	55,4
Limpopo	**54**	51	**5,6**	6,1
Mpumalanga	**31**	31	**3,1**	3,7
North West	**55**	54	**5,7**	6,4
Northern Cape	**10**	10	**1,0**	1,2
Fixed odds	**263**	162	**27,3**	19,2
	965	841	**100,0**	100,0

OVERVIEW

RACING. IT'S A RUSH

Racing. It's a Rush aims to bring horseracing back to the forefront of the lifestyle entertainment industry. We want to bring back the glamour, the excitement, the thrill and the rush of horseracing in South Africa.

RACING. IT'S A RUSH – BRAND OVERVIEW AND OBJECTIVES

The major players in South African horseracing have once again joined together to launch a campaign to market this incredible sport and promote its core values to all South Africans.

Racing. It's a Rush aims to bring horseracing back to the forefront of the lifestyle entertainment industry. We want to bring back the glamour, the excitement, the thrill and the rush of horseracing in South Africa.

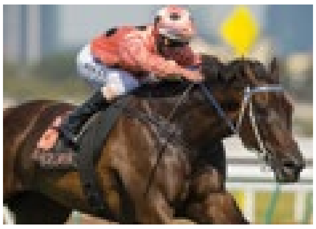
Racing. It's a Rush – is a brand that is relevant, fresh, locally inspired and exciting. We are discovering, engaging and attracting new enthusiasts to the sport – a younger demographic who are beginning to realise all that horseracing has to offer – the buzz, the fashion, the exhilaration and the fun.

We have created a world-class interactive website, and our social media presence is increasing by the day, platforms which are helping us reach new enthusiasts.

We have embarked on this journey, and have a long way to go, but we believe that we are on the right path, and have the necessary support to achieve our objectives.

We would like to thank all of our partners who have helped us launch this amazing brand, and look forward to many changes and opportunities in promoting horseracing in the future.

Facebook: https://www.facebook.com/RACINGitsarush
Twitter handle: @racing_itsarush
Instagram handle: racingitsarush


INTERNATIONAL REPRESENTATION

INTERNATIONAL

The rights to export South African horseracing are held by Phumelela Gaming and Leisure Limited ("PGL") and are exercised through its international division, Phumelela International ("PI").

PI has commercial relationships with 46 international jurisdictions across six continents. These relations enable the export of live South African horseracing globally, earning PGL foreign revenue on South African racing.

Daily imports of live television picture of foreign horseracing provide domestic punters with up to four times more horseracing betting opportunities daily.

Outbound

Racing in South Africa occurs on 364 days a year, with approximately 450 race meetings scheduled and broadcast each year. The television picture of South African racing is exported to various countries PI has relations with as an encrypted, live audio-visual signal, using a combination of satellite, fibre-optic and web-streaming technologies. These distribution mechanisms permit the export of South African racing in the following formats:

- A "clean feed" television picture of South African racing, which excludes any South African produced television graphics displaying betting patterns and tips on the races. This production enables the customer to integrate PI's racing picture into their own domestic television broadcast, and effectively distribute (simulcast) South African racing alongside their own racing, in a manner which suits their home markets.
- A South African produced television channel branded, Tellytrack 2 (International) is sent to a number of international markets. This channel integrates other international racing which PI has the rights to distribute, with racing from South Africa. The channel includes a line-up of South African, Dubai, Mauritius, Singaporean (in territories where permission has been granted and where tote betting paths are available) and Zimbabwean racing.
- A specifically tailored television production, including customised graphics of South African racing is produced for the Cantonese market (Singapore, Malaysia and Macau) and is branded as Tellytrack 3 (Asia).

These three formats are sold to bricks and mortar betting operators (tote and fixed odds), online betting operators and betting exchanges around the world, with revenue streams earned being dependent on the type of operator procuring the product.

South Africa
Isle Of Man tote

Inbound

- Australia
- Canada
- Dubai
- France
- Hong Kong
- Ireland
- Kenya
- Mauritius
- New Zealand
- Singapore
- UK
- USA
- Zimbabwe

Tote operators will typically pay a content fee based on an agreed percentage of turnover they generate in their jurisdictions on South African racing. This turnover could either be generated on a standalone basis in the customer's home market or transferred into the South African-based tote pools through a process termed commingling, in which case a small additional fee is also levied.

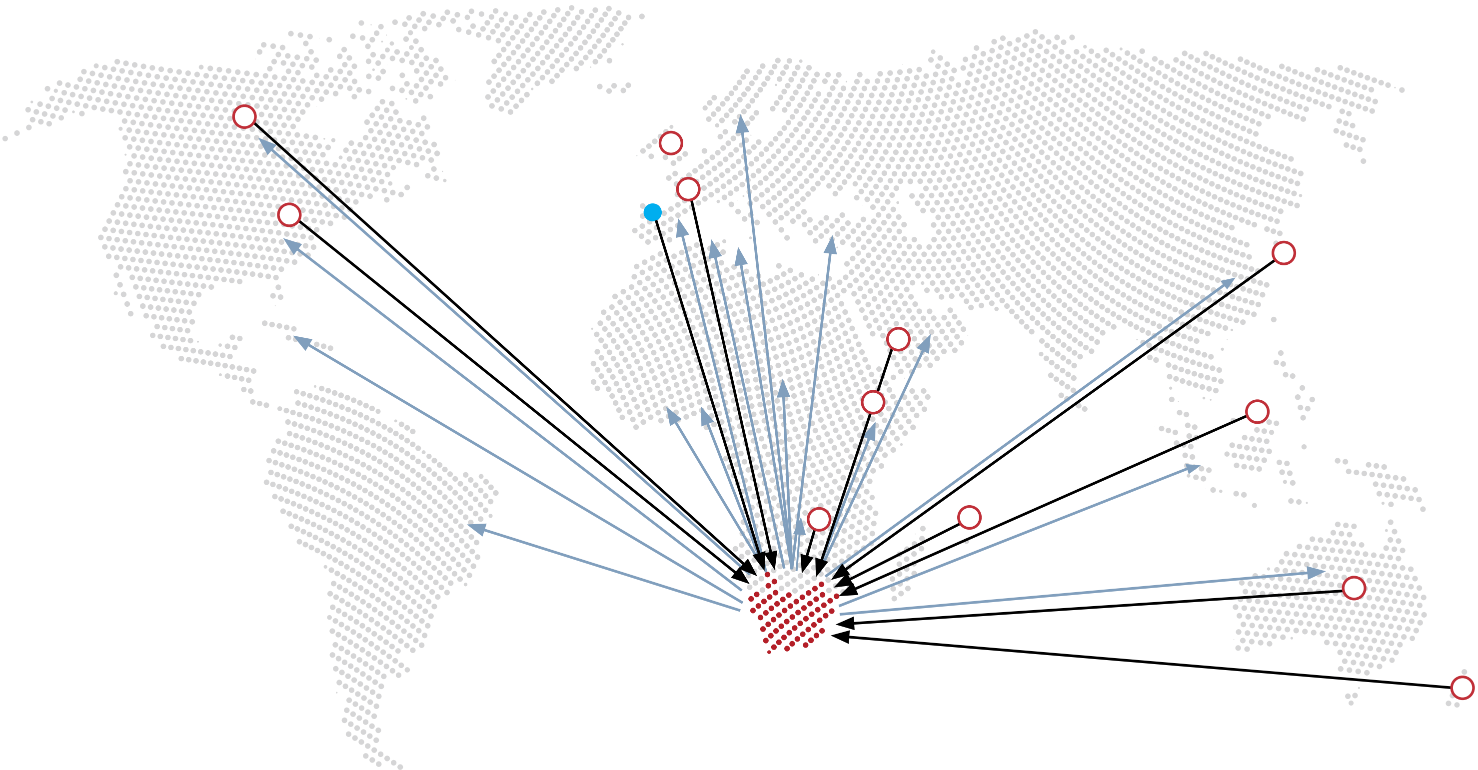
In certain territories, the most effective mechanism for reaching the fixed odds bookmaker retail outlets is through the selling of distribution rights to local agents for a predetermined fixed monthly fee.

In territories where the audio-visual rights to South African racing are purchased directly by independent bookmaker groups, a fixed monthly fee is levied.

Revenue is also earned from internet operators authorised to receive and bet on the South African racing content. Where live video streams are made available to punters over the internet, a fee is also charged per stream viewed over the internet.

Inbound

Live horseracing from 13 other countries is currently imported to supplement South African product and expand the product offering made to punters in our local market. The importation of foreign product strengthens reciprocity with other jurisdictions, which generate revenue for PGL. This supplementary product is beamed via satellite from the various territories, down linked in the Tellytrack studios in Rivonia (Johannesburg, South Africa) and simulcast with South African racing, as part of the domestic Tellytrack channel distributed by DStv to home viewers and through decoders at licensed betting shops.



Outbound

- Austria
- Australia
- Barbados
- Belgium
- Bermuda
- Brazil
- Burundi
- Cameroon
- Canada
- Chad
- Central African Republic
- Cyprus
- Dubai
- Finland
- France
- Germany
- Ghana
- Greece
- Guyana
- Indonesia
- Ireland
- Italy
- Ivory Coast
- Jamaica
- Kenya
- Lesotho
- Macau
- Malaysia
- Malta
- Mauritius
- Namibia
- Netherlands
- Pakistan
- Philippines
- Rwanda
- Singapore
- Sri Lanka
- Sweden
- Thailand
- Trinidad and Tobago
- Turkey
- Uganda
- UK
- USA
- Zambia
- Zimbabwe

In certain instances where PGL is unable to commingle local pools into a foreign tote, standalone pools are created in South Africa. However, where PGL is able to commingle, SA punters have the opportunity to bet into larger pools situated offshore.

ISLE OF MAN

Through a strategic partnership with Tabcorp in Australia, PGL jointly own an international tote operation on the Isle of Man, known as the Premier Gateway International ("PGI"). This subsidiary is licensed to conduct pari-mutuel betting on the island.

PGI uses the same technology deployed in the South African tote business. However, PGI is the world's first 24-hour tote operation. PGI operates as a worldwide totalisator hub, connecting punters, tote operators and internet betting websites from around the world to each other, effectively permitting the creation of pools with much greater liquidity. The Isle of Man ("IOM") effectively acts as a connectivity conduit for a variety of customers to approximately 900 tracks or totes around the world.

PGI also hosts the international totalisator pools for the Dubai World Cup Carnival, which includes the Dubai World Cup ("DWC"), the richest race in the world. The DWC commingling operation is the second biggest in the world and sees 60 foreign totes connecting to PGI to create truly global pools.

	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000
GROUP STATEMENTS OF COMPREHENSIVE INCOME							
Year ended 31 July							
Income	**1 500 797**	1 266 205	1 192 109	1 014 826	936 534	883 173	849 543
Profit from operations	**43 098**	79 301	61 833	85 304	82 546	98 367	93 863
Finance costs	**(9 368)**	(5 828)	(1 183)	(779)	(1 409)	(513)	(781)
Profit before share of profit of equity accounted investees	**33 730**	73 473	60 650	84 525	81 137	97 854	93 082
Share of profit of equity-accounted investees	**94 694**	47 060	57 983	26 705	15 544	336	1 071
Profit before income tax expense	**128 424**	120 533	118 633	111 230	96 681	98 190	94 153
Fair value adjustments	**5 578**	(21 298)	11 135				4 400
Profit before income tax expense	**134 002**	99 235	129 768	111 230	96 681	98 190	98 553
Income tax expense	**(12 912)**	(19 713)	(19 373)	(25 257)	(27 801)	(31 429)	(30 485)
Profit for the year	**121 090**	79 522	110 395	85 973	68 880	66 761	68 068
Attributable to non-controlling interest	**854**	(6)	14	(102)	(206)	(4 402)	(4 730)
Profit attributable to ordinary equity holders of the parent	**121 944**	79 516	110 409	85 871	68 674	62 359	63 338
GROUP STATEMENTS OF FINANCIAL POSITION							
At 31 July							
Assets							
Non-current assets	**635 466**	575 088	567 518	495 400	415 390	393 941	378 558
Current assets	**308 484**	200 751	220 537	149 028	176 567	210 548	198 438
Total assets	**943 950**	775 839	788 055	644 428	591 957	604 489	576 996
Equity and liabilities							
Capital and reserves	**513 051**	447 743	478 791	432 345	403 881	410 791	394 682
Non-current liabilities	**64 489**	54 735	9 397	3 734	5 809	7 165	5 670
Current liabilities	**366 410**	273 361	299 867	208 349	182 267	186 533	176 644
Total equity and liabilities	**943 950**	775 839	788 055	644 428	591 957	604 489	576 996
GROUP CASH FLOW STATEMENTS							
Year ended 31 July							
Net cash flow from operating activities	**38 594**	3 761	40 724	66 706	53 883	67 243	82 153
Net cash utilised in investing activities	**(19 549)**	(54 057)	(11 293)	(105 731)	(85 250)	(48 181)	(64 234)
Net cash flow from financing activities	**12 743**	1 073	8 586		(5 362)	(3 606)	(555)
Net increase/(decrease) in cash and cash equivalents	**31 788**	(49 223)	38 017	(39 025)	(36 729)	15 456	17 364

	2016 (cents)	2015 (cents)	2014 (cents)	2013 (cents)	2012 (cents)	2011 (cents)	2010 (cents)
Year ended 31 July							
Basic earnings per share	**163,62**	105,98	146,07	113,61	90,85	82,50	83,79
Diluted earnings per share	**155,01**	101,14	139,13	110,85	89,09	82,08	83,43
Headline earnings per share	**164,51**	117,06	132,10	114,46	90,99	83,19	78,96
Diluted headline earnings per share	**155,85**	111,72	125,83	111,69	89,23	82,76	78,62
Net asset value per share	**688,33**	600,79	633,04	571,58	534,05	513,01	497,50
Dividends/capital distributions per share	**104,00**	88,00	88,00	88,00	76,00	68,00	68,00

	2016 %	2015 %	2014 %	2013 %	2012 %	2011 %	2010 %
PROFITABILITY RATIOS							
Profit attributable/income	**8,13**	6,28	9,26	8,46	7,33	7,06	7,46
EBITDA[1] margin	**6,97**	10,20	8,49	12,34	12,85	14,88	14,57
Return on equity[2]	**25,38**	17,16	24,23	20,23	16,91	16,33	17,12
Return on total assets[3]	**14,60**	16,29	16,26	13,24	13,94	16,27	16,71
Solvency and liquidity ratios							
Solvency ratio[4]	**2,19**	2,36	2,55	3,04	3,15	3,12	3,16
Current ratio	**0,84**	0,73	0,74	0,72	0,97	1,13	1,12
Acid test ratio	**0,84**	0,73	0,73	0,69	0,94	1,10	1,09
Efficiency ratios							
Asset turnover[5]	**1,59**	1,63	1,51	1,57	1,58	1,46	1,47
Property, plant and equipment turnover[6]	**3,27**	2,85	2,68	2,91	2,68	2,61	2,79

[1] *Earnings before interest, tax, depreciation and amortisation to income*
[2] *Profit attributable to average capital and reserves*
[3] *Profit before interest and tax divided by total assets*
[4] *Total assets divided by total liabilities*
[5] *Income divided by total assets*
[6] *Income divided by property, plant and equipment*

VALUE ADDED STATEMENT

	2016 %	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000
Value created								
Gross betting income	**14,8**	**1 198 796**	1 044 329	927 253	875 827	823 717	811 115	764 599
Other income	**20,8**	**526 443**	435 685	441 021	296 493	252 444	204 388	210 589
Income from investments	**157,0**	**5 331**	2 074	2 815	1 795	2 597	3 005	2 916
Income from equity accounted investees	**101,2**	**94 694**	47 060	57 983	26 705	15 544	336	5 471
Income from operations	**19,4**	**1 825 264**	1 529 148	1 429 072	1 200 820	1 094 302	1 018 844	983 575
Other overhead costs	**7,9**	**(789 212)**	(731 314)	(615 668)	(457 944)	(436 638)	(398 068)	(384 648)
Total value created	**29,9**	**1 036 052**	797 834	813 404	742 876	657 664	620 776	598 927
Value distribution								
Stakes	**6,9**	**202 871**	189 772	186 299	175 689	165 149	153 863	157 986
Employees	**29,7**	**380 809**	293 532	274 432	245 115	202 418	189 548	170 072
Finance costs	**60,8**	**9 369**	5 828	1 183	779	1 409	513	781
Distribution to shareholders	**5,5**	**70 057**	66 389	66 517	59 713	51 399	51 399	51 402
Government	**17,3**	**255 317**	217 784	197 201	199 404	185 876	175 068	169 465
– Value added tax (paid on betting income)	**15,5**	**139 473**	120 806	107 058	100 994	95 075	86 922	84 197
– Betting tax	**13,0**	**93 772**	83 017	73 604	66 980	60 280	57 871	54 534
– Income tax	**59,6**	**22 072**	13 961	16 540	31 430	30 521	30 275	30 734
Total distributed	**18,8**	**918 423**	773 305	725 632	680 700	606 251	570 391	549 706
Reinvested in the Group to maintain and develop operations								
Depreciation and amortisation	**23,4**	**61 471**	49 825	39 374	39 885	38 018	33 122	32 803
Deferred tax	**(262,8)**	**(9 160)**	5 752	2 833	(6 173)	(2 720)	1 154	(249)
Retained profit	**310,4**	**65 318**	(31 048)	45 565	28 464	16 115	16 109	16 667
Total retained	**378,7**	**117 629**	24 529	87 772	62 176	51 413	50 385	49 221
Total value distributed/retained	**29,9**	**1 036 052**	797 834	813 404	742 876	657 664	620 776	598 927

Phumelela is a proudly South African Company punching above its weight internationally

A STANDARD-BEARER FOR THE SPORT OF THOROUGHBRED HORSERACING

It is appropriate to begin my address with sincere thanks to our management team and staff for putting shoulder to the wheel to produce a good operational and financial performance.

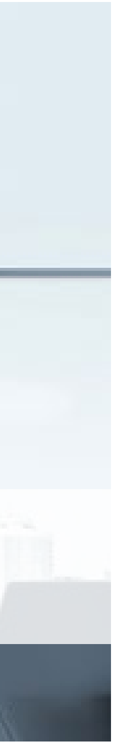
Our Chief Executive Officer, Mr Rian du Plessis, has provided a five-year perspective in his review of the financial performance of the Group. What is particularly pleasing to note is that the Group is achieving real growth over the medium term and doing so at a return above cost of capital. The stock market value of Phumelela speaks to this encouraging performance too, growing from less than R40 million at the time of listing in 2002 to R2 billion.

Long-term strategic thinking, methodical management, ethical conduct and a good eye for opportunity are hallmarks of a well-run business, and I believe that we have an executive team that exemplifies this

Achieving commercial sustainability is imperative for the extensive value chain and livelihoods that Phumelela supports. The business is continually innovating, thinking of better ways to do things, and introducing new income streams, notably in tote betting on sports other than horseracing, in fixed odds betting on a variety of sports, including horseracing, and via international horseracing media rights and betting royalties.

If Phumelela had stayed the business it was when first incorporated in 1997 there would be no business today, it is as simple as that. Our success is not by happenstance. The funding disparity in horseracing is widening by the year as are the losses that the Group shoulders as an operator, with relatively high capital requirements and maintenance costs. Piracy of our intellectual property by certain bookmakers, which is not only illegal but also immoral, further erodes our income. Despite a considerable contribution from overseas income, growing from small beginnings a few years ago, our horseracing operations combined are loss-making.

The earnings line in isolation is healthy, but underlying that is a mixture of accelerating profitability from our diversification initiatives and losses from the traditional horseracing business. There are workable solutions that provide for equitable burden sharing in the funding of the sport of thoroughbred horseracing.



An irony is that thoroughbred horseracing is not a declining sport or inimitable social event in South Africa, quite the contrary. Which is why Phumelela, as the standard-bearer for the sport of thoroughbred horseracing in South Africa, continues to reinvest in a world-class product.

The flamboyance of a day at the races, the colourful silks, a flutter on a well-competed race, the satisfaction of earning your stripes as a champion jockey, and the thrill owners, breeders and trainers enjoy when that well-cared-for animal pips rivals to the post are reasons why the sport remains so popular. Horseracing, and the myriad of services supplying the sport, has few, if any, equals – we have a sport to be enjoyed by all.

Our growing global audience for South African horseracing is giving the sport a resounding thumbs-up too. Phumelela is a proudly South African Company punching above its weight internationally in live simulcasting, commingling, and through the worldwide totalisator hub joint venture located on the Isle of Man.

Phumelela exports racing content across six continents, broadcasting on the 440 race meetings staged each year over 364 days, with an average of 12 horses competing per race. In turn, we have opened up a window of international betting options to South African punters

A NEED FOR STREAMLINED REGULATION AND FAIR TAXATION

I once again appeal for streamlined regulation, consistency with practical regulatory implementation, harmony with taxation and licensing, and stability and competency in administrative capacity. These stimulate investment, aids job creation and reduce the cost of doing business.

The current dispensation is a disincentive for investment, as it frustrates job creation and it raises costs.

Licensing processes are typically time consuming and outcomes unpredictable. There are nine gambling boards in nine provinces, each with their own peculiarities.

The regulatory minefield is difficult for a fairly big company, but impossible to navigate for an individual looking for a break in business. Phumelela is doing its level best to sponsor black entrepreneurs, and the least regulators could do is create an enabling environment and cut red tape.

Furthermore, horseracing is a large creator of employment, but faces an unequal tax burden due to a lack of standardisation of tax rates and levies. In the 12 months ended March 2016, betting accounted for 10% of all gambling turnover but gambling taxes levied and collected by provincial licensing authorities on betting was 14% of the total, with horseracing contributing 67%.

Phumelela is not pleading for special treatment, but simply asking for a level and equitable playing field in all respects.

BUSINESS IN SOCIETY

The Group result is set against an unsettled economic and political backdrop. Nevertheless, South Africa has a solid constitutional democracy with vibrant civil society organisations and it has rule of law with accountability thereto. The recent municipal elections were an impressive display of democratic accountability with a relatively smooth transition where a number of key municipalities changed in political administrations.

In recent months there has been commendable cooperation between business, labour and Government to put on a unified South African front so as to earn the confidence of foreign investors and financiers, and get across the message that the country has its fiscal house in order and is an attractive destination for investment.

Fostering a spirit of enterprise is key to resolving socio-economic problems. The National Development Plan, unfortunately not gaining momentum, simply needs to be implemented and we need foursquare focus as a nation on doing so for a hopeful future. Phumelela is doing its part in this regard, with our initiative to build black entrepreneurs through the franchise mechanism.

The amended B-BBEE Codes of Good Practice have set a challenging bar with the new weightings. Empowerdex has audited the Group as a level 5 with Empowering Supplier status, and the process has allowed us to identify areas for improvement.

Phumelela has long understood that transformation is not a compliance, but rather a business sustainability issue, and continues to work resolutely to achieving its goals. Allied to this is the manner in which we conduct ourselves with environmental sustainability in mind.

As a good corporate citizen, Phumelela gives back to society in a number of wide-ranging ways. The comprehensive sustainability report provides detail in this regard.

GOING FORWARD

We are positive about our future and we are investing for growth and development. The Group is building excellent alliances with partners such as Interbet and Arena Racing Company, and is exploring additional exciting and profitable initiatives. Phumelela Gaming and Kenilworth Racing are delighted to have Sun International as the new title sponsor of the Met, to be run as the Sun Met, and carrying record prize money of R5 million.

My fellow Board members provide excellent insight and guidance, for which I thank them. Rian, his executive team and staff continue to drive our business with passion and dedication and I appreciate their efforts. I also thank our customers for entrusting us with their business and I thank the owners, breeders, trainers, jockeys, and our varied suppliers and associates for partnering with us in all that we do.

The Phumelela team looks forward to another year of progress and achievement in 2017.

MP MALUNGANI
CHAIRMAN
7 October 2016

CHIEF EXECUTIVE OFFICER'S REVIEW

We achieved a very satisfactory year of delivery on our strategic agenda to diversify sources of income and invest for growth at a good return

KEY OPERATIONAL FEATURES OF THE TRADING YEAR

- ***Diversification strategy locally and internationally gathering momentum***
- ***Ongoing investment in horseracing facilities and infrastructure***
- ***Continued growth in tote betting on soccer***
- ***Betting World strategy yielding accelerating returns***
- ***A sterling performance from Premier Gateway International***
- ***Landmark agreement with Arena Racing Company in UK***

BUILDING A TRACK RECORD OF DELIVERY AND SUSTAINABILITY

This has been a very satisfactory year, with continued delivery on our objective as a management team to diversify sources of income and invest for growth at a good return. A long-term strategic vision combined with management execution has resulted in a material proportion of Group profit now being earned that barely existed a few years ago.

Our attributable income increased by 52% to R121,9 million which translates to a return on average equity of 25%. Headline earnings increased by 40% to R122,6 million.

Dividends to shareholders increased by 18%, which amounts to a distribution of R72,5 million or a payout ratio of 64%.

Over the five-year period to 31 July 2016, the compound growth rate of Group headline earnings is 15%, dividends to shareholders grew at a compound rate of 9% and Group return on equity averaged 20%. This is in line with a target to grow earnings in real terms over the medium term and earn a return on equity that exceeds cost of capital.

This performance has been achieved as a result of a strategic imperative to expand outside Phumelela's traditional roots. Income from both local and international sources over the five-year period has increased from R0,9 billion to R1,5 billion, a compound growth rate of 11% that has been driven by fixed odds and international operations.

As these results show, we continue to shape our destiny in a positive and proactive manner

A weaker rand is of assistance to profitability, but we are mindful that currency is a factor beyond management control and that a healthy mix of both domestic and international income is necessary.

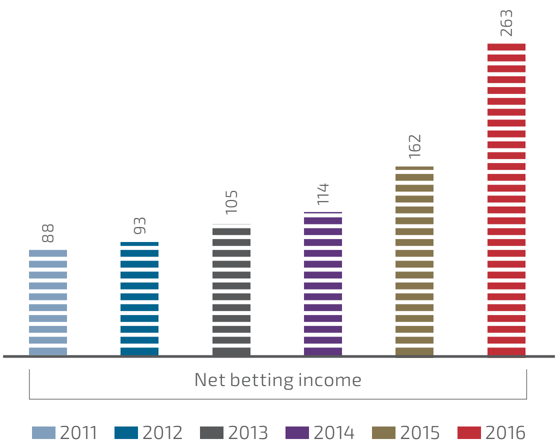
The track record being built cannot be realised without cost and capital discipline. The Group has finite resources and there is ongoing pressure on our historic source of income from horseracing. Growth has been funded from internally generated cash flows and, as the return on equity indicates, has been reinvested sensibly. Cumulative investment of R530 million on a gross basis has been made in past five years of which R196 million was invested in the past two years alone.

The Group financial position remains sound with net cash.

Our diversification strategy has two component pieces. Firstly, expansion of fixed odds and tote betting. This has been achieved predominantly through investment in the growth of Betting World, our wholly owned business. The retail fixed odds footprint grew to 75 outlets as at July 2016. In addition, organic growth has been supplemented through the acquisition of 26% of Interbet in 2015 and 51% of Afribet in 2016.

In only three years, net betting income in our fixed odds business has grown by 151% while net tote betting income on sports other than horseracing has grown by 75%. Pre-tax profits in the fixed odds business during this three-year period has grown by 218%.

FIXED ODDS NET BETTING INCOME UP 198% BETWEEN 2011 AND 2016
(R'million)



Secondly, international distribution of broadcast media rights on horse races and growth in demand for tote betting and pooling facilitated through the Premier Gateway International ("PGI") joint venture based on the Isle of Man.

International earnings, insignificant a decade ago, are now the largest contributor to the Group, delivering a combined pre-tax profit of R163,6 million in 2016, an increase of 48%. Phumelela has evolved to become a truly international business, present in over 40 countries, with a particular orientation from a horseracing content point of view toward the European and Eastern time zones.

Horseracing is fundamental to who and what we are – it is the cornerstone of the Group and will remain so

We are the foremost licensed totalisator and thoroughbred horseracing operator in South Africa and we provide a formidable televisual product that is available to domestic and international consumers.

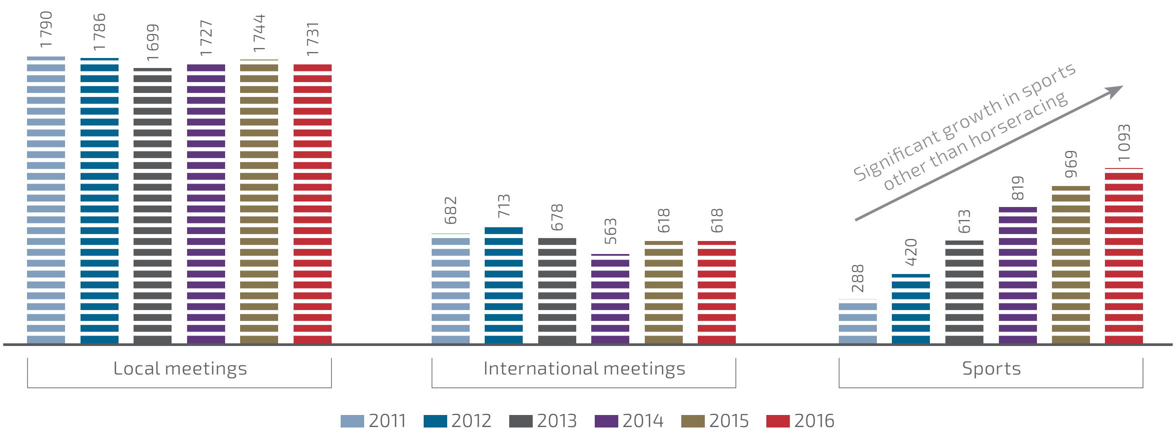
This foundation in the sport of thoroughbred horseracing has enabled us to exploit international opportunities and introduce tote betting to sports other than horseracing. In 2016, tote betting on sports other than horseracing, in particular soccer, was 35% of net tote betting income, up from 24% in 2013.

Managing Phumelela for commercial sustainability, through income streams comprising internationally competitive betting products for punters and race course facilities, makes the Group an attractive investment proposition for shareholders, and it has multiple benefits for our many other stakeholders throughout an extensive value chain.

Expansion of broadcast media rights internationally provides quality contractual income of a recurring nature through delivery of a proven South African thoroughbred horseracing product. We believe that international penetration has further potential within existing and new territories for sports in general and from media rights for South African horseracing content, including online streaming which has done particularly well in the UK market this year.

Our transactional income has been assisted by investment in technology, customer experience, accessibility, asset acquisition and increased efficiencies. From the technology aspect, investment in bespoke fixed odds betting software is a competitive advantage that is scalable and available in future to franchisees and independent bookmakers through sale or lease.

LOCAL TOTE BETTING MIX – MONEY WAGERED PER YEAR
(R'million)



OPERATIONAL ASSESSMENT

Real growth in tote betting on sports other than horseracing, strong real growth in net betting income from fixed odds, amplified by improved betting margins and a substantial international contribution were the highlights of this year.

During 2016 the local tote betting increased further to R3,4 billion, of which local horserace meetings is R1,7 billion, international horserace meetings R0,6 billion and other sports R1,1 billion – a figure that compares with less than R0,3 billon five years ago.

