Phumelela Gaming

Phumelela Gaming and Leisure Limited

2018
INTEGRATED REPORT

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Other publications online

Notice of annual general meeting
Notice of annual general meeting can be found at www.irphumelela.com/financials/Phumelela_AGM_18.pdf

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

King IV report
Our King IV report can be found at www.irphumelela.com/financials/KingIV_Assessment_2018.pdf

www.phumelela.com

Directors' approval

The Phumelela Board and its sub-committees take ultimate responsibility for overseeing the integrity and completeness of this integrated report. We confirm that the 2018 Integrated Report addresses all material issues and fairly represents the Group's integrated performance.

The Audit and Risk Committee recommended the approval of this report to the Board.

On 5 October 2018, the Board approved the Integrated Report.

B KANTOR
Chairman
5 October 2018

JA STUART
Group Chief Executive Officer

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

16% RISE in **WEIGHTED AVERAGE SHARES** reflects the prior year rights issue to fund acquisitions

Normalised headline earnings per share **UP 3%** to **173,55 cents**

Headline earnings per share **DOWN 8%** to **154,23 cents**

Net asset value per share **1 012,93 cents**

Earnings per share **DOWN 9%** to **153,78 cents**

Final gross dividend per share of **62,00 cents,** full year dividend maintained at **104,00 cents**

Continued **STRONG FINANCIAL POSITION** with net debt to equity **22,8%**

South African **ECONOMIC ENVIRONMENT** continued to deteriorate

Voluntary severance programme **COMPLETED WITHIN BUDGET** and yielding benefits

South African horseracing retains **WIDE POPULAR APPEAL** in international markets

Strong internal focus on **IMPROVING COMPETITIVE APPEAL** of all betting offerings

TURN-KEY AND FULLY ODDS MANAGED SOLUTION for previously disadvantaged individuals **GAINS MOMENTUM**

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 2017 to 31 July 2018. Our previous report was published in 2017. 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 Report;*
- *Phumelela's Code of Ethics;*
- *Topics and challenges reported by our peers or raised by industry associations; and*
- *External initiatives and best practice 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.

MISSION, VISION, PURPOSE AND VALUES

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

OUR VALUES

1 CUSTOMER SERVICE
We value our customers as key to our success.

2 OUR PEOPLE
We build healthy relationships based on mutual respect, team work and integrity.

3 INNOVATION
We seek new and better ways to improve our products and services to achieve market leadership.

4 URGENCY
We strive to deliver on time and capitalise on all opportunities.

5 EXCELLENCE
We strive for outstanding performance and delivery in everything we do.

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 (26,72% 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, and together hold approximately 30% share in Phumelela. The remaining two trustees are appointed by SASCOC.

Phumelela is a licensed totalisator, fixed odds 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, which was broadened by the acquisition of a 50% equity interest in Supabets SA Holdings Proprietary Limited (both licensed bookmaking concerns);
- The acquisition of a 50% equity interest in Interbet, an online bookmaking business and betting exchange 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 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, numbers betting and related information

ANCHORED IN SOUTH AFRICA

- Revenue
- Resources
- Intellectual property
- Assets

SCOPE OF GEOGRAPHICAL REACH

- Six continents
- 41 countries
- South Africa

BUSINESS DRIVERS OF AN INTERDEPENDENT BUSINESS

INFRASTRUCTURE

- Racing
- Retail
- Betting
- Technology
- Hospitality and events
- 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 is fully committed to the amended codes of Broad-based Black Economic Empowerment (B-BBEE). The Group has made great strides to align the transformation policies, strategies and process.

92% of our employees are **BLACK**

70% of our employees are **FEMALE**

Over R4 million spent on staff **TRAINING** including bursaries for the Group

Over R3 million spent on **CSR*** programmes by the Group

The Group also recognises that it has a responsibility to the broader community to act in a socially responsible manner, for the benefit of all South Africans.

* *Corporate Social Responsibility*

RACING IT'S A RUSH

We continuously strive to bring horseracing to the forefront of the lifestyle entertainment industry and despite a demanding calendar this last year, the ***Racing. It's A Rush*** *team travelled all over the country promoting the sport to those outside the industry.*

We identified a need for upmarket and top-of-the-range hospitality venues at Turffontein and with that in mind, the Member's Lounge was born.

Although we anticipated a moderate move to this upmarket venue, we were proved wrong when it was fully booked on all the promoted occasions. From live DJs to dynamic MCs, we incorporated the social aspect of fine dining and nightlife into horseracing and patrons now understand why we are so passionate about our industry.

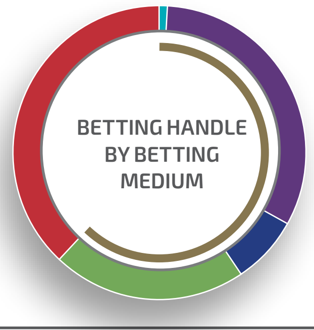
We formulated a significant drive to build relationships with all forms of media, including those who influence social media, and hosted them in order to encourage their participation. Many of these people have had no contact with horseracing and our aim was to explain how the sport operates and convey what attracts people to the industry. We unveiled all the different aspects of what makes horseracing tick in order to eliminate many of those misguided preconceptions of the industry. We believe this initiative was well received by a mix of media, socialites and celebrities.

All this would not have been possible without the support and dedication of our partners and we look forward to the exciting journey ahead as we continue down this stimulating path.

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

PHUMELELA BETTING DATA

	2018 R'million	2017 R'million	2018 %	2017 %
SA totalisator	**3 156**	3 218	**62,2**	62,0
Eastern Cape	**128**	142	**2,5**	2,7
Free State	**144**	153	**2,8**	2,9
Gauteng	**2 249**	2 294	**44,4**	44,2
Limpopo	**232**	239	**4,6**	4,6
Mpumalanga	**142**	126	**2,8**	2,4
North West	**218**	221	**4,3**	4,3
Northern Cape	**43**	43	**0,8**	0,8
Fixed odds	**1 918**	1 974	**37,8**	38,0
	5 074	5 192	**100,0**	100,0



	2018 R'million	2017 R'million	2018 %	2017 %
SA totalisator	**3 156**	3 218	**62,2**	62,0
On course	**54**	58	**1,1**	1,1
Off course – branches	**1 629**	1 711	**32,1**	33,0
Off course – agents	**383**	425	**7,5**	8,2
Non-over-the-counter	**1 090**	1 024	**21,5**	19,7
Fixed odds	**1 918**	1 974	**37,8**	38,0
	5 074	5 192	**100,0**	100,0

	2018 R'million	2017 R'million	2018 %	2017 %
SA totalisator	**3 156**	3 218	**62,2**	62,0
South African horseracing	**1 488**	1 586	**29,4**	32,1
International horseracing	**591**	595	**11,6**	11,5
Other sports	**1 077**	1 037	**21,2**	20,0
Fixed odds	**1 918**	1 974	**37,8**	38,0
Horseracing	**534**	610	**10,5**	11,7
Other sports	**310**	312	**6,1**	6,0
Numbers	**1 075**	1 052	**21,2**	20,3
	5 074	5 192	**100,0**	100,0

	2018 R'million	2017 R'million	2018 %	2017 %
SA totalisator	**650**	656	**68,4**	69,1
Eastern Cape	**28**	28	**2,9**	2,9
Free State	**31**	31	**3,3**	3,3
Gauteng	**455**	460	**47,8**	48,5
Limpopo	**52**	52	**5,5**	5,5
Mpumalanga	**27**	27	**2,8**	2,8
North West	**49**	49	**5,2**	5,2
Northern Cape	**9**	9	**1,0**	1,0
Fixed odds	**300**	293		30,9
	950	949	**100,0**	100,0

OUR SOUTH AFRICAN OPERATIONS

Phumelela operates in South Africa and through its international division it has commercial relationships with 41 international jurisdictions across six continents.

PHUMELELA TOTALISATOR BETTING OUTLETS

144 *branches* **82** *agencies* *Betting World fixed odds* **82** *outlets*

TAB: TOTALISATOR BETTING OUTLETS

Phumelela regions	Branches	Agents	Total
Gauteng	79	37	116
Limpopo	14	11	25
Mpumalanga	13	13	26
Free State	15	2	17
Northern Cape	2	0	2
Eastern Cape	10	15	25
North West	11	4	15
Total	**144**	**82**	**226**

BETTING WORLD FIXED ODDS OUTLETS

Gauteng	12	Eastern Cape	7
Limpopo	12	Northern Cape	1
Mpumalanga	5	North West	10
KwaZulu-Natal	2	North West Franchises	13
Western Cape	20		

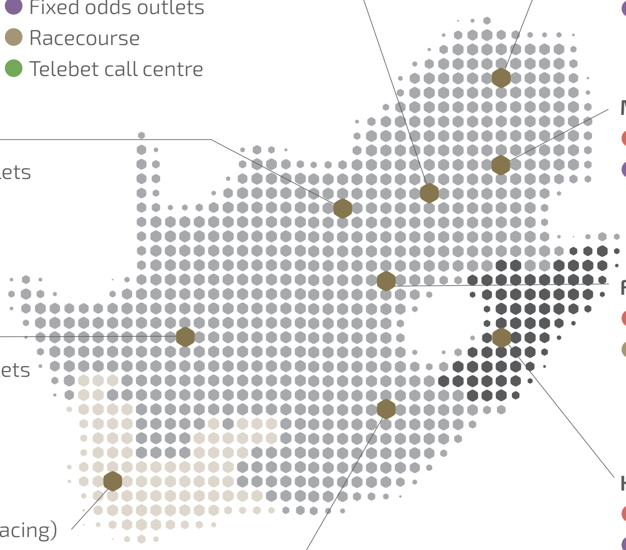
RACECOURSES

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)

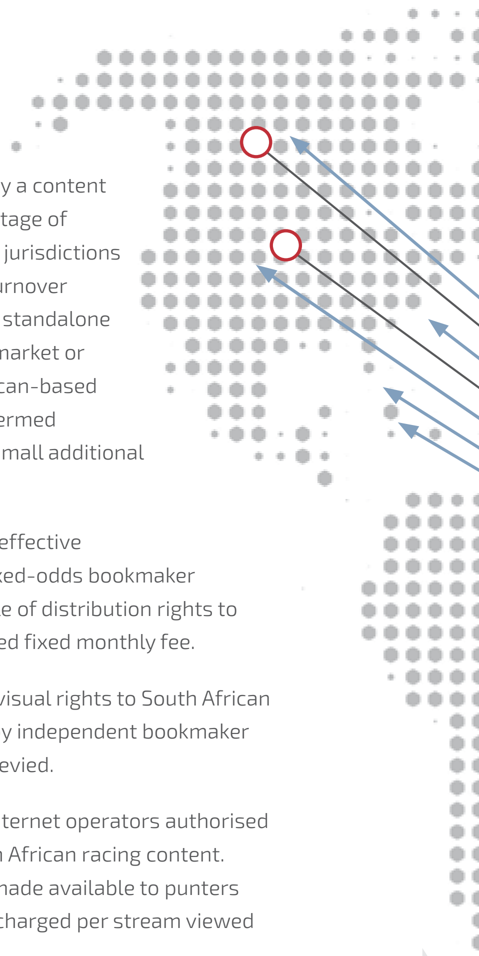
TELEBET CALL CENTRES

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

OPERATIONAL GEOGRAPHY SOUTH AFRICA



OUR 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 41 international jurisdictions across six continents. These relations enable the export of live South African horseracing and international football pools globally, earning PGL foreign revenue on South African racing and football pools.

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

Outbound

Racing in South Africa occurs on 364 days a year, with approximately 440 race meetings scheduled and broadcast each year. The television picture of South African racing is exported to various countries which 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), which 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, Singaporean (in territories where permission has been granted and where tote betting paths are available) and Zimbabwean racing; and
- A specifically tailored television production, including customised graphics of South African racing, which 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.

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 sale 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.

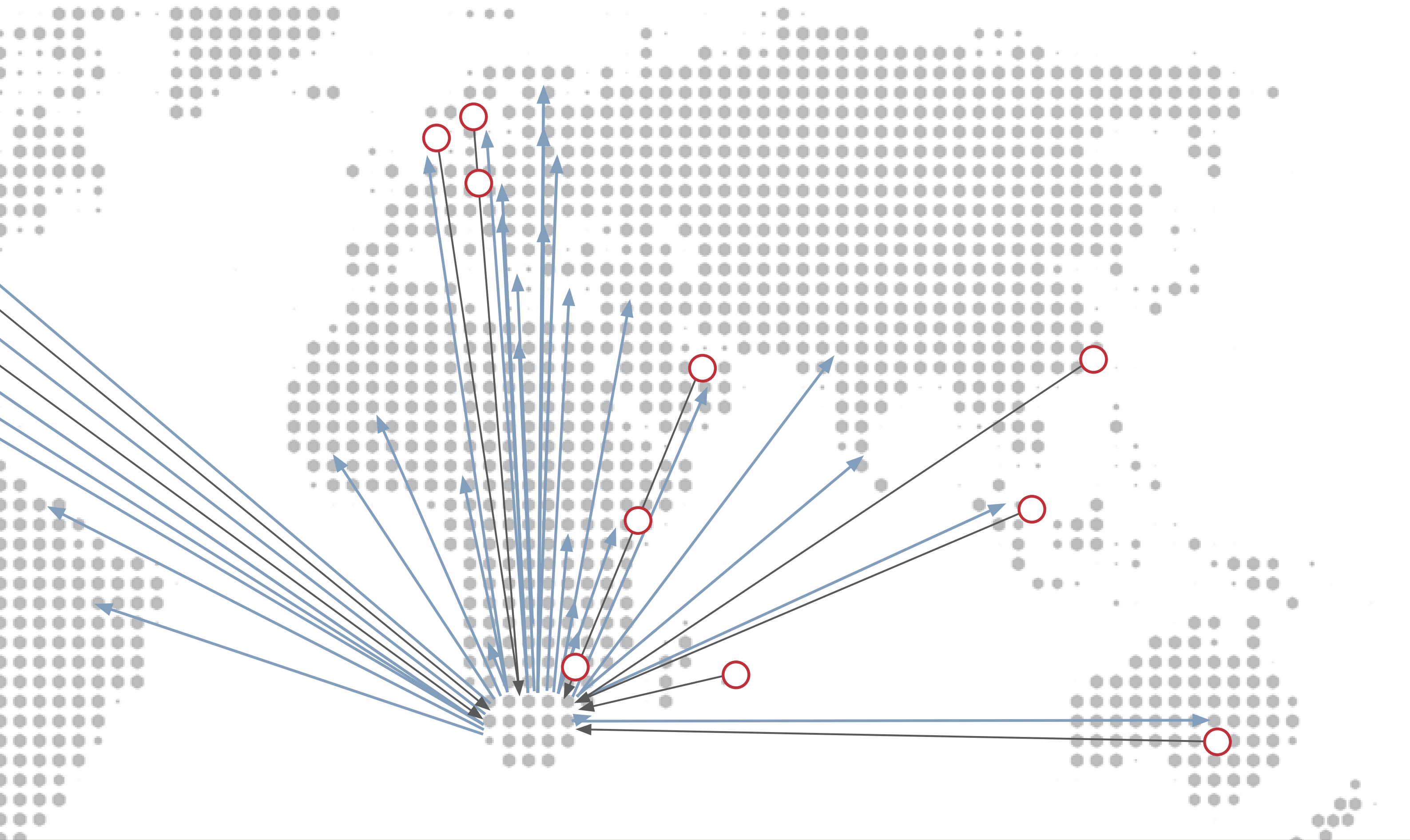
Revenue is also earned from internet operators authorised to receive and bet on the South African racing content. Where live video streams are made available to punters over the internet, a fee is also charged per stream viewed over the internet.