Tote betting volumes on horseracing are stable, with a quality racing experience encouraging on-course attendance, particularly for high-profile race meetings. Phumelela is resolute in playing a key role in ensuring South African racing remains top class, and invested a further R51 million during 2016 on our betting and racing facilities.

Interactivity is a key component of Group strategy and this year, online bets increased further to 30% of tote bets placed, up from 24% in 2013. Taken by placement source, online and telephone tote wagers increased by 7% in 2016.

Prize monies increased by 7%, in accordance with the formula set out in the stakes agreement with the Racing Association and which are reflective of the 2015 financial year results.

Our agreement with the Racing Association also stipulates that 30% of Betting World's annual profits from betting on horseracing are contributed directly to horseracing prize monies. Betting World lawfully subscribes fully for the right to display Tellytrack at retail outlets.

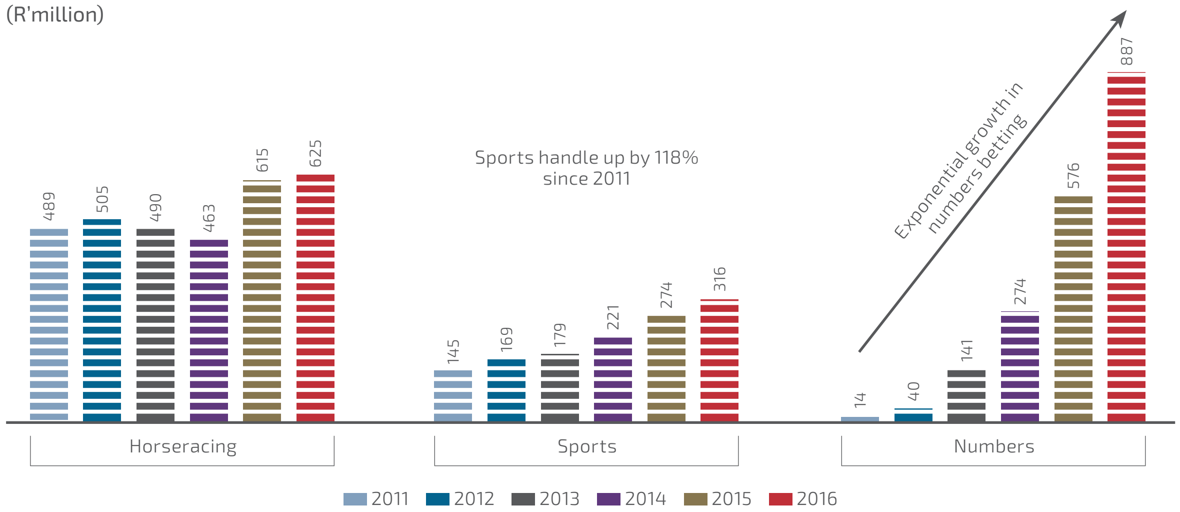
As a bookmaker, Betting World contributes fairly and proportionally to the funding of horseracing. Indeed, so do many other bookmakers. The bookmaking industry as a whole has a market share in betting turnover on horseracing of 61%, up from 44% in 2009, with the tote the balance. Unfortunately, the contribution by bookmakers as a whole to supporting the very sport that is a substantial share of their business by turnover and in which they have a majority market share, is disproportionately low.

The staging of horseracing and conducting tote betting thereon therefore continues to make losses, and our combined horseracing operations are loss-making, even allowing for the inclusion of international profits.

Funding imbalances associated with the sport of horseracing together with piracy of the Group's intellectual property by certain bookmakers exacerbate the losses. In this regard, we note that the Competition Commission has found the Tellytrack fee not to be excessive.

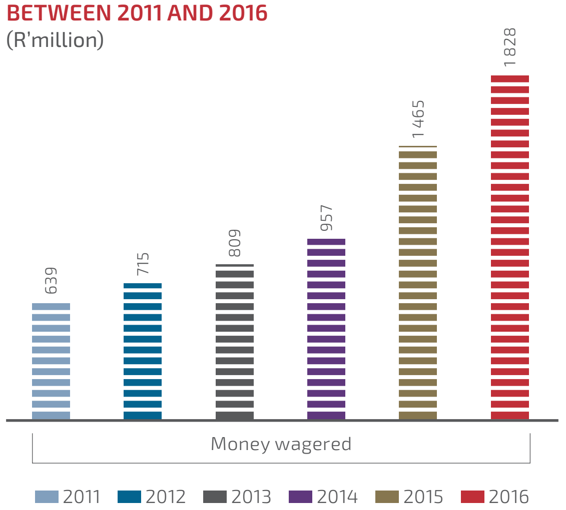
Under strengthened leadership, Betting World is focused on taking the bet to the people and enhancing the punter experience, and on nurturing franchise opportunities for previously disadvantaged individuals.

FIXED ODDS BETTING MIX – MONEY WAGERED PER YEAR
(R'million)



Fixed odds excelled across all betting streams with total money wagered reaching R1,8 billion, an increase of 25%. For the first time, money wagered on numbers exceeded that on horseracing while sports other than horseracing continued to gain in popularity. However, fixed odds betting on horseracing remains popular with money wagered 35% higher than in 2014.

FIXED ODDS MONEY WAGERED UP 186% BETWEEN 2011 AND 2016
(R'million)



The expanded retail presence is a big factor in bringing in the punters, and we experienced strong growth in a number of provinces.

Interbet made a pleasing contribution for a full 12 months, compared with nine months in the previous financial year. The relationship with our partners is working very well and the investment is a perfect fit with Phumelela's horseracing and sports betting products.

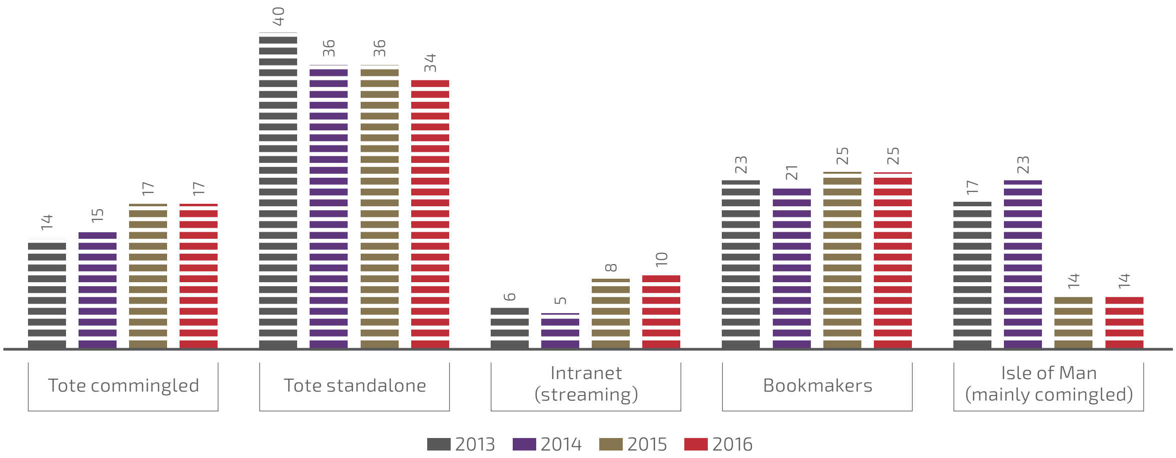
Phumelela's 50% investment in PGI returned a sterling performance and enjoys a solid base from which to grow. Increased demand for the export of South African horseracing content further boosted international income.

The Group has a diverse mix of geographies, of particular significance is that with effect from May 2016, win, place and swinger bets on Hong Kong races were commingled into Hong Kong's tote pools. Commingling gives local punters the opportunity to participate in one of the largest tote pools in the world. The tote still accounts for a healthy 51% of our international income.

An exciting development was the signing of a landmark agreement with Arena Racing Company. This agreement 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 Arena 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. Arena will also continue to distribute South African racing to online betting operators in the UK over the "At The Races" streaming platform.

INTERNATIONAL INCOME BY PERCENTAGE MIX
(%)

Tote combined is over 50%



CORPORATE CITIZENSHIP

Empowerment is a focus area and Phumelela has independently been ranked highly in this regard.

Economic opportunity for black entrepreneurs is being expanded through our investment in franchising. Previously disadvantaged individuals are supported by way of licensing, mentoring, systems and infrastructure to succeed independently in return for a franchise fee.

Total taxes paid to Government in 2016 increased by 17% to R255 million. VAT, betting tax and income tax contributed to the fiscus has grown at a compound annual rate of 8% over five years. This is the result of successful investment in growing the financial contribution from sports other than thoroughbred horseracing.

Of the value we distributed from that which we created, our employees enjoy the lion's share, followed by Government, prize monies and finally our shareholders.

The Group sustainability report, available for download on the website, provides detailed information on Phumelela as a good corporate citizen.

OUTLOOK

Our international operations thrive on the quality of year-round South African horseracing, for which there is strong and growing demand. Phumelela is opening up new markets to South African punters. The Group's agreement with Arena Racing Company will contribute meaningfully for a full 12 months.

As this year's result has shown, the Group is delivering the anticipated returns from investments made in the fixed odds retail footprint and we expect further improvement in profitability.

The franchise model for previously disadvantaged individuals is gaining traction and we anticipate a number of outlets being operational in 2017.

We strive for positive and constructive engagement with all relevant public and private stakeholders

Off a strong platform and with the benefit of acquisitions, the Group is targeting another year of real growth in earnings per share.

In closing, I extend my sincere gratitude to the many people who help make Phumelela the great and growing business that it is.

WA DU PLESSIS
CHIEF EXECUTIVE OFFICER
7 October 2016

GROUP FINANCE DIRECTOR'S REVIEW

An excellent contribution from offshore income streams and local fixed odds betting operations drives 40% growth in headline earnings and an improved return on average shareholders' equity of 25%

KEY OPERATIONAL FEATURES OF THE TRADING YEAR

- ***Earnings per share up 54% to 163,62 cents***
- ***Headline earnings per share up 41% to 164,51 cents***
- ***Headline earnings up 40% to R122,6 million***
- ***Annual dividend up 18% to 104 cents***
- ***Net cash balance of R11,9 million***

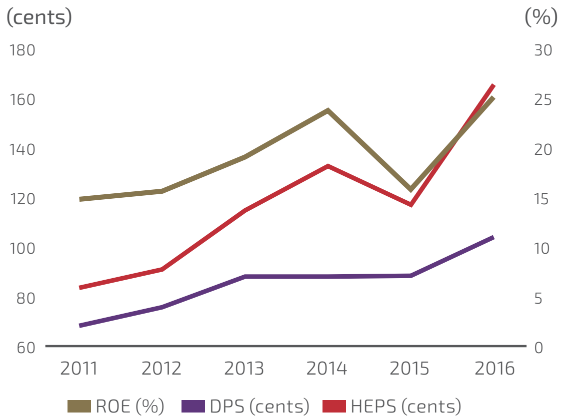
PERSPECTIVE TO THE GROUP FINANCIAL RESULT

The result features an excellent contribution from offshore income streams and local fixed odds betting operations, driving 40% growth in headline earnings and 53% growth in attributable profit, thus an improved return on average shareholders' equity of 25%.

Over the past five years, the Group has delivered 15% compound growth in headline earnings and a return on equity averaging 20%. This has been achieved while maintaining a high level of balance sheet solvency

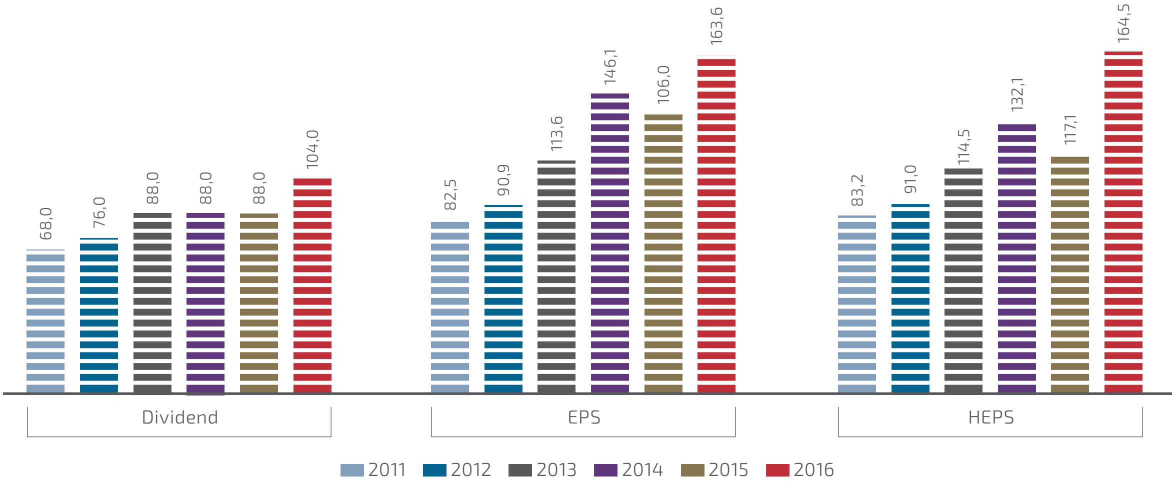
The strength of our cash flows and balance sheet flexibility have allowed the Group to invest substantially in revenue diversification without having to resort to meaningful gearing. The investment is generating superior returns, further strengthening the cash flow profile.

BUILDING A TRACK RECORD OF DELIVERY



The Group enjoyed a net cash position at balance sheet date. As mentioned in the CEO's review, gross investment totalled a cumulative R530 million in the past five years, of which R78 million was spent during the year under review (2015: R118 million). Despite this hefty commitment to the future, the Group has maintained a healthy financial position.

DIVIDENDS AND EARNINGS PER SHARE
(cents)



Positive momentum was maintained in both the first and second halves of the year

Headline earnings grew by 31% in the first six months and by 50% in the second six months, resulting in 40% growth for the year to R122,6 million. Profit before tax from international operations was up by 38% in the first half, 53% in the second half and by 48% to R163,6 million for the year. The fixed odds business performed especially well through the year, as investment in the expanded retail footprint and betting offering yielded accelerating net income relative to operating expenses.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") and profit from operations has become an increasingly unrepresentative metric for measuring the Group result or applying as a valuation yardstick, such as an earnigns value/EBITDA calculation.

By way of explanation, equity-accounted profits more than doubled this year to R94,7 million, amounting to 74% of profit before tax and fair value adjustments, up from 39%. This is a deliberate result of a clear strategic objective to diversify income sources, locally and abroad. Equity-accounted profits therefore reflect crucial executive input with respect to the 50/50 Premier Gateway International ("PGI") strategic partnership in the Isle of Man and the complementary alliances with local associates. It is anticipated that this component of earnings will continue to grow.

A detailed analysis of the result follows.

FINANCIAL ANALYSIS

Income from local operations, which includes bets struck net of betting dividends paid, refunds and rebates, increased by 15% to R1 226,4 million. Totalisator gross betting income grew by 4% with fixed odds growing by 63%. International ventures gross income grew by 38% to R274,4 million. Consequently, Group income grew by 19% to R1 500,8 million.

Group net betting and other income grew by 17% to R1 497,3 million, with local tote and fixed odds net income growing by 14% to R1 222,9 million, and international net income growing by 33% to R274,4 million. Fixed odds performed particularly well, growing net betting and other income by 68%. Net betting income on horseracing benefited from a substantial 47% increase in fixed odds net betting income and is testament to both the expansion initiatives of the Group and the continued appeal of horseracing as a product. Both tote and fixed odds net betting income on sports other than horseracing continued to grow strongly.

Local expenses, stakes and levies increased by 19% to R1 255,2 million. Expenses growth was higher than inflation, largely as a result of the rapid growth in the fixed odds business together with the associated salaries, wages, rental, fit-out and related costs.

Legal and consulting fees associated with combating piracy of the Group's intellectual property by bookmakers and related legal matters are also included within expenses.

An IFRS 2 Share-based payment charge of R14,0 million is captured compared with a R3,2 million reversal for the prior year. To fulfil obligations in respect of shares exercisable in terms of the executive option schemes, the Company previously repurchased shares in the amount of R41,6 million.

As a consequence of the drought, an additional R8,6 million was spent on watering racing and training facilities.

The 23% increase in the Group depreciation charge to R61,5 million reflects the investment commitment Phumelela is making in keeping its estate up to date and appealing to customers.

Stakes paid out on horseracing increased by 7% to R202,9 million. These prize monies are in accordance with the formula set out in the stakes agreement with the Racing Association. Stakes are calculated retrospectively on prior year results and the increase is reflective of the 2015 financial year results as they pertain to the formula.

Expenses on a like-for-like basis increased in line with budget. Like-for-like normalised expenses in the local tote operations, excluding stakes and depreciation, grew by 8%. Across both tote and fixed odds operations like-for-like expenses, also excluding stakes and depreciation, grew by 13%. Day-to-day operating expenses are under constant scrutiny.

International operating expenses increased by 33% in rand to R94,8 million, while intellectual property rights fees increased by 52% to R104,0 million. Expenses are reflective of the growth of our international betting and media rights activities.

Local operations recorded a loss of R41,6 million after finance charges of R9,4 million. Losses in our tote, horseracing and media operations increased to R111,3 million from R13,7 million. Profits in fixed odds increased by 228% to R69,7 million. This underscores the degree to which an equitable funding dispensation for the sport of horseracing is required.

Local equity-accounted profits increased to R6,4 million, with Phumelela's 26% interest in Interbet contributing R5 million for a full 12 months compared with R1,6 million for nine months in the previous financial year.

International income is derived from Phumelela International's rights to export live visuals of South African horseracing and import live horseracing from other countries. Equity-accounted international income is derived from the jointly owned PGI tote operator on the Isle of Man. The first component of this recorded a profit from operations of R75,3 million, an increase of 14%, while the equity-accounted income was R88,2 million, an increase of 97%.

Combined pre-tax profit from international operations was therefore R163,6 million, an increase of 48%. The rand averaged R21,43/£ versus R18,11/£ in the prior year, an 18% adverse move that benefited foreign income translated to rand. However, even on a constant currency basis, foreign profits grew by a healthy 25%.

The growing internationalisation income streams mean that the proportionate exposure to different currencies changes too. Foreign income is earned in the territories to which those currencies are applicable and translated at prevailing rates.

The Group recorded a profit on foreign exchange in income of R8,2 million compared with R18,5 million in 2015.

International operations benefited from growth in income out of, inter alia, the UK, France, Australasia, Greece, Cyprus, Macau and Singapore. Tote commingled income grew by 32% and tote standalone commission grew by 31% while fees paid by offshore bookmakers grew by 45%.

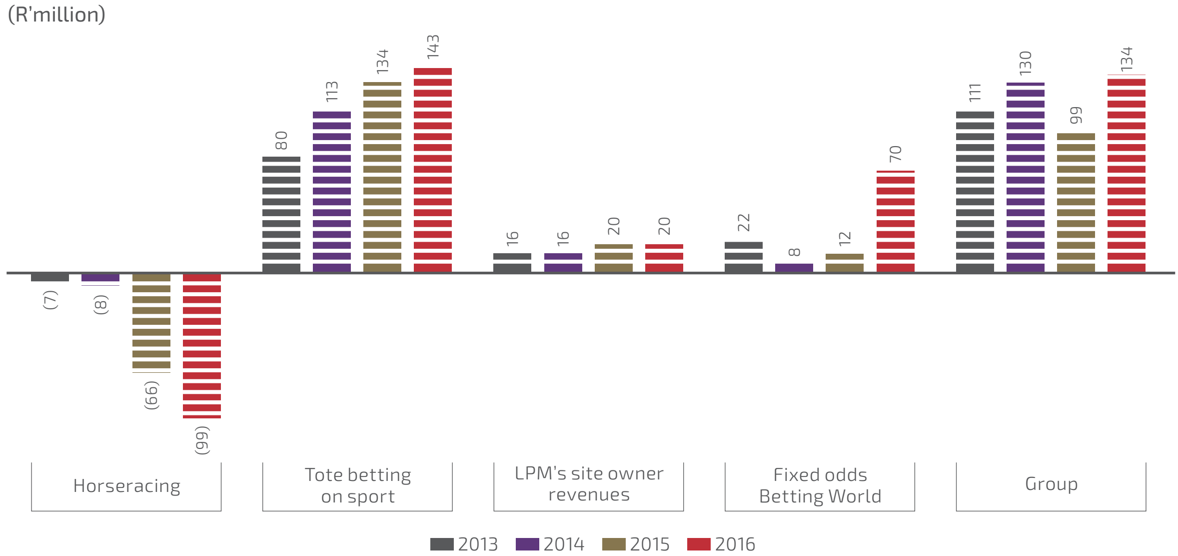
Despite this excellent offshore result, the Group recorded a combined loss of R99 million from both local and international horseracing income streams, up from a loss of R66 million in 2015 and R8 million in 2014.

A positive R5,6 million non-cash fair value adjustment relates to the Group's investment in Automatic Systems Limited ("ASL") in Mauritius and was due to the share price rising. In the prior year a negative R12,8 million fair value adjustment was recorded. ASL is classified as held for sale.

Group pre-tax profit before the fair value adjustment is R128,4 million, a rise of 15%. In the prior year there was a R8,6 million non-cash impairment of the Group's 26% interest in Betting World Nigeria and so excluding this the rise in pre-tax profit is 7%.

PRE-TAX INCOME PER SEGMENT

(R'million)



Horseracing comprises cost of racing net of tote revenues from betting thereon and local and international media revenues.

International profits comprised 127% of Group profit before tax and fair value adjustment.

The Group income tax charge of R12,9 million is lower than the previous year. The total income tax charge was R22,1 million after a prior year adjustment of R2,3 million and a further R9,2 million deferred tax credit resulted in the total tax charge being R12,9 million. Cash tax paid out during the year was R30,3 million. Share-based payment expenses are not deductible for tax.

The Group paid VAT on betting income of R139,5 million, an increase of 15%, and betting tax of R93,8 million, an increase of 13%.

Net attributable income increased by 53% to R121,9 million, assisted by the positive ASL fair value adjustment and the lower effective tax rate. Earnings adjustments were minimal this year. Headline earnings increased by 40% to R122,6 million.

Earnings per ordinary share are up by 54% to 163,62 cents and headline earnings per ordinary share are up 41% to 164,51 cents. As shares were bought back in the previous year in terms of the executive option schemes, the weighted number of shares in issue was 0,67% lower.

Dividends totalling 104 cents per share were declared in respect of this year's earnings and represent a cover ratio on headline earnings of 1,6 times.

The Group generated cash, before working capital and equity-accounted profits, of R113,0 million and after release of cash from working capital of R30 million. Cash generated by operating activities increased by 52% to R143 million. Dividends received from equity-accounted investees amounted to R71,0 million, of which R65,5 million is dividends received from PGI in the Isle of Man.

Acquisition of fixed assets, intangibles and equity-accounted investments amounted to a gross R78,1 million, which is mostly property, plant and equipment. R51 million was invested in our tote betting and racing facilities, of which R8 million was spent converting the Vaal sand track to grass, while total capital expenditure in Betting World amounted to R23 million.

Commitments in respect of capital expenditure approved by directors are R169,3 million.

Dividends paid to shareholders amounted to R70,1 million.

Borrowings as at 31 July 2016 came to R100,8 million, of which R62,9 million is non-current. Cash balances of R112,7 million include R57,2 million in foreign currency, 60% of which is in British pounds. Net cash is therefore R11,9 million. In the previous year the net debt to equity ratio was an immaterial 1,2%.

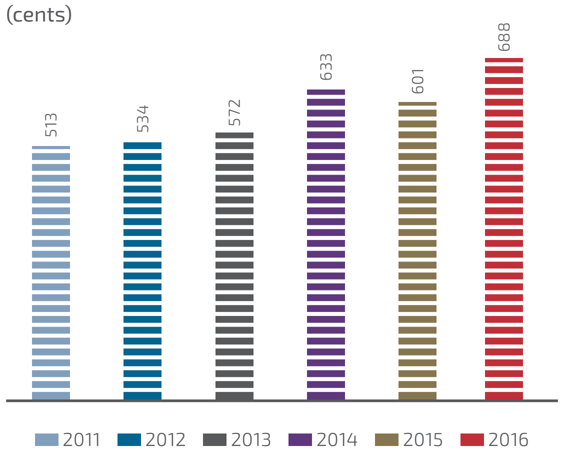
An unsecured revolving credit facility in the amount of R120 million is available, redeemable in full in June 2019 at an interest rate of JIBAR plus 260 basis points, of which R60 million has been utilised. An additional demand facility in the amount of R55 million is available at the rate of prime minus 1%. A subsidiary has an unsecured term loan at 0,75% below prime, repayable in monthly instalments of R200 000.

The Group therefore has ample funding headroom if needed.

Total assets are R944,0 million, which includes property, plant and equipment at a carrying value of R458,9 million, goodwill and intangibles valued at R66,7 million, and equity-accounted investees valued at R75,5 million. The Group is invested in strategically well-placed assets, the real market value of which is not fully reflected by the statement of financial position.

Shareholders' equity of R513,1 million equates to net asset value per share of 688,33 cents. Return on average shareholders' equity was 25,4%, up from 17,2%.

NET ASSET VALUE PER SHARE
(cents)



FINANCIAL AND OPERATIONAL DISCLOSURE

In addition to the comprehensive information provided for stakeholders in the Integrated Report the Group publicly discloses useful financial and operational detail in the interim and annual results financial analyst's presentations, which are available for download via the Group website.

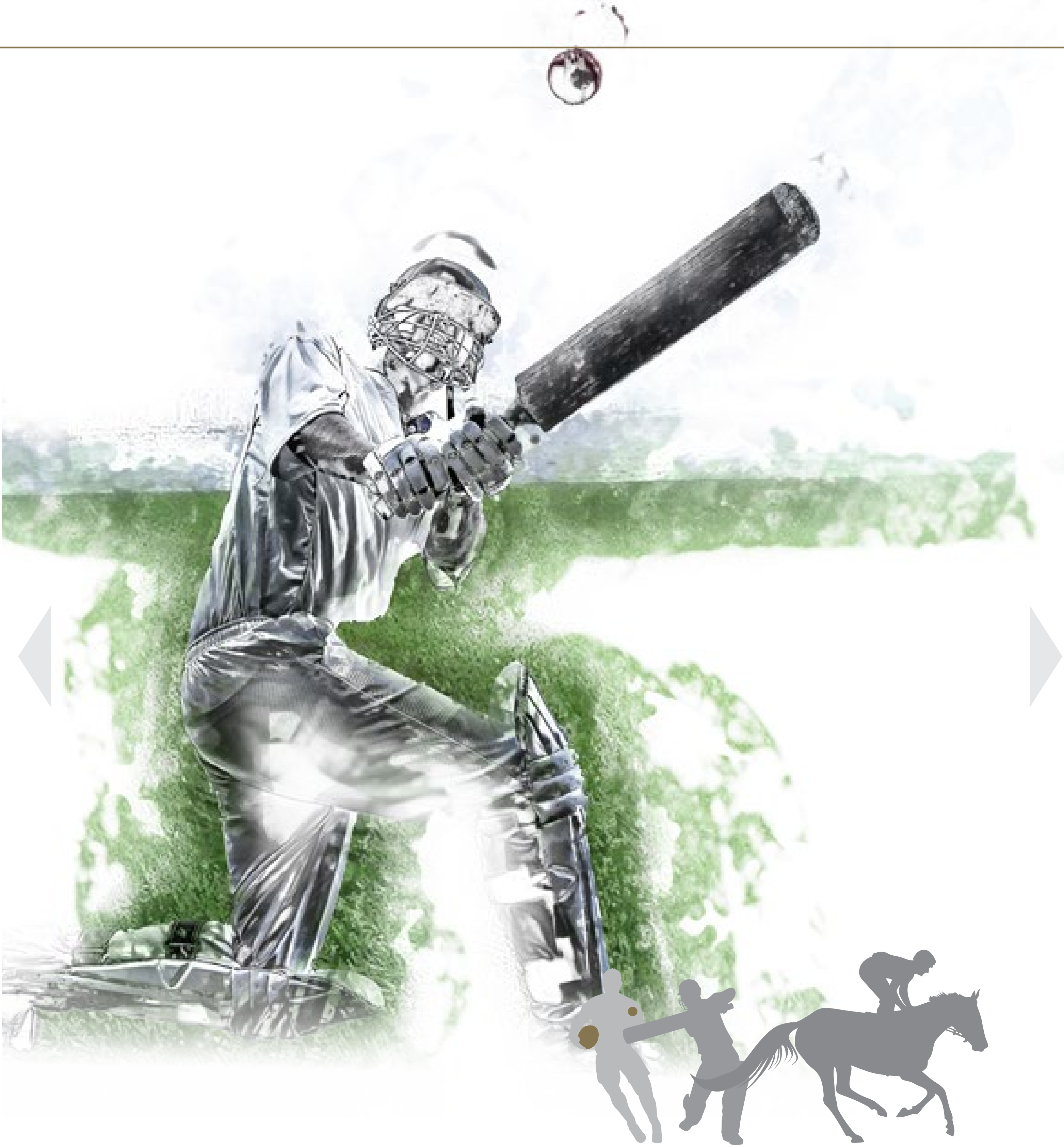
GOING FORWARD

The Group is in a sound financial position and has the means to continue with its ongoing operational needs and the investment and growth strategies. However, unless the funding situation in South Africa changes to reflect appropriate and proportionate burden sharing and reward, the traditional horseracing business is likely to remain loss-making. In light of this, we as management remain vigilant in our cost control and are prudent in the manner in which we grow the Group and pursue other revenue streams.

A combination of recurring income, in the form of broadcast rights, variable but reasonably consistent transactional income, and the benefits of incremental income from investment in growth and development of international and local tote, fixed odds and media income, provide a relatively dependable cash flow.

While regulatory factors are a risk of doing business, the Board believes these are mitigated and that relationships with relevant authorities are constructive and cooperative.

AW HEIDE
GROUP FINANCE DIRECTOR
7 October 2016



ONE OF AFRICA'S RICHEST RACEDAYS

RACING
IT'S A RUSH

One of Africa's richest racedays. Nine feature races are run and the President's Champions Challenge is now worth R4 million; the richest race in South Africa, and total prize money on the day exceeds R10,55 million!

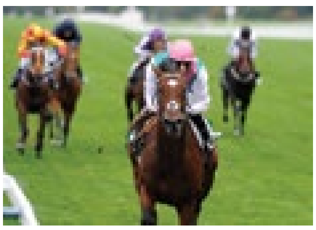
CHAMPIONS DAY

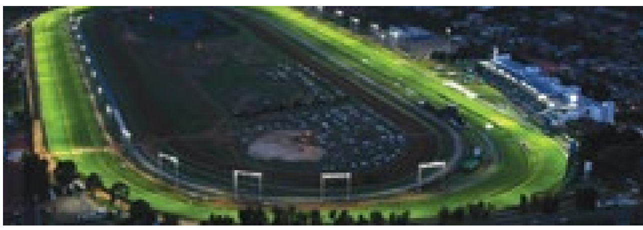
Champions Day was introduced by Phumelela in 1999.

One of Africa's richest racedays. Nine feature races are run and the President's Champions Challenge is now worth R4 million; the richest race in South Africa, and total prize money on the day exceeds R10,55 million!

The feature races include four Grade 1 events in the Champions Challenge, the SA Derby, the SA Nursery and the Computaform Sprint, Africa's premier test of speed. The SA Derby is the third and final leg of the SA Triple Crown, Africa's richest series of races for three-year-old fillies with a R2 million bonus for winning all three legs. Other feature races include the R1 000 000 SA Oaks, the third and final leg of the SA Triple Tiara for three-year-old fillies.

The day is great fun for everybody, with loads to do between races including an intercontinental village. Secure parking is available and admission is free. To make a restaurant booking, you may email: reservationsp@phumelela.com



OUR BOARD

MP MALUNGANI (58)#*

Chairman

BCom, MAP, LDP

Peter is chairman and founder of Peu Group Proprietary Limited. He is Chairman of Phumelela Gaming and Leisure Limited. He served on the board of Pretoria Portland Cement Limited (chairman of the Investment Committee). He was previously a director on the boards of Investec Limited, Investec Bank Limited and Investec Plc (member of the Credit Risk and Capital committee). Peter was also a director and chairman of Super Group Limited. He was a director of Transnet Group Limited and was deputy chairman of Capital Alliance Holdings Limited. He also holds directorships on a number of Peu subsidiaries.

WA DU PLESSIS (55)~

Group Chief Executive Officer

BAcc, CA(SA), Hdip Tax

After a successful career in investment banking, Rian joined the Comparex Group on 1 February 1997. In his capacity as director: mergers & acquisitions and international finance, he was responsible for all of Comparex's acquisitions as well as being finance director of the group's international business. He was appointed chief executive Officer of Comparex Holdings Limited on 1 February 2000.

At the invitation of the board of directors of Comparex Holdings Limited and with effect from 1 November 2002, Rian led a team of European managers in a management buy-out of the group's European businesses.

Having successfully spearheaded the turnaround of Comparex in Europe within 19 months and with effect from 1 June 2004, Rian handed over his executive responsibilities and became non-executive chairman of the Comparex Group.

Rian was a non-executive director of Homestyle Group Plc from July 2005 to March 2007. He also served on Homestyle's Audit and Nomination committees. Rian was also a non-executive director of Johannesburg listed Amalgamated Appliance Holdings Limited from November 2007 to June 2010.

Rian was appointed Group CEO of Phumelela on 1 August 2008.

AW HEIDE (51)~†

Chief Operating Officer and Group Finance Director

BCompt Hons, CTA, CA(SA)

Andreas served articles with PricewaterhouseCoopers in Johannesburg and qualified as a chartered accountant in 1996. Over the past 20 years he has held various senior financial positions within the horseracing industry and played key roles in the corporatisation and listing of Phumelela on the JSE in 2002. Andreas was appointed Group Finance Director in September 2009 and as Chief Operating Officer in April 2010.

R COOPER (73)#^†

CA(SA)

Rob served articles and qualified as a chartered accountant with Charles Hewitt & Co. during the period 1961 to 1967. He then left the profession and worked for Hume Pipe and Standard Telephones and Cables for a total period of three and a half years. He then joined Alex Aiken & Carter (now KPMG) in 1971 and was appointed as a partner in 1982 which position he held until his retirement in February 2008.

BP FINCH (54)#^

Brian, a former chief executive officer of British American Tobacco South Africa recently retired from the BAT Group after 31 years. He serves on the Phumelela Board and is chairman of the Thoroughbred Horseracing Trust. Brian is passionate about the sport of horseracing locally and internationally and brings a wealth of knowledge as an owner and breeder. He was appointed to the Board on 8 October 2015 and his appointment was approved by shareholders at the 2015 annual general meeting.

~ Executive director   # Independent non-executive director   ◊Non-executive director
** Member of Remuneration and Nominations Committee   ^ Member of Audit Committee   † Member of Social and Ethics Committee*

OUR BOARD CONTINUED

MJ JOOSTE (55)#*

BAcc, CA(SA)

Markus is group chief executive officer for Steinhoff International Holdings NV. He completed a Bachelor of Accountancy at University of Stellenbosch in 1982 and a certificate in the Theory of Accounting at the University of Cape Town in 1983 before qualifying as a chartered accountant in 1986. In 1988, Markus joined Gommagomma Holdings Proprietary Limited (now Steinhoff Africa Holdings Proprietary Limited) as financial director. In 1998, he was appointed as executive director and took responsibility for the European operations of the Steinhoff group. In 2000, Markus was appointed chief executive officer of Steinhoff International and chairman of Steinhoff Africa and in 2013, he was appointed chief executive officer for the group's operations. Markus serves on the boards of various unlisted Steinhoff group companies, including Conforama Holdings S.A. and the following listed companies: PSG Group Limited (member of the remuneration committee) and KAP Industrial Holdings Limited. Markus was appointed as a non-executive director to the Phumelela Gaming and Leisure Limited Board in 2005 and serves on the Remuneration Committee.

B KANTOR (67)◊*

Bernard is a founding member of Investec, having joined in 1978, and is the group managing director. Living between London and Johannesburg, Bernard has broad experience of international business, has sat on various boards, and leads management teams in different parts of the world. He brings invaluable experience to the Phumelela Board. Bernard has a keen interest in the sport of horseracing, is a passionate owner of racehorses, and enjoys breeding in many countries. In recognition of his involvement in British horseracing and his efforts in securing the sponsorship of the Investec Epsom Derby, Bernard has been recognised with an Honorary Membership of the Jockey Club in the United Kingdom.

~ Executive director   # Independent non-executive director   ◊Non-executive director
** Member of Remuneration and Nominations Committee   ^ Member of Audit Committee   † Member of Social and Ethics Committee*

SKC KHAMPEPE (65)#

BA, MBA (UK)

Siza is the chief executive officer of Indyebo Investments Proprietary Limited, the holding company of Indyebo Gaming and Leisure Proprietary Limited and Indyebo Financial Services.

Siza has been actively involved in developing black business in South Africa and the African continent and has contributed to the growth and success of the Enterprise Development Forum Black Business Executive Circle.

NJ MBOWENI (55)#^

BA Ed, MAP

Nolwandle holds a Senior Teachers Diploma from East Rand College, a Bachelor of Arts Degree in Education and MAP from Wits Business School. Nolwandle sits on a number of boards namely: Afrisun Gauteng, Afrisun (Sun International), Allpay Pension Payouts (ABSA subsidiary), Vela International, Mdumo Investments, Katekane Women's Investments, SA Tourism Grading Board, Transvaal Electronic Board, and Seeds of Africa Board. She is involved with a number of community projects and is a trustee of the Khotso Trust.

VJ MOODLEY (47)~

Executive Director: Sports Betting

BComm

Vee studied for a Bachelor of Commerce Accounting degree at the University of Natal and worked as group accountant for the PMC group of companies in KwaZulu-Natal.

In 2003 Vee opted for a career path change and joined the National Horseracing Authority as handicapper.

His thorough knowledge and understanding of horseracing stood him in good stead and in 2007 he was promoted to racing control manager and chief executive officer designate of the National Horseracing Authority.

Vee has a strong financial background and excellent knowledge of horseracing and betting and was appointed by Phumelela as Sport Betting Executive on 1 July 2010 and as executive director: Sports Betting on 1 October 2010. Vee was also appointed chief executive officer of Betting World, a subsidiary of Phumelela, on 1 June 2015.

OUR BOARD CONTINUED

DR E NKOSI (55)[#]

MB ChB, MAP and MBA

Elijah is a general medical practitioner based in Soweto. He holds a Master of Business Administration from Wits Business School, and qualified as a doctor at Medunsa in 1986. He is a shareholder of Dihla, which is an empowerment shareholder of Phumelela.

Elijah is a Trustee of Profmed Medical Aid; is a director in the IPA Foundation of SA, a national network of General Practitioners; and is also the executive officer of a GP network called SP NET.

ML RAMAFALO (46)[~†]

Director: Business Development and Risk Management

BProc, LLB, IEDP

Mpho is a qualified attorney and left legal practice in 1996 to join the Gauteng Provincial Government (Finance and Economic Affairs) where he held various senior positions including that of director: Economic Policy, Planning and Research, non-executive director of Gaumac (a small business development agency) and chairperson: Gauteng Liquor Board. He joined Phumelela as Compliance Executive in February 2003 with Gaming Operations added to his portfolio in 2004. He was appointed to the Phumelela Board in 2005, becoming Executive Director: Gaming and Compliance. He took up the position of Director: Business Development and Risk Management in 2009.

JA STUART (60)[~]

International Executive Director

BComm

John served his articles with KPMG before joining Tab KwaZulu-Natal in 1979 as internal auditor and occupied various positions there before leaving in 1996 as assistant general manager. He then joined Tab Transvaal (transferred to Phumelela as part of the corporatisation process) in 1997 and served in various positions before heading up the international division in 2006. John also heads up the publishing division as well as Tellytrack operation on behalf of the Tellytrack partnership.

John is a non-executive director of Automatic Systems Limited, one of the two totalisator operators in Mauritius, International Executive Director of Phumelela and executive director of Premier Gateway International.

CJH VAN NIEKERK (68)#*

Chris is a director of, inter alia, KAP Industrial Holdings Proprietary Limited, Investec Equity Partners Proprietary Limited, Cape Thoroughbred Sales Proprietary Limited, Klawervlei Stud Proprietary Limited and Rainbow Beach Trading Proprietary Limited. Chris is also the chairman of Kenilworth Racing Proprietary Limited. As a hobby, Chris has a keen interest in the sport of horseracing, and is a passionate owner of race horses.

JB WALTERS (72)#*^

Barry is a past chairman of the Racing Association and has been actively involved in the horseracing industry for many years, having acted as chairman of Gosforth Park Turf Club and the Highveld Racing Authority. Barry was extensively involved in negotiations with Government to bring about corporatisation of the horseracing industry and is an owner and breeder.

~ *Executive director* # *Independent non-executive director* ◊*Non-executive director*
* *Member of Remuneration and Nominations Committee* ^ *Member of Audit Committee* † *Member of Social and Ethics Committee*

OUR APPROACH TO GOVERNANCE

INTRODUCTION

The Phumelela Board recognises the principles of good governance and is committed to ensuring that the Group adheres to the highest standards of good corporate governance in the conduct of its business, as well as compliance with the Listing Requirements of the JSE Limited ("the JSE") and all other applicable laws.

Integrated reporting not only allows us to apply the principles of King III, but also to use reporting to inform strategy within the business, to provide stakeholders with a meaningful account of the Company's performance and to build a reputation of transparency and trust within the investment community.

ENGAGEMENT WITH STAKEHOLDERS

Phumelela has identified a range of internal and external stakeholders with which it engages regularly. The stakeholders are identified as those parties who have a material interest in or are affected by Phumelela. The Company has assessed its involvement with them, or their potential impact on our business, at a corporate office and operational level. The issues raised by the stakeholders partly inform the selection of the Company's material issues.

The manner in which we engage with these stakeholders is addressed in the stakeholder table set out in the sustainability report found on our website (www.irphumelela.com/sustainability).

ENGAGEMENT WITH SHAREHOLDERS

Phumelela endeavours to ensure and justify shareholders' investment in the Company and to align the interests of management with those of shareholders. The formal mechanisms in place to enable this communication include one-on-one meetings with investors, presentations, the annual general meeting, press announcements of the interim and year-end results, the Company's website, its Integrated Report to shareholders, and the form of proxy shareholders use to exercise their voting rights. In addition, our interim and final results presentations were broadcast live on Business Day TV.

COMPLIANCE WITH KING III CODE OF CORPORATE PRACTICES AND CONDUCT

Phumelela's directors endorse the Code of Corporate Practices and Conduct ("the Code") as set out in the King Report on Corporate Governance ("King III") and the Board took the necessary steps to ensure its recommendations were applied throughout the Company during the 2015/2016 financial year. The Board analysed the recommendations contained in the Code, noted where it already applies the Code and where there are opportunities to implement changes that will improve governance standards within Phumelela in the future. Full details of our King III compliance are available on our website.

ESTABLISHING MATERIALITY

To apply the materiality principle of the Global Reporting Initiative ("GRI") Phumelela determines the relevance and significance of issues to the Company and its stakeholders by assessing their ability to influence the decisions, actions and performance of ourselves and our stakeholders.

To identify the material issues to our business we review the:

- results of our business risk assessment process;
- Code of Corporate Practice and Conduct set out in the King III report;
- Phumelela Code of Ethics;
- topics and challenges reported by our peers or raised by industry associations; and
- external initiatives and best practice guidelines, including the GRI G3 guidelines.

GOVERNANCE

Phumelela's Board structure and Board committees were established to divide the responsibilities needed for effective governance of the issues material to the Company. To ensure a balance of power and authority there is a clear division of responsibilities among the Company's directors.

One-third of the non-executive directors retire annually by rotation.

THE PHUMELELA BOARD

The responsibility for the success of the Company lies with the Board. The Board is expected to act in the best interests of its stakeholders and give strategic direction, identify risks, monitor performance against budgets and industry standards, as well as apply good corporate governance. Through this style of leadership, the Company should achieve sustainable growth.

The Board approves the Group budget and monitors overall performance against objectives appropriate to the current stage of the business, providing input and determining strategic focus. The Board appoints the Group Chief Executive and ensures that succession is planned.

In the interests of transparency the Board ensures that stakeholders and investors are provided with timeous, accurate and relevant information.

Board Charter

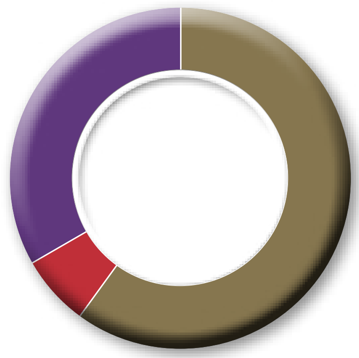
The Phumelela Board Charter outlines the manner in which business is to be conducted by the Board. The Charter is reviewed annually to ensure compliance to local and international best practice.

The Charter provides a concise overview of the delineation of the roles, functions, responsibilities and powers of the Board, and the committees of the Phumelela Board. It also outlines the powers delegated to the Board committees and sets out the policies and practices in respect of matters such as corporate governance, declarations and conflicts of interest, Board meeting documentation and procedures, and the nomination, appointment, induction, training and evaluation of the Board and the committees.

Board structure

The Phumelela Board has a unitary Board structure consisting of 10 non-executive directors, nine of whom are independent, and five executive directors. The Board reviewed the independence status of all the non-executive directors during the year under review. Although the majority of directors have served in excess of 10 years in service, the Board concluded that directors' independence of character and judgement were not in any way affected by their length of service and that their service was of considerable benefit to the Company.

Phumelela Board composition

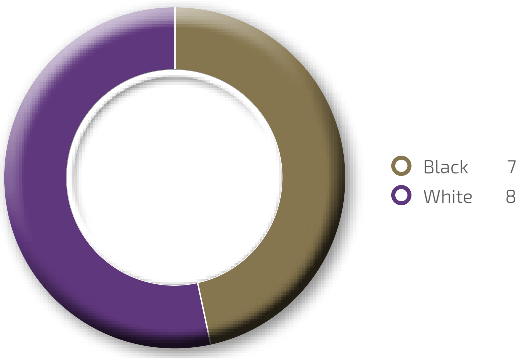


Independent non-executive directors	9
Non-executive directors	1
Executive directors	5

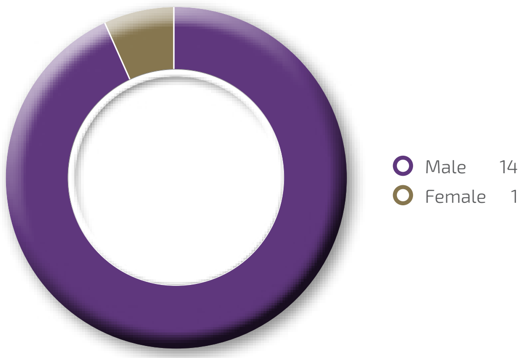
Other than the appointment of Mr Brian Finch as a director of the Company, there were no other changes to the composition of the Board during the year.

In accordance with the recommendations of the Code of Corporate Practices and Conduct, the majority of the members of the Phumelela Board, including the Chairman, are non-executive directors. To ensure a balance of power and authority there is a clear division of responsibilities among the Company's directors. One-third of the non-executive directors retire annually by rotation in terms of our Memorandum of Incorporation. The roles of the Chairman and Chief Executive are separate and the Chairman has no executive responsibilities.

Board representation



Board gender representation



Membership

The procedures for appointing directors to the Board are formal and transparent. At 31 July 2016, seven of the Board's members were black and one of its members was a black female.

Please see the structure below for a more detailed list of the directors.

CHAIRMAN
MP Malungani

GROUP CHIEF EXECUTIVE OFFICER
WA du Plessis

THE BOARD

COMPANY SECRETARY

EXECUTIVE DIRECTORS

WA du Plessis	– Group Chief Executive Officer
AW Heide	– Chief Operating Officer and Group Finance Director
VJ Moodley	– Sports Betting Executive
ML Ramafalo	– Executive director: new business development and risk management
JA Stuart	– International Executive

NON-EXECUTIVE DIRECTORS

- MP Malungani *(Chairman)*
- R Cooper
- BP Finch
- MJ Jooste
- B Kantor
- SKC Khampepe
- NJ Mboweni (Female)
- Dr E Nkosi
- CJH van Niekerk
- JB Walters

REMUNERATION AND NOMINATIONS COMMITTEE

- CJH van Niekerk *(Chairman)*
- B Kantor
- MP Malungani
- JB Walters
- MJ Jooste

AUDIT COMMITTEE

- R Cooper *(Chairman)*
- NJ Mboweni
- JB Walters
- BP Finch*

SOCIAL AND ETHICS COMMITTEE

- R Cooper *(Chairman)*
- AW Heide
- ML Ramafalo
- XL Kopolo*
- I Shirindi**

** Appointed to the Audit Committee on 3 December 2015*

** Retired 19 August 2015*
*** Appointed 17 February 2016*

CHAIRMAN

MP Malungani

Appointed 2 October 1997

The Chairman is an independent non-executive, as per the recommendations of King III.

He is responsible for the effectiveness of the Board and its committees and for ensuring that the Board provides effective leadership, upholds ethical standards, is responsible, accountable, fair, transparent and develops and implements strategies aimed at achieving sustainable economic, social and environmental performance.

GROUP CHIEF EXECUTIVE OFFICER

WA du Plessis

Appointed 1 August 2008

The role of the Group Chief Executive has been separated from that of the Chairman to ensure a balance of authority and to preclude any one director from exercising unfettered powers of decision making. His role is to provide leadership to the Company, advising the Board on strategy and policy matters, and developing, recommending and implementing the annual business plans and budgets that support the Company's short and long-term strategies.

DIRECTORS

The Board's non-executive directors are individuals of high calibre whose appointments at the highest level in major business and public organisations enable them to bring independent judgement to the Board. Their experience enables them to evaluate strategy, performance, resources, transformation, diversity and employment equity, standards of conduct, as well as to act in the Group's best interests as a balance to the executive directors.

The non-executive directors have no fixed terms of appointment and no employment contracts with Phumelela.

The composition of the Board is regularly reviewed and the appointment of non-executive directors is determined after taking into account those attributes and qualifications that are required to supplement the Board's skills base, and ensure that the composition of the Board has a balance of authority and minimised the possibility of conflicts of interest.

Phumelela executives attend the meetings by invitation giving non-executive directors the opportunity to interact directly with them to obtain first-hand information on operational matters.

All new Board members are required to sign the Company's Code of Ethics, are brought up to date on important issues, and are apprised of the business challenges and strategies being implemented.

EFFECTIVENESS OF THE BOARD

The effectiveness review of the Board was conducted and no material issues were highlighted.

COMPANY SECRETARY

The Company Secretary operates on an arm's length basis from the Board and is not a director of the Board. All directors have access to the advice and services of the Company Secretary.

The appointment and removal of the Company Secretary is approved by the Board. The Company Secretary advises the Board on the appropriate procedures for the management of meetings and implementation of governance procedures, and is further responsible for providing the Board collectively, and each director individually, with guidance on the discharge of their responsibilities in terms of the legislative and regulatory requirements applicable to the Company. All directors have unrestricted access to the Company Secretary.

The Company Secretary acts as a secretary to all Board appointed committees.

During the year under review the Board declared itself satisfied with the competence, qualifications and experience of the Company Secretary.

BOARD MEETINGS

A minimum of four Board meetings are scheduled each financial year, as well as strategy sessions as appropriate. The meetings follow a formal agenda ensuring that substantive matters are properly addressed, and all relevant information is supplied timeously. The Board requires that matters placed before it are properly researched and motivated.

Four Board meetings were held during the financial year ended 31 July 2016:

BOARD MEMBER	NUMBER OF MEETINGS ATTENDED
MP Malungani (Chairman) *Independent non-executive*	4
WA du Plessis (CEO)	4
R Cooper *Independent non-executive*	4
AW Heide (FD and COO)	4
MJ Jooste *Independent non-executive*	4
B Kantor *Non-executive*	4
SKC Khampepe *Independent non-executive*	4
NJ Mboweni* *Independent non-executive*	3
VJ Moodley	4
E Nkosi *Independent non-executive*	4
ML Ramafalo	4
JA Stuart	4
CJH van Niekerk *Independent non-executive*	4
JB Walters *Independent non-executive*	4
BP Finch** *Independent non-executive*	3

** Indicates absence with apology.*
*** Appointed to the Board 8 October 2015.*

BOARD APPOINTED COMMITTEES

The Board remains accountable and responsible for the performance and affairs of the Company. However, it delegates to management and Board appointed committees, certain functions to assist it to discharge its duties properly. Each Board appointed committee acts within agreed, written terms of reference. The Chairman of each Board appointed committee reports and provides minutes of committee meetings at the scheduled Board meetings.

REMUNERATION AND NOMINATIONS COMMITTEE

Members: CJH van Niekerk *(Chairman)*, B Kantor, MJ Jooste, MP Malungani and JB Walters

Role: The role of the committee is to assist the Board to ensure that:

- the Board has the appropriate composition for it to execute its duties effectively;
- directors are appointed through a formal process;
- induction and ongoing training and development of directors;
- formal succession plans for the Board, Chief Executive Officer and senior management appointments are in place;
- the Company remunerates directors, executives, and prescribed officers fairly and responsibly; and
- the disclosure of director and prescribed officer remuneration is accurate, complete and transparent.

To achieve its mission and strategic objectives, Phumelela has adopted a remuneration policy which ensures that all staff are remunerated fairly and are treated consistently throughout the Group.

The Chairman and non-executive directors do not receive incentive awards geared to the share price or corporate performance. The remuneration policy will be placed before shareholders at the annual general meeting for their approval. All members of the Remuneration Committee are non-executive directors, four of whom are independent.

Two Remuneration Committee meetings were held during the financial year ended 31 July 2016:

BOARD MEMBER	NUMBER OF MEETINGS ATTENDED
CJH van Niekerk *(Chairman)*	2
B Kantor	2
MP Malungani	2
JB Walters	2
MJ Jooste*	1

** Indicates absence with apology.*

AUDIT COMMITTEE

Members: R Cooper *(Chairman)*, NJ Mboweni, JB Walters and BP Finch

Role: The Audit Committee is responsible for the Company's financial reporting process on behalf of the Board and on achieving the highest level of financial management, accounting and reporting to shareholders. This is accomplished by:

- reviewing the scope of the audit and the accounting policies;
- identifying key risk areas and evaluating exposure to significant risks;
- evaluating the appropriateness of internal controls;
- meeting with external and internal auditors to discuss the scope of the external audit, internal audit and reliance on internal controls. The auditors have unrestricted access to the Audit Committee and its Chairman;
- the Audit Committee, with the auditors presents, examines, reviews and discusses the audited annual financial statements and reports issued to the public before being submitted to the Board for approval;
- providing the Board with regular reports on the committee's activities;
- recommending the appointment of external auditors, the level of fees payable and the level of non-audit services; and
- considering environmental and social sustainability issues.

The Company's Audit Committee is established as a statutory committee in terms of section 94(2) of the Companies Act 71 of 2008, as amended (Companies Act) and as such shareholders are required to elect the members of this committee at each Phumelela annual general meeting. All members of the Audit Committee are independent non-executive directors.

Three Audit Committee meetings were held during the financial year ended 31 July 2016:

BOARD MEMBER	NUMBER OF MEETINGS ATTENDED
R Cooper *(Chairman)*	3
NJ Mboweni	3
JB Walters	3
BP Finch*	1

* *Appointed to the committee with effect from 3 December 2015.*

SOCIAL AND ETHICS COMMITTEE

Members: R Cooper *(Chairman)*, AW Heide, I Shirindi and ML Ramafalo

Role: The Social and Ethics Committee is responsible for ensuring that the Company is, and remains, a socially responsible corporate citizen. The committee supplements, supports, advises and provides guidance on the effectiveness or otherwise of management's efforts in respect of sustainable development and social and ethics-related matters.

Terms of reference

For the year under review the committee is satified that it has met its responsibilities in accordance with the approved terms of reference.

Discharge of responsibilities

The committee reviewed:

- management of ethics;
- corporate social investment;
- environmental management including the status of occupational health and public safety;
- sustainability strategy and reporting;
- consumer relationships;
- labour relationships; and
- transformation, revisions to the B-BBEE Codes and regulatory landscape.

In performing its duties, the committee maintains effective working relationships with the Board of Directors and management. To perform their roles effectively, each committee member obtains an understanding of the Company's business, operations and risks. The Chairman of the Social and Ethics Committee is an independent non-executive director.

Two Social and Ethics Committee meetings were held during the financial year ended 31 July 2016:

BOARD MEMBER	NUMBER OF MEETINGS ATTENDED
R Cooper *(Chairman)*	2
AW Heide	2
ML Ramafalo*	1
XL Kopolo**	1
I Shirindi***	1

* *Indicates absence with apology.*
** *Retired from the Company and his last meeting was on 19 August 2015.*
*** *Appointed to the committee with effect from 17 February 2016.*

ETHICS

Phumelela does not tolerate any fraudulent or illegal activities in relation to the running of the Company. This is covered in the Code of Ethics and is managed by the Audit Committee. Employees are encouraged to make use of the confidential crime line to report any incidents.

Areas identified as high risk for bribery and corruption are the awarding of tenders and procurement practices.

All incidents of fraud and robbery are reported to the Audit Committee, which interacts with management in implementing action whenever corrective action is required.

The National Horseracing Authority provides a competent and efficient racehorse and jockey control and monitoring service for the sport of horseracing which ensures that the sport maintains a high standard of ethics.

DONATIONS TO POLITICAL PARTIES

The Phumelela policy states that all donations must be approved by the Board. No donations were made to political parties in the financial year.

CODE OF ETHICS

Phumelela aims to maintain the highest ethical standards and ensures that our business practices are conducted in a manner which is honest and fair and that they are, in all reasonable circumstances, above reproach. The Board and all employees are required to sign Phumelela's Code of Ethics. All employees are encouraged to comply with both the written word and the spirit of the Code.

The Phumelela Code of Ethics sets out Phumelela's policies regarding fair dealing and integrity in the conduct of its business; compliance with laws and regulations; conflicts of interest; outside activities, employment and directorships; relationships with clients and suppliers; gifts, hospitality and favours; personal investments; remuneration; expenditure; discrimination; environmental responsibility; health and safety; political support; Phumelela assets and records; dealing with people and organisations outside Phumelela; privacy and confidentiality; fraud; and contravention of the Code of Ethics.

ACCOUNTABILITY AND INTERNAL AUDIT

The Board of Directors is responsible for the Group's system of internal control. The Group's internal controls and systems are designed to provide reasonable and not absolute assurance as to the integrity and reliability of the financial statements. Internal audit is an independent function that evaluates the adequacy and effectiveness of internal controls against specified business risks and is an adviser to the Audit Committee. The internal auditor reports regularly to the Audit Committee and has unrestricted access to the committee chairman. An internal audit charter has been approved by the committee.

LEGAL COMPLIANCE

In order to ensure legal compliance, the Board has formed a Risk Management and Compliance Committee to which it has delegated its responsibilities to establish an effective compliance framework and process in the Company. This committee, which comprises senior management and meets at least four times a year, advises and regularly reports to the Audit Committee.

INVESTOR PROTECTION – DEALING IN SECURITIES

The Board has implemented a trading policy in accordance with the JSE Listings Requirements during which Board members, senior management and staff may not trade in the Company's securities. Directors and officers may not trade in the Company's securities without first obtaining the clearance of the Chairman or, if the Chairman is unavailable, a designated non-executive director. The Chairman may not trade in the Company's securities without first obtaining the clearance of a designated non-executive director. Details of all share dealings by the directors in the Company's securities are disclosed in accordance with the Listings Requirements of the JSE.

INTEREST OF DIRECTORS IN CONTRACTS

No conflicts of interest exist regarding directors' interests in contracts. Directors are required to disclose any potential conflicts at the relevant Board meeting.

During the year, various banking transactions have been undertaken on the Group's behalf by Investec Bank Limited. Mr B Kantor (current director) serves as managing director of Investec Limited, however, all transactions were in the ordinary course of business.

INSURANCE

The Company purchases directors and officers liability insurance cover. No claims under the policy were made during the year.

REMUNERATION REPORT

Phumelela is committed to the principles of fair dealing, integrity and upholding and promoting the good name and standing of the industry.

INTRODUCTION

The Group's vision and mission is to be recognised as a global leader in the betting market and to create exciting opportunities that facilitate betting on sport and other events.

The Group recognises that the achievement of this mission depends on the quality and commitment of its staff. Accordingly, one of its primary goals is to become an employer of choice.

To achieve its mission and strategic objectives, Phumelela is committed to a remuneration approach that ensures that all employees are remunerated fairly and are treated consistently throughout the Group. A key responsibility of executives at Phumelela is to attract, retain and motivate staff.

This report sets out Phumelela's remuneration policy for executive directors, prescribed officers and non-executive directors. The Remuneration Committee determines the policy for remunerating executive directors on the same basis as Group Executive Committee members who are also the defined prescribed officers of the Group. We have considered the feedback obtained from shareholders in our disclosure and this report complies with prevailing remuneration governance requirements, best practice and the Companies Act. On recommendation by the Remuneration Committee, the Board has approved the information in this report.

Last year our remuneration policy as set out in the remuneration report received a 95% favourable vote at the annual general meeting. We believe that this is a positive indication that we are transparently reporting on, and effectively disclosing, information relating to both policy and implementation of director and prescribed officer pay. Consequently, for this remuneration report, we have followed the same approach as last year.

Objectives of the policy

The objectives of the remuneration policy are to ensure that the remuneration system:

- rewards individuals for the achievement of the Group's objectives and motivates high levels of performance;
- recognises exceptional performance by individuals;
- allows the Group to compete effectively in the labour market and to recruit and retain high-calibre staff;
- achieves fairness and equity in remuneration and reward;
- forms the basis of compensation within the Group;
- operates within a framework of good governance and oversight by the Remuneration Committee;
- is designed to support key business strategies and create a strong, performance-orientated environment; and
- is not only concerned with performance management and rewards, but is also an important part of an integrated management process incorporating retention, staff development and promotion and succession management.

Remuneration philosophy

The remuneration policy of Phumelela is aligned to the business goals and objectives of the Group. To this effect, Phumelela's remuneration philosophy is to attract, retain and motivate high-performing people who enjoy working in our business and subscribe to our culture, values and philosophies. All employees are encouraged to embrace innovation and a sense of urgency and to be passionate about the service they render to our customers.

REMUNERATION FOR SENIOR MANAGEMENT AND EMPLOYEES

Remuneration packages for senior management and employees contain some or all of the following components, depending on the individual's level in the Company.