Inbound

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

Inbound

Live horseracing from 12 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
- Canada
- Cyprus
- Dubai
- Finland
- France
- Germany
- Greece
- Guyana
- Hong Kong
- Ireland
- Italy
- Ivory Coast
- Jamaica
- Kenya
- Lesotho
- Lithuania
- Macau
- Malaysia
- Mali
- Malta
- Namibia
- Netherlands
- Pakistan
- Rwanda
- Singapore
- Sri Lanka
- Swaziland
- Sweden
- Trinidad and Tobago
- Turkey
- 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 owns an international tote operation on the Isle of Man ("IOM"), known as the Premier Gateway International ("PGI"). This subsidiary associate 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 far greater liquidity. The 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.

GROUP REVIEW

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000
GROUP STATEMENTS OF COMPREHENSIVE INCOME							
Year ended 31 July							
Income	**1 526 979**	1 520 515	1 500 797	1 266 205	1 192 109	1 014 826	936 534
Profit from operations	**17 315**	49 029	43 098	79 301	61 833	85 304	82 546
Finance costs	**(34 577)**	(20 323)	(9 368)	(5 828)	(1 183)	(779)	(1 409)
Profit before share of profit of equity-accounted investees	**(17 262)**	28 706	33 730	73 473	60 650	84 525	81 137
Share of profit of equity-accounted investees	**169 169**	122 591	94 694	47 060	57 983	26 705	15 544
Profit before income tax expense	**151 907**	151 297	128 424	120 533	118 633	111 230	96 681
Fair value adjustments	**546**	946	5 578	(21 298)	11 135		
Profit before income tax expense	**152 453**	152 243	134 002	99 235	129 768	111 230	96 681
Income tax expense	**(707)**	(9 641)	(12 912)	(19 713)	(19 373)	(25 257)	(27 801)
Profit for the year	**151 746**	142 602	121 090	79 522	110 395	85 973	68 880
Attributable to non-controlling interest	**3 366**	3 918	854	(6)	14	(102)	(206)
Profit attributable to ordinary equity holders of the parent	**155 112**	146 520	121 944	79 516	110 409	85 871	68 674
GROUP STATEMENTS OF FINANCIAL POSITION							
At 31 July							
Assets							
Non-current assets	**1 338 850**	1 280 609	635 466	575 088	567 518	495 400	415 390
Current assets	**311 824**	259 200	308 484	200 751	220 537	149 028	176 567
Total assets	**1 650 674**	1 539 809	943 950	775 839	788 055	644 428	591 957
Equity and liabilities							
Capital and reserves	**1 012 624**	1 029 993	513 051	447 743	478 791	432 345	403 881
Non-current liabilities	**301 319**	123 370	64 489	54 735	9 397	3 734	5 809
Current liabilities	**336 731**	386 446	366 410	273 361	299 867	208 349	182 267
Total equity and liabilities	**1 650 674**	1 539 809	943 950	775 839	788 055	644 428	591 957
GROUP CASH FLOW STATEMENTS							
Year ended 31 July							
Net cash flow from operating activities	**(94 640)**	(62 201)	38 594	3 761	40 724	66 706	53 883
Net cash utilised in investing activities	**(25 101)**	(250 879)	(19 549)	(54 057)	(11 293)	(105 731)	(85 250)
Net cash flow from financing activities	**122 679**	332 195	12 743	1 073	8 586		(5 362)
Net increase/(decrease) in cash and cash equivalents	**2 938**	19 115	31 788	(49 223)	38 017	(39 025)	(36 729)

	2018 cents	2017 cents	2016 cents	2015 cents	2014 cents	2013 cents	2012 cents
Year ended 31 July							
Basic earnings per share	**153,78**	168,46	163,62	105,98	146,07	113,61	90,85
Diluted earnings per share	**153,78**	160,84	155,01	101,14	139,13	110,85	89,09
Headline earnings per share	**154,23**	167,96	164,51	117,06	132,10	114,46	90,99
Diluted headline earnings per share	**154,23**	160,36	155,85	111,72	125,83	111,69	89,23
Net asset value per share	**1 012,93**	1 014,17	688,33	600,79	633,04	571,58	534,05
Dividends/capital distributions per share	**112,00**	104,00	104,00	88,00	88,00	88,00	76,00

	2018 %	2017 %	2016 %	2015 %	2014 %	2013 %	2012 %
PROFITABILITY RATIOS							
Profit attributable/income	**9,92**	9,64	8,13	6,28	9,26	8,46	7,33
EBITDA [1] margin	**5,74**	7,91	6,97	10,20	8,49	12,34	12,85
Return on equity [2]	**15,19**	18,48	25,38	17,16	24,23	20,23	16,91
Return on total assets [3]	**9,40**	11,15	14,60	16,29	16,26	13,24	13,94
SOLVENCY AND LIQUIDITY RATIOS							
Solvency ratio [4]	**2,59**	3,02	2,19	2,36	2,55	3,04	3,15
Current ratio	**0,93**	0,67	0,84	0,73	0,74	0,72	0,97
Acid test ratio	**0,91**	0,66	0,84	0,73	0,73	0,69	0,94
EFFICIENCY RATIOS							
Asset turnover [5]	**0,95**	0,99	1,59	1,63	1,51	1,57	1,58
Property, plant and equipment turnover [6]	**3,36**	3,25	3,27	2,85	2,68	2,91	2,68

[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

	2018 % change	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000
Value created								
Gross betting income	**0,5**	**1 182 525**	1 176 913	1 198 796	1 044 329	927 253	875 827	823 717
Other income	**1,9**	**599 620**	588 498	526 443	435 685	441 021	296 493	252 444
Income from investments	**(14,5)**	**13 547**	15 846	5 331	2 074	2 815	1 795	2 597
Income from equity-accounted investees	**38,0**	**169 169**	122 591	94 694	47 060	57 983	26 705	15 544
Income from operations	**3,2**	**1 964 861**	1 903 848	1 825 264	1 529 148	1 429 072	1 200 820	1 094 302
Other overhead costs	**7,7**	**(887 421)**	(843 426)	(789 212)	(731 314)	(615 668)	(457 944)	(436 638)
Total value created	**(0,4)**	**1 077 440**	1 060 422	1 036 052	797 834	813 404	742 876	657 664
Value distribution								
Stakes	**0,4**	**209 520**	208 756	202 871	189 772	186 299	175 689	165 149
Employees	**2,8**	**400 978**	389 999	380 809	293 532	274 432	245 115	202 418
Finance costs	**70,1**	**34 577**	20 323	9 369	5 828	1 183	779	1 409
Distribution to shareholders	**30,9**	**113 734**	86 875	70 057	66 389	66 517	59 713	51 399
Government	**(3,7)**	**253 772**	241 752	255 317	217 784	197 202	199 404	185 876
– Value added tax (paid on betting income)	**1,9**	**139 888**	137 321	139 473	120 806	107 058	100 994	95 075
– Betting tax	**2,1**	**92 876**	90 989	93 772	83 017	73 604	66 980	60 280
– Income tax	**56,3**	**21 008**	13 442	22 072	13 961	16 540	31 430	30 521
Total distributed	**4,6**	**1 012 581**	947 705	918 423	773 305	725 633	680 700	606 251
Reinvested in the Group to maintain and develop operations								
Depreciation and amortisation	**(1,1)**	**70 393**	71 207	61 471	49 825	39 374	39 885	38 018
Deferred tax	**455,8**	**(20 301)**	(3 620)	(9 160)	5 752	2 833	(6 173)	(2 720)
Retained profit	**(67,7)**	**14 586**	45 130	65 318	(31 048)	45 565	28 464	16 115
Total retained	**(42,6)**	**64 678**	112 717	117 629	24 529	87 772	62 176	51 413
Total value distributed/retained	**(0,4)**	**1 077 440**	1 060 422	1 036 052	797 834	813 405	742 876	657 664

ONE OF AFRICA'S RICHEST RACEDAYS

*One of Africa's richest racedays. From its inception in 1999, Champions Day has gone from strength to strength. An astronomical stake cheque of R4 million helped give the day the title of **"Africa's Richest Raceday!"***

Africa's richest raceday took place at Turffontein Racecourse. From its inception in 1999, Champions Day has gone from strength to strength and with 12 races carded, nine of which are feature races, including the Grade 1 SA Derby, the Grade 1 Computaform Sprint and The Premier's Champions Challenge (Grade 1), which has an astronomical stake cheque of R4 million, the day could rightly boast the title of "Africa's Richest Raceday"! In total, just over R11 million was paid out in stake money to very excited well-deserving connections.

The between-race entertainment, which included dancers from many of the cultures represented at the Intercontinental Village, helped make this a fabulous day out for the families. The weather, in true Joburg fashion, was spectacular, and walking through the beautifully shaded area just to the left of the winning post, one could hear the laughter of children having the best time in the Kids Zone.

*This is a day **definitely to be diarised** in the 2019 social calendar.*

CHAIRMAN'S REVIEW

Phumelela is a fully-fledged international betting and media rights group

Phumelela has developed from a single product business operating only in South Africa to a business with multiple revenue streams from a variety of sources across multiple geographies. Our international operations are now our largest single source of profits. We have built scale, commercial sustainability, coupled with diverse and quality cash flows.

Phumelela is a fully-fledged international betting and media rights group maximising returns on our intellectual property. Our reporting disclosures reflect this operational transition. The Betting Operations segment represents wholly owned subsidiaries and joint ventures and the Media Operations segment represents the distribution of our intellectual rights through the delivery of visuals and data on horseracing.

Phumelela's diversification into Supabets and Interbet are investments from which we have the benefit in 2018 of 50% of the earnings of each company. Betting World continues as our wholly owned retail fixed odds betting operation. The newly formed Supaworld, jointly owned by Betting World and Supabets, has a promising future as a sports betting and fixed odds business. These companies will all have an important role in the financial performance of the Group in the coming years.

During 2018, there was a focus on improving the competitive appeal of all our betting offerings. Management roles and reporting lines are now more reflective of the way we manage the Group. There are operational benefits and synergies to be derived from the sharing of best practices between Betting World, TAB, Supabets and Interbet.

In recognising that we have an indivisible product with essentially a common engine, we are aiming to eliminate duplication and streamline the organisation.

Our customers and followers will judge us on the quality of the betting and sporting experience they obtain and our shareholders will judge us on the quality of our financial returns. Furthermore, as a good corporate citizen and as a caring institution, we will endeavour to better the conditions of our workforce, our previously disadvantage communities and all associated members of the racing fraternity.

I would like to acknowledge the following people.

Peter Malungani, our previous Chairman, voluntarily retired at the 2017 annual general meeting after 20 years of exemplary service, having been appointed to the Board on 2 October 1997, the date Phumelela was incorporated. Peter's guidance and judgement navigated our original creation and the current ongoing business over some very difficult times, for which the organisation will always be indebted.

The Group has been well served by executive leadership with each CEO making a unique contribution to improving our business. Rian du Plessis stepped down as CEO on 17 September 2018 after a decade in the job. Rian was instrumental in pursuing the growth of multiple revenue streams, including the partnerships with Supabets, Interbet and many other initiatives. Rian built up a supportive and very capable management team which will guide the business forward.

Because of this depth of management, John Stuart is a natural successor as Chief Executive. John has extensive experience with the Group and has successfully run our international division since 2006. Simultaneously, Andreas Heide has taken on a much larger role in his determination to support John as CEO. I wish them the very best as they steer this Group forward in to the future.

I extend my sincere thanks to two long-serving Board colleagues, who will not be standing for re-election at the 2018 annual general meeting. Rob Cooper served as a non-executive director for ten years and played a pivotal role as Chairman of the Audit and Risk Committee and Chairman of the Social and Ethics Committee. Chris van Niekerk was appointed to the Board as a non-executive director on 21 December 2005 and served as Chairman of the Remuneration and Nominations Committee, also serving as Chairman of Kenilworth Racing. They will be sorely missed.

2018 has also been a year in which the composition of the Board and Board committees has been substantially strengthened.

Fikile Magubane, S'celo Mahlalela and Steve Müller bring strong credentials to the Board in their roles as non-executive directors and as members of various Board committees. Steve has taken on the role as Chairman of the Audit and Risk Committee and Fikile and S'celo serve as members of the Audit and Risk Committee. Lindiwe Rakharebe's appointment to the Board and as a member of the Social and Ethics Committee is pending regulatory approval.

I am furthermore delighted that Moses Tembe has joined the Board as Lead Independent Director, strengthening the role of the Chairman and in the spirit of King IV fulfilling the duties usually assigned to a Deputy Chairman. Moses comes well referred with a set of values and an understanding of business that we at Phumelela relate to.

In serving as Chairman, I have enjoyed the support and guidance of the Board and I look forward to their wise counsel going forward.

For the gambling industry to thrive, we need a predictable regulatory and licensing environment, commonality across provinces, consistency in the way regulation is practically implemented, fair taxation, administrative competency and crucially, a level playing field.

Phumelela shoulders a disproportionate burden in funding and supporting the sport of thoroughbred horseracing in South Africa. Our losses in horseracing have escalated. This cannot continue. It is intolerable that we have a situation where some take out far more than they put in, if they contribute at all. All of us who make a living from the sport need to contribute fairly and squarely. The need for a more equitable dispensation in respect of funding the sport, levies, taxation and regulatory treatment remains as important as ever.

The National Gambling Amendment Bill, 2018, has, *inter alia*, the objective of amending the National Gambling Act, of 2004, repositioning the National Gambling Board to be a National Gambling Regulator. It is firmly believed that the horseracing industry has had to carry an unreasonable financial weight. We urge government and the regulator to remain fair, transparent and balanced across the various betting categories.

Insofar as the Bill is concerned, Phumelela is at the forefront of empowering entrepreneurs in our industry through our initiatives in Betting World and TAB.
We endorse the notion that bookmakers should contribute reasonably and fairly to the development of the horseracing industry.

However, we note with concern proposed provisions in the Bill with respect to horseracing, bets on lotteries and sports pools, that would have a disruptive and potentially economically damaging effect if implemented. The proposed self-regulatory body for horseracing is innocuous at face value but would disrupt a highly effective and strong regulatory board as represented by the National Horseracing Authority. Placing bets on lotteries and sports pools within the licensing regulation of the National Lotteries Commission, together with the additional burden of a levy that is subject to review with no defined ceiling, is detrimental to operators and punters. Phumelela urges that common sense prevail to encourage what could work well for all parties concerned. We shall be engaging in a constructive and robust manner to make our voice heard, confident that our point of view will be well received and that our Constitutional rights will be upheld.

The sport of thoroughbred horseracing continues to face challenges on several fronts, but our industry remains truly world-class. Phumelela remains committed to supporting a high-quality racing experience.

Phumelela gives back to society in several ways.
By ensuring commercial sustainability, we benefit society through employment, taxation and investment. By being environmentally conscious, we contribute to a better quality of life and we conserve scarce resources. Being an open and transparent organisation, good governance and wide external scrutiny is encouraged. We see transformation as critical for business success and our employment equity, training, procurement policies and backing of previously disadvantaged entrepreneurs to succeed as franchisees in this exciting industry demonstrate this.

Empowerdex has audited the Group as a level 4 with Empowering Supplier status, but we continue to identify areas for improvement.

I thank our numerous customers for placing your business with us; we strive to provide you with a world-class and enjoyable experience.