Components of remuneration

- Payment of industry-competitive annual remuneration packages (consisting of base fixed salary and competitive benefits)
- Variable performance rewards (performance-based bonus schemes for staff, senior management, and executive directors)
- A share incentive scheme (for senior management and executive directors).

Fixed salary and benefits

All employees' salaries are reviewed annually. Increases, if any, take into account a variety of factors as determined by the remuneration committee at its discretion, which may include one or a combination of the following factors:

- Economic factors such as inflation indices and the level of increases awarded by competitors and the industry
- The Group's financial position and ability to afford increases
- The employee's individual performance and contribution to the Group
- Where applicable, team performance and contribution
- The employee's overall compensation package in relation to the market
- The Group's needs to protect and retain certain skills.

Benefits are structured to be competitive within the industry and are delivered through flexible, individually tailored packages. Core benefits include pension/provident fund schemes and life, disability and personal accident insurance. Medical cover and other related benefits are discretionary as dictated by competitive local market practices.

In order to bridge the gap between low and high-income earners, the Group's policy is to try and award relatively higher increases to lower-income earners.

Collective bargaining

The increases for employees belonging to recognised trade unions are negotiated and agreed in collective bargaining forums.

REMUNERATION FOR NON-EXECUTIVE DIRECTORS

Non-executive directors receive a meeting fee based on their participation in Board meetings and other committees. Non-executive directors do not receive incentive bonus payments nor do they participate in any of the executive share plans.

Non-executive Director's remuneration for the year ended 31 July

BOARD MEMBER	DIRECTORS' FEES 2016 R'000	OTHER BENEFITS 2016 R'000	TOTAL 2016 R'000	DIRECTORS' FEES 2015 R'000	OTHER BENEFITS 2015 R'000	TOTAL 2015 R'000
MP Malungani	**412**	–	**412**	370	–	370
R Cooper	**401**	–	**401**	378	–	378
BP Finch	**143**	–	**143**	–	–	–
MJ Jooste*	**169**	–	**169**	180	–	180
B Kantor	**190**	–	**190**	200	–	200
SKC Khampepe	**148**	–	**148**	105	–	105
NJ Mboweni	**206**	–	**206**	230	–	230
E Nkosi	**148**	–	**148**	140	–	140
CJH van Niekerk	**254**	–	**254**	240	–	240
JB Walters	**286**	–	**286**	255	–	255

** Fees paid to Steinhoff International Holdings Limited as management and administration fees.*

An increase of 6% to the non-executive directors' fees and committee fees will be proposed for year ending 31 July 2017 and the proposals are set out in the notice of annual general meeting. The proposed fees are considered as sufficient to attract and retain appropriate skills and expertise and recognise that increased time investment is required by non-executive directors.

REMUNERATION FOR EXECUTIVE DIRECTORS AND CHIEF EXECUTIVE

The Remuneration Committee, in setting compensation policy, recognises the need to be competitive in the local and international markets. The committee's policy is to ensure that the executive directors are fairly and responsibly rewarded for high levels of performance.

Accordingly, executive directors receive base salaries comparable with companies of a similar size and international scope and have the opportunity to earn enhanced total compensation for meeting the performance targets set by the Remuneration Committee, both for individual performance, and the performance of the Group.

The components of remuneration for executive directors comprise base salary (a fixed sum payable monthly, reviewed annually), benefits (including car allowance, medical aid and pension contributions), an annual bonus, and long-term incentives (comprising share options).

The policy adopted by the Remuneration Committee ensures that a significant proportion of the remuneration of executives is aligned with the achievement of corporate performance targets, generating a strong alignment of interest with shareholders.

SHARE INCENTIVE SCHEMES

Full details are disclosed on page 116 (note 35) of the annual financial statements.

The following share option schemes have been approved by the shareholders.

2008 executive share option scheme

A maximum of 10% of the issued share capital at 5 December 2008 may be reserved for the executive scheme.

To date 12 182 000 share options have been granted under this scheme to senior employees stated below.

Except for the options granted on 1 August 2008 which vested over a three-year period, with one half exercisable after two years and the balance after three years, options vest over a three-year period.

The exercise of options is conditional upon a minimum compounded annual growth rate in headline earnings per share of consumer price index excluding mortgage costs ("CPIX") plus 5% over the vesting period and a minimum compounded annual growth rate in the share price of 10% over the vesting period. Should the minimum conditions be met the options are exercisable at the strike rate per share.

Should the growth rate in the share price increase by 15% compounded per annum the options may be exercised at half the strike rate per share, and in the event that the share price increases by 20% compounded per annum the options may be exercised at R1 per share.

2008 executive share option scheme

EFFECTIVE GRANT DATE	NUMBER OF OPTIONS	NUMBER OF OPTIONS LAPSED/ FORFEITED	NUMBER OF OPTIONS EXERCISED	NET SHARES ALLOCATED ON OPTIONS EXERCISED	NUMBER OF OPTIONS ACTIVE	STRIKE RATE (RAND)
1 August 2008	1 912 000	1 912 000				14,00
24 April 2009	200 000	200 000				9,25
8 April 2010	1 820 000	1 820 000				9,00
1 July 2010	300 000	300 000				9,93
17 January 2011	200 000	200 000				11,00
1 August 2011	1 820 000	265 000	1 555 000	1 082 263		11,60
7 November 2011	60 000		60 000	57 001		10,88
5 December 2012	2 250 000	2 250 000				8,38
1 October 2013	3 420 000	450 000			2 970 000	15,00
12 January 2015	200 000				200 000	18,58
TOTAL	**12 182 000**	**7 397 000**	**1 615 000**	**1 139 264**	**3 170 000**	

2014 executive share option scheme

EFFECTIVE GRANT DATE	NUMBER OF OPTIONS	NUMBER OF OPTIONS LAPSED/ FORFEITED	NUMBER OF OPTIONS EXERCISED	NET SHARES ALLOCATED ON OPTIONS EXERCISED	NUMBER OF OPTIONS ACTIVE	STRIKE RATE (RAND)
16 July 2015	2 700 000				2 700 000	17,34

2014 executive share option scheme
A maximum of 10% of the issued share capital at 4 December 2014 may be reserved for the executive scheme.

To date 2 700 000 share options have been granted under this scheme to senior employees above.

The above options vest after three years have elapsed.

The exercise of options is conditional upon a minimum compounded annual growth rate in headline earnings per share of CPIX plus 5% over the vesting period and a minimum compounded annual growth rate in the share price of 10% over the vesting period. Should the minimum conditions be met the options are exercisable at the strike rate per share. Should the growth rate in the share price increase by 15% compounded per annum the options may be exercised at half the strike rate per share, and in the event that the share price increases by 20% compounded per annum the options may be exercised at R1 per share.

2011 Group CEO share option scheme
Effective 20 January 2012, 1 500 000 share options were granted to the Group CEO.

These options vested in January 2015 and may be exercised between 21 January 2015 and 20 January 2018.

2014 Group CEO share option scheme
Effective 2 March 2015, 1 500 000 share options were granted to the Group CEO.

The options vest after three years have elapsed.

The exercise of options is conditional upon a minimum compounded annual growth rate in the share price of 10% over the vesting period and if the participant has not sold, pledged or otherwise disposed of his matched shares during this period. Should the minimum conditions be met the options are exercisable at a strike rate of 2,50 cents per share.

	2016 R'000	2015 R'000
EXECUTIVE DIRECTORS' FEES		
WA du Plessis	**4 320**	7 667
Basic salary	**4 217**	4 283
Retirement, medical, accident and health benefits	**103**	799
Bonuses and performance-related payments		2 585
AW Heide	**2 411**	2 766
Basic salary	**2 007**	1 748
Retirement, medical, accident and health benefits	**247**	218
Bonuses and performance-related payments	**157**	800
VJ Moodley	**2 644**	2 606
Basic salary	**2 265**	1 627
Retirement, medical, accident and health benefits	**235**	179
Bonuses and performance-related payments	**144**	800
ML Ramafalo	**1 686**	2 090
Basic salary	**1 550**	1 462
Retirement, medical, accident and health benefits	**136**	128
Bonuses and performance-related payments		500
JA Stuart	**2 247**	2 677
Basic salary	**1 866**	1 600
Retirement, medical, accident and health benefits	**237**	227
Bonuses and performance-related payments	**144**	850
Total executive emoluments paid	**13 308**	17 806

	2016 R'000	2015 R'000
EXECUTIVE DIRECTORS' FEES CONTINUED		
Current year share-based payment expense allocated as follows:		
WA du Plessis	**2 033**	436
AW Heide	**1 626**	(370)
VJ Moodley	**1 703**	(349)
ML Ramafalo	**1 218**	(308)
JA Stuart	**1 544**	(349)
Total executive director share-based payment costs	**8 124**	(940)
Total executive remuneration	**21 432**	16 866
PRESCRIBED OFFICERS		
CC Basel (Racing executive (formerly Sales and Marketing Executive))	**2 064**	2 456
Basic salary	**1 700**	1 588
Retirement, medical, accident and health benefits	**220**	218
Bonuses and performance-related payments	**144**	650
BK McLoughlin (Chief Financial Officer)	**1 612**	1850
Basic salary	**1333**	1 224
Retirement, medical, accident and health benefits	**167**	176
Bonuses and performance-related payments	**112**	450
Total prescribed officers' emoluments paid	**3 676**	4 306
Current year share-based payment expense	**2 329**	(627)
Total prescribed officers' remuneration	**6 005**	3 679
Total directors and prescribed officers' remuneration	**27 437**	20 545

The criteria for qualification of prescribed officer has been reviewed following the departure of one of the prescribed officers, the untimely death of another in 2014 and reassignment of roles of the members of the Executive Committee. The result was a reduction in the prescribed officers from seven to two.

ANNUAL PERFORMANCE BONUS

The performance bonus schemes provide the variable element of the total compensation packages for all Group employees, and are designed to reward outstanding performance. All employees are eligible for an annual performance bonus.

The Group's bonus schemes comprise:

- a senior management and executive director performance bonus scheme; and
- an employee performance bonus scheme.

The annual bonus schemes and all bonus payments are subject to, inter alia, the achievement of predetermined Group, Company, team and individual performance targets.

Mechanism for determining bonus awards

The Group's financial and other strategic objectives are determined at the beginning of the financial year.

These are devolved down to business unit levels, allowing:

- Performance objectives to be set for individual senior managers and executives at the beginning of the financial year. At the end of each financial year, performance evaluations of participants are forwarded to the Remuneration Committee with recommendations for final decision and awards.
- All other Group employees are eligible to participate in a performance bonus scheme, which provides for payment of an annual bonus depending on Group and individual performance.

The awarding of bonus payments is managed by line management and is based on the achievement of measurable performance targets set at the beginning of the financial year.

Long-term share incentive plan

The Group believes that all senior management and executive directors should hold shares in Phumelela. Accordingly, the Group operates a share incentive scheme for senior management and executive directors to establish a motivational and performance-orientated structure that focuses on the creation of shareholder value.

CHECKS AND BALANCES

Job grading and pay structures

In order to establish the relative worth of each position and ensure equity in remuneration, a job grading and evaluation system has been implemented and is consistently applied across all jobs. All support staff positions are assessed every five years or sooner if the job content has changed significantly.

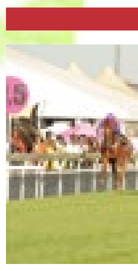
All positions within the Group are evaluated and graded according to the Paterson Grading System, which confirms the compatibility of positions within the Group, as well as in comparison to the market.

Competitive pay levels

The Group policy is to pay industry-competitive salaries and wages. Accordingly, the Group seeks advice from external advisers when it considers it appropriate, in order to keep itself fully informed of developments and best practice in the field of remuneration and subscribes to a number of online salary surveys to ascertain the competitiveness of its pay levels.

Salaries and wages are benchmarked against market data published by reputable salary survey companies. Managers of high performers and employees with scarce skills that are critical to the business are encouraged continually to review their packages in relation to the market to improve retention.

While attracting and retaining scarce skills and rewarding high levels of performance, the remuneration policy must remunerate staff members in a manner that supports the achievement of Phumelela's mission, vision and strategic objectives. The policy does not permit and should not result in any special conditions, privileges or exemptions from normal job performance requirements.



FINANCIAL STATEMENTS

PHUMELELA GAMING AND LEISURE LIMITED

Group annual financial statements and annual financial statements

for the year ended 31 July 2016

Audited

These financial statements represent the financial information of Phumelela Gaming and Leisure Limited, and its investment in joint venture and subsidiaries which have been audited in compliance with section 30 of the Companies Act of 2008.

These financial statements have been prepared under the supervision of Mr BK McLoughlin CA(SA) Chief Financial Officer.




DIRECTORS' RESPONSIBILITY STATEMENT

as at 31 July 2016

The Company's directors are responsible for the preparation and fair presentation of the Group annual financial statements and annual financial statements of Phumelela Gaming and Leisure Limited, comprising the statements of financial position as at 31 July 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes and the directors' report, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the Group financial statements and financial statements of Phumelela Gaming and Leisure Limited are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS OF PHUMELELA GAMING AND LEISURE LIMITED

for the year ended 31 July 2016

The Group annual financial statements and annual financial statements of Phumelela Gaming and Leisure Limited were approved by the Board of Directors on 7 October 2016 and signed.

MP MALUNGANI
CHAIRMAN
7 October 2016

WA DU PLESSIS
GROUP CHIEF EXECUTIVE OFFICER

REPORT OF THE COMPANY SECRETARY

for the year ended 31 July 2016

In terms of section 88(2) (e) of the Companies Act 71 of 2008 ("the Companies Act") I certify that to the best of my knowledge and belief, Phumelela Gaming and Leisure Limited has lodged with the Companies and Intellectual Property Commission, all such returns and notices prescribed by the Companies Act of South Africa and all such notices appear to be true, correct and up to date.

F MOLOI
COMPANY SECRETARY
7 October 2016

REPORT OF THE AUDIT COMMITTEE

for the year ended 31 July 2016

The Audit Committee presents its report for the financial year ended 31 July 2016. The committee has discharged all its responsibilities and carried out all the functions assigned to it in terms of section 94(7) of the Companies Act 71 of 2008, and as contained in the committee's terms of reference.

The Board places strong emphasis on achieving the highest level of financial management, accounting and reporting to shareholders. The Audit Committee terms of reference, which supports these principles, have been approved by the Board.

The Audit Committee, which comprises non-executive directors, reviews the scope of the external and internal audit and the accounting policies. The Audit Committee identifies key risk areas and evaluates exposure to significant risks and the appropriateness of internal controls.

The scope of the external audit, internal audit and reliance on internal controls are discussed between the Audit Committee and the auditors as part of the process of each audit. The auditors have unrestricted access to the Audit Committee and its Chairman.

The Audit Committee, with the auditors present, examines, reviews and discusses the audited financial statements and reports to be issued to the public before being submitted to the Board for approval. The Board is provided with regular reports on the committee's activities. The committee recommends the appointment of external auditors, the level of fees payable and the level of non-audit services.

COMMITTEE MEMBERS

The following independent non-executive directors served on the committee during the year:
R Cooper (Chairman)
NJ Mboweni
JB Walters
BP Finch

In line with King III the composition of the Audit Committee will be presented to the shareholders for approval at the annual general meeting.

MEETINGS

The committee meets three times per year. The Chief Executive Officer, Finance Director, the Company Secretary, internal auditors and external auditors all attend meetings of the committee by invitation. At its meetings the committee reviews the Group's financial results, receives and considers reports from the internal and external auditors on the results of their work, and attends generally to its responsibilities. The committee also meets separately with the internal and external auditors to obtain assurance that they have received full cooperation from management, while the committee Chairman meets regularly with key executives to review issues which require consideration by the committee.

APPROPRIATENESS AND EXPERIENCE OF THE FINANCE DIRECTOR

The committee has satisfied itself that Mr AW Heide has the appropriate expertise and experience to meet the responsibilities of his appointment as Finance Director of the Group.

EXTERNAL AUDIT

KPMG Inc. is the external auditor of the Group.

The external auditors provide an independent assessment of systems of internal financial control and express an independent opinion on the annual financial statements. The external audit function offers reasonable, but not absolute assurance on the accuracy of financial disclosures.

Based on processes followed and assurances received, the Audit Committee has no concerns regarding the external auditor's independence.

The committee has recommended, for approval at the annual general meeting, the re-appointment of KPMG Inc. as external auditor for the 2017 financial year with Mr G Parker as the registered auditor responsible for the audit.

REPORT OF THE AUDIT COMMITTEE CONTINUED

for the year ended 31 July 2016

TERMS OF REFERENCE

For the year under review the committee is satisfied that it has met its responsibilities in accordance with its terms of reference, as fully set out in the Integrated Report.

DISCHARGE OF RESPONSIBILITIES

During the year under review the committee:

- reviewed the interim and annual financial statements and recommended them for approval by the Board;
- reviewed the Integrated Report for 2016 and recommended it for approval by the Board;
- reviewed and satisfied itself that the Company's finance function was adequately resourced by people with appropriate expertise and experience;
- resolved to continue to outsource the internal audit function to PricewaterhouseCoopers during the financial year;
- approved the internal audit plans;
- implemented a policy setting out categories of non-audit services that the external auditors may, and may not, provide, split between permitted, permissible and prohibited services;
- received and reviewed reports from both the internal and external auditors, which included commentary on effectiveness of the internal control environment, systems and processes; and, where appropriate, made recommendations to the Board;
- ensured that the appointment of the external auditors complied with the provisions of the Companies Act 71 of 2008, and other legislation relating to the appointment of auditors;
- determined the fees to be paid to the external and internal auditors and their terms of engagement;
- noted that it had not received any complaints, from within or outside the Company, relating to the accounting practices and internal audit of the Company, to the content or auditing of its financial statements, or any related matter;
- was responsible for the oversight of financial reporting risks, internal financial controls, fraud risks as it relates to financial reporting and IT risks as they relates to financial reporting; and
- reviewed legal and regulatory matters that could have a material impact on the Group.

ANNUAL FINANCIAL STATEMENTS

The committee has recommended the annual financial statements for approval to the Board. The Board has subsequently approved the financial statements which will be open for discussion at the forthcoming annual general meeting.

On behalf of the Audit Committee

R COOPER
AUDIT COMMITTEE CHAIRMAN

7 October 2016

REPORT OF THE DIRECTORS

for the year ended 31 July 2016

NATURE OF BUSINESS

South Africa

The Group owns five racecourses with allied training centres in Gauteng, Free State, Northern Cape and Eastern Cape, and manages a stand alone training centre in Gauteng. The Group stages approximately 250 race meetings annually and provides betting opportunities primarily on horseracing via its totalisator system and a network of branches, agents, an internet betting site, cellular phone and telephone betting ("telebet") centres.

The branch and agent outlets are situated in the above mentioned provinces plus Limpopo, Mpumalanga and North West. Betting opportunities are also offered through the Group's subsidiary company, Betting World Proprietary Limited, a licensed bookmaking concern.

International

The Group continues to expand its international presence by capitalising on its simulcast products and coverage, and its strong technological platform that allows for international commingling of betting pools.

The Group jointly owns Premier Gateway International Limited with it partner Tabcorp Holdings Limited (Australia), a company incorporated in the Isle of Man ("IOM"). The Company owns a totalisator licence in the IOM and provides betting/commingling opportunities via its online totalisator operation to a worldwide customer base.

The Tellytrack Partnership, a joint operation between Phumelela Gaming and Leisure Limited, Gold Circle Proprietary Limited and Kenilworth Racing Proprietary Limited, operates a television studio that facilitates broadcasts of live horseracing audio, visual and data from South Africa, the UK and other international racecourses to betting shops and private subscribers worldwide.

REVIEW OF RESULTS AND FINANCIAL POSITION

The financial performance of the Group is set out in the statement of comprehensive income.

Phumelela is the leading racecourse owner, tote betting operator and racing media provider in South Africa with a significant presence internationally, complemented by fixed odds betting on horseracing, soccer and numbers.

The pleasing financial results are reflective of a strategic imperative in place over a decade to expand the proportionate financial contribution of activities outside of the Company's traditional roots.

Diversifying sources of income and taking South African thoroughbred horseracing to the world has sustained our horseracing business in the face of strong cost pressures and despite the ongoing funding imbalance that exists between tote operators and bookmakers.

Growth in tote betting on sports other than horseracing, fixed odds betting and a substantial increase in contribution from international operations, were the drivers of this year's result. Fixed odds and international pre-tax income combined is 76% higher at R233 million, which compares with a pre-tax loss of R104 million from our traditional horseracing operations.

Phumelela's 26% interest in Interbet contributed for a full 12 months compared with nine months in the previous financial year. The relationship with our partners is working very well and the investment is a perfect fit with Phumelela's horseracing and sports betting products.

Phumelela continues to invest in South African thoroughbred horseracing. Tote betting volumes are stable, a quality racing experience encourages on-course attendance, particularly for high-profile race meetings. Horseracing is the foundation of our business and despite an economic playing field that is manifestly unfair, we are resolute in playing a key role in ensuring South African racing remains top class. This year we invested a further R51 million on our betting and racing facilities.

The Group ended the year with 75 fixed odds retail shops, up from 66 as at January 2016. A 51% investment in Afribet, which operates in the Eastern Cape, became unconditional with effect from February, adding to the Group's retail footprint. Total capital expenditure in Betting World amounted to R23 million in 2016.

Under strengthened leadership, Betting World is focused on taking the bet to the people and enhancing the punter experience, and on nurturing franchise opportunities for previously disadvantaged individuals.

REPORT OF THE DIRECTORS CONTINUED

for the year ended 31 July 2016

Income increased across the fixed odds retail footprint and profits more than trebled. International operations performed well in foreign currency terms and with an even better performance on translation to rand, benefiting from increased volume of demand for a world-class South African thoroughbred horseracing export product.

A fairer funding dispensation for the sport of thoroughbred horseracing is imperative. Within this context, flagrant piracy of the Group's intellectual property by certain bookmakers is unconscionable. Civil and criminal lawsuits have been filed and will continue to be filed against bookmakers unlawfully displaying Tellytrack. As of the date of this report, 274 bookmakers have subscribed to Tellytrack for live horseracing televisual and audio rights, while 255 bookmakers have subscribed to the live international horseracing televisual and audio rights.

Group financial analysis

Total income grew by 19% to R1 500,8 million with local income growing by 15% to R1 226,4 million and international income growing by 38% to R274,4 million.

Local net betting income grew by 15% to R965,6 million and other local income grew by 10% to R252,6 million. Other operating income from international operations grew by 33% to R273,8 million. Net income, after investment income of R5,3 million, was 17% higher at R1 497,3 million.

Local expenses, stakes and levies increased by 19% to R1 255,2 million and international expenses, which includes intellectual property rights fees, increased by 42% to R199,1 million.

Reward for exceptional performance plays a vital part in ensuring the Group continues to achieve its targets and our human capital is pivotal in this regard. Salaries are competitive but supplemented by appropriate monetary recognition as circumstances warrant. In this regard, local expenses also capture incentive awards and share-based payment charges.

Expenses on a like-for-like basis increased in line with budget and fixed odds costs reflect investment in expansion. The 23% increase in the Group depreciation charge reflects the investment commitment Phumelela is making in keeping its estate up to date and appealing to customers.

Local operations recorded a loss of R41,6 million compared to a profit of R7,6 million. The combination of international pre-tax profits of R75,3 million and international and local equity-accounted profits of R94,7 million resulted in total Group pre-tax profit of R128,4 million, an increase of 7% before non-cash impairments and fair value adjustments.

Net attributable income increased by 53% to R121,9 million, assisted by a positive fair value adjustment and a slightly lower effective tax rate. Headline earnings adjustments were minimal, with the prior year including a R9 million impairment of the Group's 26% interest in Betting World Nigeria. Headline earnings increased by 40% to R122,6 million.

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 0,67% lower. Earnings per share therefore grew by 54% and headline earnings per share grew by 41%.

Against the British pound, the rand averaged R21,43 for the year compared with R18,11, an 18% adverse move that resulted in more rand recognised on translation of foreign currency. The Group benefited from a foreign exchange gain of R8,2 million.

South African operations

Tote betting increased by 3% to R3,4 billion, with tote betting on sports other than horseracing increasing by 13% to R1,1 billion, and tote betting on horseracing remaining flat at R2,3 billion. Tote betting on sports other than horseracing comprises 32% of the tote betting and is up from 29% last year. Tote betting on local racing now comprises 50% of tote betting with betting on international racing the balance at 18%.

Interactive is now 30% of tote bets placed. Interactive is a key component of the Group's future strategy and the Group will continue to invest in the expansion of this part of its business.

Fixed odds had an excellent year with the investment in growth over the past few years manifesting in accelerating profitability at improved margin. Fixed odds betting increased by 25% to R1,8 billion. Net fixed odds betting income for the year of R263,1 million, growth of 63%, is more than three times what Phumelela earned as recently as five years ago.

Fixed odds betting on horseracing has shown a very pleasing improvement, increasing by 35% since 2014. Other sports and in particular numbers betting, which increased by 54%, continue to grow in popularity.

The expanded retail presence is a big factor in bringing in the punters, with strong growth in betting in provinces such as KwaZulu-Natal, Mpumalanga, Eastern Cape and Limpopo.

Total operating expenses in the local tote and fixed odds operations grew by 19% to R1 255,2 million. This reflects the growth in retail, IFRS 2 share-based payment charges, human capital spend, and legal and consulting fees associated with combating piracy of the Group's intellectual property by bookmakers and related legal matters.

Prize monies (stakes) increased by 7% to R202,9 million in accordance with the formula set out in the stakes agreement with the Racing Association. Stakes are calculated retrospectively on prior year results and the increase is reflective of the 2015 financial year results as they pertain to the formula.

A consequence of the drought is an additional R8,6 million spent on watering our racing and training facilities.

Like-for-like normalised expenses in the local tote operations, excluding stakes and depreciation, grew by 8%. Across both tote and fixed odds operations like-for-like expenses, also excluding stakes and depreciation, grew by 13%. Day-to-day operating expenses are under constant scrutiny.

Interbet positively affected equity-accounted income with share of profits of R5 million in the current year, up from R1,6 million in the previous year, the prior year representing nine months' share of profits effective from 1 November 2014.

International operations

International operations contributed an extremely pleasing R163,0 million pre-tax compared with R110,6 million in the prior year.

Phumelela's international operations provide a substantial rand hedge with profits favourably impacted by a weaker rand relative to major trading currencies during the year.

Phumelela's 50% investment in Premier Gateway International ("PGI"), located on the Isle of Man, the export of live broadcast of South African horseracing, and the first-time contribution of Arena Racing Company all contributed to an excellent result.

The combined pre-tax profit contribution comprises 127% of Group pre-tax profit before the Automatic Systems Limited ("ASL") fair value adjustment of R5,6 million. The Group's investment in ASL is held for sale.

With effect from May, win, place and swinger bets on Hong Kong races have been commingled into the Hong Kong's tote pools. Commingling gives local punters the opportunity to participate in the one of the largest tote pools in the world.

Included in operating expenses of R199,1 million is R104,0 million in intellectual property rights fees, which increased by 52%.

FINANCIAL POSITION

The Group has a strong financial position.

Cash generated from operating activities, after a release of cash from working capital of R29,9 million, was R143,0 million.

Dividends received from equity-accounted investees contributed an additional R71,0 million.

Capital expenditure, including stay in business and expansion, was R76,4 million of which R74,2 million was on property, plant and equipment and R2,2 million on intangibles. R8 million was spent converting the Vaal sand track to grass.

Dividends paid to shareholders amounted to R70,1 million.

REPORT OF THE DIRECTORS CONTINUED

for the year ended 31 July 2016

Total assets are R944,0 million, which includes property, plant and equipment at a carrying value of R458,9 million, goodwill and intangibles valued at R66,7 million, and equity-accounted investees valued at R75,5 million.

Attributable equity amounts to R513,1 million and represents a net asset value per share of 688,33 cents.

Return on average equity of 25% is very pleasing and exceeds cost of capital by a substantial margin.

The Group has a net cash position of R11,9 million and has adequate borrowing facilities. The Group has sufficient cash flow and borrowing capacity to meet its ongoing operational needs.

A combination of recurring income, in the form of broadcast rights, variable but reasonably consistent transactional income, and the benefits of incremental income from investment in growth and development of international and local tote, fixed odds and media income provides a relatively dependable cash flow. While regulatory factors are a risk of doing business, the Board believes these are mitigated and that relationships with relevant authorities are constructive and cooperative.

PROPERTY, PLANT AND EQUIPMENT

There was no change in the nature of the property, plant and equipment of the Group and Company or in the policy regarding their use.

SHARE CAPITAL

There has been no change to the authorised or issued share capital of the Company during the year.

Details of shareholders who directly own more than 3% of the issued share capital of the Company are disclosed on page 126 "shareholder information".

INVESTMENT

On 9 December 2015 Phumelela announced that the Company had agreed with Supabets SA Holdings Proprietary Limited ("Supabets") and its controlling shareholder, the Anastassopoulos Family Investments Holding Company Proprietary Limited ("AF"), the intention 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.

On 29 April 2016 Phumelela announced via SENS that a sale agreement had been concluded.

On 19 August 2016 a circular setting out the relevant details of the proposed transaction including notice of a general meeting of shareholders to vote thereon, was issued.

Shareholder approval to proceed with the acquisition subject to the supspensive conditions was granted at the general meeting of shareholders held on 21 September 2016.

SUBSEQUENT EVENTS

There are no significant subsequent events that have a material impact on the financial statements at 31 July 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. On 13 July 2016 the Competition Commission issued a notice of non-referral in respect of the complaint.

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 Proprietary Limited, for alleged 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 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 forms the basis of the National Gambling Amendment Bill that was recently published for broader public comment. While 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; and
- 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 as well as 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.

REPORT OF THE DIRECTORS CONTINUED

for the year ended 31 July 2016

RELATED PARTIES

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

DIVIDENDS TO ORDINARY EQUITY HOLDERS

A final gross cash dividend of 60 cents per share (51 cents per share net of dividend withholding tax at a rate of 15%) for the year ended 31 July 2015 was declared to shareholders recorded in the register on 30 October 2015 and paid on 2 November 2015.

An interim gross cash dividend of 34 cents per share (28,90 cents per share net of dividend withholding tax at a rate of 15%) was declared to shareholders recorded in the register on 20 May 2016 and paid on 23 May 2016.

The Board has declared a final gross cash dividend of 70 cents per share (59,50 cents per share net of dividend withholding tax at a rate of 15%) for the year ended 31 July 2016 to shareholders recorded in the register on 4 November 2016 and payable on 7 November 2016.

SHARE INCENTIVE SCHEMES

Details pertaining to share option schemes approved by shareholders is set out in the remuneration report on pages 44 to 49.

AUDITORS

At the annual general meeting held on 3 December 2015, KPMG Inc. were re-appointed as auditors to the Group.

DIRECTORS AND SECRETARY

The following directors were re-elected to office at the annual general meeting held on 3 December 2015:
Mr B Kantor
Mr MP Malungani
Mr CJH van Niekerk

The following directors were elected to serve on the Audit Committee at the annual general meeting held on 3 December 2015:
Mr R Cooper
Mrs NJ Mboweni
Mr JB Walters

Other than the appointment of Mr BP Finch (Zimbabwean) as a director of the Company on 8 October 2015, there were no other changes to the composition of the Board during the year.

In terms of the Company's Memorandum of Incorporation, Mrs NJ Mboweni and Messrs R Cooper and SKC Khampepe retire at the annual general meeting and being eligible, offer themselves for re-election.

Particulars of the present directors and secretary are given under corporate information set out on the inside of the back cover.

SUBSIDIARY COMPANIES

Details of subsidiary companies are disclosed on page 125.

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 July 2016

TO THE SHAREHOLDERS OF PHUMELELA GAMING AND LEISURE LIMITED

Report on the Group financial statements and financial statements

We have audited the Group financial statements and financial statements of Phumelela Gaming and Leisure Limited, which comprise the statements of financial position as at 31 July 2016, and the statements of comprehensive income, cash flow and changes in equity for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 62 to 125.

Directors' responsibility for the Group financial statements and financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Phumelela Gaming and Leisure Limited as at 31 July 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 July 2016, we have read the Report of the Directors, the Report of the Audit Committee and Report of the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor at Phumelela Gaming and Leisure Limited for 10 years.

KPMG INC
Registered Auditor

PER G PARKER
Chartered Accountant (SA)
Registered Auditor
Director

7 October 2016
KPMG Crescent, 85 Empire Road, Parktown, Johannesburg

STATEMENTS OF FINANCIAL POSITION

as at 31 July

		GROUP		COMPANY	
		2016	2015	**2016**	2015
	Note	**R'000**	R'000	**R'000**	R'000
ASSETS					
Non-current assets		**635 466**	575 088	**479 329**	450 636
Property, plant and equipment	4	**458 914**	444 682	**316 855**	306 163
Goodwill	5	**15 206**	12 362		
Intangible assets	6	**51 455**	52 104	**1 820**	1 930
Investment in subsidiaries	7			**96 613**	96 613
Interest in equity-accounted investees	8	**75 460**	51 732	**32 056**	32 056
Investments	9	**692**	695	**692**	695
Long-term secured loans	10	**24 790**	10 603	**24 790**	10 603
Deferred taxation asset	11	**8 949**	2 910	**3 682**	
Amounts owing by subsidiary companies	12.1			**2 821**	2 576
Current assets		**308 484**	200 751	**308 918**	175 973
Inventories	13	**1 920**	879	**1 029**	752
Trade and other receivables	14	**137 849**	100 812	**106 306**	99 352
Amounts owing by subsidiary companies	12.2			**81 566**	26 728
Assets held for sale	15	**28 624**	23 046	**9 924**	4 346
Income tax receivable		**19 233**	10 941	**15 695**	7 709
Defined benefit funds	18.1	**8 183**	7 075	**8 183**	7 075
Cash and cash equivalents	16	**112 675**	57 998	**86 215**	30 011
Total assets		**943 950**	775 839	**788 247**	626 609
EQUITY AND LIABILITIES					
Equity attributable to ordinary shareholders		**513 051**	447 743	**414 538**	261 496
Share capital and premium	17.1	**1 863**	1 863	**2 221**	2 221
Retained earnings		**511 630**	445 743	**412 317**	259 275
Translation reserve	17.2	**(442)**	137		
Non-current liabilities		**64 489**	54 735	**60 063**	47 623
Deferred taxation liability	11	**1 531**	4 652		2 135
Financial lease liability	19	**63**	488	**63**	488
Borrowings	20	**62 895**	49 595	**60 000**	45 000
Current liabilities		**366 410**	273 361	**313 646**	317 490
Trade and other payables	21	**310 095**	249 707	**260 064**	219 564
Short-term borrowings	20	**2 926**	2 400		
Amounts owing to subsidiary companies	22			**9 250**	78 830
Contingent consideration liability	23	**707**	707	**707**	707
Income tax payable		**1 683**	1 625		
Betting dividends payable		**15 994**	7 385	**8 620**	6 852
Bank overdraft	20	**35 005**	11 537	**35 005**	11 537
Total equity and liabilities		**943 950**	775 839	**788 247**	626 609

		cents	cents
Net asset value per share		**688,33**	600,79

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 July 2016

	Note	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
Income	24	**1 500 797**	1 266 205	**1 358 006**	1 058 865
Gross betting income	25	**1 198 796**	1 044 329	**815 850**	784 612
Value added tax		**(139 473)**	(120 806)	**(92 980)**	(89 440)
Betting taxes		**(93 772)**	(83 017)	**(75 358)**	(70 551)
Net betting income	26	**965 551**	840 506	**647 512**	624 621
Other operating income					
– Local operations		**252 603**	230 269	**270 758**	262 554
– International operations		**273 840**	205 416	**273 275**	198 761
Investment income					
– Local operations		**4 756**	1 692	**238 919**	48 573
– International operations		**575**	382	**540**	357
Net income		**1 497 325**	1 278 265	**1 431 004**	1 134 866
Stakes		**(202 871)**	(189 772)	**(202 871)**	(189 772)
National Horseracing Authority levies		**(26 383)**	(29 274)	**(26 383)**	(29 274)
Operating expenses and overheads					
– Local operations		**(1 025 906)**	(840 024)	**(791 428)**	(670 083)
– International operations		**(199 067)**	(139 894)	**(198 831)**	(139 672)
Profit from operations	27	**43 098**	79 301	**211 491**	106 065
Finance costs					
– Local operations	28	**(9 368)**	(5 828)	**(9 237)**	(5 214)
Profit before share of profit of equity-accounted investees		**33 730**	73 473	**202 254**	100 851
Equity-accounted investee impaired			(8 545)		
Share of profit of equity-accounted investee after tax	8	**94 694**	47 060		
Profit before assets held for sale fair value adjustment		**128 424**	111 988	**202 254**	100 851
Fair value adjustment in respect of assets held for sale	15	**5 578**	(12 753)	**5 578**	(12 753)
Profit before income tax expense		**134 002**	99 235	**207 832**	88 098
Income tax expense	29	**(12 912)**	(19 713)	**3 686**	(12 835)
Profit for the year		**121 090**	79 522	**211 518**	75 263
Other comprehensive income for the year					
Other comprehensive income/(expense)					
Items that may subsequently be reclassified to profit or loss					
– Exchange differences on translation of foreign subsidiaries		**(579)**	780		
Total comprehensive income for the year		**120 511**	80 302	**211 518**	75 263
Profit attributable to					
– Ordinary equity holders of the parent		**121 944**	79 516		
– Non-controlling interest		**(854)**	6		
		121 090	79 522		
Total comprehensive income attributable to:					
– Ordinary equity holders of the parent		**121 365**	80 296		
– Non-controlling interest		**(854)**	6		
		120 511	80 302		
Earnings per ordinary share	31	**cents**	cents		
Basic earnings per share		**163,62**	105,98		
Diluted earnings per share		**155,01**	101,14		

STATEMENTS OF CASH FLOW

for the year ended 31 July 2016

		GROUP		COMPANY	
		2016	2015	**2016**	2015
	Note	**R'000**	R'000	**R'000**	R'000
Net cash inflow from operating activities		**38 594**	3 761	**81 466**	(14 381)
Cash generated by operations	36.1	**113 046**	117 405	**23 334**	80 667
Movements in working capital	36.2	**29 949**	(23 446)	**(89 497)**	(54 266)
Cash generated by operating activities		**142 995**	93 959	**(66 163)**	26 401
Income tax paid	36.3	**(30 306)**	(19 579)	**(10 117)**	(15 823)
Dividends paid to shareholders		**(70 057)**	(66 389)	**(72 476)**	(67 850)
Interest received		**4 790**	1 241	**4 637**	2 168
Dividends received		**540**	357	**234 822**	45 937
Finance costs paid		**(9 368)**	(5 828)	**(9 237)**	(5 214)
Net cash outflow from investing activities		**(19 549)**	(54 057)	**(63 173)**	(71 620)
Acquisition of intangible assets		**(2 214)**	(5 520)	**(403)**	(1 415)
Acquisition of property, plant and equipment		**(74 229)**	(78 517)	**(50 520)**	(47 776)
Acquisition of subsidiary	36.4	**(1 710)**			
Proceeds on disposal of property, plant and equipment		**2 083**	1 322	**1 934**	1 300
Proceeds on sale of investments		**3**		**3**	
Contingent liability paid			(3 000)		(3 000)
Investment in equity-accounted investees			(30 801)		(31 000)
Loans advanced		**(80 718)**	(10 127)	**(80 457)**	(10 127)
Loans repaid		**66 270**	20 398	**66 270**	20 398
Dividends received from equity-accounted investees		**70 966**	52 188		
Net cash outflow from financing activities		**12 743**	1 073	**14 443**	22 738
Repayment of finance leases		**(557)**	(474)	**(557)**	(474)
Share repurchased and options issued			(41 601)		(21 788)
Acquisition of non-controllling interest			(130)		
Borrowing raised		**13 300**	45 000	**15 000**	45 000
Borrowings repaid			(1 722)		
Net increase/(decrease) in cash and cash equivalents for the year		**31 788**	(49 223)	**32 736**	(63 263)
Effect of conversion of foreign operations on cash and cash equivalents		**(579)**	780		
Cash and cash equivalents at beginning of year		**46 461**	94 904	**18 474**	81 737
Cash and cash equivalents at end of year		**77 670**	46 461	**51 210**	18 474
Make up of balance of cash and cash equivalents					
Cash and cash equivalents	16	**112 675**	57 998	**86 215**	30 011
Bank overdraft	20	**(35 005)**	(11 537)	**(35 005)**	(11 537)
Cash and cash equivalents at end of year		**77 670**	46 461	**51 210**	18 474

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 July 2016

	Share capital R'000	Share premium R'000	Trans-lation reserves R'000	Retained earnings R'000	Share-holders' equity R'000	Non-con-trolling interest R'000	Total equity R'000
GROUP							
Balance at 31 July 2014	1 890		(643)	477 250	478 497	294	478 791
Total comprehensive income for the year			780	79 516	80 296	6	80 302
– Profit for the year				79 516	79 516	6	79 522
– Foreign currency translation reserve			780		780		780
Transactions with owners recorded directly in equity							
– Loss on purchase of non-controlling interest				(130)	(130)		(130)
– Share-based payment				(3 230)	(3 230)		(3 230)
– Share repurchased	(55)			(19 791)	(19 846)		(19 846)
– Share issued in terms of the share option scheme	28			(21 783)	(21 755)		(21 755)
– Dividends paid to equity holders				(66 089)	(66 089)	(300)	(66 389)
Balance at 31 July 2015	1 863		137	445 743	447 743		447 743
Total comprehensive income for the year			**(579)**	**121 944**	**121 365**	**(854)**	**120 511**
– Profit for the year				**121 944**	**121 944**	**(854)**	**121 090**
– Foreign currency translation reserve			**(579)**		**(579)**		**(579)**
Transactions with owners recorded directly in equity							
– Arising on purchase of subsidiary						**854**	**854**
– Share-based payment				**14 000**	**14 000**		**14 000**
– Dividends paid to equity holders				**(70 057)**	**(70 057)**		**(70 057)**
Balance at 31 July 2016	**1 863**		**(442)**	**511 630**	**513 051**		**513 051**
COMPANY							
Balance at 31 July 2014	1 928	293		276 880	279 101		
Total comprehensive income for the year				75 263	75 263		
– Profit for the year				75 263	75 263		
Transactions with owners recorded directly in equity							
– Share-based payments				(3 230)	(3 230)		
– Share issued in terms of the share option scheme				(21 788)	(21 788)		
– Dividends paid to ordinary equity holders				(67 850)	(67 850)		
Balance at 31 July 2015	1 928	293		259 275	261 496		
Total comprehensive income for the year				**211 518**	**211 518**		
– Profit for the year				**211 518**	**211 518**		
Transactions with owners recorded directly in equity							
– Share-based payments				**14 000**	**14 000**		
– Share-based payment							
– Dividends paid to ordinary equity holders				**(72 476)**	**(72 476)**		
Balance at 31 July 2016	**1 928**	**293**		**412 317**	**414 538**		

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

1.1 Reporting entity

Phumelela Gaming and Leisure Limited ("the Company") is a company listed on the Johannesburg Stock Exchange and is domiciled in the Republic of South Africa. The Group comprises the Company and the companies in which the Company holds a controlling interest, interests in equity-accounted investees and joint operations. Where reference is made in the accounting policies to Group it should be interpreted as being applicable to the consolidated and separate financial statements as the context requires.

1.2 Basis of preparation

The Group and Company financial statements set out on pages 62 to 125 are prepared on the historical cost basis except where stated otherwise, in accordance with International Financial Reporting Standards ("IFRS"), interpretations of those standards as adopted by the International Accounting Standards Board and the requirements of the Companies Act of South Africa.

The Group and Company financial statements are presented in South African rand, which is the Company's functional currency and the Group's reporting currency. All values are rounded to the nearest rand thousand except where otherwise indicated.

The Group and Company's accounting policies are consistent with those applied in the previous financial year.

1.3 Basis of consolidation

The consolidated financial statements include those of the Company, its subsidiaries, joint operations and equity-accounted investees.

Transactions within the Group and intercompany balances have been eliminated in preparing the consolidated financial statements.

Adjustments have been made to the results of subsidiaries and equity-accounted investees, where necessary, to ensure that consistent accounting policies have been adopted by the Group.

Subsidiaries

Subsidiaries are defined as those entities in which the Group, either directly or indirectly, has control. The Group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial results are included in the financial statements from the date on which control commences to the date control ceased.

Investments in subsidiaries are accounted for at cost less any impairment in value in the Company's financial statements.

Investments in subsidiaries are reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Joint operations

Joint operations are contractual arrangements between two or more venturers establishing a company, partnership or other entity in which each of the venturers has rights to the assets and obligations for the liabilities relating to the arrangement. When making this assessment the Group considers the structure of the arrangement, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Investments in joint operations are accounted on a line-by-line basis. The results of joint operations are included from the effective date that joint control is attained to the effective date that joint control is lost.

1.3 Basis of consolidation continued

Equity-accounted investees

Equity-accounted investees are those companies in which the Group has significant influence but not control or joint control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in equity-accounted investees are accounted for on the equity method, based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period different to that of the Group, then the most recently available management accounting results for the same period as the Group are brought to account.

Where this is impracticable, then the financial statements drawn up to a different date are used and are adjusted for any significant intergroup events or transactions that occur between the Group's accounting date and that of the equity-accounted investees. The difference between the reporting date of the equity-accounted investees and investor is no more than three months. Interest in equity-accounted investees are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition the investment in equity-accounted investees is carried in the Group statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the equity-accounted investees, less any impairment recognised. The statement of comprehensive income reflects the Group's share of the profit or loss of the equity-accounted investee. The Group's investment in its equity-accounted investee includes goodwill on acquisition, which is reviewed when there are indicators of impairment.

The Company accounts for investments in equity-accounted investees at cost less any accumulated impairment recognised.

1.4 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.5 Goodwill

Goodwill represents the excess of the cost of acquisition of the Group's interests in subsidiaries, equity-accounted investees or joint operations over the fair value of the identifiable assets, liabilities and contingent liabilities at dates of acquisition.

Goodwill arising on the acquisition of an equity-accounted investee is included within the carrying amount of the equity-accounted investee. Goodwill arising on the acquisition of subsidiaries is presented separately in the statements of financial position.

Goodwill is measured at cost less any impairment in value.

1.6 Intangible assets

Indefinite useful life intangible assets

Indefinite useful life intangible assets that are acquired by the Group are initially measured at cost and are not amortised. The carrying value is assessed at each reporting date for impairment.

The Group's indefinite useful life intangible assets comprise betting and bingo licences.

Finite useful life intangible assets

The Group's finite useful life intangible assets comprise an exclusivity fee and software development costs.

Software costs

Packaged software purchased and the direct costs associated with the development and installation thereof are capitalised and included in work-in-progress in computer software until commissioned. Once commissioned, the total cost capitalised to date is transferred to computer software and amortised on a straight-line basis over its estimated useful life.

Software development costs

Development activities involve a plan or design for the production of new or substantially improved products or processes. Development expenditure is capitalised only if development costs can be measured reliably, the product process is technically and commercially feasible, future economic benefits are probable, and the Group intends and has sufficient resources to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Finite useful life intangible assets that are acquired by the Group are initially measured at cost and are amortised over the useful lives of the assets at the following rates:

Exclusivity fee	20% per annum
Software costs and software development costs	10% to 33% per annum (once commissioned)

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Research costs

Expenditure on research, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.7 Property, plant and equipment

Racing surfaces, which are classified as land, are substantially made up of either grass or sand and by their very nature require continual maintenance. The ongoing maintenance programmes adequately cover any impairment of these surfaces and no depreciation is therefore provided. Sand and synthetic surfaces are depreciated over their expected useful lives which range between seven and 15 years.

Items of property, plant and equipment, other than racing surfaces, are measured at cost less accumulated depreciation and any accumulated impairment.

Buildings, plant and machinery, information technology equipment, motor vehicles, heavy duty trucks and trailers, and furniture and fittings are depreciated on a straight-line basis to write each asset down to its residual value over the term of its useful life currently at the following rates:

Buildings	2% per annum
Plant and machinery	5% to 20% per annum
Information technology equipment	10% to 33,3% per annum
Motor vehicles, heavy duty trucks and trailers	10% to 20% per annum
Furniture and fittings	10% to 20% per annum
Marks, names and signage	20% per annum

Leasehold improvements are depreciated over the shorter of the period of the lease or the useful life.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposal of property, plant and equipment are recognised in profit or loss.

Useful lives and residual values

Property, plant and equipment are depreciated over their useful lives taking into account any residual values where appropriate. The actual useful life and method of depreciation of these assets are assessed annually and could vary as a result of technological innovations and maintenance programmes. In addition, where applicable, residual values are reviewed annually after considering the current disposal values of all assets which are already of the age and in the condition expected at the end of its useful life.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replacement part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

1.8 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite lives are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit ("CGU") exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.8 Impairment of non-financial assets continued

Impairment losses are recognised in profit or loss. An impairment loss is allocated first to reduce the carrying value of related goodwill and thereafter against the other assets of the CGU on a pro rata basis. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Impairment losses recorded on goodwill are not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation, or amortisation if no impairment loss had been recognised.

1.9 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Inventories include construction work-in-progress on residential property developments being constructed for future sale.

1.10 Assets held for sale

Non-current or disposable groups of assets and liabilities are classified as assets for sale if it is highly probable that they will be recovered through sale rather than through continued use.

Such assets or disposable groups are generally measured at the lower of their fair value less costs to sell. Any gain or loss on remeasurement or disposal is recognised in profit or loss

1.11 Taxation

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current or prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Income tax

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Income tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted by the reporting date and any adjustments to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability settled.

Deferred tax is recognised in profit or loss or other comprehensive income except to the extent that it relates to a transaction that is recognised in equity as a business combination that is an acquisition. The effect on deferred tax of any change in tax rates is recognised in profit or loss or other comprehensive income except to the extent that it relates to an item recognised in equity.

1.11 Taxation continued

Deferred tax continued

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and equity-accounted investees to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax assets relating to assessed losses carried forward and other deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which these assets can be utilised.

Dividend withholding tax

Dividend withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012. Dividend tax is withheld on behalf of shareholders at a rate of 15% on dividends declared. Amounts withheld are not recognised as part of the tax charge, but rather as part of the dividend paid recognised in equity.

Indirect taxes

Indirect taxes, including non-recoverable VAT, skills development levies and other duties are recognised in profit or loss as incurred.

1.12 Provisions

Provisions are recognised where the Group has a present legal or constructive obligation as a result of a past event, a reliable estimate of the obligation can be made and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are recognised at the present value of expenditure required to settle the present obligation.

1.13 Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Gross betting income represents bets struck net of betting dividends paid to customers. Dividends from investments are recognised when the right to receive payment has been established. Interest is recognised on a time proportion basis which takes into account the effective yield on the asset over the period it is expected to be held.

1.14 Betting dividends

Betting dividends comprise punters' winnings. Unclaimed betting dividends are recognised in the statement of financial position as betting dividends payable under current liabilities. Betting dividends not claimed within 60 (sixty) days from date of declaration are realised in profit or loss.

1.15 Borrowing costs

Borrowing costs are capitalised when incurred unless they are not directly attributable to an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (qualifying asset), when they are expensed.

For qualifying assets the borrowing costs will be capitalised to the asset to the extent that funds are borrowed specifically for the purpose of the asset. The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.15 Borrowing costs continued

Where funds are not specifically borrowed for the asset, but the Group borrows funds generally and uses them for the purpose of the asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

1.16 Employee benefits

Post-retirement benefits are made up of those obligations which the Group has towards current and retired employees.

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. Short-term benefits are recognised on an undiscounted basis.

Defined contribution plans

The Group operates a defined contribution plan that requires contributions to be made to a separately administered fund. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further amounts. Contributions in respect of defined contribution plans are recognised as an expense in the period to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

The Group has defined benefit plans which are closed to new members. There are no current contributions to the plans. The Group's net obligation in respect of the defined benefit plans are calculated by estimating the amount of the future benefit that present and past employees have earned for their services in prior periods, the benefit is discounted to determine its present value and fair value of any plan assets are deducted. The calculation is performed by a qualified actuary.

When the benefits of a defined benefit plan are improved, the portion of the increased benefit relating to past services by employees is recognised as an expense immediately in profit or loss.

Remeasurements arrising form defined benefit plans comprise actuarial gains and losses and the return on planned assets (excluding interest). These are recognised immediately in other comprehensive income and all other expenses, including interest, related to defined benefit plans in profit or loss.

Equity participation plan

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a modified binomial valuation model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The amount recognised in profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.16 Employee benefits continued

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

1.17 Financial instruments

Financial instruments recognised at the reporting date include investments, amounts owing by Group companies, trade and other receivables, cash and cash equivalents, trade and other payables, amounts owing to Group companies, amounts owing to/by equity-accounted investees, short-term loans and betting dividends payable. Financial instruments are initially measured at fair value, including transaction costs, except for instruments carried at fair value through profit or loss, when the Group becomes a party to their contractual arrangements.

Where the Group has both a legal right, and intends to settle on a net basis or simultaneously, related positive or negative values of financial instruments are offset within the statement of financial position.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within a period generally established by regulation or convention in the market place.

Gains or losses on disposal of financial assets are determined as the difference between proceeds from the sale thereof and the financial instrument's carrying amount and are recognised in profit or loss.

The Group derecognises a financial asset when the contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards or ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.
The subsequent measurement of financial instruments is as follows:

Investments

An investment is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on original recognition. Investments at fair value through profit or loss are measured at fair value and changes are recognised in profit or loss.

Trade and other receivables, long-term secured loans and amounts owing by Group companies

Trade and other receivables, long-term secured loans and amounts owing by Group companies are classified as loans and receivables and are subsequently measured at amortised cost using the effective interest method less an allowance for any impairment losses. The fair value of the receivables is estimated at the present value of future cash flows discounted at the market rate of interest at the reporting date. An impairment is recognised in profit or loss when it is probable that the Group will not be able to collect all amounts due (principal and interest) according to the contractual terms of the receivable. The carrying amount of the receivable is then reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

When the terms of financial assets, that would otherwise be past due or impaired, are renegotiated, the renegotiation is treated as a change in estimate. If the renegotiation is significant, it is treated as a derecognition of the original financial instrument and the recognition of a new financial instrument. The assessment of objective indicators of impairment for accounts receivable is done at each reporting date.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.17 Financial instruments continued

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, in hand and short-term deposits, with an original maturity of three months or less, which are repayable on demand.

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

Cash and cash equivalents are classified as loans and receivables, which are subsequently measured at amortised cost.

Financial liabilities

After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Financial liabilities include trade and other payables, amounts owing to Group companies, short-term loans from non-controlling interests and betting dividends payable.

Derivative instruments

Derivative financial instruments are classified as held for trading and fall within the category of at fair value through profit or loss. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised in profit or loss.

The Group does not apply hedge accounting.

Impairment of financial assets

If there is evidence of impairment, an impairment loss is recognised in accordance with IAS 39.

At each reporting date an assessment is made on a case-by-case basis of whether there is any objective evidence of impairment of a financial asset. Criteria used to determine whether there is objective evidence of an impairment loss include the following events:

- the receivable or investment is experiencing significant financial difficulty;
- the receivable defaults on interest or principal payments;
- the borrower will probably enter into bankruptcy or another financial reorganisation;
- observable market data indicating that there is a measurable decrease in the estimated future cash flows from a financial asset or investment since the initial recognition; and
- disappearance of an active market for a financial asset because of financial difficulties.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Fair value determination

Regarding trade and other receivables, cash and cash equivalents, trade and other payables and betting dividends payable, the effect of discounting is insignificant due to the very short-term nature of these accounts. Therefore, no formal fair value determination has been performed for these accounts as the fair value is expected to approximate the carrying amount of the instrument.

No terms and conditions relating to the settlement of amounts owing between Group companies have yet been established. Such terms and conditions will be established when settlement of the amounts owing occurs.

1.18 Leases

Finance leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the lessee. Assets subject to finance leases are capitalised at the lower of fair value of the leased assets and the present value of minimum lease payments and depreciated over the shorter of their estimated useful lives or the lease term subsequent to initial recognition. These assets are treated in the same manner as owned assets and are included in property, plant and equipment. Lease payments are apportioned between lease finance costs and capital repayments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. Finance costs are recognised in profit or loss over the period of the lease using the effective interest method.

Operating leases

Operating leases are leases where the substantial risks and rewards of ownership of an asset do not pass from the lessor to the lessee.

Operating lease rentals are charged against profit or loss on a straight-line basis over the term of the lease.

1.19 Foreign currency transactions and balances

Foreign currency transactions are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at exchange rate ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value is determined.

1.20 Foreign currency translations

The assets and liabilities of foreign subsidiaries are translated into the Group and Company's presentation currency at the rate of exchange ruling at the reporting date. The statements of comprehensive income are translated at the weighted average exchange rates for the year.

Exchange differences arising on translation are recognised directly in a foreign currency translation reserve in other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to the foreign operation is recognised in profit or loss.

1.21 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues or incur expenses. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and to assess its performance and for which discrete financial information is available.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other Group segments. Intersegment transfer pricing is based on cost plus an appropriate margin. Reconciling items comprise intercompany eliminations.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.22 Dividends

Dividends are recognised when the shareholders' right to payment, being the declaration date, is established.

1.23 Use of estimates, judgements and assumptions made in the preparation of the financial statements

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgements are inherent in the formation of estimates.

Significant estimates and judgements made relate to the measurement of impairment losses relating to trade and other receivables, residual values, useful lives and depreciation methods, employee obligations, estimating the fair value of share options granted and asset impairment tests. The nature and carrying amounts of the items affected by these estimates, where applicable, are indicated in the notes relating to these items. Other judgements made relate to classifying financial assets and liabilities into categories.

Significant judgements include:

Trade receivables, loans or other receivables

The Group assesses its trade receivables and/or loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from an asset.

The impairment for trade receivables and loans and other receivables is calculated on a portfolio basis, based on the historical loss ratios, adjusted for national and industry-specific conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to the loan balances in the portfolio and scaled to estimate loss emergence period.

Impairment testing

The recoverable amounts of CGUs and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then have an impact on our estimations and may require a material adjustment to the carrying value of intangible and tangible assets.

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying value may not be recoverable. In addition, goodwill and assets with indefinite useful lives are tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and other assets are inherently uncertain and could change materially over time.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of the legislation. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final outcome of these taxes is different from the amounts initially recorded, such difference impact the income tax and deferred tax provisions in the period in which such determination is made.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.23 Use of estimates, judgements and assumptions made in the preparation of the financial statements continued

Taxation continued

The Group recognises the net future benefit related to deferred income tax assets to the extent that it is probable that the temporary differences will reverse in the foreseeable future. Assessing the recoverability of the deferred tax asset requires the Group to make significant estimates related to expectations of future income. Estimates of future taxable income are based on focused cash flows from the operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred asset could be impacted.

Share-based incentives

Calculation of market value of the shares at the reporting date may vary from time to time dependent on the Group results and the actual exercise date resulting in additional charges or releases to profit or loss.

Property, plant and equipment

Each year the Group determines value in use and the expected useful lives and residual value of assets. Changing market and economic conditions may result in the assets not achieving their carrying cost. These adjustments would affect future reporting periods as and when they are determined.

1.24 Earnings per share

The Group presents basic and diluted earnings per share and headline earnings per share and diluted headline earnings per share for its ordinary shares.

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Headline earnings per share are calculated by dividing headline earnings attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted headline earnings per share are determined by adjusting the weighted average number of ordinary shares outstanding for the effects of dilutive potential ordinary shares which comprise share options granted to employees.

1.25 Share capital and equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction net of tax from the proceeds.

Repurchase and reissue of shares (treasury shares)

When share capital recognised as equity is repurchased, the amount of consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a reduction of share capital.

When treasury shares are sold or reissued subsequently, the amount received is as an increase in equity and the resulting surplus or deficit on the transaction is presented as share premium.

2. FINANCIAL RISK MANAGEMENT

Capital management

The Board's policy is to maintain healthy capital ratios so as to maintain investor, creditor and market confidence and to sustain future development of the business on a capital efficient basis. The Group has been funded primarily through equity as a consequence. The Board does, however, recognise that debt may become an important component of its capital structure to fund future growth.

The Board monitors the level of dividends to ordinary shareholders.

From time to time the Group repurchase its shares on the market primarily to provide for the shares required in terms of the share incentive schemes. There is, however, no defined share buyback plan.

Financial risk management

Risks arising from the Group and Company's financial instruments are credit risk, liquidity risk and market risk comprising interest rate risk, foreign currency risk and equity price risk. The Group and Company policies for managing these risks are set out below:

Credit risk management

Credit risk is the risk of financial loss to the Group arising from the risk that a counterparty may default or not meet its obligations timeously.

Credit risk on trade and other receivables arises from the risk of default of the debtor on repayment of debts owed to the entity. The maximum exposure thereon is the carrying amount as disclosed in note 14. Such credit risk is managed by the entity only trading with recognised, creditworthy third parties. It is the Group and Company policy that customers who wish to trade on credit terms are subject to credit verification procedures. Trade receivables balances are monitored on an ongoing basis.

With respect to credit risk arising from other financial assets of the entity, which comprise cash and cash equivalents, long-term secured loans and amounts owing by Group companies, the exposure to the credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The entity manages its credit risk relating to cash and cash equivalents by investing cash surplus funds with major banks of high-quality credit standing. The credit risk on loans granted is limited by obtaining adequate security. There is no formal process to manage the credit risk relating to amounts owing by Group companies as the companies concerned are all within the same Group, causing credit risk to be minimal.

The Group measures the credit risk by reference to the extent of its exposure to individual trade and other receivables balances.

There have been no significant changes during the year to the Group's exposures to credit risk . There has been no change to the Group's policies to manage the risk.

Concentrations of credit risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions.

Management determines the concentration of credit risk of trade and other receivables with reference to the currency in which the financial asset is denominated. The entity's exposure to credit risk, split according to concentrations of risk relating to trade and other receivables, has been disclosed under note 14.

Management determines the concentration of credit risk relating to amounts owing from Group companies with reference to the level of trading activity of the Group company. The exposure of the entity to credit risk according to these concentrations for dormant Group companies is R2 821 000 (2015: R2 576 000) and active trading Group companies R81 566 000 (2015: R26 728 000).

2. FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk management continued

Management determines the concentration of credit risk relating to cash and cash equivalents with reference to the geographical location of the bank at which the entity holds its cash and cash equivalents as well as the currency in which the cash and cash equivalents are denominated. The entity holds most of its cash and cash equivalents within South Africa, but does hold, on a short-term basis and per South African Reserve Bank approval, some foreign denominated cash and cash equivalents. The entity's exposure to these concentrations are disclosed in note 16.

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
The maximum exposure to credit risk at the reporting date was as follows:				
Investments	**692**	695	**692**	695
Long-term secured loans	**24 790**	10 603	**24 790**	10 603
Amounts owing by Group companies			**84 387**	29 304
Trade and other receivables	**137 839**	100 812	**106 306**	99 352
Assets held for sale	**9 924**	4 346	**9 924**	4 346
Cash and cash equivalents	**112 675**	57 998	**86 215**	30 011
	285 920	174 454	**312 314**	174 311

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group is exposed to liquidity risk in terms of being required to settle its financial liabilities within the next operating cycle. Its financial liabilities comprise trade and other payables, amounts owing to Group companies, betting dividends payable and short to medium-term interest-bearing advances including finance loans.

The Group's objective in managing liquidity risk is to manage cash flows in line with the business's needs. As investment or business opportunities arise, the Group may consider obtaining external financing. The entity manages its liquidity risk by ensuring that it has adequate banking facilities and reserve borrowing capacity to meet liquidity needs. The entity measures its liquidity risk by reference to its cash flow projections for the foreseeable future.

There have been no significant changes during the year to the Group's exposures to liquidity risk other than the receipt of short-term interest-bearing advances (refer note 20), the entering into certain finance leases in respect of information technology equipment (refer note 19). There has been no change to the Group's policies to manage the risk.

Management determines its concentration of liquidity risk for trade and other payables by reference to the geographical location of the payable and the currency in which the balance is denominated. The entity's gross exposure to such liquidity risk is disclosed in note 21.

Management determines its concentration of liquidity risk for amounts owing to Group companies by reference to the level of trading activity of the Group company. The entity's exposure to such liquidity risk regarding dormant Group companies is R9 085 000 (2015: R9 098 000) and regarding active companies is R165 000 (2015: R69 732 000).

Management determines its concentration of liquidity risk for betting dividends payable by reference to the geographical location of payables. The entity's exposure to such liquidity risk is disclosed on the face of the statement of financial position.

The Group and Company's current liabilities exceed their current assets. The Group and Company have an unused revoling credit facility of R60 million and dividend inflows from offshore associates in the event that funds are required to fund this exposure and to fund short to medium-term working capital requirements.

for the year ended 31 July 2016

2. FINANCIAL RISK MANAGEMENT CONTINUED

Financial liabilities maturity analysis

The following tables summarise the maturity profiles of the Group's and Company's financial liabilities at 31 July based on contractual, undiscounted payments. Due to contractual undiscounted payments being used, the total of this analysis does not agree to the statement of financial position total of financial liabilities.

	On demand R'000	Less than one year R'000	Two to five years R'000	>five years R'000	Total R'000
GROUP					
2016					
Trade and other payables	59 493	250 171			309 664
Finance lease		444	64		508
Borrowing		2 926	62 895		65 821
Contingent consideration liability		707			707
Operating leases		50 537	46 943	4 556	102 036
Betting dividends payable	15 994				15 994
Bank overdraft	35 005				35 005
Total	110 492	304 785	109 902	4 556	529 735
2015					
Trade and other payables	64 565	184 586			249 151
Finance lease		618	508		1 126
Borrowing		3 047	50 052		53 099
Contingent consideration liability		707			707
Operating leases		48 787	65 515	2 187	116 489
Betting dividends payable	7 385				7 385
Bank overdraft	11 537				11 537
Total	83 487	237 745	116 075	2 187	439 494
COMPANY					
2016					
Trade and other payables	52 029	207 605			259 634
Finance lease		444	64		508
Borrowing			60 000		60 000
Contingent consideration liability		707			707
Operating leases		28 791	21 049		49 840
Betting dividends payable	8 620				8 620
Bank overdraft	35 005				35 005
Owing to subsidiaries	9 250				9 250
Total	104 904	237 547	81 113		423 564
2015					
Trade and other payables	48 394	170 614			219 008
Finance lease		618	508		1 126
Borrowing			45 000		45 000
Contingent consideration liability		707			707
Operating leases		29 715	30 477		60 192
Betting dividends payable	6 852				6 852
Bank overdraft	11 537				11 537
Owing to subsidiaries	78 830				78 830
Total	145 613	201 654	75 985		423 252

The Group has minimised its liquidity risk by ensuring that its has adequate banking facilities and reserve borrowing capacity.

2. FINANCIAL RISK MANAGEMENT CONTINUED

Interest rate risk management

The Group is exposed to interest rate risk on its interest-bearing borrowings, financial lease liability, long-term secured loans and cash and cash equivalents.

No concentration of such risk exists in addition to that mentioned above. The carrying amounts of the entity's financial instruments carried at amortised cost and available-for-sale instruments have been disclosed and represent the entity's exposure to interest rate risk.

The policy objectives regarding managing interest rate risk are to minimise the need to pay interest. This is accomplished by managing cash funds and daily operational needs and borrowing funds at favourable rates with reputable financial institutions in South Africa.

During the year there have been no significant changes in the entity's exposure to interest rate risk and in policies to manage this risk.

Foreign currency risk management

Phumelela International Division undertakes transactions denominated in foreign currencies (refer notes 14, 16 and 21) and is therefore exposed to foreign currency risk.

Exposure to exchange rate fluctuations is limited by the natural cash flow hedge in foreign denominated revenue streams and by securing forward cover contracts in respect of such transactions as deemed necessary.

The entity measures its foreign currency risk by reference to its net foreign currency balance, which comprises the foreign currency balances (in each respective foreign currency) of trade and other receivables, cash and cash equivalents and trade and other payables.

Concentration of foreign currency risk is determined by reference to the currency denomination of foreign trade and other receivables, foreign cash and cash equivalents balances held and foreign trade and other payables. The entity's exposure to such foreign currency risk is disclosed under notes 14, 16 and 21 respectively.

The following analysis demonstrates the sensitivity to a reasonably possible change in the exchange rates the entity is exposed to, with all other variables held constant, of the Group and Company's profit and equity.

The sensitivity analysis is based on the net foreign currency balance of a particular foreign currency which existed at 31 July. This net foreign currency balance is calculated as the sum of the foreign currency trade and other receivables balance and the foreign currency cash and cash equivalents balance, less the foreign currency trade and other payables balance. The foreign currency balances used in the calculation can be found in notes 14, 16 and 21 respectively.
The translation of the net foreign currency balance is adjusted at the reporting date for a change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the ZAR weakens against the relevant currency. A strengthening of the ZAR would have an equal but opposite effect.

	Increase or decrease in currency rate %	GROUP PROFIT OR LOSS IMPACT Net foreign currency balance	GROUP PROFIT OR LOSS IMPACT Profit or loss impact R'000	COMPANY PROFIT OR LOSS IMPACT Net foreign currency balance	COMPANY PROFIT OR LOSS IMPACT Profit or loss impact R'000
2. FINANCIAL RISK MANAGEMENT CONTINUED					
Foreign currency exchange risk 2016					
Australian dollar	**5**	**667 252**	**352**	**667 252**	**352**
British pound	**5**	**1 736 642**	**1 596**	**1 705 417**	**1 567**
Euro	**5**	**960 372**	**744**	**960 372**	**744**
Singapore dollar	**5**	**1 049 427**	**543**	**1 049 427**	**543**
Swedish krona	**5**	**(372 625)**	**(30)**	**(372 625)**	**(30)**
United States dollar	**5**	**(408 585)**	**(284)**	**(408 585)**	**(284)**
Foreign currency exchange risk 2015					
Australian dollar	5	729 589	338	737 400	342
British pound	5	1 021 766	1 006	378 015	372
Euro	5	520 869	363	520 869	363
Singapore dollar	5	734 635	339	734 635	339
Swedish krona	5	(763 847)	(56)	(763 847)	(56)
United States dollar	5	(251 340)	(159)	(214 996)	(136)

The following significant exchange rates were applied during the year:

	Year end GROUP AND COMPANY 2016 R	Year end GROUP AND COMPANY 2015 R	Average GROUP AND COMPANY 2016 R	Average GROUP AND COMPANY 2015 R
Australian dollar	**10,54**	9,27	**10,69**	9,42
British pound	**18,38**	19,68	**21,43**	18,11
Euro	**15,50**	13,93	**16,20**	13,60
Singapore dollar	**10,35**	9,22	**10,57**	8,78
Swedish krona	**1,62**	1,47	**1,74**	1,46
United States dollar	**13,89**	12,62	**14,65**	11,65

2. FINANCIAL RISK MANAGEMENT CONTINUED

Foreign exchange markets remain unpredictable impacted by the global financial instability, a widening trade account deficit, the disruptive labour market in South Africa and inflationary pressures, leading to prime lending rates being increased.

Management assesses that the foreign exchange markets will remain unpredictable in the short to medium term and that taking a view on the ZAR for the coming 12 months would be speculative. The table on the previous page provides guidance as to the impact of a 5% increase/decrease in currency rates based on the Group's net foreign exchange risk portfolio at year end.

Profit and loss exposure is mainly attributable to the exposure on Australian and US dollar, British pound and euro denominated trade and other receivables, cash and cash equivalents and trade and other payables balances at year end.

The Group and Company had taken out no forward exchange cover in respect at the 31 July 2016 (2015: none).

Fair value of financial instruments

The carrying amounts reported in the statement of financial position for long-term loans, trade and other receivables, cash and cash equivalents, trade and other payables, short-term receivables, betting dividends payable and financial liabilities approximate fair value due to the short time period between initiation and settlement thereof. The effect of discounting is not material.

Investments are stated at fair value determined in accordance with relevant stock exchange price at the reporting date. The investment disclosed in assets for sale is categorised as level 1 in the fair value hierarchy as a market value is readily available.

Regarding amounts owing to or from Group companies, where there are no fixed terms of repayment, many of the balances have been outstanding for more than one financial period and as a result, the effect of discounting is immaterial. The amortised cost carrying value disclosed for these accounts does therefore approximate the fair value of the financial instruments. The fair value of the amount owed by Group companies is R84 387 000 (2015: R29 304 000). The fair value of the amount owed to Group companies is R9 250 000 (2015: R78 830 000).

Class of financial instrument	At fair value R'000	Loans and receivables R'000	GROUP Financial liabilities subsequently measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS					
2016					
Financial assets					
Investments		692			692
Long-term secured loan		24 790			24 790
Trade and other receivables		123 931		13 918	137 849
Assets held for sale	9 924			18 700	28 624
Cash and cash equivalents		112 675			112 675
Total	9 924	262 088		32 618	304 630
Financial liabilities					
Finance lease			508		508
Borrowing			65 821		65 821
Trade and other payables			242 557	67 108	309 665
Contingent consideration liabilities			707		707
Betting dividends payable			15 994		15 994
Bank overdraft			35 005		35 005
Total			360 592	67 108	427 700
2015					
Financial assets					
Investments		695			695
Long-term secured loan		10 603			10 603
Trade and other receivables		91 614		9 198	100 812
Assets held for sale	4 346			18 700	23 046
Cash and cash equivalents		57 998			57 998
Total	4 346	160 910		27 898	193 154
Financial liabilities					
Finance lease			1 045		1 045
Borrowing			51 995		51 995
Trade and other payables			217 211	31 940	249 151
Contingent consideration liabilities			707		707
Betting dividends payable			7 385		7 385
Bank overdraft			11 537		11 537
Total			289 880	31 940	321 820

Class of financial instrument	At fair value R'000	Loans and receivables R'000	COMPANY Financial liabilities subsequently measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS CONTINUED					
2016					
Financial assets					
Investments		**692**			**692**
Long-term secured loan		**24 790**			**24 790**
Amounts owing by subsidiary companies		**84 387**			**84 387**
Trade and other receivables		**93 810**		**12 496**	**106 306**
Assets for sale	**9 924**				**9 924**
Cash and cash equivalents		**86 215**			**86 215**
Total	**9 924**	**289 894**		**12 496**	**312 314**
Financial liabilities					
Finance lease			**508**		**508**
Borrowings			**60 000**		**60 000**
Trade and other payables			**210 781**	**48 854**	**259 634**
Amounts owing to subsidiary companies			**9 250**		**9 250**
Contingent consideration liabilities			**707**		**707**
Betting dividends payable			**8 620**		**8 620**
Bank overdraft			**35 005**		**35 005**
Total			**324 871**	**48 854**	**373 724**
2015					
Financial assets					
Investments		695			695
Long-term secured loan		10 603			10 603
Amounts owing by subsidiary companies		29 304			29 304
Trade and other receivables		91 600		7 775	99 375
Assets for sale	4 346				4 346
Cash and cash equivalents		30 011			30 011
Total	4 346	162 213		7 775	174 334
Financial liabilities					
Finance lease			1 045		1 045
Borrowings			45 000		45 000
Trade and other payables			190 233	28 775	219 008
Amounts owing to subsidiary companies			78 830		78 830
Contingent consideration liabilities			707		707
Betting dividends payable			6 852		6 852
Bank overdraft			11 537		11 537
Total			334 204	28 775	362 979

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2016

	GROUP							
	Land and buildings							
	Freehold R'000	Leasehold improvements R'000	Plant and machinery R'000	Information technology equipment R'000	Motor vehicles, heavy duty trucks and trailers R'000	Furniture and fittings R'000	Marks, names and signage R'000	Total R'000
4. PROPERTY, PLANT AND EQUIPMENT								
2016								
Balance at beginning of year	**227 178**	**52 925**	**78 147**	**40 866**	**15 267**	**28 872**	**1 427**	**444 682**
Current year movements								
– Additions	**17 570**	**18 748**	**9 639**	**15 722**	**6 298**	**5 943**	**309**	**74 229**
– Disposals*	**(391)**	**(499)**	**(902)**	**(875)**	**(112)**	**(795)**	**(20)**	**(3 576)**
– Acquisition of subsidiary		**678**	**188**	**416**	**167**	**563**		**2 012**
– Depreciation	**(8 869)**	**(18 140)**	**(10 846)**	**(12 110)**	**(3 158)**	**(4 636)**	**(674)**	**(58 433)**
Balance at end of year	**235 488**	**53 712**	**76 226**	**44 019**	**18 462**	**29 947**	**1 060**	**458 914**
Made up as follows:								
Assets at cost	**282 608**	**121 553**	**164 532**	**96 332**	**37 710**	**57 499**	**3 180**	**763 414**
Accumulated depreciation and impairment	**(47 120)**	**(67 841)**	**(88 306)**	**(52 313)**	**(19 248)**	**(27 552)**	**(2 120)**	**(304 500)**
Carrying value	**235 488**	**53 712**	**76 226**	**44 019**	**18 462**	**29 947**	**1 061**	**458 914**
2015								
Balance at beginning of year	236 461	37 597	80 336	33 887	12 341	24 634	1 456	426 712
Current year movements								
– Additions	11 488	27 957	8 772	16 556	5 455	8 183	608	79 019
– Disposals		(98)	(47)	(314)	(39)	(507)		(1 005)
– Transfer to assets held for sale	(12 368)							(12 368)
– Depreciation	(8 403)	(12 531)	(10 914)	(9 263)	(2 490)	(3 438)	(637)	(47 676)
Balance at end of year	227 178	52 925	78 147	40 866	15 267	28 872	1 427	444 682
Made up as follows:								
Assets at cost	268 874	107 964	157 125	85 258	32 020	52 990	4 444	708 675
Accumulated depreciation and impairment	(41 696)	(55 039)	(78 978)	(44 392)	(16 753)	(24 118)	(3 017)	(263 993)
Carrying value	227 178	52 925	78 147	40 866	15 267	28 872	1 427	444 682

** Includes assets used to settle the acquisition of subsidiary R577 000.*

	COMPANY							
	Land and buildings							
	Freehold R'000	Leasehold improvements R'000	Plant and machinery R'000	Information technology equipment R'000	Motor vehicles, heavy duty trucks and trailers R'000	Furniture and fittings R'000	Marks, names and signage R'000	Total R'000
4. PROPERTY, PLANT AND EQUIPMENT CONTINUED								
2016								
Balance at beginning of year	**152 211**	**25 627**	**76 600**	**26 249**	**13 437**	**10 664**	**1 375**	**306 163**
Current year movements								
– Additions	**16 888**	**9 415**	**9 525**	**5 725**	**5 058**	**3 605**	**304**	**50 520**
– Disposals	**(391)**		**(788)**	**(531)**	**(112)**	**(146)**	**(2)**	**(1 970)**
– Depreciation	**(5 993)**	**(10 212)**	**(10 365)**	**(6 081)**	**(2 837)**	**(1 732)**	**(638)**	**(37 858)**
Balance at end of year	**162 715**	**24 830**	**74 972**	**25 362**	**15 546**	**12 391**	**1 039**	**316 855**
Made up as follows:								
Assets at cost	**196 028**	**68 267**	**160 703**	**64 225**	**32 601**	**28 312**	**2 960**	**553 096**
Accumulated depreciation and impairment	**(33 313)**	**(43 437)**	**(85 731)**	**(38 863)**	**(17 055)**	**(15 921)**	**(1 920)**	**(236 240)**
Carrying value	**162 715**	**24 830**	**74 972**	**25 362**	**15 546**	**12 391**	**(1 039)**	**316 855**
2015								
Balance at beginning of year	147 744	19 915	78 872	22 758	11 034	10 128	1 418	291 869
Current year movements								
Additions	9 992	12 816	8 388	9 522	4 843	2 152	571	48 284
– Disposals	–	–	(50)	(246)	(38)	–	–	(334)
– Depreciation	(5 525)	(7 104)	(10 610)	(5 785)	(2 402)	(1 616)	(614)	(33 656)
Balance at end of year	152 211	25 627	76 600	26 249	13 437	10 664	1 375	306 163
Made up as follows:								
Assets at cost	182 976	64 163	152 594	59 134	28 376	25 153	4 229	516 625
Accumulated depreciation and impairment	(30 765)	(38 536)	(75 994)	(32 885)	(14 939)	(14 489)	(2 854)	(210 462)
Carrying value	152 211	25 627	76 600	26 249	13 437	10 664	1 375	306 163

A register containing the information required by of the Companies Act is available for inspection at the registered office of the Company.

The Company and the Group lease information technology equipment with a carrying value of R1 050 000 (2015: R1 316 000). The leased equipment secures the lease liability reflected in note 19.

		GROUP		COMPANY	
		2016	2015	**2016**	2015
		R'000	R'000	**R'000**	R'000
5.	**GOODWILL**				
	Acquired on acquisition of TAB North West Pty Ltd	**3 126**	3 126		
	Acquired on acquisition of the non-controlling shareholders interest in Phumelela Gold International Limited	**186**	186		
	Acquired on restructure of Phumelela Gold Enterprises international	**135**	135		
	Acquired on acquisition of Betting World Pty Ltd	**8 915**	8 915		
	Acquired on acquisition of Afribet Pty Ltd	**2 844**			
	Balance at end of year	**15 206**	12 362		
	The impairment review process for goodwill is set out in note 6.1				
6.	**INTANGIBLE ASSETS**				
	Intangible assets				
	Indefinite useful life intangible assets (note 6.1)	**29 343**	28 716		
	Computer software (note 6.2)	**22 112**	23 388	**1 820**	1 930
		51 455	52 104	**1 820**	1 930
6.1	**Indefinite useful life intangible assets**				
	Betting licences	**29 343**	28 716		
	Cost				
	Balance at beginning of year	**28 716**	25 340		
	Settlement on acquisition of subsidiary	**(474)**			
	Acquisition of licence		3 376		
	Business combination	**1 101**			
	Balance at end of year	**29 343**	28 716		

Betting licences

Assessment of the Group's indefinite useful life of betting licences

The group has classified the betting licences as having indefinite useful lives. This conclusion is supported by the following factors:

- the Group is able to use the licences for the foreseeable future and there are no historic indicators that suggest otherwise; and
- there have been no indicators of impairment during the year.

Impairment tests for intangible assets with indefinite useful lives and goodwill.

Detailed impairment testing is performed for indefinite life intangible assets and goodwill annually and for all other intangible assets whenever impairment indicators are present.

The impairment review process is as follows:
For indefinite useful life intangible assets, each year and whenever impairment indicators are present, the recoverable amount of the asset is calculated and record an impairment loss for the excess of the carrying value over the recoverable amount, if any. The value-in-use calculation is generally measured as the net present value of projected cash flows. In addition, a re-evaluation of the remaining useful life of the asset is performed to determine whether continuing to characterise the asset as having an indefinite life is appropriate.

The discount rate used to present value these cash flows takes systematic risks into account and is a market risk-free rate of interest.

6. INTANGIBLE ASSETS CONTINUED

6.1 Indefinite useful life intangible assets continued

Key assumptions used in the value-in-use calculations

Growth in earnings before interest and tax	Determined from financial budgets for the ensuing year approved by management and forecasts increasing by 5% per annum for five years.
Taxation	Taxation has been forecast at 28% for the current period which is consistent with current income tax rates applicable to companies in South Africa. The nature of operations does not result in significant permanent or temporary differences, which would not cause the effective taxation rate to differ significantly from the statutory rate.
Capital expenditure	Capital expenditure on financial budgets and management forecasts.
Working capital movements	Working capital movements have been forecast on the ratio of working capital employed to revenue.
Weighted average cost of capital	17,5% (2015: 17,5%)
Cost of equity	
– Risk-free rate	8,65% – R186 at 31 July 2016 (8,25% – R186 at 31 July 2015)
– Beta of peer company	0,82 – average beta of a company exposed to normal systemic risk is 1
– South African market premium	6% – generally accepted in South Africa
Cost of debt	
– Lending rate specific to the Company	9% (2015: 8%)
– Tax rate	28% – per current tax legislation
Target debt:equity	25:75

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
6.2 Computer software				
Cost				
Balance at beginning of year	**26 994**	24 850	**2 198**	783
Settlement on acquisition of subsidiary	**(451)**			
Capitalised during the year	**2 213**	2 144	**403**	1 415
Balance at end of year	**28 756**	26 994	**2 601**	2 198
Accumulated amortisation				
Balance at beginning of year	**(3 606)**	(1 517)	**(268)**	(93)
Amortisation charge	**(3 038)**	(2 089)	**(514)**	(175)
Balance at end of year	**(6 644)**	(3 606)	**(782)**	(268)
Carrying amount	**22 112**	23 388	**1 820**	1 930

	COMPANY	
	2016	2015
	R'000	R'000
7. INVESTMENT IN SUBSIDIARIES		
Subsidiaries	**96 613**	96 613

Details of investments in subsidiaries are disclosed on page 125.

	GROUP		COMPANY	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES				
Premier Gateway International Limited (note 8.1)	**38 567**	17 188		
Premier Gateway Services Limited (note 8.2)	**2 675**	2 119		
SW Security Solutions (note 8.3)	**3 316**	1 914	**1 056**	1 056
Uptonvale Services Proprietary Limited (note 8.4)	**30 902**	30 511	**31 000**	31 000
	75 460	51 732	**32 056**	32 056
Movement				
Balance at beginning of year	**51 732**	34 954	**32 056**	1 056
Acquisitions		30 800		31 000
Profit for the year	**94 694**	47 060		
Dividends	**(70 966)**	(52 537)		
Impairment		(8 545)		
Balance at end of year	**75 460**	51 732	**32 056**	32 056

	GROUP	
	2016	2015
	R'000	R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED		
8.1 Premier Gateway International Limited		
Shareholding 50% (2015: 50%)		
Company licensed to conduct pari-mutuel betting on the Isle of Man and is jointly owned with Tabcorp Holdings Limited (Australia).		
PGI is a replica of the tote betting facilities in South Africa and operates as a worldwide totalisator hub.		
Balance at beginning of year		
– at cost	**1**	1
Share of post-acquisition reserves	**38 566**	17 187
– balance at beginning of year	**17 187**	22 511
– share of current years income after taxation	**86 893**	44 784
– *less:* dividend received	**(65 514)**	(50 108)
Balance at end of year	**38 567**	17 188
Summarised financial information of Premier Gateway International Limited for the year ended 31 July		
Assets		
Non-current assets		
Property, plant and equipment		7
Current assets	**580 580**	413 074
Trade and other receivables	**51 736**	49 740
Owing by Group companies	**88 595**	97 526
Prepayments	**1 022**	1 006
Cash on hand	**439 227**	264 802
Total assets	**580 580**	413 081
Equity and liabilities		
Capital and reserves	**153 616**	115 229
Liabilities		
Non-current liabilities		
Shareholders' loan	**4 411**	4 724
Current liabilities		
Trade and other payables	**422 553**	293 128
Total equity and liabilities	**580 580**	413 081
Income	**11 080 719**	5 896 877
Expenditure	**(10 516 749)**	(5 534 765)
Profit for the year before finance income	**563 970**	362 112
Finance income	**1 403**	1 013
Profit for the year	**565 373**	363 125

The share of profits of the shareholders are determined as follows:
– 100% of profit originating from the shareholders home market
– 50% of profit from international markets.

Dividends paid to shareholders are based on the profits accruing to them, as a result the carrying value reflects the Group share of undistributed profits.

	GROUP 2016 R'000	2015 R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED		
8.2 Premier Gateway Services Limited		
Shareholding 50% (2015: 50%)		
Company logistical support for Premier Gateway International Limited on the Isle of Man and is jointly owned with Tabcorp Holdings Limited (Australia).		
Balance at beginning of the year		
– at cost including goodwill	**1**	1
Share of post-acquisition reserves	**2 674**	2 118
– balance at beginning of year	**2 118**	1 265
– share of current years income after taxation	**1 354**	853
– *less:* dividend received	**(798)**	
Balance at end of year	**2 675**	2 119
Summarised financial information of Premier Gateway International Limited for the year ended 31 July		
Assets		
Non-current assets		
Property, plant and equipment	**2 233**	3 789
Current assets	**9 060**	3 904
Trade and other receivables	**1 936**	371
Cash on hand	**7 124**	3 533
Total assets	**11 293**	7 693
Equity and liabilities		
Capital and reserves	**6 312**	5 199
Liabilities		
Current liabilities	**4 981**	2 494
Trade and other payables	**4 981**	2 093
Amounts owed by Group companies		401
Total equity and liabilities	**11 293**	7 693
Income	**48 781**	34 663
Expenditure	**(43 712)**	(30 837)
Depreciation	**(2 360)**	(2 120)
Profit for the year	**2 709**	1 706

The carrying value reflects the Group's share of undistributed profits.

	GROUP		COMPANY	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED				
8.3 SW Security Solutions (Comprising SW Security Solutions SA Proprietary Limited and SW Security Solutions Africa Limited) Shareholding 33% (2015: 33%)				
Company provides security solutions in South Africa and Africa.				
Balance at beginning of the year – at cost including goodwill	**1 056**	1 056	**1 056**	1 056
Share of post-acquisition reserves	**2 260**	858		
– balance at beginning of year	**858**	474		
– share of current years income after taxation	**1 402**	733		
– *less:* dividend received		(349)		
Balance at end of year	**3 316**	1 914	**1 056**	1 056
Summarised financial information of SW Security Solutions for the year ended 31 July				
Assets				
Non-current assets	**918**	1 299		
Property, plant and equipment	**483**	1 168		
Long-term loan	**50**			
Deferred tax asset	**269**			
Goodwill	**116**	131		
Current assets	**10 073**	5 249		
Trade and other receivables	**4 588**	1 825		
Cash on hand	**5 485**	3 424		
Total assets	**10 991**	6 548		
Equity and liabilities				
Capital and reserves	**6 624**	2 377		
Liabilities				
Non-current liabilities				
Long-term loan from holding company	**566**			
Current liabilities	**3 801**	4 171		
Trade and other payables	**2 579**	3 605		
Finance lease liability	**375**			
Income tax payable	**642**			
Loans from related parties	**205**	566		
Total equity and liabilities	**10 991**	6 548		
Revenue	**38 338**	10 891		
Interest received	**40**	27		
Total income	**38 378**	10 918		
Expenditure	**(30 593)**	(8 245)		
Depreciation	**(251)**	(163)		
Profit before income interest expense	**7 534**	2 510		
Finance cost	**(46)**	(18)		
Profit before income tax expense	**7 488**	2 492		
Income tax expense	**(3 241)**	(271)		
Profit for the year	**4 247**	2 221		
The carrying value of the associate can be reconciled to the share capital as follows:				
Share of capital and reserves	**2 260**	858		
Goodwill	**1 056**	1 056		
Carrying value	**3 316**	1 914		

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED				
8.4 Uptonvale Services Proprietary Limited				
Uptonvale Proprietary Limited trading as Interbet effective 1 November 2014, provides a secure online betting exchange				
Shareholding 26% (2015: 26%)				
Balance at beginning of the year				
– at cost including goodwill	31 000	31 000	31 000	31 000
Share of post-acquisition reserves	(98)	(489)		
Retained income brought forward	(489)			
– share of current years income after taxation	5 045	1 591		
– *less:* dividend received	(4 654)	(2 080)		
Balance at end of year	**30 902**	30 511	**31 000**	31 000
Summarised financial information of Uptonvale Proprietary Limited for the year ended 31 July				
Assets				
Non-current assets	8 637	10 984		
Property, plant and equipment	837	3 184		
Goodwill	4 870	4 870		
Intangible assets	2 930	2 930		
Current assets	22 404	18 595		
Trade and other receivables	4 678	5 750		
Income tax receivable		1 494		
Cash on hand	17 726	11 351		
Total assets	31 041	29 579		
Equity and liabilities				
Capital and reserves	22 806	21 303		
Liabilities				
Current liabilities	8 235	8 276		
Trade and other payables	7 015	5 880		
Income tax liability	783			
Loans from related parties	437	2 396		
Total equity and liabilities	31 041	29 579		
Revenue for services	51 134	27 078		
Interest received	1 020	392		
Income	52 154	27 470		
Expenditure	(21 294)	(13 918)		
Depreciation	(3 087)	(4 171)		

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED				
8.4 Uptonvale Services Proprietary Limited continued				
Profit before income tax expense	**27 773**	9 381		
Income tax expense	**8 370**	(3 261)		
Profit for the year	**19 403**	6 120		
The carrying value is reconciled as follows:				
Share capital and reserves	**5 930**	5 539		
Intangible assets	**2 450**	2 450		
Deferred tax	**(686)**	(686)		
Goodwill	**23 208**	23 208		
	30 902	30 511		
9. INVESTMENTS				
Unlisted investments	**692**	695	**692**	695
Investment in Horseracing South Africa Proprietary Limited				
– At cost*				
– Loan to company (measured at amortised cost)				
– Balance at beginning of the year	**692**	1 161	**692**	1 161
– Amount repaid		(469)		(469)
Total unlisted investments at end of year	**692**	692	**692**	692
Directors' valuation	**692**	692	**692**	692
2PU France				
At cost	**3**	3	**3**	3
Disposed of	**(3)**		**(3)**	
		3		3
Directors' valuation		3		3

** Less than R1 000.*

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
10. LONG-TERM SECURED LOANS				
Balance at beginning of year	**10 603**	19 929	**10 603**	19 929
Amounts advanced during the year	**77 515**	10 127	**77 515**	10 127
Amounts repaid during the year	**(66 270)**	(20 454)	**(66 270)**	(20 454)
Interest charged	**2 942**	1 001	**2 942**	1 001
	24 790	10 603	**24 790**	10 603
Kenilworth Racing Proprietary Limited				
Balance at beginning of year		19 929		19 929
Amounts advanced during the year	**77 515**		**77 515**	
Amounts repaid during the year	**(66 270)**	(20 454)	**(66 270)**	(20 454)
Interest charged	**1 826**	525	**1 826**	525
Balance at end of year	**13 071**		**13 071**	
The advance bears interest at the rate of prime minus 1% and is secured by means of a first mortgage bond registered over Kenilworth Racing Proprietary Limited Milnerton property in the amount of R60 million.				
Mashonaland Turf Club				
Balance at beginning of year	**10 603**		**10 603**	
Amounts advanced during the year		10 127		10 127
Interest charged	**1 116**	476	**1 116**	476
Balance at end of year	**11 719**	10 603	**11 719**	10 603
The advance bears interest at the rate of prime minus 1% and is secured by means of a second mortgage bond registered over Stand 19206, Harare Township and a bank guarantee in the amount of US$2 million (R27 780 000).				