To our stakeholders, which includes the broader horseracing community, suppliers and business associates around the world, thank you for partnering with us. To the regulatory authorities, thank you for the role you play in ensuring an orderly framework within which the industry operates.

To our shareholders, thank you for investing in Phumelela. We seek to provide you with a good long-term return.

Lastly, my thanks to the employees of the various companies within the Group and within our joint venture companies Premier Gateway International (our Isle of Man operation), Supabets and Interbet for the contribution you make.

We look forward with excitement to the challenges and opportunities that lie ahead.

B KANTOR
Chairman
5 October 2018

CHIEF EXECUTIVE OFFICER'S REVIEW

A year of challenge, change, and realising opportunities

BUILDING A MODERN AND PROGRESSIVE ORGANISATION

This has been a year of challenge and change but it has also been a year in which we have realised opportunities, realigned the management structure and invested to upgrade the customer experience. Phumelela is modernising and repositioning for the future as a betting and media rights group.

Whilst trading conditions in South Africa are especially tough, the Group has the benefit of continued strong demand from international betting operators for the media and data rights of South African thoroughbred horseracing.

Despite a fair share of disappointments and challenges, the Group ended the year in review on a positive operational and financial note. We continue to execute on our clearly articulated strategic priorities and we are well positioned for the future.

We have built a large international business off the excellent South African horseracing that Phumelela has been pivotal in nurturing at home. We are historically associated with the horseracing industry, which remains a sport we are passionate about and continue to promote and invest in, yet we are also a world-class, diversified gambling entertainment group due to our expansion initiatives and the partnerships we nurture.

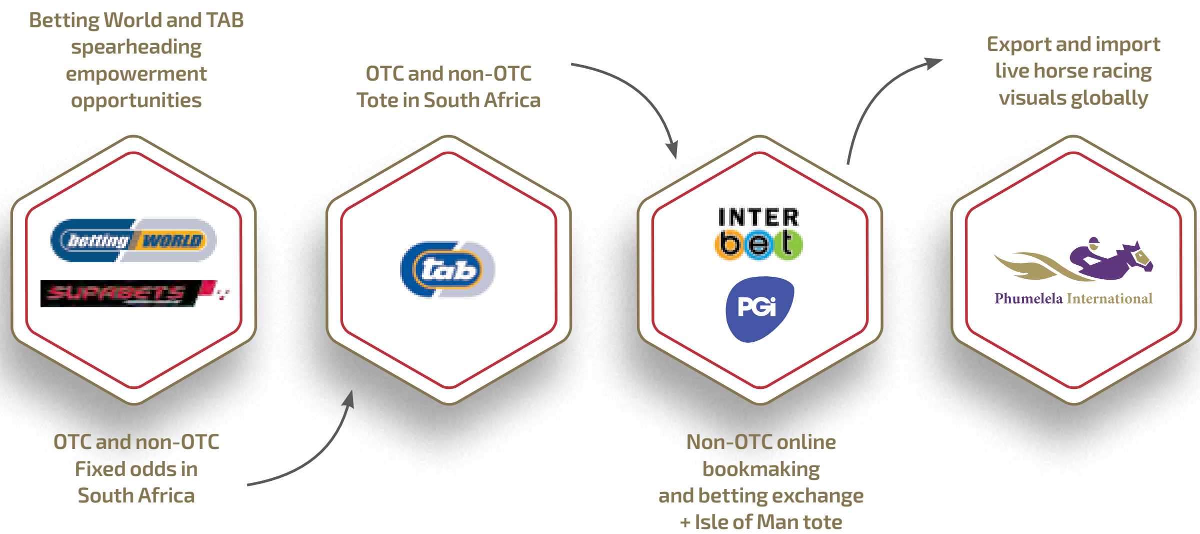
My predecessors as Chief Executive have made a significant and selfless contribution to building this strong foundation and it is a privilege to take over the baton of leadership of this fine organisation.

I can assure our shareholders and other stakeholders that there will be no imminent change in strategy. The focus is on sticking to our knitting and making sure that the large investments that have been made realise their best potential and return on investment for shareholders.

I believe that all of us on the management team should be held accountable for the profit and loss responsibility we are tasked with and ensure we craft realistic budgets but ensure that they are achieved. A responsible and accountable organisation is a progressive organisation, with people supported and motivated to do their best.

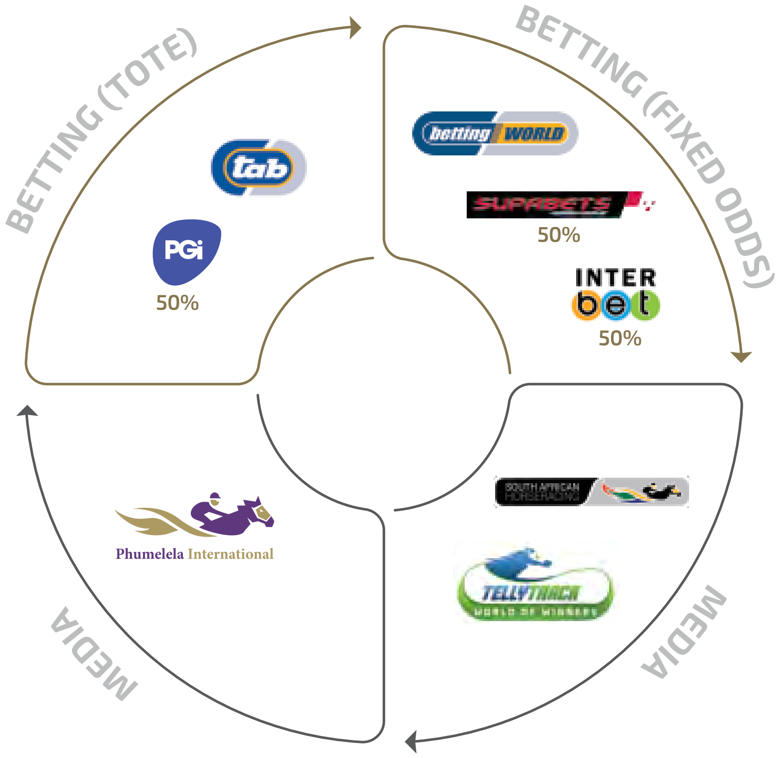
Successfully achieving our commercial goals in a spirit of cooperation and a sharing of best practice breeds a culture of positivity. This people focus holds true for our many stakeholders. I believe it is important to reach out beyond the organisation to listen, learn and understand how we can

A stable of complementary betting and media products in South Africa and internationally



Phumelela has transitioned into a fully-fledged multiple product betting and media rights group of companies

Phumelela is a betting and media rights group offering a full spectrum of betting opportunities for customers in South Africa and internationally



work better in partnership and with transparency for a common cause.

Through Phumelela and our joint venture partners, customers have access to a suite of accessible entertainment opportunities. The complementary commercial relationship between our betting and media products is a virtuous circle that makes us distinctive in the gaming industry.

The Group's Betting Operations offer fixed odds and tote betting under our wholly owned Betting World and TAB brands and through the jointly owned Supabets, Interbet and Premier Gateway International ("PGI") businesses. TAB, Betting World and Supabets sell bets over-the-counter ("OTC") as well as non-OTC (i.e. internet and telephone), whilst Interbet and PGI offer only non-OTC bets.

Our Media Operations comprises the selling of media and data rights of South African horseracing locally and internationally. International reach is important to showcase South African horseracing. Phumelela exports live visuals of South African horseracing and imports live horseracing from other countries. The PGI totalisator on the Isle of Man, in partnership with Tabcorp in Australia, accesses large and resilient betting pools internationally.

OPERATIONAL ASSESSMENT

Taking Betting World, TAB, Supabets and Interbet together on a 100% consolidated basis the reach of the Group is now considerable, with over R8 billion in betting turnover flowing through these channels.

Income growth in Betting Operations slowed as the year progressed, ending the year marginally higher. Despite this we nevertheless managed to increase the sports betting turnover, with betting on soccer dominating and continuing to prove popular. We were pleased to conclude new international agreements in several African countries. Phumelela continues to refine the product mix and ensure that odds management is effective.

Digital capability is an important aspect of our strategy and we have further work to do to improve the digital experience and extend the integration of digital technology into our retail network. The Group's strategic initiatives to drive non-OTC betting turnover are yielding positive results, largely through the internet and smart devices.

However, physical retail stores remain popular as a socially appealing gathering place where fellow punters can share tips, celebrate or commiserate. Betting shops are an important part of our transformation franchise initiative, such as in the North West. The Supabets and the jointly owned Supaworld outlets are all large format physical stores that attract a substantial throng of customers throughout the day. We are focused on getting the balance right between online and physical retail stores and the interplay between the two.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

Four Supaworld stores were operating by the end of our financial year and we anticipate at least a dozen mega stores being operational within two years. We are deploying Betting World licences as Supabets mega stores through our best of both strategies. During the year, Betting World sold four fixed odds licences to Supaworld Proprietary Limited, the company jointly owned by Betting World and Supabets.

In total there were 235 retail stores in South Africa at the end of the financial year, encompassing, 71 000 m² of trading space, serving over 70 000 non-OTC active accounts and generating R1,3 billion in net betting income. Supabets stores generated sales of R25 412 per square metre, approximately double that of Betting World and TAB combined. Due to their smaller size and location, it is unlikely that Betting World and TAB would attain the trading densities of a Supabets store, but we do see scope to improve aggregate trading density as we optimise the retail footprint through leveraging the synergies identified between the two formats.

From opening, strategically located Supaworld Proprietary Limited joint venture large-format stores, branded as Supabets, experienced a sharp acceleration in turnover and gaming revenue as evidenced by recently opened Bloed Street in Pretoria, Kempton Park in Ekurhuleni, and Commissioner Street in downtown Johannesburg. We anticipate very good trading density in the future. These stores are sustainably profitable both before and after set-up costs within nine months and optimally profitable within eighteen months. In the 2019 financial year, Midrand, Mamelodi and Benoni will also be trading. We also hope to have stores operational in Isipingo and Smith Street in Durban, both in KwaZulu-Natal.

Our joint venture partnerships with Supabets and Interbet are functioning well with enormously beneficial examples of how we can improve our betting offer through incorporating new ways of doing things. The appointment of a national retail manager in the previous financial year, with experience outside of the gaming industry, is reaping benefits from the fresh approach this has brought.

The Betting World website will be powered by Supabets and include a wider Supabets sports and state-of-the-art in-play offering.

A customer loyalty programme at Betting World will reward our customers for their patronage.

In revamping the look and feel of Betting World stores we are encouraging a more inviting experience. Free wi-fi is being rolled out. This exchange of best practices works both ways, with Supabets bringing in retail and online betting on horseracing using Betting World's odds management and software. Meantime, the TAB website is converging on to software developed by Interbet, our joint venture online bookmaking business and betting exchange.

In furtherance of our empowerment ambitions, we provide a turn-key and fully odds managed solution within Betting World and TAB. Franchises and agencies are on offer to selected previously disadvantaged individuals. Our empowerment franchise model is scalable across the country.

PGI on the Isle of Man had a good year, benefiting from new business and improved revenue from premium customers betting on local and international horseracing, whilst international tote to tote commingled revenue performed to expectation.

Our local horseracing operations, excluding international revenues, remain loss making on a standalone basis.

Retail footprint in South Africa

	TAB and Betting World		Supabets		Supaworld*		Total Group	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Retail stores (number)	**220**	223	**11**	11	**4**		**235**	234
Retail trading space (m²)	**51 481**	50 786	**13 200**	13 200	**6 308**		**70 989**	63 986
OTC net betting income ("NBI") (R'000)	**603 229**	611 706	**335 443**	110 771	**58 703**		**997 375**	722 477
OTC trading density per m²	**R11 717**	R12 045	**R25 412**	R8 392	**R9 306**		**R14 050**	R11 291
Non-OTC active accounts (number)	**38 996**	37 030	**31 444**	22 820			**70 440**	59 850
Non-OTC net betting income (R'000)	**199 090**	193 902	**86 371**	28 746			**285 461**	R222 648
Non-OTC NBI/account	**R5 105**	R5 236	**R2 747**	R1 260			**R4 053**	R3 720

** 2018 annualised*

We continue to put forward the case for a fairer dispensation with respect to the funding situation in the sport. I am pleased to report that there are early encouraging overtures in this regard that have the potential, if widely embraced, to be beneficial for all concerned with the financial well-being of horseracing.

There is continued strong demand from international betting operators for the media and data rights of South African thoroughbred horseracing. Internationalising South African horseracing has been the focal point of my career this past twelve years and I have handed over to a highly capable successor who has been groomed internally to further our ambitions.

CORPORATE CITIZENSHIP

Phumelela has an important role in the broader community as a good corporate citizen. We live as South Africans in a society with numerous socio-economic challenges. Whilst our first duty as management is to run an efficient and profitable enterprise in a responsible manner, we are also mindful that we have a wider responsibility to our fellow citizens and should help where we can.

Of our directly employed staff, 92% are black South Africans and 70% of our employees are female. This past year we spent R4 million on training, including bursaries and over R3 million on CSR programmes. We are working in partnership with colleagues in the horseracing industry to improve living and working conditions for grooms.

The Group is the largest financial contributor to horseracing in South Africa and a substantial contributor to government through all its gambling businesses.

The Group created total value of over R1 billion during the year under review, excluding our joint ventures which are equity-accounted. We distributed the largest proportion to our employees, followed by government, prize monies and our shareholders through a dividend.

Phumelela is fully committed to the amended codes of Broad-based Black Economic Empowerment and we are making progress to align the transformation policies, strategies and processes.

I encourage shareholders to peruse the Group sustainability report, available for download on the website, which provides detailed information on Phumelela as a good corporate citizen.

IN CONCLUSION

I am encouraged with developments in our Group. We have achieved much and we have further to go.

Our proactive initiatives place us in a relatively strong position locally given the poor economic backdrop and we have the benefit of good demand abroad for quality South African horseracing.

My thanks to our Chairman, Mr Bernard Kantor, for his support and encouragement and to the Board of Directors at large for the excellent oversight and guidance.

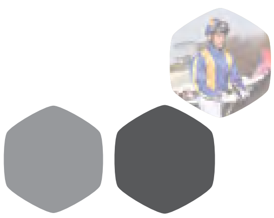
I thank Andreas Heide, a colleague of long standing, whose commercial and financial knowledge is invaluable in assisting me.

I thank my management colleagues for your contributions and I look forward to us all living up to the targets we set ourselves and commit to within a culture of positivity.
My thanks to all our staff for doing your part to make this Company successful.

My thanks to our varied stakeholders for the parts you all play in the Group and to our numerous customers whom we strive to delight by putting on a good show.

Lastly, my gratitude to Rian du Plessis for his sterling leadership of our Company over ten demanding but fruitful years, during which time he made an indelible mark as an agent of change for the better and a force for good.

JA STUART
Chief Executive Officer
5 October 2018



GROUP FINANCE DIRECTOR'S REVIEW

A strong financial platform

KEY OPERATIONAL FEATURES OF THE TRADING YEAR

- ***16% rise in weighted average shares reflects the prior year rights issue to fund acquisitions***
- ***Headline earnings up 6% to R155,6 million***
- ***Headline earnings per share down 8% to 154,23 cents***
- ***Normalised headline earnings up 20% to R175,1 million***
- ***Normalised headline earnings per share up 3% to 173,55 cents***
- ***Earnings per share down 9% to 153,78 cents***
- ***Net asset value per share 1 012,93 cents***
- ***Annual dividend maintained at 104,00 cents***
- ***Continued strong financial position with net debt to equity 22,8%***

PERSPECTIVE TO THE GROUP FINANCIAL RESULTS

In their assessment of the results for the twelve months ended 31 July 2018, shareholders' attention is drawn to the following salient features.