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
11. DEFERRED TAXATION				
Deferred tax asset	**8 949**	2 910	**3 682**	
Deferred tax liability	**(1 531)**	(4 652)		(2 135)
Balance at end of year	**7 418**	(1 742)	**3 682**	(2 135)
Deferred tax				
The deferred tax asset/(liability) arises as a result of:				
Property, plant and equipment	**(4 985)**	(5 531)	**(3 989)**	(2 966)
Provisions and accruals	**8 865**	1 165	**7 317**	628
Lease straight lining	**1 670**	1 730	**796**	866
Deferred revenue	**97**		**97**	
Tax losses	**2 309**	1 557		
Prepayments	**(538)**	(663)	**(538)**	(663)
	7 418	(1 742)	**3 682**	(2 135)
Deferred tax asset/(liability) raised				
Balance at beginning of year	**(1 742)**	4 010	**(2 135)**	2 834
(Charge)/credit to income statement	**9 160**	(5 752)	**5 817**	(4 969)
Balance at end of year	**7 418**	(1 742)	**3 682**	(2 135)

Deferred tax has been provided at a rate of 28% other than for capital temporary differences where a rate of 22,4% (2015: 18,6%) has been applied.

	COMPANY 2016 R'000	COMPANY 2015 R'000
12. AMOUNTS OWING BY SUBSIDIARY COMPANIES		
12.1 Non-current assets		
Glenfiddich Investments Proprietary Limited	**269**	24
Hadrian Investments Proprietary Limited	**24**	24
Injector Investments Proprietary Limited	**24**	24
Shelanu Investments Proprietary Limited	**24**	24
Transvaal Racing Holdings Proprietary Limited	**2 480**	2 480
	2 821	2 576

Amounts owing by subsidiary companies bear no interest, have no fixed terms of repayment and are not expected to be settled within 12 months of the reporting date.

	COMPANY 2016 R'000	COMPANY 2015 R'000
12.2 Current assets		
Betting World Proprietary Limited		14 799
East Cape Racing Proprietary Limited	**68 364**	11 080
Rand Sporting Club Proprietary Limited	**8 167**	
Glenfiddich Investments Proprietary Limited		244
Tab North West Proprietary Limited	**4 430**	
Highveldt Training Centre Proprietary Limited	**605**	605
	81 566	26 728
Balance owing by subsidiary companies	**84 387**	29 304

The amounts owing by subsidiary companies bear no interest other than the loan to Betting World which attracts interest at the rate of 8%. The amounts receivable have no fixed terms of repayment.

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
13. INVENTORIES				
Consumable stores at cost	**1 260**	512	**369**	385
Digital satellite decoders	**660**	367	**660**	367
	1 920	879	**1 029**	752

Consumable stores are made up of fuel, betting vouchers, food and beverages stock on hand.

	GROUP		COMPANY	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
14. TRADE AND OTHER RECEIVABLES				
Trade receivables	**113 831**	71 767	**83 794**	79 987
Allowance for impairment	**(9 192)**	(7 180)	**(9 139)**	(7 166)
Trade receivables after impairment	**104 639**	64 587	**74 655**	72 821
Prepayments	**13 918**	9 198	**12 496**	7 775
Other receivables	**19 292**	27 027	**19 155**	18 756
	137 849	100 812	**106 306**	99 352
Trade receivables consist of non-interest-bearing receivables and are generally on 30 to 60-day terms. Where the service agreement includes a set-off arrangement, the set-off has been applied as follows:				
Gross amount receivable	**14 078**	11 983	**14 078**	11 813
Gross amount payable	**(59 324)**	(64 190)	**(59 324)**	(64 190)
Net amount receivable/(payable)	**(45 244)**	(52 207)	**(45 244)**	(52 377)
Included in:				
Trade and other receivables		2 544		2 544
Trade and other payable (note 21)	**(45 244)**	(54 751)	**(45 244)**	(54 921)
Net amount receivable/(payable)	**(45 244)**	(52 207)	**(45 244)**	(52 377)
Trade and other receivables include the following and foreign currency denominated monetary assets:				
South African rand thousands				
Australian dollar	**3 970**	4 464	**3 970**	4 464
British pound	**2 244**	9 842	**2 244**	9 842
Euro	**10 822**	6 174	**10 822**	6 174
Singapore dollar	**4 570**	2 929	**4 570**	2 929
United States dollar	**6 356**	3 573	**6 356**	3 573
	27 962	26 982	**27 962**	26 982
Foreign currency				
Australian dollar	**376 553**	481 826	**376 553**	481 826
British pound	**122 096**	500 005	**122 096**	500 005
Euro	**698 162**	443 071	**698 162**	443 071
Singapore dollar	**441 653**	317 601	**441 653**	317 601
United States dollar	**457 383**	283 140	**457 383**	283 140
Movements in the allowance for the impairment of trade and other receivables were as follows:				
Trade and other receivables individually impaired				
Allowance at beginning of year	**7 180**	7 669	**7 166**	7 655
Charged to profit and loss	**2 681**	643	**2 627**	643
Written back to profit and loss	**(394)**	(1 065)	**(394)**	(1 065)
Utilised during the year	**(275)**	(67)	**(261)**	(67)
Allowance at end of year	**9 192**	7 180	**9 138**	7 166

The factors considered in determining the individually impaired financial assets for the Group and Company included non-payment by the receivable for more than 120 days, cash flows from the receivables and market-related information gathered on the receivable, such as liquidations entered into.

The foreign currency amounts reflect the geographical make-up.

	Total R'000	Neither past due nor impaired: Current R'000	30 to 60 days R'000	Past due but not impaired: 30 to 60-days past due R'000	>90 days past due R'000
14. TRADE AND OTHER RECEIVABLES CONTINUED					
As at 31 July, the ageing of trade receivables is as follows:					
GROUP					
2016	**104 639**	**28 814**	**13 920**	**11 986**	**49 918**
2015	64 587	36 342	5 242	3 853	19 150
COMPANY					
2016	**74 655**	**25 039**	**10 858**	**6 510**	**32 249**
2015	72 821	36 258	7 062	3 866	25 635

The impairment allowance at 31 July relates to receivables more than 60 days past due. The Group and the Company hold a bond over the Mashonaland Turf Club (Zimbabwe) to secure an amount of R13 896 000 (2015: R11 451 000) included in >90 days past due and not impaired (refer note 10).

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
15. ASSETS HELD FOR SALE				
Property, plant and equipment (refer note 15.1)	**18 700**	18 700		
Investments (refer note 15.2)	**9 924**	4 346	**9 924**	4 346
	28 624	23 046	**9 924**	4 346
15.1 Property, plant and equipment				
Balance at beginning of year	**18 700**			
Amount transferred from property, plant and equipment		12 368		
Amount transferred from inventories		6 332		
	18 700	18 700		

Approval to establish a residential housing estate consisting of 183 erven and business premises on a portion of the land held at Arlington Racecourse in Port Elizabeth was received from the local council on 22 November 2007. The Group's original intention was to unlock the potential value of the property and further enhance the horseracing venue. Following the change of intention in use of the portion of property to be developed, the value of the property and related costs was transferred from non-current assets (property, plant and equipment) to current assets (inventories construction work-in-progress). All subsequent expenditure related to progressing the development has been allocated to the cost of construction as work-in-progress. An independent valuation of the property was carried out in January 2008 with the valuator valuing the property at R38 million in its current state of development. The property is currently on the market for sale and current indications are the property will realise approximately R50 mllion (net of costs to sell the property).

Following the installation of a polytrack at Fairview, the Arlington racecourse was mothballed and put up for sale and the assets comprising this disposal group have been classified as assets held for sale.

	GROUP		COMPANY	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
15. ASSETS HELD FOR SALE CONTINUED				
15.2 Investments				
Balance at beginning of year	**4 346**		**4 346**	
Transferred from investment		4 346		4 346
Revaluation to market value	**5 578**		**5 578**	
Balance at end of year	**9 924**	4 346	**9 924**	4 346

The shares in Automatic Systems Limited are no longer considered strategic and the investment has been classified as assets held for sale. The investment is carried at the current market value. The Company owns 421 323 ordinary shares in Automatic System Limited, a company registered on the Mauritian Stock Exchange. The investment is categorised at level 1 in the fair value hierarchy as there is a market price readily available.

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
16. CASH AND CASH EQUIVALENTS				
Cash on cash management at bank and on hand	**51 828**	31 027	**27 735**	15 815
Short-term bank deposits	**60 847**	26 971	**58 480**	14 196
	112 675	57 998	**86 215**	30 011

Included in cash and cash equivalents are the following foreign currency denominated monetary assets:

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
South African rand thousands				
Australian dollar	**4 910**	3 817	**4 910**	3 817
British pound	**34 074**	13 592	**33 449**	831
Euro	**6 206**	4 361	**6 206**	4 361
Singapore dollar	**9 851**	3 554	**9 851**	3 554
Swedish Kroner	**753**	42	**753**	42
United States dollar	**1 382**	1 149	**1 382**	1 149
	57 176	26 515	**56 551**	13 754
Foreign currency				
Australian dollar	**465 738**	411 919	**465 738**	411 919
British pound	**1 853 890**	690 522	**1 819 905**	42 205
Euro	**400 400**	312 954	**400 400**	312 954
Singapore dollar	**951 811**	774 253	**951 811**	774 253
Swedish Kroner	**464 782**	28 672	**464 782**	28 672
United States dollar	**99 522**	91 058	**99 522**	91 058

Foreign currency translation rates applied at the reporting date as set out in note 2.

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
17. SHARE CAPITAL AND PREMIUM				
17.1 Share capital				
Authorised				
480 000 000 ordinary shares of 2,5 cents each	**12 000**	12 000	**12 000**	12 000
Issued				
77 101 885 ordinary shares of 2,5 cents each	**1 928**	1 928	**1 928**	1 928
Treasury shares				
2 566 400 (2015: 2 576 400) ordinary shares of 2,5 cents each repurchased	**(65)**	(65)		
Opening balance 2 576 000 (2014: 1 515 047) ordinary shares of 2,5 cents each repurchased	**(65)**	(38)		
Repurchased nil (2015: 2 200 618) ordinary shares of 2,5 cents each		(55)		
Issued 10 000 (2015: 1 139 265) ordinary shares of 2,5 cents	*	28		
	1 863	1 863	**1 928**	1 928
Share premium			**293**	293
Total share capital and premium after deducting treasury shares 74 535 485 (2015: 74 525 485) ordinary shares of 2,5 cents	**1 863**	1 863	**2 221**	2 221

** Less than R1 000.*

Rand Sporting Club Proprietary Limited holds 2 566 400 (2015: 2 576 400) ordinary shares at year end.

	Direct beneficial R'000	Indirect beneficial R'000	Total R'000	Percentage %
Directors' interests in share capital at 31 July 2016				
Non-executive directors				
B Kantor		**5 254 000**	**5 254 000**	**6,81**
MJ Jooste		**2 481 285**	**2 481 285**	**3,22**
CJH van Niekerk	**47 200**		**47 200**	**0,06**
JB Walters		**44 850**	**44 850**	**0,06**
Executive directors				
WA du Plessis		**2 805 658**	**2 805 658**	**3,64**
AW Heide	**172 238**		**172 238**	**0,22**
JA Stuart	**267 158**	**5 295**	**272 453**	**0,35**
	486 596	**10 591 088**	**11 077 684**	**14,37**

There has been no movement in the disclosed interests during the period 31 July 2016 to the date of signature of this report.

	Direct beneficial R'000	Indirect beneficial R'000	Total R'000	Percentage %
17. SHARE CAPITAL AND PREMIUM CONTINUED				
17.1 Share capital continued				
Directors interests in share capital at 31 July 2015				
Non-executive directors				
B Kantor		5 254 000	5 254 000	6,81
MJ Jooste		2 476 792	2 476 792	3,21
CJH van Niekerk	47 200		47 200	0,06
JB Walters		31 850	31 850	0,04
Executive directors				
WA du Plessis		2 805 658	2 805 658	3,65
AW Heide	172 238		172 238	0,55
JA Stuart	267 158		267 158	0,35
	486 596	10 568 300	11 054 896	14,67

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
17.2 Translation reserves				
Foreign currency translation reserve arising on consolidation of the interests held in Phumelela Gold International Limited	**(442)**	137		

18. RETIREMENT BENEFIT INFORMATION

The Group has the following defined benefit and defined contribution funds registered under and governed by the Pension Funds Act, 1956 as amended.

18.1 Defined benefit funds

Central Management Company (Sporting Clubs) Cusada Pension Plan

Totalisator Agency Board (Transvaal) Pension Plan

Newmarket Pension Fund

The above funds were inherited by the Company as part of the corporatisation process and effectively transferred as closed funds to the Company on 1 April 1999.

New employees have the option of joining either of the Phumelela defined contribution provident or pension funds.

The most recent actuarial valuations performed at 31 July 2016 on the above funds showed that these funds are adequately funded.

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
Pension fund surplus				
Balance at beginning of year	**7 075**	973	**7 075**	973
Recognition of employers surplus in benefit funds	**1 108**	6 102	**1 108**	6 102
Balance at end of year	**8 183**	7 075	**8 183**	7 075

Applications for surplus distribution in terms of the Pension Funds Act have been approved by the Financial Services Board. The surplus apportionment in respect of the Central Management Company Crusada (Sporting Clubs) Pension Fund was approved on 22 December 2009. In terms of the scheme R1 568 000 was allocated to the employer. It is the intention of the employer to utilise a portion of the surplus to fund any shortfall in the funds. R595 000 for post-retirement pension top-up benefits in respect of the Newmarket Pension Fund was approved by Financial Services Board and this was paid.

18. RETIREMENT BENEFIT INFORMATION CONTINUED

18.1 Defined benefit funds continued

The funded status of the defined benefit funds is as follows:

	GROUP AND COMPANY			
	Central Management Company (Sporting Clubs) Cusada Pension Plan	Totalisator Agency Board (Transvaal) Pension Plan	Newmarket Pension Fund	Total
2016				
Fair value of assets	**14 301**	**28 543**	**1 828**	**44 672**
Benefit obligations	**9 120**	**24 741**	**2 628**	**36 489**
Funded benefit plan assets	**5 181**	**3 802**	**(800)**	**8 183**
2015				
Fair value of assets	14 975	29 209	2 049	46 233
Benefit obligations	9 742	26 457	2 959	39 158
Funded benefit plan assets	5 233	2 752	(910)	7 075

	Central Management Company (Sporting Clubs) Cusada Pension Plan		Totalisator Agency Board (Transvaal) Pension Plan		Newmarket Pension Fund	
	2016	2015	**2016**	2015	**2016**	2015
The funds are actuarially valued on an annual basis and were last valued on 31 July 2015.						
The following main assumptions were made by the actuary:						
Discount rate (per annum compound)	**9,2%**	8,8%	**9,2%**	8,8%	**9,2%**	8,8%
Price inflation (per annum compound)	**4,8%**	4,1%	**1,9%**	1,8%	**6,7%**	6,5%
Pensioner mortality	**PA90**	PA90	**PA90**	PA90	**PA90**	PA90
Membership at date of valuation						
Pensioners	**19**	21	**34**	35	**10**	11

Actuary note: Since the decision was taken to outsource the pensioners and close the fund, the liabilities in respect of the pensioners were not determined based on the assumptions but it was based on the quotation received from the Insurer on the basis of 100% CPI increases in line with the pension increase policy of the fund.

18. RETIREMENT BENEFIT INFORMATION CONTINUED

18.2 Defined contribution funds

New employees have the option of joining either of the Phumelela defined contribution provident or pension funds.

	Members at 31 July	Employer contributions R'000
2016		
Phumelela Pension Fund	**132**	**1 254**
Phumelela Provident Fund	**1 370**	**10 715**
TAB Provident Fund	**31**	**191**
Saccawu National Provident Fund	**5**	**57**
T&G Provident Fund		**9**
	1 538	**12 226**
2015		
Phumelela Pension Fund	132	889
Phumelela Provident Fund	1 384	9 987
TAB Provident Fund	34	199
Saccawu National Provident Fund	5	69
T&G Provident Fund	3	20
	1 558	11 164

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
19. FINANCIAL LEASE LIABILITY				
Opening balance	**1 045**	1 014	**1 045**	1 014
Leases taken out during the year		505		505
Payment made	**(557)**	(474)	**(557)**	(474)
Balance at end of year	**488**	1 045	**488**	1 045
Non-current liability	**63**	488	**63**	488
Current liability included in trade and other payables.	**426**	557	**426**	557
	488	1 045	**488**	1 045

The liabilities are secured through information technology equipment with a net book value of R1 050 000 (2015: R1 316 000). The liability is repayable over 36 months at the rate of R51 560 per month with interest rates varying between 7,9% and 8,5%.

	GROUP AND COMPANY		
	Future minimum lease payment R'000	Interest R'000	Present value of lease payments R'000
19. FINANCIAL LEASE LIABILITY CONTINUED			
2016			
Less than one year	**444**	**19**	**426**
Two to five years	**64**	**1**	**63**
	508	**20**	**488**
2015			
Less than one year	618	61	557
Two to five years	508	20	488
	1 126	81	1 045

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
20. BORROWINGS				
Unsecured borrowings				
Non-current				
Term loan	**2 895**	4 595		
Revolving credit facility	**60 000**	45 000	**60 000**	45 000
	62 895	49 595	**60 000**	45 000
Current liability				
Non-controlling shareholders' loans	**526**			
Term loan	**2 400**	2 400		
Short-term borrowing	**2 926**	2 400		
Bank overdraft	**35 005**	11 537	**35 005**	11 537
	37 931	13 937	**35 005**	11 537

The Company has received an unsecured revolving credit facility from a local bank in the amount of R120 million (2015: R60 million) which is redeemable in full in June 2019 at an interest rate of JIBAR plus 260 basis points and has utilised R60 million (2015: R45 million) of the facility. The Company has also received facilities from a local bank in the amount of R55 million which is a demand facility at the rate of prime minus 1%. A subsidiary has a term loan which is unsecured, bears interest at 0,75% below prime and is repayable in monthly instalments of R200 000.

	GROUP		COMPANY	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
21. TRADE AND OTHER PAYABLES				
Trade payables	**130 246**	137 200	**106 828**	132 469
Accruals – staff costs	**48 450**	20 622	**40 680**	17 861
Accruals – other	**68 510**	26 389	**57 100**	22 953
Betting taxes	**3 932**	3 149	**3 081**	2 959
Financial leases current liability	**426**	557	**426**	557
Other payables	**58 531**	61 790	**51 949**	42 765
	310 095	249 707	**260 064**	219 564
Trade payables are non-interest-bearing and are normally settled between 30 and 60 days.				
Other payables are non-interest-bearing and have an average term of three months.				
Where the service agreement includes a set-off arrangement the set-off has been applied as follows:				
Gross amount receivable	**14 078**	11 983	**14 078**	11 813
Gross amount payable	**(59 324)**	(64 190)	**(59 324)**	(64 190)
Net amount receivable/(payable)	**(45 244)**	(52 207)	**(45 244)**	(52 377)
Included in:				
Trade and other receivables (note 14)		2 544		2 544
Trade and other payable	**(45 244)**	(54 751)	**(45 244)**	(54 921)
Net amount receivable/(payable)	**(45 244)**	(52 207)	**(45 244)**	(52 377)
Trade and other payables include the following geographical and foreign currency denominated liabilities:				
South African rand thousands				
Australian dollar	**1 845**	1 521	**1 845**	1 449
British pound	**4 399**	3 322	**4 348**	3 232
Euro	**2 142**	3 277	**2 142**	3 277
Singapore dollar	**3 561**	3 295	**3 561**	3 295
Swedish krona	**1 357**	1 165	**1 357**	1 165
United States dollar	**13 411**	7 894	**13 411**	7 435
	26 715	20 474	**26 664**	19 853
Foreign currency				
Australian dollar	**175 039**	164 156	**175 039**	156 345
British pound	**239 344**	168 761	**236 584**	164 195
Euro	**138 190**	235 157	**138 190**	235 157
Singapore dollar	**344 036**	357 218	**344 036**	357 218
Swedish krona	**837 407**	792 519	**837 407**	792 519
United States dollar	**965 490**	625 538	**965 490**	589 195

	COMPANY	
	2016	2015
	R'000	R'000
22. AMOUNTS OWING TO SUBSIDIARY COMPANIES		
Highveld Racing Authority Technical Services Proprietary Limited	**8 799**	8 799
Rand Sporting Club Proprietary Limited		19 832
TAB North West Proprietary Limited		45 562
Tote Property Investments Proprietary Limited	**165**	4 338
Highveldt Training Centre Proprietary Limited	**277**	277
Silks Gaming and Leisure Proprietary Limited	**9**	22
	9 250	78 830

The amounts owing to subsidiary companies bear no interest and have no fixed terms of repayment.

	GROUP		COMPANY	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
23. CONTINGENT CONSIDERATION LIABILTY				
Contingent consideration	**707**	707	**707**	707
The purchase consideration in respect of SW Security Solutions SA of R1 056 000 is payable in terms of a cession to future dividends to the seller to the amount of the purchase consideration. During the prior year a dividend of R349 000 was declared and paid leaving the balance owing.				
24. INCOME				
Revenue comprises:				
Gross betting income (note 25)	**1 198 796**	1 044 329	**815 850**	784 612
International division				
– Derived from international ventures	**273 840**	198 761	**273 840**	198 761
Proportionate share of Tellytrack Partnership				
– Derived from local operations	**22 830**	21 021	**28 857**	26 562
Interest received	**4 791**	1 737	**4 637**	2 645
Dividends received	**540**	357	**234 822**	46 285
	1 500 797	1 266 205	**1 358 006**	1 058 865
25. GROSS BETTING INCOME				
Bets struck net of betting dividends paid, refunds and rebates				
– South Africa – totalisator	**882 864**	850 819	**815 850**	784 612
– South Africa – fixed odds	**315 932**	193 510		
	1 198 796	1 044 329	**815 850**	784 612
26. NET BETTING INCOME				
Net betting income derived from bets struck:				
– South Africa – totalisator	**702 476**	678 922	**647 512**	624 621
– South Africa – fixed odds	**263 075**	161 584		
	965 551	840 506	**647 512**	624 621

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
27. PROFIT FROM OPERATIONS				
The operating profit is stated after:				
27.1 Income				
Dividends received				
– Unlisted investments			**234 282**	45 928
– Listed investments	**540**	357	**540**	357
Interest received	**4 791**	1 737	**4 637**	2 645
– Interest received on loans	**3 044**	1 461	**3 044**	1 461
– Interest received from banks	**1 747**	276	**570**	
– Interest received from subsidiaries			**1 023**	1 184
Share-based payment reversed		3 230		3 230
Gambling Board levies received	**66 856**	60 678	**66 856**	60 678
Unclaimed dividends and breakages	**30 020**	31 404	**27 794**	28 647
Profit on disposal of property, plant and equipment		315		967
Profit on foreign exchange	**8 226**	18 540	**7 423**	11 885
27.2 Expenses				
Auditors' remuneration	**3 038**	2 596	**1 993**	1 120
Depreciation	**58 433**	47 676	**37 858**	33 656
– Buildings	**8 869**	8 403	**5 993**	5 525
– Plant and machinery	**10 846**	10 914	**10 365**	10 610
– Information technology equipment and software	**12 110**	9 263	**6 081**	5 785
– Motor vehicles, heavy duty trucks and trailers	**3 158**	2 490	**2 837**	2 402
– Furniture and fittings	**4 636**	3 438	**1 732**	1 616
– Marks and signs	**674**	637	**638**	614
On leasehold				
– fittings and improvements	**18 140**	12 531	**10 212**	7 104
Amortisation on intangible assets	**3 038**	2 149	**514**	175
Agents' commission	**38 087**	22 943	**35 895**	20 934
– Horseracing	**24 065**	13 656	**23 336**	13 156
– Other sports	**14 022**	9 287	**12 559**	7 778
Operating lease expenses	**74 020**	58 775	**46 321**	41 108
– Office equipment	**6 679**	4 142	**3 156**	2 321
– Premises	**67 342**	54 633	**43 165**	38 787
Employee costs (permanent and part-time)	**380 809**	293 532	**285 676**	222 540
– Salaries and wages	**356 392**	273 173	**269 122**	206 485
– Retirement benefits	**18 113**	16 282	**11 726**	12 063
– Social security	**6 304**	4 077	**4 829**	3 992
Share-based payment expense	**14 000**		**14 000**	
Loss on disposal of property, plant and equipment	**916**		**38**	

	GROUP		COMPANY	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000

28. FINANCE COSTS

Interest paid	**9 368**	5 828	**9 237**	5 214
Interest paid on overdraft	**1 717**	986	**1 586**	985
Interest paid on borrowings	**5 227**	2 629	**5 227**	1 879
Interest paid other	**2 424**	2 213	**2 424**	2 350

29. INCOME TAX EXPENSE

Tax charge	**22 072**	13 961	**2 131**	7 866
Current year	**24 335**	13 961	**2 131**	7 866
Prior year adjustment	**(2 263)**			
Deferred	**(9 160)**	5 752	**(5 817)**	4 969
Current year	**(7 817)**	5 752	**(5 389)**	4 969
Prior year	**(310)**			
Rate change	**(1 033)**		**(428)**	
Total tax charge	**12 912**	19 713	**(3 686)**	12 835
Taxation reconciliation				
South African normal taxation at standard rate 28%	**37 521**	27 786	**58 193**	24 667
Adjusted for:				
Share of profit of equity-accounted investee	**(26 514)**	(13 177)		
Prior year over provision	**(2 263)**			
Deferred tax asset rate change	**(1 033)**		**(428)**	
Deferred tax asset prior year adjustment	**(310)**			
Tax rate difference – foreign subsidiary	**(168)**			
Deferred tax on revaluation of investment		1 053		1 199
Reduced tax rate for capital gain tax	**(312)**		**(312)**	
Exempt dividend income	**(151)**	(980)	**(65 750)**	(13 840)
Share-based payment expenses	**3 920**		**3 920**	
Depreciation on capital expenditure not deductible	**1 938**		**422**	
Disallowable expenses	**286**	5 031	**269**	809
Taxation in the current year	**12 912**	19 713	**(3 686)**	12 835
Estimated tax losses available for utilisation against future taxable income	**8 245**	5 558		
Applied to increase deferred tax asset	**(8 245)**	(5 558)		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2016

	COMPANY 2016 R'000	2015 R'000
30. DIRECTORS' EMOLUMENTS		
Non-executive directors		
Fees as directors		
MP Malungani	**370**	350
R Cooper	**148**	140
BP Finch	**111**	
MJ Jooste*	**148**	140
B Kantor	**148**	140
SKC Khampepe	**148**	105
NJ Mboweni	**111**	140
E Nkosi	**148**	140
CJH van Niekerk	**148**	140
JB Walters	**148**	105
Other services*		
MP Malungani	**42**	20
R Cooper	**253**	238
BP Finch	**32**	
MJ Jooste	**21**	40
B Kantor	**42**	60
NJ Mboweni	**95**	90
CJH van Niekerk	**106**	100
JB Walters	**138**	150
	2 357	2 098
Executive directors		
Fees for management services		
WA du Plessis**	**4 320**	7 667
Basic salary	**4 217**	4 283
Retirement, medical, accident and health benefits	**103**	799
Bonuses and performance-related payments		2 585
AW Heide	**2 411**	2 766
Basic salary	**2 007**	1 748
Retirement, medical, accident and health benefits	**247**	218
Bonuses and performance-related payments	**157**	800
VJ Moodley	**2 644**	2 606
Basic salary	**2 265**	1 627
Retirement, medical, accident and health benefits	**235**	179
Bonuses and performance-related payments	**144**	800
ML Ramafalo	**1 686**	2 090
Basic salary	**1 550**	1 462
Retirement, medical, accident and health benefits	**136**	128
Bonuses and performance-related payments		500
JA Stuart	**2 247**	2 677
Basic salary	**1 866**	1 600
Retirement, medical, accident and health benefits	**237**	227
Bonuses and performance-related payments	**144**	850
Total executive emoluments paid	**13 308**	17 806

* *Fees paid to Steinhoff International Holdings Limited as management and administration fees.*

** *Other services include attending Audit, Social and Ethics and Remuneration and Nomination Committee meetings, strategy sessions and ad hoc meetings as required.*

*** *Fees paid to WA du Plessis amounting to £327 940 (R5 866 564) were paid by Phumelela Gold International Limited in the prior year.*

	COMPANY 2016 R'000	2015 R'000
30. DIRECTORS' EMOLUMENTS CONTINUED		
Current year share-based payment expense allocated as follows:		
WA du Plessis	**2 033**	436
AW Heide	**1 626**	(370)
VJ Moodley	**1 703**	(349)
ML Ramafalo	**1 218**	(308)
JA Stuart	**1 544**	(349)
Total executive director share-based payment costs	**8 124**	(940)
Total directors' emoluments	**23 789**	18 964
Prescribed officers' emoluments		
CC Basel Racing Executive (formerly Sales and Marketing Executive)	**2 064**	2 456
Basic salary	**1 700**	1 588
Retirement, medical, accident and health benefits	**220**	218
Bonuses and performance-related payments	**144**	650
BK McLoughlin Chief Financial Officer	**1 612**	1 850
Basic salary	**1 333**	1 224
Retirement, medical, accident and health benefits	**167**	176
Bonuses and performance-related payments	**112**	450
Total executive emoluments paid	**3 676**	4 306
Current year share-based payment expense allocated as follows:		
CC Basel	**1 473**	(349)
BK McLoughlin	**856**	(278)
Total executive director share-based payment costs	**2 329**	(627)
Total prescribed officers	**6 005**	3 679
Total directors' and prescribed officers' emoluments	**29 794**	22 643
Paid by:		
The Company	**19 341**	22 301
A subsidiary		1 909
Share-based payment expense	**10 453**	(1 567)
Value of share options exercised during the year		
Total directors' and prescribed officers' emoluments	**29 794**	22 643

The criteria for qualification of a prescribed officer has been reviewed following the departure of one of the prescibed officers, the untimely death of another and a re-assignment of roles of the members of the Executive Committee. The result was a reduction in the prescribed officers from seven to two. This had the result of reducing the comparative amount on emoluments from R9 821 000 to the R4 306 000 reflected above and the share-based payment cost from a negative (R1 325 000) to the negative (R627 000) shown above.

There are no service contracts for non-executive directors, the Group Chief Executive Officer has a fixed-term contract. All other executive directors have service contracts terminable upon one months written notice from the director concerned.

		GROUP 2016 cents	GROUP 2015 cents
31.	**EARNINGS PER ORDINARY SHARE**		
	Basic earnings per share	**163,62**	105,98
	Diluted earnings per share	**155,01**	101,14
	Headline earnings per share	**164,51**	117,06
	Diluted headline earnings per share	**155,85**	111,72
		R'000	R'000
31.1	**Reconciliation of basic/diluted earnings to headline earnings**		
	Earnings attributable to ordinary shareholders for basic and diluted earnings per share	**121 944**	79 516
	Adjusted for:		
	Equity-accounted investee impairment		8 545
	Net loss/(profit) on disposal of property, plant and equipment	**916**	(315)
	Tax effect	**(257)**	88
	Headline earnings attributable to ordinary shareholders	**122 604**	87 834
		Number	Number
	Number of shares in issue after deducting treasury shares	**74 535 485**	74 525 485
	Weighted average number of ordinary shares in issue for basic and headline earnings per share	**74 528 006**	75 032 549
	Weighted average number of ordinary shares in issue for basic and headline earnings per share	**74 528 006**	75 032 549
	Potential dilutive impact of outstanding share options	**4 141 664**	3 584 136
	Number of outstanding options	**8 870 000**	11 255 000
	Number of options deemed to be issued at fair value or not vesting	**(4 728 336)**	(7 670 864)
	Weighted average number of ordinary shares in issue for diluted basic and diluted headline earnings per share	**78 669 669**	78 616 685
		cents	cents
31.2	**Dividends per ordinary share**		
	Final dividend declared to shareholders recorded in the register on 30 October 2015 (2015: 31 October 2014) and paid on 2 Novemebr 2015 (2015: 3 November 2014)*	**60,00**	60,00
	Interim dividend declared to shareholders recorded in the register on 20 May 2016 (2015: 22 May 2015) and paid on 23 May 2016 (2015: 23 May 2015)*	**34,00**	28,00
		94,00	88,00

** The final and interim dividends were 51,00 (2015: 51,00) and 28,90 (2015: 23,80) cents per share respectively net of the dividend withholding tax at a rate of 15%.*

On 7 October 2016 the Board declared gross cash dividend from income reserves of 70,0 cents per share (59,50 cents per share net of dividend withholding tax at a rate of 15%) payable to shareholders recorded in the register on Friday, 4 November 2016.

31. EARNINGS PER ORDINARY SHARE CONTINUED

31.3 Definitions

Net asset value per share:	Equity attributable to oridinary shareholders divided by the number of shares in issue after deducting the treasury shares.
Earnings per share:	Profit attributable to oridinary shareholders divided by the number of shares in issue after deducting the treasury shares.
Diluted earnings per share:	Profit attributable to oridinary shareholders divided by the weighted average number of ordinary shares in issue for diluted basic and headline earnings per share.
Headline earnings per share:	Headline earnings attributable to oridinary shareholders divided by the weighted average number of ordinary shares in issue for basic and headline earnings per share.
Diluted headline earnings per share:	Diluted headline earnings attributable to oridinary shareholders divided by the weighted average number of ordinary shares in issue for basic and diluted headline earnings per share.

32. SHARE OF JOINTLY CONTROLLED OPERATION

Tellytrack Partnership ("Tellytrack")

The Tellytrack Partnership is a joint operation between the Company, Gold Circle Proprietary Limited and Kenilworth Racing Proprietary Limited. Pursuant to the agreements concluded between the parties Tellytrack has the right to exploit the joint commercial interests and intellectual property in respect of South African race meetings within the confines of South Africa, Namibia and Zimbabwe. The decision making and partnership agreement determines that the partnership is a jointly controlled operation. In terms of the joint control agreement, the Companys' share of the partnership income and expenditure for the year is 61% (2015: 61%).

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
ASSETS				
Non-current assets				
Property, plant and equipment	**2 012**	2 051	**2 012**	2 051
Current assets	**22 158**	14 790	**22 158**	14 790
Inventories	**176**	367	**176**	367
Trade and other receivables	**20 094**	10 557	**20 094**	10 557
Cash and cash equivalents	**1 888**	3 866	**1 888**	3 866
	24 170	16 841	**24 170**	16 841
CAPITAL AND RESERVES				
Partners accounts	**11 818**	9 898	**11 818**	9 898
LIABILITIES				
Current liabilities				
Trade and other payables	**12 352**	6 943	**12 352**	6 943
	24 170	16 841	**24 170**	16 841
CASH FLOW				
Cash flows from operating activities	**(126)**	(6 465)	**(126)**	(6 465)
Cash flows from investing activities	**(491)**	(335)	**(491)**	(335)
Cash flows from financing activities	**(1 361)**	6 564	**(1 361)**	6 564
Net (decrease)/increase in cash and cash equivalents	**(1 978)**	(235)	**(1 978)**	(235)
INCOME	**21 597**	20 021	**27 623**	26 579
Expenditure	**50 356**	46 816	**50 356**	46 816
Loss for the year	**(28 759)**	(26 794)	**(22 733)**	(20 236)

	GROUP		COMPANY	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
33. COMMITMENTS AND CONTINGENCIES				
33.1 Capital expenditure				
Commitments in respect of capital expenditure approved by directors				
– Contracted for	**4 261**	2 709	**4 261**	2 709
– Not contracted for	**164 953**	120 004	**110 071**	88 417
The above capital expenditure will be financed out of cash and cash equivalents generated by operations or borrowing facilities as and when required.				
33.2 Operating leases				
Commitments in respect of operating leases				
Office equipment	**3 517**	7 181	**3 517**	6 450
– Within one year	**3 517**	3 638	**3 517**	3 225
– Between two and five years		3 543		3 225
Leasehold properties	**98 519**	109 308	**46 323**	53 742
– Within one year	**47 020**	45 149	**25 274**	26 490
– Between two and five years	**46 943**	61 972	**21 049**	27 252
– More than five years	**4 556**	2 187		
	102 036	116 489	**49 839**	60 192

Operating lease commitments do not contain any abnormal terms and conditions.

33.3 Guarantees and surety issued

Guarantees in lieu of operating lease deposits amount to R939 231 (2015: R1 225 525) and are held by insurers and banks.

The Company has issued a surety in favour of a bank in order for the bank to issue guarantees in favour of the gambling boards in respect of the Betting World Proprietary Limited the amount of R1 650 000 (2015: R1 650 000).

The Company has stood surety in respect of the banking facilities of Kenilworth Racing Proprietary Limited in the amount of R30 million which is secured by means of a first bond over the Milnerton property owned by Kenilworth Racing Proprietary Limited in the amount of R60 million. At year end the utilisation of the facility amounted to R25 389 824 (2015: R24 234 901).

34. RELATED PARTIES

Related parties include shareholders of the Company, the subsidiary companies, joint venture and equity-accounted investees as well as senior employees and directors. During the year the Company entered into various transactions with related parties in the normal course of business.

Shareholders

Details of the shareholders are set out on page 126.

Details of the directors, shareholding and options are set out in note 17 and 35 respectively.

Treasury shares are set out in note 17.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 7 and on page 125.

Related party balances are disclosed in notes 12 and 22.

Details of material transactions with subsidiaries not disclosed elsewhere in the financial statements are as follows:

	COMPANY	
	2016 R'000	2015 R'000
Turnover levies received from Tab North West Proprietary Limited	**36 311**	35 866
Marketing sponsorship from Betting World Proprietary Limited	**2 301**	4 272
Sub Lease rental income received from Betting World Proprietary Limited	**6 344**	6 003
Interest received from Betting World Proprietary Limited	**1 023**	1 184
Tellytrack licence fees paid by Betting World Proprietary Limited	**7 214**	6 479
Security costs paid to SW Security Solutions SA Proprietary Limited	**(22 622)**	(17 328)
Interest paid to Silks Proprietary Limited		(140)
Leasehold property rentals paid to Tote Property Investments Proprietary Limited	**(359)**	(359)
Leasehold property rentals paid to East Cape Racing Proprietary Limited	**(10 160)**	(10 664)
Commission paid to Betting World Proprietary Limited	**(3 837)**	(2 449)
Leasehold property rentals paid to Betting World Proprietary Limited	**(917)**	(785)

Guarantees

The Group has signed unlimited cross guarantees between the operating 100% owned subsidiaries that operate on the Group's managed facilities. The companies affected are Phumelela Gaming and Leisure Limited, Rand Sporting Club Proprietary Limited, TAB North West Proprietary Limited, East Cape Racing Proprietary Limited, and Tote Properties Proprietary Limited.

Directors

Details regarding the directors' emoluments in the Company are disclosed in note 30 and directors' interests in the Company in note 17.

Jointly controlled operation

Details of investments in joint operation are disclosed in note 32.

Equity-accounted investees

Details of investments in equity-accounted investees are disclosed in note 8.

35. SHARE OPTION SCHEMES

Summary of share options granted

Executive option scheme 2008

Shareholders' approval for reserving 10% of the issued share capital of Phumelela Gaming and Leisure Limited for the executive share option scheme was obtained at the Company's annual general meeting held on 5 December 2008.

The exercise of the options is conditional upon a minimum compound annual growth rate in headline earnings per share of consumer price index excluding mortgage costs ("CPIX") plus 5% over the vesting period and a minimum growth rate in the share price of 10% compound per annum over the vesting period.

Should both the above conditions be met the options are exercisable at the strike price.

Should the growth rate in the share price increase by 15% compound per annum the options are exercisable at 50% of the strike price and should the growth rate in the share price increase by 20% compound per annum the options are exercisable at R1.

For purposes of IFRS 2: share-based payments, the share option scheme was valued by an independent valuer using a modified binomial valuation model.

Date of option	Tuesday, 1 October 2013	**Monday, 12 January 2015**
Number of shares	3 320 000	**200 000**
Dividend yield	4,76%	**5,45%**
Interest rate	6,93%	**6,55%**
Volatility	32,00%	**32,00%**
Option take-up	100,00%	**100,00%**
Equity price	R15,00	**R18,58**
Maturity date	1 October 2016	**1 October 2018**

Executive option scheme 2014

Shareholders' approval for reserving 10% of the issued share capital of Phumelela Gaming and Leisure Limited for the executive share option scheme was obtained at the Company's annual general meeting held on 4 December 2014.

The scheme rules relevant to exercising options are identical to the 2008 scheme rules set out above.

Date of option	**16 July 2015**
Number of shares	**2 700 000**
Dividend yield	**5,12%**
Interest rate	**7,04%**
Volatility	**33,00%**
Option take-up	**100,00%**
Equity price	**R17,34**
Maturity date	**5 December2018**

	2016 Number of shares	2016 Weighted average exercise price R price	2015 Number of shares	2015 Weighted average exercise price R price
35. SHARE OPTION SCHEMES CONTINUED				
Summary of share options granted				
Balance at beginning of year	**8 255 000**	**16,74**	7 135 000	12,28
Granted 1 October 2013				
Granted 12 January 2015			200 000	18,58
Granted 16 July 2015			2 700 000	17,34
Exercised			(1 555 000)	11,60
Exercised			(60 000)	10,88
Forfeited	**(2 035 000)**	**8,38**	(65 000)	8,38
Forfeited	**(350 000)**	**15,00**	(100 000)	15,00
	5 870 000	**17,27**	8 255 000	16,74
Made up as follows:				
Granted to directors				
WA Du Plessis – 5 December 2012			250 000	8,38
AW Heide – 5 December 2012			180 000	8,38
AW Heide – 1 October 2013	**390 000**	**15,00**	390 000	15,00
AW Heide – 16 July 2015	**407 530**	**17,34**	407 530	17,34
ML Ramafalo – 5 December 2012			150 000	8,38
ML Ramafalo – 1 October 2013	**270 000**	**15,00**	270 000	15,00
ML Ramafalo – 16 July 2015	**327 188**	**17,34**	327 188	17,34
J Stuart – 5 December 2012			170 000	8,38
J Stuart – 1 October 2013	**350 000**	**15,00**	350 000	15,00
J Stuart – 16 July 2015	**407 530**	**17,34**	407 530	17,34
VJ Moodley – 5 December 2012			170 000	8,38
VJ Moodley – 1 October 2013	**350 000**	**15,00**	350 000	15,00
VJ Moodley – 16 July 2015	**485 154**	**17,34**	485 154	17,34
Granted to staff				
Effective grant date – 5 December 2012			1 115 000	8,38
Effective grant date – 1 October 2013	**1 610 000**	**15,00**	1 960 000	15,00
Effective grant date – 12 January 2015	**200 000**	**18,58**	200 000	18,58
Effective grant date – 16 July 2015	**1 072 598**	**17,34**	1 072 598	17,34
Balance at end of year	**5 870 000**	**17,27**	8 255 000	16,74
The above options may be exercised between the following dates:				
6 December 2015 to 5 June 2016			2 035 000	8,38
2 October 2016 to 1 March 2017	**2 970 000**	**15,00**	3 320 000	15,00
13 January 2018 to 12 July 2018	**200 000**	**18,58**	200 000	18,58
17 July 2018 to 16 January 2019	**2 700 000**	**17,34**	2 700 000	17,34
	5 870 000	**17,27**	8 255 000	16,74

35. SHARE OPTION SCHEMES CONTINUED

Group Chief Executive option schemes

Shareholder approval for the granting of 1 500 000 options to the Group Chief Executive was obtained at the Company's annual general meeting held on 6 December 2011. Approval for a further grant of 1 500 000 options was obtained at the Company's annual general meeting held on 4 December 2014.

The exercise of the options is conditional upon a minimum compound annual growth rate in the share price of 10% compound per annum over the vesting period.

	2011	2014
Date of option	20 January 2012	2 March 2015
Number of shares	1 500 000	1 500 000
Dividend yield	6,67%	5,25%
Interest rate	6,15%	6,77%
Volatility	29,20%	32,00%
Option take-up	100,00%	100,00%
Equity price	9,55	15,50
Maturity date	20 January 2015	2 March 2018

	2016		2015	
	Number of shares	**Exercise price cents**	Number of shares	Exercise price cents
Summary of share options granted				
Effective grant date – 20 January 2012*	**1 500 000**	**2,50**	1 500 000	2,50
Effective grant date – 2 March 2015	**1 500 000**	**2,50**	1 500 000	2,50
	3 000 000	**2,50**	3 000 000	2,50
Granted to director				
WA du Plessis	**3 000 000**	**2,50**	3 000 000	2,50
The above options may be exercised between the following dates:				
21 January 2015 to 20 January 2018*	**1 500 000**	**2,50**	1 500 000	2,50
3 March 2018 to 2 March 2021	**1 500 000**	**2,50**	1 500 000	2,50
	3 000 000	**2,50**	3 000 000	2,50

** Options have vested.*

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
36. NOTES TO THE CASH FLOW STATEMENTS				
36.1 Cash generated by operations				
Profit before income tax expense	**134 002**	99 235	**207 832**	88 098
Adjustments for:				
Share of profit of equity-accounted investees	**(94 694)**	(47 060)		
Investment income	**(5 331)**	(2 074)	**(239 459)**	(48 930)
Finance costs	**9 368**	5 828	**9 237**	5 214
Depreciation	**58 433**	47 676	**37 858**	33 656
Amortisation of intangible assets	**3 038**	2 149	**514**	175
Loss/(profit) on disposal of property, plant and equipment	**916**	(315)	**38**	(967)
Impairment of equity-accounted investee		8 545		
Fair value adjustment to investments	**(5 578)**	12 753	**(5 578)**	12 753
Post-retirement curtailments	**(1 108)**	(6 102)	**(1 108)**	(6 102)
Share-based payment	**14 000**	(3 230)	**14 000**	(3 230)
	113 046	117 405	**23 334**	80 667
36.2 Movements in working capital				
Increase in inventories	**(1 041)**	(1 361)	**(277)**	(30)
(Increase)/decrease in trade and other receivables	**(37 019)**	13 893	**(6 954)**	(8 491)
(Increase)/decrease in amounts owing from subsidiary companies			**(54 838)**	4 615
Decrease in amounts owing to subsidiary companies			**(69 825)**	(20 856)
Decrease/(increase) in trade and other payables	**68 009**	(35 978)	**42 397**	(29 504)
	29 949	(23 446)	**(89 497)**	(54 266)
36.3 Taxation paid				
Balance at beginning of year	**9 316**	3 698	**7 709**	(248)
Current year charge (note 29)	**(22 072)**	(13 961)	**(2 131)**	(7 866)
Balance at end of year	**(17 550)**	(9 316)	**(15 695)**	(7 709)
	(30 306)	(19 579)	**(10 117)**	(15 823)
36.4 Acquisition of subsidiary				
Provisional purchase price allocation				
Property, pant and equipment	**(2 012)**			
Goodwill	**(2 844)**			
Intangible assets	**(1 101)**			
Trade debtors	**(19)**			
Trade creditors	**1 120**			
Loan advanced	**(500)**			
Long-term funding	**1 287**			
Cash and cash equivalents	**(527)**			
Minority interest	**854**			
Purchase price	**(3 741)**			
Settled with property, plant and equipment	**577**			
Settled with intangible assets	**926**			
Less cash and cash equivalents acquired	**527**			
Acquisition of subsidiary net of cash and cash equivalent	**(1 710)**			

37. SEGMENTAL ANALYSIS

The directors consider the Group to be organised into a business segment providing betting opportunities primarily on horseracing.

The secondary reporting format is by geographic analysis and the directors consider there to be two geographic segments being South Africa and International. Both primary and secondary segments are disclosed in the statement of comprehensive income.

The following information, which is internally forwarded to the executive team and chief operating decision maker, is provided to enable users to better understand the source of betting revenue generated by the Group:

	% Change	31 July 2016 R'000	31 July 2015 R'000
LOCAL			
Excluding fixed odds			
Income	10	**962 666**	873 469
Net betting income			
– Horseracing	(1)	**453 977**	457 454
– Other sports	12	**248 498**	221 469
Net betting income	3	**702 475**	678 923
Other income	3	**226 369**	219 325
Investment income	156	**4 116**	1 609
Net income	4	**932 960**	899 857
Stakes	7	**(202 871)**	(189 772)
Operating expenses	16	**(790 270)**	(681 335)
Profit before depreciation and amortisation	(309)	**(60 181)**	28 750
Depreciation and amortisation	12	**(41 918)**	(37 385)
Profit before finance costs and income tax expense	1 082	**(102 099)**	(8 635)
Finance costs	82	**(9 237)**	(5 065)
Profit before share of equity-accounted investee	713	**(111 336)**	(13 700)
Share of profit of equity-accounted investee	177	**6 447**	2 324
Profit before income tax expense	822	**(104 889)**	(11 376)
Fixed odds			
Income	36	**263 716**	193 593
Net betting income			
– Horseracing	47	**87 346**	59 521
– Other sports	39	**53 046**	38 158
– Other	92	**122 684**	63 904
Net betting income	63	**263 076**	161 583
Other income	140	**26 234**	10 944
Investment income	671	**640**	83
Net income	68	**289 950**	172 610
Operating expenses	45	**(200 835)**	(138 428)
Profit before depreciation and amortisation	161	**89 115**	34 182
Depreciation and amortisation	59	**(19 266)**	(12 150)
Profit before finance costs and income tax expense	217	**69 849**	22 032
Finance costs	(83)	**(131)**	(763)
Profit before share of equity-accounted investee	228	**69 718**	21 269

37. SEGMENTAL ANALYSIS CONTINUED

	% Change	31 July 2016 R'000	31 July 2015 R'000
INTERNATIONAL			
Income	38	**274 415**	199 143
Other income	33	**273 840**	205 416
Investment income	51	**575**	382
Net income	33	**274 415**	205 798
Licence fee payable for South African product	52	**(104 015)**	(68 453)
Operating expenses	33	**(94 765)**	(71 151)
Profit before depreciation and amortisation	14	**75 635**	66 194
Depreciation and amortisation	(1)	**(287)**	(290)
Profit from operations	14	**75 348**	65 904
Profit on conversion of an equity-accounted investee to an investment			
Share of profit of equity-accounted investees	97	**88 247**	44 736
Profit before fair value adjustment on assets for sale	48	**163 595**	110 640
TOTAL FOR THE GROUP			
Income	19	**1 500 797**	1 266 205
Net betting income			
– Horseracing	5	**541 323**	516 975
– Other sports	16	**301 544**	259 627
– Other	92	**122 684**	63 904
Net betting income	15	**965 551**	840 506
Other income	21	**526 443**	435 685
Investment income	157	**5 331**	2 074
	17	**1 497 325**	1 278 265
Stakes	7	**(202 871)**	(189 772)
Licence fee payable for South African product	52	**(104 015)**	(68 453)
Operating expenses	22	**(1 085 870)**	(890 914)
Profit before depreciation and amortisation	(19)	**104 569**	129 126
Depreciation and amortisation	23	**(61 471)**	(49 825)
Profit before finance costs and income tax expense	(46)	**43 098**	79 301
Finance costs	61	**(9 368)**	(5 828)
Profit before share of equity-accounted investee	(54)	**33 730**	73 473
Share of profit of equity-accounted investees	101	**94 694**	47 060
Profit before fair value adjustment on assets for sale	7	**128 424**	120 533
Fair value adjustment on investment		**5 578**	(12 753)
Equity-accounted investee impaired			(8 545)
Profit before income tax expense	35	**134 002**	99 235

for the year ended 31 July 2016

38. SUBSEQUENT EVENTS

There are no significant subsequent events that have a material impact on the financial statements at 31 July 2016.

39. GOING CONCERN

The directors consider the Company and its subsidiaries to have adequate resources to continue operating for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements. The directors have satisfied themselves that the Company and its subsidiaries are in a sound financial position and that they have access to sufficient borrowing facilities to meet their foreseeable cash requirements.

40. STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial statements of Phumelela Gaming and Leisure Limited for the year ended 31 July 2016, the following standards and interpretations were in issue but not yet effective:

Effective for the financial year commencing 1 January 2016

- IFRS 14 Regulatory Deferral Accounts
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendment to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Disclosure Initiative (Amendments to IAS 1)
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

Effective for the financial year commencing 1 January 2017

- Disclosure Initiatives (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Effective for the financial year commencing 1 January 2018

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

Effective for the financial year commencing I January 2019

- IFRS 16 Leases

All standards and interpretations will be adopted at their effective date, except for those standards and interpretations that are not applicable to the entity.

Amendments to IFRS 14, IAS 16, IAS 38, IAS 41, IFRS 10, IFRS 12, IAS 28 AND IAS 7 are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining standards and interpretations will be as follows:

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.

As a consequence of these amendments, the Group will amend its accounting policy with effect from 1 July 2016 for acquisitions of interests in a joint operation.

The amendments apply prospectively for annual periods beginning on or after 1 August 2016.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow an entity to apply the equity method in its separate financial statements to account for its investments in subsidiaries, associates and joint ventures.

The amendments apply retrospectively for annual periods beginning on or after 1 August 2016.

40. STANDARDS AND INTERPRETATIONS CONTINUED

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments also clarify presentation principles applicable to of the order of notes, other comprehensive income of equity-accounted investees and subtotals presented in the statement of financial position and statement of profit or loss and other comprehensive income.

The amendments apply for annual periods beginning on or after 1 August 2016.

Disclosure Initiative (Amendments to IAS 7)

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The amendments apply for annual periods beginning on or after 1 August 2017 and early application is permitted.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have a significant impact on the Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ended 31 July 2017 financial statements.

The standard is effective for annual periods beginning on or after 1 August 2018, with early adoption permitted.

IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model

40. STANDARDS AND INTERPRETATIONS CONTINUED

IFRS 9 Financial Instruments *continued*

from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Group.

The standard is effective for annual periods beginning on or after 1 August 2018 with retrospective application, early adoption is permitted.

Clarifying share-based payment accounting (Amendments to IFRS 2)

Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 share-based payment.

The amendments cover three accounting areas:

Measurement of cash-settled share-based payments – There is currently no guidance in IFRS 2 on how to measure the fair value of the liability in a cash-settled share-based payment. The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method. Therefore, in measuring the liability market and non-vesting conditions are taken into account in measuring its fair value and the number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions.

The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.

Classification of share-based payments settled net of tax withholdings – The Company may be obligated to collect or withhold tax related to a share-based payment, even though the tax obligation is often a liability of the employee and not the Company. Currently, it is unclear whether the portion of the share-based payment that is withheld in these instances should be accounted for as equity-settled or cash-settled. The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.

Accounting for a modification of a share-based payment from cash-settled to equity-settled – There is no specific guidance in IFRS 2 that addresses the accounting when a share-based payment is modified from cash-settled to equity-settled. The amendments clarify the approach that companies are to apply.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are effective for annual periods commencing on or after 1 August 2018.

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 August 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Group and Company are assessing the potential impact on the financial statements resulting from the application of IFRS 16.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a business under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

DETAILS OF SUBSIDIARY COMPANIES

at 31 July 2016

Name and nature of business	2016 Invest-ment R'000	2016 Issued capital R	2016 % held	2015 Invest-ment R'000	2015 Issued capital R	2015 % held
Direct subsidiaries incorporated in South Africa						
Highveld Racing Authority Technical Services Proprietary Limited						
– Dormant	**4 253**	**8**	**100**	4 253	8	100
HRA Racehorse Transport Proprietary Limited						
– Dormant		**3 600**	**100**		3 600	100
Highveldt Training Centre Proprietary Limited						
– Dormant	**277**	**3**	**100**	277	3	100
Rand Sporting Club Proprietary Limited						
– Property holding	**22 960**	**200**	**100**	22 960	200	100
Hadrian Investments Proprietary Limited						
– Property holding		**200**	**100**		200	100
Shelanu Investments Proprietary Limited						
– Property holding		**200**	**100**		200	100
Injector Investments Proprietary Limited						
– Property holding		**200**	**100**		200	100
Glenfiddich Investments Proprietary Limited						
– Property holding		**200**	**100**		200	100
Transvaal Racing Holdings Proprietary Limited						
– Property holding		**37 500**	**100**		37 500	100
Tote Property Investments Proprietary Limited						
– Property holding	**1 967**	**50 000**	**100**	1 967	50 000	100
Vaal Racecourse Proprietary Limited						
– Property holding		**1 070**	**100**		1 070	100
East Cape Racing Proprietary Limited						
– Property holding	**11 227**	**100**	**100**	11 227	100	100
TAB North West Proprietary Limited						
– Betting outlets	**8 100**	**4 000**	**100**	8 100	4 000	100
Betting world Proprietary Limited						
– entertainment and wagering industry	**47 500**	**1 000**	**100**	47 500	1 000	100
Silks Gaming and Leisure Proprietary Limited						
– Bingo operations		**100**	**100**		100	100
Direct subsidiaries incorporated in the Isle of Man						
Phumelela Gold International Limited* – Licensed sports bookmaker and worldwide internet pari-mutuel service provider	**329**	**100**	**100**	329	100	100
	96 613			96 613		

** Incorporated in the Isle of Man*

Indirectly held subsidiaries held through Betting World Proprietary Limited

	Percentage holding 2016	2015
Cerino Trading 13 Proprietary Limited	**100**	100
Betting World Eastern Cape Proprietary Limited	**100**	100
Betting World KZN Proprietary Limited	**100**	100
Betting World Limpopo Proprietary Limited	**100**	100
Betting World North West Proprietary Limited	**100**	100
Betting World Mpumalanga Proprietary Limited	**100**	100
Betting World Northern Cape Proprietary Limited	**100**	100
Afribet Proprietary Limited	**51**	

SHAREHOLDER INFORMATION

for the year ended 31 July 2016

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	361	42,98	161 581	0,21
1 001 – 10 000 shares	304	36,19	1 243 353	1,61
10 001 – 100 000 shares	132	15,71	4 275 759	5,55
100 001 – 1 000 000 shares	28	3,33	9 305 961	12,07
1 000 001 shares and over	15	1,79	62 115 231	80,56
Totals	**840**	**100,00**	**77 101 885**	**100,00**

Distribution of shareholders	Number of shareholders	%	Number of shares	%
Banks	5	0,60	5 222 913	6,77
Close corporations	11	1,31	52 327	0,07
Empowerment	3	0,36	11 133 800	14,44
Endowment funds	7	0,83	24 586	0,03
Individuals	680	80,95	6 362 938	8,25
Insurance companies	5	0,60	1 547 550	2,01
Investment companies	5	0,60	550 404	0,71
Mutual funds	21	2,50	9 355 615	12,14
Other corporations	8	0,95	2 864 419	3,72
Private companies	28	3,33	3 161 387	4,10
Public companies	3	0,36	4 804 353	6,23
Retirement funds	2	0,24	696 245	0,90
Share trust	1	0,12	462 775	0,60
Treasury stock	1	0,12	2 566 400	3,33
Trusts	60	7,14	28 296 173	36,70
Totals	**840**	**100,00**	**77 101 885**	**100,00**

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	19	2,26	52 425 822	68,00
Directors of the Company	12	1,43	11 077 683	14,37
Strategic holdings more than 10%	2	0,24	27 185 164	35,26
Own holdings/treasury stock	1	0,12	2 566 400	3,33
Share trust	1	0,12	462 775	0,60
Empowerment	3	0,36	11 133 800	14,44
Public shareholders	821	97,74	24 676 063	32,00
Totals	**840**	**100,00**	**77 101 885**	**100,00**

Beneficial shareholders holding 3% or more	Number of shares	%
The Thoroughbred Horse Racing Trust	27 185 164	35,26
B Kantor	5 254 000	6,81
Sanlam	4 556 645	5,91
Gride Investments Proprietary Limited	3 880 887	5,03
Dihla Investment Holdings Proprietary Limited	3 752 913	4,87
Yerranzano Property Investments Limited	3 689 596	4,79
Vela Phumelela Investments	3 500 000	4,54
WA du Plessis	2 805 657	3,64
Truffle	2 792 079	3,62
Rand Sporting Club Proprietary Limited	2 566 400	3,33
MA Jooste	2 481 285	3,22
Totals	**62 464 626**	**81,02**

CORPORATE INFORMATION

DIRECTORS	MP Malungani (Chairman) WA du Plessis (Group Chief Executive Officer) AW Heide (Chief Operating Officer and Group Finance Director) ML Ramafalo (Executive Director, Business Development and Risk Management) JA Stuart (International Executive Director) VJ Moodley (Executive Director, Sports Betting) R Cooper MJ Jooste B Kantor SKC Khampepe NJ Mboweni E Nkosi CJH van Niekerk JB Walters BP Finch (Zimbabwean)
SECRETARY	F Moloi
REGISTERED OFFICE	Turffontein Racecourse 14 Turf Club Street Turffontein
AUDITORS	KPMG Inc.
PRINCIPAL BANKER	First National Bank – A division of FirstRand Bank Limited
ATTORNEYS	Roodt Inc.
MERCHANT BANK	Investec Bank Limited
SPONSOR	Investec Bank Limited
TRANSFER SECRETARIES	Computershare Investor Services Proprietary Limited
COMPANY REGISTRATION NUMBER	1997/016610/06
COUNTRY OF INCORPORATION	South Africa
WEBSITE	www.phumelela.com
LISTING	Travel and Leisure – JSE Limited (ISIN: ZAE000039269 Share Code: PHM)

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