Arising from the rights offer in the financial year ended 31 July 2017, there are 100 868 421 weighted average shares in issue during the financial year ended 31 July 2018 compared to 86 974 276 in the prior financial year, a rise of 16%. Taking into account the dilutive potential to ordinary shares due to share options granted to employees, there are 100 868 421 weighted average shares in issue compared with 91 097 698 in the prior financial year, a rise of 11%.

As a consequence of the increase in share capital and corresponding rise in weighted shares in issue, there is a dilutionary effect on basic earnings per share, headline earnings per share, and diluted earnings per share.

During the year in review, the Group bought back 3 146 330 shares for R55,0 million at an average price of R17,49 per share. In all, 1 555 908 shares were issued in terms of the share option scheme. The net effect of these transactions was to reduce the net issued share capital as at 31 July 2018 to 99 969 347, being a 2% reduction compared with 101 559 769 shares in issue as at 31 July 2017. At year end, there were 2 531 211 treasury shares.

Following the rights offer in the 2017 financial year and the acquisition of 50% of Supabets and a further 24% equity interest in Interbet, the Group retained a strong financial position as at 31 July 2018. The Group has a good platform to pursue the clearly articulated strategic objectives and growth agenda and has sufficient cash flow and borrowing capacity to meet its ongoing operational needs.

Equity attributable to ordinary shareholders is valued at R1 019,9 million. Total short-term and long-term borrowings are R316,3 million, including a revolving credit facility utilised to the extent of R300,0 million, and there is a further contingent liability on Supabets of R28,8 million. Cash and cash equivalents of R114,4 million include foreign currency denominated cash of R72,9 million. Net debt, including the contingent liability, is thus R230,7 million as at 31 July 2018 and represents a debt to equity ratio of 22,8%, which is considered a prudent level of gearing.

Total assets increased to R1 650,7 million from R1 539,8 million and long-term assets increased to R1 338,9 million from R1 280,6 million. The value of equity-accounted investments increased to R690,4 million from R638,1 million. Property, plant and equipment is valued at book of R464,7 million. Goodwill and intangibles of R57,4 million are small in the context of the entire statement of financial position. The investment property valued at R18,7 million is the Arlington Racecourse in Port Elizabeth, which is mothballed, and which was independently valued at R51 million in October 2016.

A feature of the result is the once-off cost of the R27,1 million voluntary severance programme that was announced at the close of the previous financial year and which was expensed during this financial year. This expense is R19,5 million after tax and equates to 19,32 cents per share.

The increase in the South African value added tax rate from 14% to 15% in April 2018 cost the group R4 million during the year in review and will have an annual cost of approximately R10 million in future as the take-out ratio after provincial taxes and levies has not changed.

Return on average equity of 15% on attributable profit is affected by the substantially changed capital structure, with the Supabets acquisition yet to fully contribute, the once-off cost of the voluntary severance programme, and the impact of the higher VAT rate that could not be recovered. As the new investments contribute fully, the return on equity is anticipated to increase. Nevertheless, return on equity exceeded Group cost of capital.

Segmental disclosure, detailed analysis on which can be found in note 36, has been revised to better present the operational transition of the Group this past year. These segments are Betting Operations, Media Operations, and Administration and Support Services, with the latter providing shared services.

Betting Operations represent 68% of Group net income of R1 563,0 million. Media Operations, which encompass horseracing and international broadcast, represent 30% and Administration and Support Services represent 2% of Group income.

In line with accounting convention, the segments represent wholly or majority-owned operations on a consolidated basis whilst the equity-accounted associates are represented within a single line.

The significance of equity-accounted investees in the totality of Group profit and loss means that Group income, earnings before interest, depreciation and amortisation ("EBITDA"), and profit or loss after interest, is understated in relation to the scale of Group activities when the revenue and operating profit of these joint ventures is taken to account. Equity-accounted profits from local and international sources contributed 111% of pre-tax profits compared with 81% in the prior year.

The abbreviated income statement of financial position is reflected in the accompanying table.

Group financial highlights

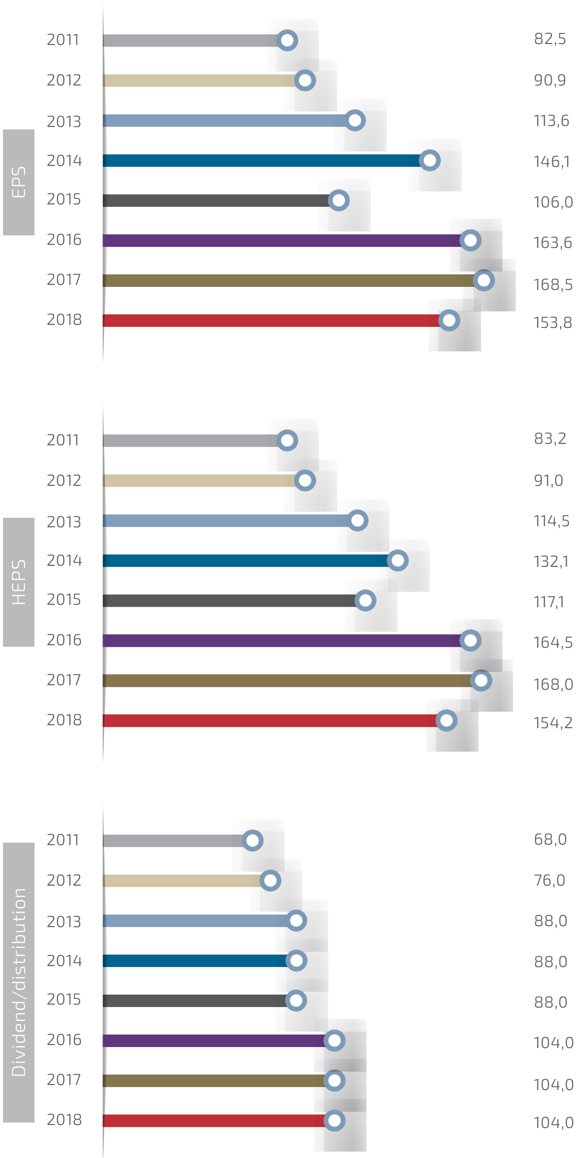
	% Change	2018 R'000	2017 R'000
Equity-accounted profits	38	**169 169**	122 591
Attributable profit	6	**155 112**	146 520
Headline earnings	6	**155 568**	146 084
Local pre-tax (loss)/profit	68	**(52 049)**	(30 990)
International pre-tax profit	12	**204 316**	182 287
Non-trading items	(42)	**546**	946
Total pre-tax profit		**152 453**	152 243
Earnings per share – cents	(9)	**153,78**	168,46
Headline earnings per share – cents		**167,96**	167,96
Ordinary dividend per share – cents		**104,00**	104,00
Equity	(2)	**1 012 624**	1 029 993
Net asset value per share – cents		**1 012,93**	1 014,17
Total assets	7	**1 650 674**	1 539 809
Number of shares in issue (actual)	(2)	**99 969 347**	101 559 769
Weighted number of shares (actual)	16	**100 866 421**	86 974 276
Net (debt)/cash	79	**(230 697)**	(129 177)
Net debt to equity ratio	82	**23%**	13%
Return on equity	(19)	**15%**	18%

Offshore income streams and local fixed odds betting operations, both wholly owned and jointly owned, were the principal drivers of revenue and profit.

Profit before tax from international operations was up by 12% to R204,3 million, which is 134% of Group pre-tax profit compared with 120% in the prior year. Currency effects on the 2018 trading result were negligible and thus the 12% represents a pleasing real increase rather than reflecting a weaker rand.

International profits are earned in various currencies, including the British pound, the Australian dollar, the American dollar, the Euro, the Hong Kong dollar, the Singapore dollar, and the Swedish krona among the more important. On average, the rand was weaker by 1,5% against the pound, 3,2% stronger against the Australian dollar, 2,9% weaker against the euro, and 5,2% weaker

DIVIDENDS AND EARNINGS PER SHARE – PER YEAR 2011 – 2018
(cents)



GROUP FINANCE DIRECTOR'S REVIEW CONTINUED

against the American dollar, but currency effects overall were relatively muted, unlike in the prior financial year when the rand appreciated markedly. Whilst the rand is the reporting currency the Group manages and measures international operations in foreign currency.

In the prior financial year, Group earnings were presented with pro forma supplementary information in constant currency for illustrative purposes. As the rand was relatively stable this financial year, pro forma constant currency information has not been presented as the difference is insignificant. However, in the interests of better reflecting underlying performance the directors will in future present constant currency information if it is material. Foreign income is earned in the territories to which those currencies are applicable and translated in the Group accounts at prevailing rates.

FINANCIAL ANALYSIS

Gross betting income from local operations, being the total of bets struck less betting dividends paid, refund, and rebates was marginally up at R1 182,5 million with local net betting income, which deducts VAT and betting taxes, also marginally up at R949,8 million. Fixed odds continued to perform ahead of the tote due to the popularity of soccer and numbers betting whilst tote and fixed odds net betting income from horseracing declined. Including local and international other operating and investment income of R613,2 million, total Group net income was up 1% to R1 562,9 million.

Local expenses, excluding stakes in the amount of R209,5 million, National Horseracing Authority levies of R36,3 million, and the voluntary severance expense of R27,1 million, were well controlled at R1 047,8 million, marginally up on the prior year. The payback on the voluntary severance package is calculated to be less than two years.

Intellectual property rights fees of R191,3 million are captured locally and internationally and a function of the growth of the international betting and media rights activities.

The depreciation and amortisation charge of R70,4 million reflects the ongoing investment in buildings, plant, and machinery, information technology, and other assets.

Within the newly presented segment analysis, Media recorded a loss of R281,6 million. Included within this result is stakes in the amount of R209,5 million, in accordance with the formula contained in the stakes agreement with the Racing Association and calculated retrospectively.

Betting operations in aggregate recorded a profit before tax of R602,7 million with over-the-counter betting contributing a 61% share and non-over the counter a 39% share. This includes the share of profits from equity-accounted investees, Supabets/Supaworld, Interbet and Premier Gateway International.

A positive result from the Betting World fixed odds business, together with the Group's 50% share of profits from Supabets and Interbet and 33% of profits of SW Security Solutions, was insufficient to prevent the local operations in aggregate from being loss making to the extent of R52,4 million.

Local equity-accounted profits increased to R57,4 million from R33,8 million. Supabets and Interbet combined contribution increased by 78% to R57,3 million with SW Security Solutions contributing the balance. Supaworld Proprietary Limited, a brand-new concept, made a marginal loss and is anticipated to be profitable during the coming financial year. Supaworld Proprietary Limited is jointly owned by Betting World and Supabets and thus contributes a 75% share of earnings to the Group.

Further detail on equity-accounted businesses is to be found in note 9.

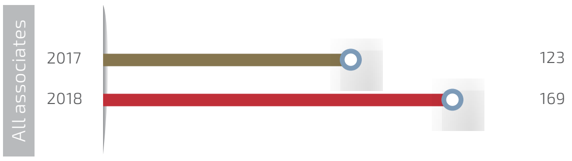
Supabets Holdings recorded a profit before tax of R120,6 million and an after-tax profit of R87,8 million. Interbet recorded a profit before tax of R47,7 million and an after-tax profit of R34,3 million. SW Securities recorded a profit before tax of R2,4 million and an after-tax profit of R0,6 million. The recently formed Supaworld recorded a net loss of R1,6 million.

International income has underpinned the Group result for some years but further diversification within South Africa, represented lately by the successful acquisition of 50% of Supabets and Interbet and the formation of Supaworld, further bolsters Group income from new sources.

ASSOCIATE INCOME INCREASINGLY BOOSTED BY ACQUISITIONS AND ORGANIC GROWTH

(R'million)

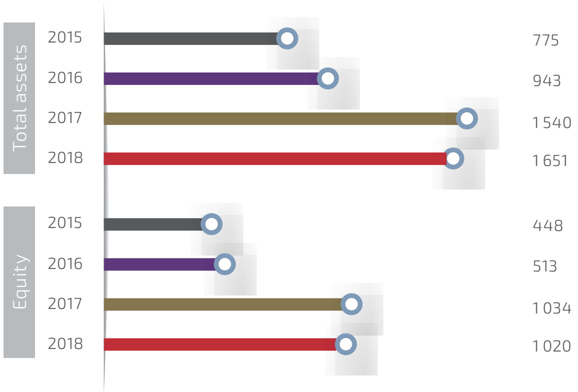
- Supabets and Interbet (both 50% owned) combined contribution increased 78% to R57,3 million
- PGI (Isle of Man) increased income by 27% to R112,5 million
- Total associate income grew by 38% or R46,6 million to R169,2 million



CORPORATE ACTIVITY ADDS CONSIDERABLY TO CASH GENERATING ASSETS BETWEEN 2015 AND 2018

(R'million)

- Total assets increased from R776 million to R1,7 billion
- Shareholder equity increased from R513 million to R1,0 billion
- R547 million invested in 50% of Interbet and 50% of Supabets
- R288 million rights offer at R17,39 per share - 1 February 2017
- Shares in issue increase from 74,5 million to 100,0 million



Group international income is derived from the rights of Phumelela International ("PI") 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 Premier Gateway International ("PGI") tote operator on the Isle of Man. PI recorded a profit from operations of R91,8 million, a marginal decrease compared to the prior year. PGI contributed equity-accounted income of R112,5 million, up 27%.

Share of Premier Gateway Group profits is allocated to 100% of profit originating from the shareholders' home market and 50% of profits from international markets. Therefore, Phumelela receives only part of what is reflected in total in the notes to the accounts as there is not a 100% Group flow through.

The Group recorded a profit on foreign exchange in income of R15,4 million compared with R4,4 million.

International operations have a natural cash flow hedge, limiting the impact of currency fluctuations.

The R0,5 million positive non-cash fair value adjustment relates to the investment in Automatic Systems Limited in Mauritius. These 421 323 ordinary shares are not strategic but given that there is no imminent prospect of an open market sale they are held as an investment at market value.

Group pre-tax profit before the fair value adjustment is R151,9 million with international profits of R204,3 million 134,5% of that.

The Group income tax charge of R0,7 million is lower than the R9,6 million of the previous year and is made up of a R21,0 million current tax charge and a R20,3 million deferred tax credit. Estimated tax losses available for utilisation against future taxable income are now R109,0 million. Cash tax paid out was R25,0 million. Equity-accounted investees Supabets, Interbet, and SW Security are profitable and pay tax at the South African corporate tax rate of 28%. Share-based payment expenses are not deductible for tax.

The Group paid VAT on betting income of R139,9 million and betting tax of R92,9 million, in total R232,8 million.

Net attributable income increased to R155,1 million from R146,5 million. Earnings adjustments for headline purposes were once again minimal with headline earnings of R155,6 million comparing to R146,1 million, an increase of 6%.

The net effect of the higher number of shares in issue resulted in earnings per ordinary share decreasing by 9% to 153,78 cents from 168,46 cents and headline earnings per ordinary share decreasing by 8% to 154,23 cents from 167,96 cents. Adjusting for the once-off R19,5 million after-tax effect of the voluntary severance programme, headline earnings on a pro forma normalised calculation are R175,1 million, an increase of 20%, with pro forma normalised headline earnings per share 173,55 cents, an increase of 3%.

Dividends totalling 104,00 cents per share were declared in respect of this year's earnings and represent a cover ratio on headline earnings of 1,5 times.

The Group generated cash, before working capital and equity-accounted profits, of R70,7 million. This is after adjustment for share of profit of equity-accounted investees in the amount of R169,2 million. After absorption of cash from working capital of R7,8 million, cash generated by operating activities increased to R62,9 million from R45,7 million.

Dividends received from equity-accounted investees increased to R130,4 million from R109,4 million, an increase of 19%, with R93,0 million received from PGI in the Isle of Man.

Acquisition of fixed assets and intangibles amounted to a gross R67,5 million compared with R82,2 million. Commitments in respect of capital expenditure approved by directors is R102,8 million.

Dividends paid to shareholders amounted to R113,7 million, up from R86,9 million.

Borrowings as at 31 July 2018 came to R316,3 million, of which R300,0 million is within a revolving credit facility. The unsecured revolving credit facility in the amount of R320,0 million is redeemable in full in June 2021 at an interest rate of JIBAR plus 260 basis points. An additional

GROUP FINANCE DIRECTOR'S REVIEW CONTINUED

demand facility in the amount of R55 million is available at the rate of prime minus 1%. The remaining contingent liability in respect of Supabets is R28,8 million. Cash balances of R114,4 million include R72,9 million in foreign currencies of which 45% is in British pounds. Including the contingent liability gross debt is therefore R345,1 million and net debt R230,7 million.

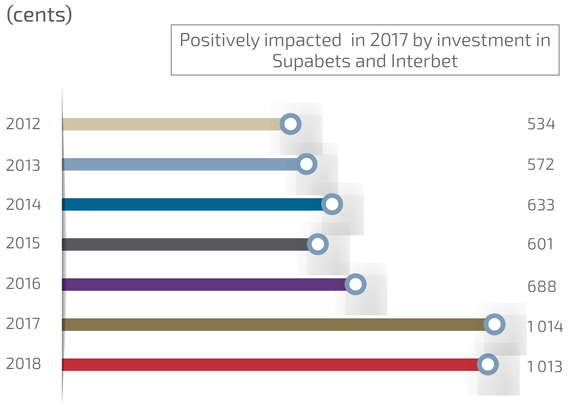
The Group has funding headroom should it be needed. Substantial and growing dividend income from equity-accounted investees provides further scope to deploy for growth and development of the Group.

Total assets of R1 650,7 million includes property, plant, and equipment at a carrying value of R464,7 million, goodwill and intangibles valued at R57,4 million, and equity-accounted investees valued at R690,4 million.

As a consequence of the rights offer and corporate activity, total shareholders' equity of R1 012,6 million has increased from R513,1 million in 2016 with net asset value per share increasing by 47%.

NET ASSET VALUE PER SHARE

(cents)



FINANCIAL AND OPERATIONAL DISCLOSURE

In addition to the comprehensive information provided for stakeholders in the integrated annual 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 remains in a sound financial position and anticipates accelerating returns from acquisitions and organic initiatives.

Investment and development have created a multiple product betting and media rights group of companies with improved cash flow characteristics and a diversified local and international income stream. The Group has a mix of recurring income, transactional income, and incremental income from investment in to new growth vectors.

Supabets and Betting World within the new Supaworld joint venture has moved from concept to a profitable reality with encouraging prospects.

Supabets and Interbet are budgeted to perform well ahead of the traditional horseracing and betting operations whilst our international businesses are well-placed after a good 2018 result.

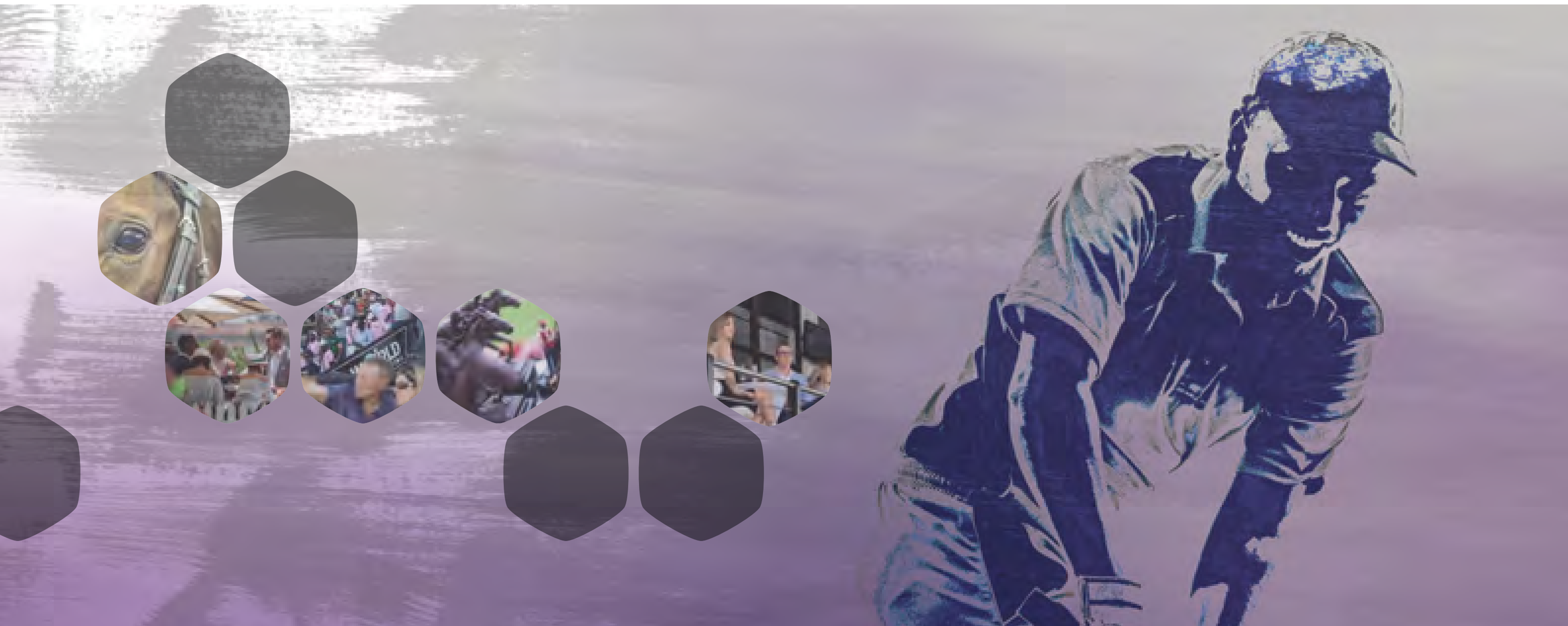
Growth in earnings per share is targeted for the year ending 31 July 2019.

Whilst 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
5 October 2018

MATERIAL MATTERS

Phumelela defines a material matter as a matter that substantially affects its ability to create and sustain value over the short, medium and long term.



In determining which matters are material for disclosure in our integrated report, we have considered whether the matter substantively affects, or has the potential to substantively affect our business environment, strategy and opportunities, concerns raised by stakeholders, as well as key risks. While we strive to set clearly defined targets, we recognise that we still need to make progress in this regard.

All material matters identified in 2017 remained relevant for the 2018 financial year.

In 2018, we identified the following material matters:

MACRO-ECONOMIC ENVIRONMENT

The volatile macro-economic environment requires us to maintain our cost savings initiatives, while effectively allocating capital for growth projects and improving our competitive position. Oil prices and foreign exchange rates continue to be influenced by a host of factors that include geopolitics. Disruptive technologies are altering the way business operates. South African trading conditions remain challenging but we continue to be proactive in managing those challenges and identifying new opportunities. The Group has contained expenses well and is striving to do better despite the macro-economic challenges we face. Phumelela continues to invest to support a quality racing experience for both local and international consumers of our product.

Against this challenging backdrop, it is imperative that Phumelela keeps its betting offerings relevant, fresh, and attainable to all. A digital footprint is essential as the Group embraces changing technology and customer preferences. Our online betting availability is beneficial for customers with finite disposable income but who wish to enjoy a modest wager yet maximise their value for money by eliminating the cost of transport to a betting shop. Nevertheless, having a bricks-and-mortar presence will always be necessary as a majority of our customers still prefer this since it provides a venue for social interaction.

OPERATING COSTS

It is essential that we contain operational costs as they affect profitability of our business and our ability to implement our strategy, ensure that our business is sustainable and create value for our stakeholders. As part of the Group's strategy to minimise the cost base, the tote and fixed odds businesses are optimising their operating models wherever feasible to cohabit for mutual benefit as there is interdependence between tote and fixed odds betting.

HUMAN CAPITAL MANAGEMENT

The Company continuously seeks to recruit, develop and retain the right employees to maintain and improve its high-performance culture and deliver on the Company's strategy while ensuring a reliable pipeline of appropriate talent.

We have a dedicated training and development budget to benefit our employees. We promote safety, diversity and transformation as well as attract, develop and retain high-performing people, while engaging all employees and respecting human rights. We continued to promote high ethical standards, combat fraud and advance respect for human rights by creating awareness of our Code of Ethics and providing an independent whistleblowing facility.

Appropriate talent aids us in obtaining and retaining market share, innovating to produce new products and services, and ultimately delivering exceptional customer service.

LEGAL, REGULATORY CHANGE AND COMPLIANCE

We operate in a highly regulated and complex environment, particularly in South Africa, and it is critical for us to focus on compliance, to ensure we maintain our licence to operate and embrace the transformation agenda of the South African economy. The Company is required to comply with conditions of licence and all relevant regulations and laws set by Government to avoid penalties and fines, or risk our licence to operate. We also constructively engage with Government in respect of the proposals in the National Gambling Policy.

Phumelela continues to fight for a fairer funding dispensation for the sport of thoroughbred horseracing.

CUSTOMER VALUE CREATION

Phumelela is exploring new methods of improving customer experience and ensuring customer satisfaction.
The Company intends to improve satisfaction levels through a focus on providing positive outcomes by means of a highly driven customer-centric performance culture and complete product solutions to meet customers' needs.

Our industry is increasingly being impacted by the adoption of digital solutions, which are transforming the way of work and offering opportunities for improved efficiencies and returns. By harnessing technologies and talent, driving a continuous improvement culture, leveraging talent and better engaging our stakeholders, we will be able to deliver on our strategy and ensure Phumelela's long-term competitiveness and sustainability. We have embarked upon a strategy to use technology more effectively, evident in our stores where free Wi-Fi is now being offered to our customers.

TRANSFORMATION

Phumelela is required to comply with B-BBEE legislation. Transformation levels in the Group are receiving great focus. The amended B-BBEE Codes of Good Practice have set a challenging bar with the new weightings. Empowerdex has audited the Group as a level 4 with Empowering Supplier status, and the process has allowed the Group to identify areas for improvement.

SAFETY

Safety of our customers, contractors and employees is our top priority. Unforeseen incidents and a lack of controls or appropriate procedure have the potential to negatively impact our business, employees, customers, the environment and the society we serve. We insist on strict compliance with our Safety, Health and Environment Policy.

COMPETITION CHALLENGES

Traditional and non-traditional competitors can challenge our market share. The environment is already characterised by illegal gambling and non-compliant bookmakers.
Our diversification and internationalisation strategy is serving us well, underpinning the competitiveness of Phumelela and the commercial viability of our business model. What has not changed is the fact that Phumelela is, and will continue to be, the leading racecourse owner, betting operator and racing media provider in South Africa. Horseracing is at the heart of what Phumelela is and the foundation for our successful and expanding international operations.

ENVIRONMENTAL SUSTAINABILITY

Infrastructure constraints such as periodic lack of water and/or electricity have the potential to negatively impact our racedays capabilities, leading to reduced productivity and reliability in product supply. Water, energy, electricity, and waste are key focal points for optimal use and financial savings.

COMMITMENT TO OUR COMMUNITIES

We consistently deliver on our commitments to community stakeholders and optimising the impact of our social investment programmes by increasing local content and collaborating more broadly to address social and economic development challenges. We have dedicated supplier and enterprise development activities that focus on business enablement. These contribute to local economic development and job creation in our communities.

CYBER, IT AND INFORMATION MANAGEMENT

Cyber-crime has increased in recent years.

The sophistication of attacks on business operations requires an understanding of data protection, storage and sharing requirements. Key cybersecurity initiatives are implemented and continuously monitored.

RISK MANAGEMENT

Management is guided by the risk management policy, the enterprise-wide risk management framework and the risk management plan, which are reviewed regularly.

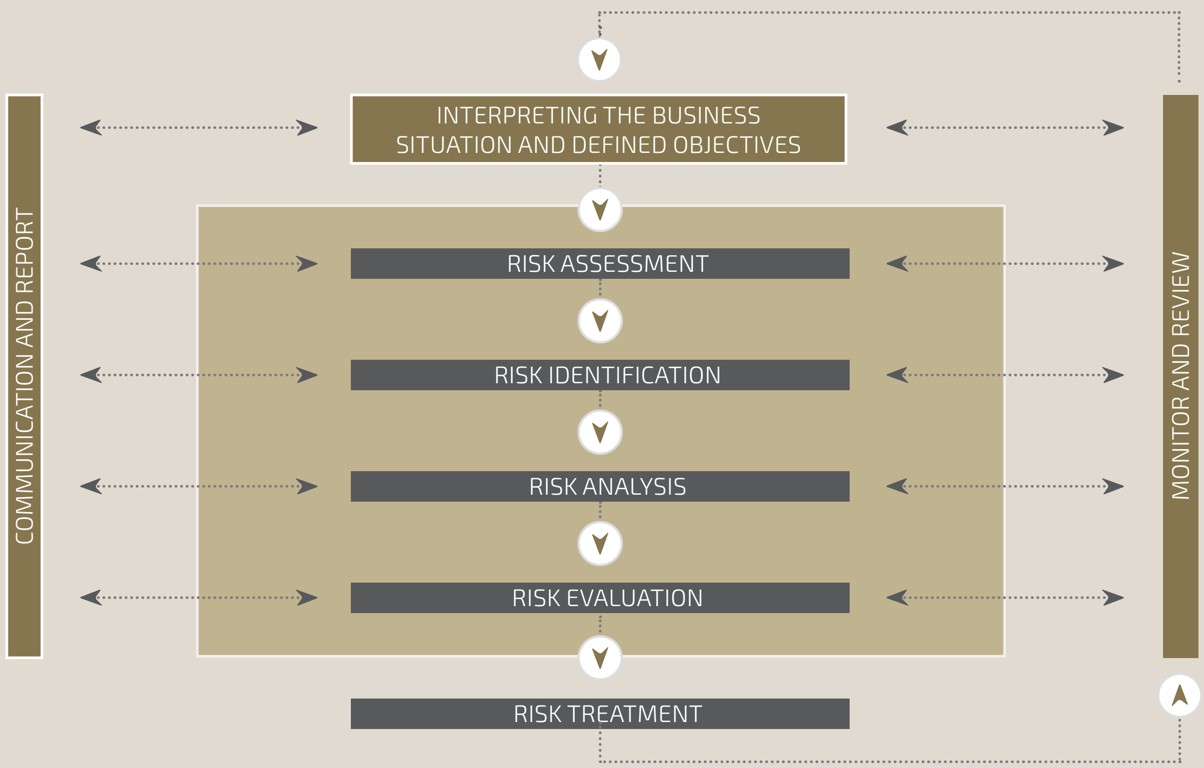
The Board, assisted by the Audit and Risk Committee, is ultimately responsible for the governance of risk management for the Group and for ensuring compliance with all applicable legislation and regulations. Management take responsibility for the day-to-day design and implementation of risk management processes and systems. They are guided by the risk management policy, the enterprise-wide risk management framework and the risk management plan, which are reviewed regularly. As part of their audit, information is provided to our internal auditors to assess the effectiveness of the Company's risk management processes.

The Audit and Risk Committee oversees Group risk management. The role of Internal Audit is to examine, evaluate, report and make recommendations to the Audit and Risk Committee regarding the adequacy and efficacy of the Group's risk management process. The Group has adopted an enterprise-wide risk management process to facilitate the timeous identification, measurement, analysis and evaluation of risk.

Each of the business units is required to have a risk management plan in place, together with an up-to-date risk register detailing, quantifying and prioritising risks, and containing details of plans and actions, both to mitigate risks and to exploit opportunities.

The core risk and compliance process is illustrated in the figure below:

The core risk and compliance process



Information technology ("IT") forms an integral part of the Group's risk management approach. Reports and IT risk assessments are tabled at Board through the Audit and Risk Committee, to enable the Board to satisfy itself that there are appropriate structures, processes and mechanisms in place to enable IT to continue to deliver value to the Group's businesses and to mitigate IT risk. Internal Audit assists the Board in fulfilling this function, and it includes IT audits during its operational audits.

The Board has confidence in the effectiveness of the Group's overall risk management processes, which are regularly monitored and reviewed.

During the period under review, there were no material fines, penalties or prosecutions relating to non-compliance with regulations or legislation applicable to the Group's operations, and there were no major failings in the internal risk management and control systems.

INTERNAL AUDIT

Internal Audit utilises the business unit and Group risk registers for the development of risk-based internal audit plans. They review the adequacy and effectiveness of the Enterprise-wide risk management ("ERM") processes and are responsible for coordination of the combined assurance activities. The internal audit function operates in terms of an internal audit charter approved by the Audit and Risk Committee. Internal Audit has a direct reporting line to the Chairman of the Audit and Risk Committee and meets regularly with executive management. The internal audit plan is approved by the Audit and Risk Committee.

COMBINED ASSURANCE

The Board has delegated the effectiveness of assurance services to the Audit and Risk Committee. The control environment is monitored through Phumelela's own internal controls and regular progress reports from the internal audit.

The combined assurance provided by internal assurance providers and management is designed to satisfy the Audit and Risk Committee that significant risk areas within the organisation have been adequately addressed and that suitable controls exist to mitigate and reduce these risks.

Combined assurance embraces all assurance activities in a coordinated approach across the following three lines of defence:

MANAGEMENT ➤ RISK MANAGEMENT, COMPLIANCE AND LEGAL ➤ INTERNAL AUDIT

STAKEHOLDER ENGAGEMENT

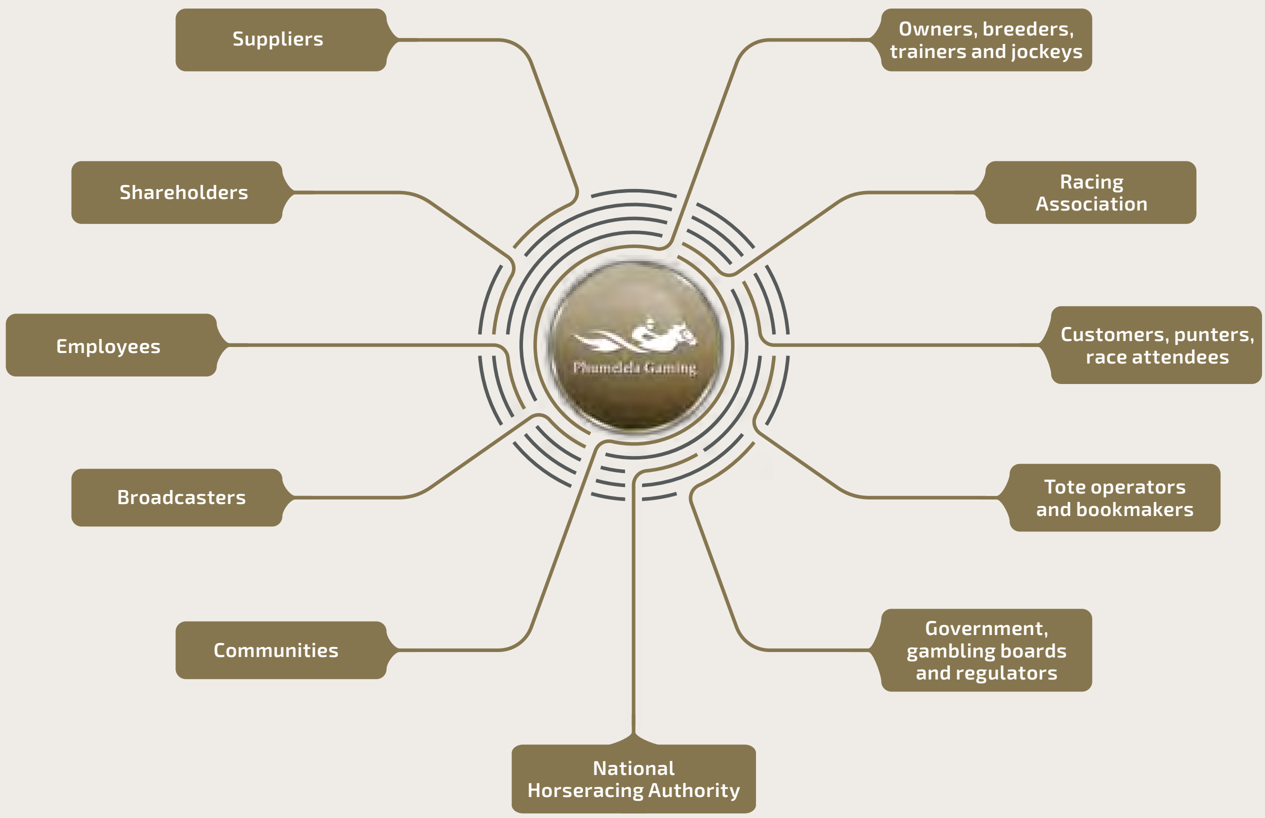
Phumelela operates in an environment that is inextricably linked to our stakeholders. We strive to be cognisant of these relationships in all our activities, acting with integrity, honesty and equality at all times.

This is based on the understanding that our decisions and activities may have an impact on the stakeholders and environment in which we operate.

Our stakeholders are persons or groups who are directly or indirectly affected by our operations, as well as those who have interests in our business and/or the ability to influence outcomes – either positively or negatively.

Phumelela has a complex network of stakeholders, often with competing interests. Our stakeholder engagement processes are used as a tool for continuous dialogue, listening to views, and addressing concerns in order to derive an active and productive relationship and ensure the Group's performance. The engagement methods employed are as diverse as the various stakeholders we engage with and include the use of SENS announcements, face-to-face meetings, our integrated report, committees, media releases, and posters, among other methods. Stakeholder engagement is managed at both a management and operational level. Members of Phumelela's management team are positioned on various external boards relating to the sport of horseracing and they regularly interact with the Racing Association, various gambling boards and Government. From an operational level, the Racing Operations division interacts with owners, trainers, breeders, jockeys and grooms. The Betting Operations and On-course Hospitality divisions interact with customers and attendees of horseracing events.

Our key stakeholders are depicted in the diagram below:



OUR BOARD: EXECUTIVE DIRECTORS

1

JA STUART

Chief Executive Officer (former Executive International Operations)

2

AW HEIDE

Chief Operating Officer and Group Finance Director

3

VJ MOODLEY

Executive Director: Sports Betting

OUR BOARD: NON-EXECUTIVE DIRECTORS

4
B KANTOR
Chairman

5
M TEMBE
Lead Independent Director

6
P ANASTASSOPOULOS

7
R COOPER

OUR BOARD: NON-EXECUTIVE DIRECTORS CONTINUED

KC KHAMPEPE

SA MAHLALELA

FS MAGUBANE

NJ MBOWENI

12
SH MÜLLER

13
E NKOSI

14
CJH VAN NIEKERK

15
JB WALTERS

OUR BOARD:
EXECUTIVE DIRECTORS *CURRICULUM VITAE*

1

JA STUART (62)~

Group Chief Executive Officer

BComm

Appointed 2010 and as Group CEO in 2018

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. He has over 39 years experience in the horseracing and gaming industry. He also headed 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.

John was appointed Group CEO of Phumelela on 18 September 2018 following the resignation of Rian du Plessis who held the position for the past ten years.

2

AW HEIDE (53)~†

Chief Operating Officer and Group Finance Director

BCompt Hons, CTA, CA(SA)

Appointed 2009

Andreas served articles with PricewaterhouseCoopers in Johannesburg and qualified as a chartered accountant in 1996. He has held various senior financial positions over the past 22 years 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.

3

VJ MOODLEY (49)~

Executive Director: Sports Betting

BComm

Appointed 2010

Vee studied for a BComm 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 Sports Betting Executive on 1 July 2010 and as Executive Director: Sports Betting on 1 October 2010. Vee was also appointed CEO of Betting World, a subsidiary of Phumelela, on 1 June 2015.

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

OUR BOARD:
NON-EXECUTIVE DIRECTORS *CURRICULUM VITAE*

4

B KANTOR (69)#**

Chairman

Appointed 1999

Bernard is a founding member of Investec, having joined in 1978, and is the group managing director. 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.

Bernard was appointed Chairman of Phumelela on 12 December 2017.

5

M TEMBE (57)#

Lead Independent Director

BPA, BS

Appointed 2018

Moses was appointed Lead Independent Director on 21 September 2018. He holds a BA degree in Public Administration and Political Science from the University of South Africa, as well as the Caltex sponsored Business Management Programme from the University of Cape Town.

In his career, he has held various senior positions, amongst others; Secretary-General of Inyanda (KZN NAFCOC), President of the Durban Chamber of Commerce and Industry, Vice-Chairman: KZN Business Initiative, Chairman of the eThekwini Community Foundation and member of the board of the Durban Infrastructure Development Trust. He currently serves as Vice-Chairman of Gold Circle Racing and Gaming Group.

With over 30 years' business experience, he has received numerous awards, including the Ithala Business Award and Investec Entrepreneur Award.

He also served on boards of various JSE-listed companies, including the Mr Price Group, Santova and Beige Holdings.

6

P ANASTASSOPOULOS (49)#

Appointed 2017

With an entrepreneurial career spanning over twelve years Photios acts as the joint owner of Ana Brother Retailers and several other businesses within the retail and property sector. He has been involved in the sports gaming industry within South Africa and greater Africa for many years, which has afforded him extensive knowledge and technical experience in the gaming industry. Photios currently acts as Chief Executive Officer of Supabets SA Holdings and serves as a director on the Betting World Board of Directors. He was appointed to the Board of Phumelela on 8 March 2017 and his appointment is subject to approval by shareholders at the annual general meeting.

7

R COOPER (75)#^†

CA(SA)

Appointed 2009

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. Rob 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.

8

KC KHAMPEPE (67)#**

BA, MBA (UK)

Appointed 2000

Khang (known as "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.

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

OUR BOARD:
NON-EXECUTIVE DIRECTORS *CURRICULUM VITAE* CONTINUED

9 SA MAHLALELA (48)#^
CA (SD), FCCA (UK), MBA Finance

Appointed 2018

S'celo has over 15 years business and financial management experience. He currently serves as CFO of Tshwane University of Technology.

He is a chartered accountant and holds an MBA-Finance from Regent Business School SA, and FCCA from the UK Association of Certified Chartered Accountants. He has also undertaken his Leadership Development at Harvard Business School in Boston, United States of America. He has been a board member in various sectors - healthcare, and public sector ("SOEs")".

10 FS MAGUBANE (63)#^
BA (Economics and Accounting)

Appointed 2018

Fikile Magubane is currently the Director: Southern African Development Community ("SADC") Regional Economic Integration at the Department of International Relations and Cooperation.

Prior to this, she served as South Africa's Ambassador to the Kingdom of Spain and Andorra and also served as South Africa's Consul General to New York. She also held senior positions at the South African Reserve Bank and the Gauteng Provincial Government.

She holds an Honorary Doctoral degree in Management Sciences conferred by the School of Management at the University of Venda, a diploma in public relations and a BA degree in Economics from the University of Botswana and Swaziland.

11 NJ MBOWENI (57)#^†
BA Ed, MAP

Appointed 2004

Nolwandle holds a Senior Teachers Diploma from East Rand College, a BA degree in Education and MAP from Wits Business School. Nolwandle sits on a number of boards, namely: Afrisun Gauteng, Afrisun (Sun International), Vela International, Mdumo Investments, Katekane Women's Investments, Director at The University of Zululand Foundation, 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.

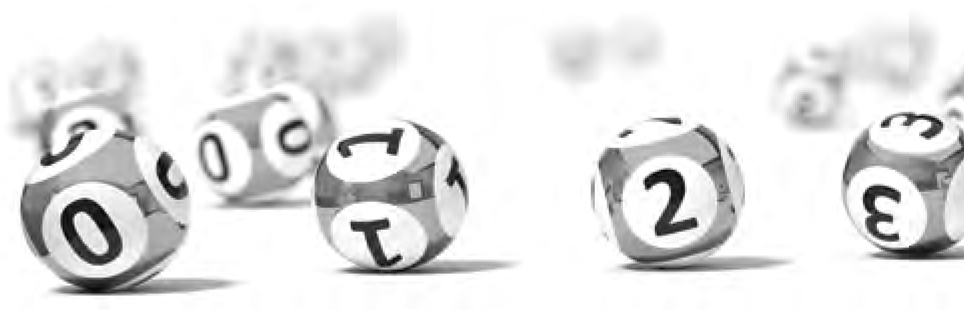
12 SH MÜLLER (57)#^

Appointed 2018

Steve is a non-executive director of KAP Industrial Holdings Limited as well as Pepkor Holdings Limited. He qualified as a chartered accountant in 1985 and went on to work as an auditor for Peat Marwick Mitchell & Co. (now KPMG) for three years. He then left to serve in the National Services for two years. He was drawn back to Aiken & Peat (now KPMG) during 1988..

He moved to Rand Merchant Bank Limited during 1993, and then to Genbel Investment in 1995 where he was appointed Chief Operating Officer in 1998. In 2000 he was appointed as an executive director of Gensec Bank Limited where he also sat as a member of the Asset and Liability Risk Committee, Exco and the Remuneration Committee. In 2004 Sanlam Group appointed him as a General Manager for Structured Equinity a position which he held till he semi-retired in 2008.

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



13 DR E NKOSI (57)#†
MB ChB, MAP and MBA

Appointed 2005

Elijah is a general medical practitioner based in Soweto. He holds a Master of Business Administration ("MBA") 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 an executive director of PPI A Investments A. He is also an executive director in the IPA Foundation of SA, a national network of General Practitioners; and is also the Chief Executive Officer of a GP network called SP NET.

14 CJH VAN NIEKERK (70)#*

Appointed 2005

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, Synchem 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 racehorses.

15 JB WALTERS (74)#*^

Appointed 1999

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 the government to bring about the corporatisation of the horseracing industry.

CORPORATE GOVERNANCE

OUR APPROACH TO GOVERNANCE

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.

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 Listings Requirements of the JSE Limited ("the JSE") and all other applicable laws. Our Board is responsible for creating and delivering sustainable shareholder value.

Integrated reporting not only allows us to apply the recommendations in the King Report, 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. Our Code of Ethics outlines behaviours which govern our way of working across the business.

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.

We view stakeholder engagement as a necessary tool to ensure transparency and accountability with those entities and individuals that are impacted by or interested in our activities, products and services.

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 AND INVESTORS

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, short form 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 are broadcast live on Business Day TV.

COMPLIANCE WITH KING IV 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 IV") and the Board took the necessary steps to ensure its recommendations were applied during the 2018 financial year. The Board analysed the recommendations contained in the Code and 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 IV 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 Practices and Conduct set out in the King IV report;
- Phumelela Code of Ethics;
- Topics and challenges reported by our peers or raised by industry associations; and
- External initiatives and best practice 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 Board meets on a quarterly basis in line with the financial and strategic processes of the Group. The Board also annually reviews the Group's ability to continue trading as a going concern in the foreseeable future.

RISK GOVERNANCE

The Group aims to ensure business-specific risks are adequately and timeously identified and mitigated, whether they are operational and strategic risks, emerging risks, or risks posed by the external environment. The Board confirms that the Group's risk management, mitigation and monitoring processes have been effective in limiting the impact of risks on the business during the period. The overall risk profile of the Group has not changed materially in the period under review. For detail on the material issues and related risks facing the Group and how that informs the Group's strategy, please refer to page 28 to 31 of this 2018 integrated annual report.

INFORMATION TECHNOLOGY ("IT") GOVERNANCE

The Board takes responsibility for IT governance. IT governance is monitored by the Audit and Risk Committee, which considers the efficiency of IT controls, policies and processes.

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. The Board is satisfied that it fulfilled all its duties and obligations in the 2018 financial year.

Board Charter

The Phumelela Board Charter outlines the manner in which business is to be conducted by the Board.

The Charter provides a concise overview of the delineation of the roles, functions, responsibilities and powers of the Board, as well as the committees of the Board.

Annual assessment of independence

The Board, assisted by the Nominations Committee, reviewed the independence status of all the non-executive directors during the year under review and considered all directors to be independent. King IV recommends that any term beyond nine years, for an independent non-executive director, should be subject to a particularly rigorous review

CORPORATE GOVERNANCE CONTINUED

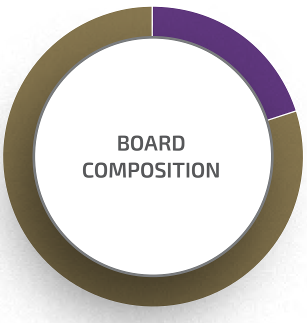
by the Board, of not only the performance of the director, but also the factors that may impair his independence at that time. The Nominations Committee took into account the guiding principles outlined in the King Report to determine the independence of directors.

Although the majority of directors have served in excess of 10 years, the Board concluded that directors' independence of character and judgement were not in any way affected or impaired by their length of service and that their service was of considerable benefit to the Company. The longer serving non-executive directors vigorously exercise their duty to act in the best interests of all stakeholders of the Group. All our non-executive directors are strong-minded individuals of integrity, who are successful and experienced professionals in their respective fields with continuing strong contributions.

Board composition

The Board consists of 15 directors, with 12 non-executive directors and three 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. The non-executive directors are diverse in their academic qualifications and business experience, resulting in a balanced Board.

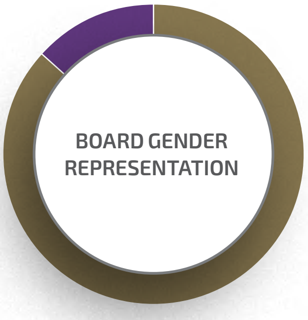


Executive directors	3
Independent non-executive directors	12

Membership

The procedures for appointing directors to the Board are formal and transparent. Currently, seven of the Board members are black and two of its members are black women.

Black	7
White	8



Male	13
Female	2

The Board recognises and embraces the benefits of diversity at Board level, to enhance the quality of deliberations and of directors' perspectives.

Directors are chosen for their corporate leadership skills, experience and expertise. The Board voluntarily set a target of at least 20% of Board membership to comprise women. The Nominations Committee was tasked to assist the Board in this regard. During the year, the committee sourced additional suitable female candidates to serve on the Board based on merit against objective criteria and with due regard to the benefits of diversity on the Board. At the time of this report, regulatory approval was not yet received for Ms Lindiwe Rakharebe.

The Board is committed to proactively monitoring the Group's performance in meeting the requirements outlined in the policy.

Changes to the Board

During the year, we announced the retirement of Mr MP Malungani, Chairman of the Board. Mr B Kantor was appointed in his stead. We also announced the appointment of Mr SH Müller as director and Chairman of the Audit and Risk Committee. In addition, both Mr SA Mahlalela and Ms FS Magubane were appointed as directors and members of the Audit and Risk Committee, whereas Ms L Rakharebe's appointment as director and member of the Social and Ethics Committee is subject to approval of the relevant regulatory authority. Also announced was the appointment of Mr KC Khampepe as member of the Remuneration and Nominations Committee as well as the appointment of Ms NJ Mboweni as member of the Social and Ethics Committee.

As previously announced, Mr MJ Jooste resigned as director and member of the Remuneration and Nominations Committee in December 2017, while Mr BP Finch resigned as director and member of the Audit and Risk Committee in August 2017.

We are comfortable that, after the latest changes to the Board, we still have the right balance of skills, experience and independence to make a meaningful contribution to the business of the Company. The committees established by the Board play an important role in enhancing standards of governance and effectiveness within the Group.

CHAIRMAN

B Kantor

Appointed 1999

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

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

JA Stuart

Appointed 2010

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 minimises 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 in 2016. In terms of the Board Charter, the evaluation of the Board shall be performed at least every two years. Given the changes in the Board composition during the year, the Board deemed it prudent to defer the effectiveness review.

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.

CORPORATE GOVERNANCE CONTINUED

GOVERNANCE FRAMEWORK

The diagram below is a summary of our governance framework and it shows the integration between the board, its sub-committees and the executive committee.

THE BOARD

COMPANY SECRETARY

AUDIT AND RISK COMMITTEE

ROLE:

Provides independent oversight and assessment of the Group's risk management processes, legal and regulatory compliance, financial reporting, business and financial controls, internal and external audit processes and acts as a liaison between the Board and external and internal auditors.

INTERNAL AUDIT

REMUNERATION AND NOMINATIONS COMMITTEE

ROLE:

Assists the Board in meeting its responsibility for setting and administering appropriate remuneration policies which are in the best long-term interests of the Group, and are aligned with the Group's long-term strategic objectives. The committee is also responsible for identifying and evaluating suitable candidates for possible appointment to the Board to ensure that the Board is balanced and able to fulfil its functions.

SOCIAL AND ETHICS COMMITTEE

ROLE:

Assists the Board in ensuring that high ethical standards are applied in all areas of the business, and reviews compliance with the amended B-BBEE Codes of Good Practice. The committee also approves the corporate social investments in line with conditions of licence and has oversight over the management of social issues in the Group.

EXECUTIVE COMMITTEE

ROLE:

Oversees the implementation of decisions and strategy endorsed by the Board, throughout the Group

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.

Four Board meetings were held during the financial year ended 31 July 2018:

Board member	Number of meetings attended	Strategy session
MP Malungani (Chairman) [1] *Independent non-executive*	2	
B Kantor (Chairman) [2] *Independent non-executive*	4	√
WA du Plessis (CEO)	4	√
AW Heide (FD and COO)	4	√
P Anastassopoulos *Independent non-executive*	3	
R Cooper *Independent non-executive*	4	√
MJ Jooste [3] *Independent non-executive*	1	√
KC Khampepe *Independent non-executive*	4	√
NJ Mboweni *Independent non-executive*	4	√
VJ Moodley	4	√
E Nkosi *Independent non-executive*	4	√
JA Stuart	4	√
CJH van Niekerk *Independent non-executive*	4	
JB Walters *Independent non-executive*	4	
SH Müller [4] *Independent non-executive*	2	

[1] *Retired December 2017.*
[2] *Appointed Chairman December 2017.*
[3] *Resigned December 2017.*
[4] *Appointed January 2018.*

KEY AREAS OF FOCUS DURING THE REPORTING PERIOD

- Reviewed and approved the Group strategy;
- Reviewed and approved the 2019 budget;
- Considered the cost-saving initiatives in the Group;
- Approved the half-year and year-end financial results and the JSE announcements;
- Reviewed and approved the integrated annual report;
- Discussed and considered material issues relating to execution of strategy;
- Reviewed and approved cash flow reports;
- Reviewed and approved capital expenditure budget;
- Adopted the Board diversity policy;
- Approved the non-executive directors' fees for tabling at the annual general meeting;
- Considered the declaration of directors' financial interests at each meeting;
- Considered the implications of the King IV report; and
- Reviewed material risks and compliance matters in the Group.

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, KC Khampepe 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;
- 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;
- The disclosure of director and prescribed officer remuneration is accurate, complete and transparent;
- Director independence is reviewed annually; and
- Board diversity is considered in all appointments;

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 independent non-executive directors.

CORPORATE GOVERNANCE CONTINUED

Three meetings were held during the financial year ended 31 July 2018:

Board member	Number of meetings attended
CJH van Niekerk *(Chairman)*	3
B Kantor	3
KC Khampepe [1]	–
MP Malungani [2]	1
JB Walters	3

[1] *Appointed in July 2018.*
[2] *Retired December 2017.*

Strategic focus for the year under review:

- Considered Board and executive succession planning;
- Approved the Board race and gender diversity policy;
- Reviewed the composition of the Board and its sub-committees;
- Considered and recommended appointment of new directors including that of Lead Independent;
- Considered and recommended appointment of Group CEO;
- Reviewed the CEO's contract;
- Considered non-executive director independence and rotation;
- Reviewed the remuneration policy;
- Reviewed non-executive directors' fees;
- Reviewed proposed changes to the short-term incentive scheme and the long-term share based incentive plans; and
- Considered the executive and staff bonuses/increases.

AUDIT AND RISK COMMITTEE

Members: SH Müller (Chairman), R Cooper, FS Magubane, SA Mahlalela, NJ Mboweni and JB Walters

Role: The Audit and Risk 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 and Risk Committee and its Chairman;
- The Audit and Risk Committee, with the auditors present, 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;
- Providing oversight of the IT governance function; and
- Assessing the compliance environment in which the Group operates

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

The Company's Audit and Risk 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 and Risk Committee are independent non-executive directors.

Three meetings were held during the financial year ended 31 July 2018:

Board member	Number of meetings attended
SH Müller (Chairman) [1]	2
R Cooper (Chairman) [2]	3
FS Magubane [3]	–
SA Mahlalela [3]	–
NJ Mboweni	3
JB Walters	3

[1] *Appointed Chairman July 2018.*
[2] *Stepped down as Chairman (Refer page 61).*
[3] *Appointments were after the reporting period.*

SOCIAL AND ETHICS COMMITTEE

Members: R Cooper (Chairman), AW Heide, NJ Mboweni and E Nkosi

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.

The committee is chaired by an independent non-executive director. Having considered the recommendations of King IV as it relates to the composition of the committee, the Board undertook to restructure the committee and appoint Ms NJ Mboweni as a member of the committee. The majority of its members are non-executive.

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

Discharge of responsibilities

Key areas of focus during the reporting period:

- Management of ethics;
- Roll-out of independent ethics hotline;
- Reviewed and approved the corporate social investments;
- Reviewed the environmental management including the status of occupational health and public safety;
- Reviewed security measures in various provinces, racecourses and branches;
- Reviewed measures to implement energy efficiency;
- Considered the risk associated with the water restrictions and action plans to address the risk;
- Reviewed and recommended the sustainability report to the Board for approval;
- Reviewed relevant stakeholder relations;
- Reviewed labour relationships and human resource matters;
- Reviewed compliance with the amended B-BBEE codes and considered action plans to drive transformation and further improve the B-BBEE score card; and
- Considering environmental and social sustainability issues.

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.

Two meetings were held during the financial year ended 31 July 2018:

Board member	Number of meetings attended
R Cooper (Chairman)	2
AW Heide	2
NJ Mboweni [1]	–
E Nkosi	2

[1] *Appontment was after the reporting period.*

ETHICS MANAGEMENT

Phumelela does not tolerate any fraudulent or illegal activities in relation to the running of the Company and this is covered in the Code of Ethics. Employees are encouraged to make use of the confidential crime line to report any incidents. All incidents of fraud and robbery are reported to the Social and Ethics 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.

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 Code was reviewed and adopted by the Board. 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 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 and Risk 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.

CORPORATE GOVERNANCE CONTINUED

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 JSE Listings Requirements.

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 Bank 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.

IT GOVERNANCE

The board is responsible for the oversight of IT governance within the Group. The Board has delegated the group's IT responsibilities to the Audit and Risk Committee. The focus during the year included improving internal efficiencies and refining IT infrastructure and security. Going forward, emphasis will be placed on information security, system integration, automation and simplification of processes.

REMUNERATION POLICY AND IMPLEMENTATION REPORT

BACKGROUND STATEMENT

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

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 horeracing, 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 including the implementation report as set out in the remuneration report received a 96% and 100% favourable vote respectively 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 a similar approach to last year.

OVERVIEW OF THE POLICY

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 POLICY AND IMPLEMENTATION REPORT CONTINUED

Remuneration philosophy

The remuneration policy of Phumelela is aligned to the business goals and objectives of the Group. It supports the attraction and retention of high-calibre, experienced individuals that are able to deliver under challenging performance conditions. Our employees are encouraged to embrace our core values and display care in everything they do. Our employees are encouraged to embrace innovation and a sense of urgency and to be passionate about the service they render to our customers.

Responsibility for governing remuneration and developing relevant policy

Final responsibility for the remuneration policy rests with the Board who in turn appoints the Remuneration Committee to aid it in fulfilling its duties. The Remuneration Committee is primarily responsible for providing input into and approving the reward strategy and mechanisms when remuneration is concerned.

The responsibilities of the committee include:

- Requesting external benchmarking to be done;
- Approval of CEO and executive increases;
- Approval of long-term and short-term incentive schemes;
- Approving annual bonus measures of senior managers and executive director schemes;
- Approving allocation of shares; and
- Approving the annual bonus prior to payout.

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 position, skill set and job grading in the Company.

Competitive guaranteed component (including benefits)

All permanent employees receive a guaranteed remuneration, based on their position, skill set and job grading applying the Paterson job grading system. This guaranteed portion is based on cost to Company and comprises a fixed basic salary and compulsory benefits. Market movements and individual performance determine the level of increases to the guaranteed component. Salaries are reviewed annually benchmarked against the 50th percentile (market median) annual salary review reports compiled by reputable market leaders in this field.

Short-term incentives (annual bonus)

Short-term incentives are paid annually and are used to encourage achievement of annual business growth targets that are set at operational level, annually in advance. Operational and financial targets are primarily driven by annual budgets approved by the Board. This ensures that this significant variable portion of pay is linked to performance. Short-term incentives are based on both Company (budget) and individual key performance indicators ("KPIs"). Short-term incentives typically equate to a thirteenth cheque. When the Company exceeds its annual financial targets, top-up bonuses may be awarded to top achievers, senior management and executives at the discretion of the Remuneration Committee and subject to approval of the Board. The Company did not achieve budget and therefore no allowance has been made for employee bonuses. As no salary increases and bonuses were awarded in the previous year, and in light of the difficult economic climate, the Board approved an ex-gratia bonus equating to a maximum of a 13th cheque payable to all employees including executive management in December 2018.

The primary bonus pools are approved by the Remuneration Committee, which also oversees principles applied in allocating said pools to business units and individuals.

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.

The Remuneration Committee retains the discretion to defer all or part of the annual bonus payment. Deferred bonus payments are applied to middle, senior and executive management. Between 50% and 70% of the bonus amount may be deferred payable one year hence on the proviso that the individual is still in the employ of the Company at the time the deferred bonus is due and payable.

Long-term share-based incentives ("LTIs")

The Company operates a share incentive option scheme for senior management and executive directors, and a separate scheme for the CEO.

LTIs are awarded with the primary objective of retaining key staff and aligning performance with the interests of stakeholders and investors over the long term.

The Group believes that all senior management and executive directors should hold shares in Phumelela.

According to the rules of the executive share option scheme, no one individual may acquire in excess of 760 000 aggregate number of shares under the

2014 scheme and 1 025 006 under the 2018 scheme. Adjustments may be effected in the event of variations in share capital.

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; and
- 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, life, disability and personal accident insurance. Medical cover and other related benefits are discretionary as dictated by competitive local market practices.

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 benefits are benchmarked against market data published by reputable salary survey companies.

We apply a holistic and balanced approach to reward. We position pay at the market median, while remuneration for critical skills is positioned above the market median to attract talented individuals with outstanding track records.

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. There are however circumstances where employees are paid at the upper quartile based on their skill and experience.

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

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.

Collective bargaining

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

IMPLEMENTATION REPORT

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 fixed salaries and benefits comparable with companies of a similar size and have the opportunity to earn enhanced total compensation for meeting the performance targets set by the Remuneration Committee, primarily operational and financial targets entrenched in annual budgets approved by the Board, both for individual performance and the performance of the Group. Phumelela considers the 50th percentile (market median) of a selection of peer companies for benchmarking fixed salaries (assisted by survey reports from external advisers that aid us in establishing market-related salary benchmarks which are reviewed from time to time). This is supported by a bouquet of relevant employee benefits.

The components of remuneration for executive directors comprise a fixed 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.

REMUNERATION POLICY AND IMPLEMENTATION REPORT CONTINUED

Long-term share incentive schemes

The following share option schemes have been approved by the shareholders with active options disclosed on page 131 (note 34) of the financial statements.

2008 Executive share option scheme

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

In all, 12 218 547 share options were granted to senior employees, 7 663 547 lapsed or were forfeited and 4 585 000 were exercised resulting in 3 264 877 shares allocated to participants based on the net settlement formulae applied to the scheme.

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 vested over a three-year period.

The exercise of options was 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.

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	2 125 613		15,00
12 January 2015	200 000	200 000				18,58
12 January 2015 – rights offer effect	36 547	36 547				18,58
TOTAL	**12 218 547**	**7 633 547**	**4 585 000**	**3 264 877**		

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. According to the rules of the scheme, the aggregate number of shares which any participant may acquire shall not exceed 760 000 shares.

To date 5 995 311 share options have been granted, 3 038 123 have lapsed or been forfeited and 2 957 188 are still active.

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.

2014 Executive share option scheme continued

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
16 July 2015 – rights offer effect	338 123	338 123				17,34
17 July 2017	2 957 188				2 957 188	20,70
TOTAL	**5 995 311**	**3 038 123**			**2 957 188**	

2018 Executive share option scheme

A maximum of 10% of the issued share capital at 12 December 2017 may be reserved for the executive scheme. According to the rules of the scheme, the aggregate number of shares which any participant may acquire shall not exceed 1 025 006 shares.

To date 3 225 381 share options have been granted under this scheme.

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.

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)
12 April 2018	3 225 381				3 225 381	14,76
TOTAL	**3 225 381**				**3 225 381**	

2011 Group CEO share option scheme

Effective 20 January 2012, 1 558 101 share options were granted to the Group CEO (initial allocation 1 500 000 plus 58 101 for rights offer effect).

These options vested in January 2015 and were exercised during the current reporting year.

2014 Group CEO share option scheme

Effective 2 March 2015, 1 655 029 share options were granted to the Group CEO (initial allocation 1 500 000 plus 155 029 for rights offer effect). These options lapsed during the year as the minimum compounded annual growth rate in the share price of 10% required over the vesting period was not met.

2018 Group CEO share option scheme

Effective 12 April 2018, 1 500 000 share options were granted to the Group CEO. Mr Du Plessis resigned in September 2018 and the options have accordingly been forfeited.

REMUNERATION POLICY AND IMPLEMENTATION REPORT CONTINUED

Executive directors' remuneration

Total remuneration outcomes for 2018

Total emoluments paid during the year ended 31 July 2018 and for 31 July 2017 are contained in the table below.

	2018 R'000	2017 R'000
FEES FOR MANAGEMENT SERVICES		
WA du Plessis	**4 580**	6 580
Basic salary	**4 442**	4 454
Retirement, medical, accident and health benefits	**138**	126
Bonuses and performance-related payments*		2 000
AW Heide	**2 475**	3 485
Basic salary	**2 206**	2 203
Retirement, medical, accident and health benefits	**269**	272
Bonuses and performance-related payments*		1 010
VJ Moodley	**2 572**	3 573
Basic salary	**2 315**	2 318
Retirement, medical, accident and health benefits	**257**	254
Bonuses and performance-related payments*		1 001
ML Ramafalo		2 029
Basic salary		1 611
Retirement, medical, accident and health benefits		137
Bonuses and performance-related payments*		281
JA Stuart	**2 226**	3 402
Basic salary	**2 035**	2 050
Retirement, medical, accident and health benefits	**191**	214
Bonuses and performance-related payments*		1 138
Total executive emoluments paid	**11 853**	19 069
PRESCRIBED OFFICERS		
CC Basel Racing executive	**2 029**	2 930
Basic salary	**1 793**	1 801
Retirement, medical, accident and health benefits	**236**	228
Bonuses and performance-related payments		901
BK McLoughlin (Chief Financial Officer)	**1 607**	2 183
Basic salary	**1 419**	1 424
Retirement, medical, accident and health benefits	**188**	181
Bonuses and performance-related payments		578
Total prescribed officers' emoluments paid	**3 636**	5 113

** Bonuses and performance-related payments relate to the previous year. In terms of the deferred bonus scheme, 70% of bonuses accrued in the prior year are paid out in the current year. No bonus or performance-related accruals or payments were made for the 2018 or 2017 financial year.*

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.

An increase of 6% to the non-executive directors' fees and committee fees will be proposed for the year ending 31 July 2019 and the proposals are set out in the notice of annual general meeting.

Non-executive directors' remuneration for the year ended 31 July

Board member	Directors' fees 2018 R'000	Other services 2018 R'000	Total 2018 R'000	Directors' fees 2017 R'000	Other benefits 2017 R'000	Total 2017 R'000
MP Malungani*	**197**	**22**	**219**	393	45	438
R Cooper	**197**	**335**	**532**	157	268	425
BP Finch**				157	67	224
MJ Jooste***	**79**		**79**	79	45	124
B Kantor (Chairman)	**314**	**67**	**382**	157	45	202
KC Khampepe	**197**		**197**	157		157
NJ Mboweni	**197**	**135**	**331**	118	67	185
SH Müller	**79**	**202**	**281**			
E Nkosi	**197**	**42**	**238**	157		157
CJH van Niekerk	**157**	**169**	**326**	157	112	269
JB Walters	**157**	**202**	**360**	157	146	303
	1 771	**1 174**	**2 945**	1 689	795	2 484

* *Retired December 2017.*

** *Resigned August 2017*

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

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

Non-binding advisory notes on the remuneration policy and implementation report

In the event that either the remuneration policy or the implementation report, or both, have been voted against by 25% or more at the annual general meeting, Phumelela undertakes to engage the dissenting shareholders and will invite them to send reasons for such votes.

FINANCIAL STATEMENTS

PHUMELELA GAMING AND LEISURE LIMITED
Group annual financial statements and annual financial statements
for the year ended 31 July 2018

Audited
These financial statements represent the financial information of Phumelela Gaming and Leisure Limited, and its investments in joint ventures, associates 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.

Financial statements

Salient information

DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 31 July 2018

The Company's directors are responsible for the preparation and fair presentation of the Group annual financial statements and separate annual financial statements of Phumelela Gaming and Leisure Limited, comprising the statements of financial position as at 31 July 2018, 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, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and the directors' report.

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 there is 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 separate 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 SEPARATE ANNUAL FINANCIAL STATEMENTS OF PHUMELELA GAMING AND LEISURE LIMITED

for the year ended 31 July 2018

The Group annual financial statements and annual financial statements of Phumelela Gaming and Leisure Limited were approved by the Board of Directors on 5 October 2018 and signed.

B KANTOR
Chairman
5 October 2018

JA STUART
Group Chief Executive Officer

REPORT OF THE COMPANY SECRETARY

for the year ended 31 July 2018

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 Commissioner of the Companies and Intellectual Property Commission all such returns and notices prescribed by the Companies Act and all such notices appear to be true and up to date.

F MOLOI
Company Secretary
5 October 2018

REPORT OF THE AUDIT AND RISK COMMITTEE

for the year ended 31 July 2018

The Audit and Risk Committee presents its report for the financial year ended 31 July 2018. The committee is satisfied that it has performed both the statutory requirements for an audit and risk committee as set out in the Companies Act 71 of 2008 ("Companies Act") as well as the functions set out in the terms of reference, and that it has therefore complied with its legal, regulatory and other responsibilities. The committee fulfils the functions required under section 94(7) of the Companies Act for all subsidiaries in the Group including related or inter-related companies.

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

The Audit and Risk Committee, which comprises non-executive directors, reviews the scope of the audit and the accounting policies. The committee further 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 committee and the auditors as part of the process of each audit. The auditors have unrestricted access to the committee and its Chairman.

The 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.

At present, the committee comprises six independent non-executive directors, namely SH Müller (Chairman), R Cooper, NJ Mboweni, JB Walters, FS Magubane (appointed 14 August 2018) and SA Mahlalela (appointed 16 July 2018). Mr R Cooper stepped down as Chairman of the committee as he will retire at the AGM. As part of the board succession, Mr. SH Müller was appointed in his stead. Mr BP Finch resigned from the Board and as member of the committee on 25 August 2017. In line with the Companies Act, the composition of the Audit and Risk Committee will be presented to the shareholders for approval at the annual general meeting.

A brief *curriculum vitae* for each of these directors has been set out in the Governance section of this integrated report, demonstrating their suitable and relevant skills and experience.

MEETINGS

The committee meets at least three times per year. The Chief Executive Officer, Finance Director, internal auditor and external auditor 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 seeks assurance from the internal and external auditors 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.

EXPERTISE AND EXPERIENCE OF THE FINANCE DIRECTOR AND THE FINANCE FUNCTION

As required by the JSE Limited's stock exchange ("JSE") Listings Requirement 3.84(h), the Audit and Risk Committee has satisfied itself that the Finance Director has the appropriate expertise to meet the responsibilities of his appointment as Finance Director of the Group. The committee also satisfied itself that the composition, experience and skills of the finance function met the Group's requirements.

EXTERNAL AUDIT

The Group's external auditor is KPMG Inc., appointed on 7 December 2006.

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

The Audit and Risk Committee conducted an assessment of the performance and the independence of the external auditors and considered whether or not the external auditors comply with the requirements of section 90(2) of the Companies Act and section 22 of the JSE Listings Requirements. The committee concluded and is satisfied that the proposed external auditors comply with the relevant provisions and are duly accredited by the JSE.

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

for the year ended 31 July 2018

AUDITOR INDEPENDENCE

The committee considered to its satisfaction the independence, objectivity and effectiveness of the external auditor.

This conclusion is, *inter alia*, based on the following:

- The Group's policy that prohibits or otherwise restricts the non-audit services that may be provided by the external auditor;
- Auditing profession standards that preclude the external auditor's personnel from holding shares in or having other business relationships with the Group;
- The external auditor may not provide services that could be seen as participating in the management of the Group's affairs; and
- The assurance provided by the external auditor that internal governance processes within the audit firm support the claim to independence.

The committee has recommended for approval at the annual general meeting, the re-appointment of KPMG Inc. as external auditor for the 2019 financial year with Mr D Read as the registered auditor responsible for the audit.

TERMS OF REFERENCE

The committee extended its mandate to oversee risk governance. 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 this integrated report.

DISCHARGE OF RESPONSIBILITIES

Reports routinely considered by the committee at its meetings included the Finance Director's report, the internal audit report (including its coverage plan and IT audit activities), the risk report, the legal and compliance report, IT governance, as well as the Group tax compliance report.

During the reporting period the committee undertook the following:

- Reviewed the interim and annual financial statements and recommended them for approval by the Board;
- Reviewed the integrated annual report for 2018 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;
- Reviewed and approved the internal and external audit plans;
- Received and reviewed risk management reports as well as 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 auditor complied with the provisions of the Companies Act and other legislation relating to the appointment of auditors;
- Noted that non-audit services were not rendered during the financial year;
- Reviewed the audit report including the new accounting standards;
- Considered the JSE's latest report on the proactive monitoring process of financial statements for compliance with IFRS ("the 2017 Report");
- 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 it relates to financial reporting; and
- Reviewed legal, compliance 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 and Risk Committee

SH MÜLLER
Audit And Risk Committee Chairman
5 October 2018

REPORT OF THE DIRECTORS

for the year ended 31 July 2018

NATURE OF BUSINESS

South Africa

The Group owns four racecourses with allied training centres in Gauteng, Free State, Northern Cape and Eastern Cape, and manages a standalone training centre in Gauteng. The Group stages approximately 240 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.

The Group jointly owns Supabets SA Holdings Proprietary Limited and Uptonvale Proprietary Limited (trading as Interbet), two leading bookmaking concerns licensed and operating in South Africa.

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.

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 ("PGI") with its 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.

REVIEW OF RESULTS AND FINANCIAL POSITION

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

The year in perspective

The financial year ended 31 July 2018 marks a significant milestone for Phumelela. We are a fully-fledged multiple product betting and media rights group of companies. Supabets and Interbet are jointly controlled assets from which we have the benefit this year of 50% of the earnings of each company. Furthermore, the newly formed Supaworld, jointly owned by Betting World and Supabets, contributes a 75% share of earnings to Phumelela.

In a short time, Supabets and Interbet have had a re-energising effect on the Group and, together with the best of Supabets and Betting World within Supaworld, these companies are expected to have an increasingly important role in the growth of Phumelela and return for shareholders. We anticipate performance accelerating in the future as these assets realise their optimal potential.

This has been a very difficult year in South Africa. Trading has been hindered by political turbulence, militant labour unrest that directly affects the horseracing value chain, criminal activity that directly cost us in excess of R6 million in lost profitability, a stagnant economy, low business and consumer confidence and increasing unemployment. Personal tax rates have risen yet again and municipal charges are also rising above inflation, particularly utilities and property taxes. The rate of VAT was increased to 15% from 14% on 1 April 2018, of which we absorb the financial cost, estimated at R10 million in a full year, as the take-out ratio after provincial taxes and levies has not changed.

As a consumer facing business with a large retail footprint, such negative factors impinge on discretionary income. In this respect we are not alone. But what we do have within our capability is to rise above the external circumstances and be as competitive as possible.

In pursuit of our transformation initiatives, Betting World franchises and Tab agencies are being offered to selected previously disadvantaged individuals that wish to build a future in this exciting industry. Phumelela provides the necessary funding, training, know-how, and management of the odds to enable a shop to be up and running within a short period.

REPORT OF THE DIRECTORS CONTINUED

for the year ended 31 July 2018

REVIEW OF RESULTS AND FINANCIAL POSITION CONTINUED

The year in perspective continued

Our shareholding in Omphe Tshiamo Investments Proprietary Limited in the North West is an example of what is achievable, and we see this as being scalable in other provinces subject to new betting licences being available.

Years of diversification have been the hallmark of Phumelela. The recent partnerships with the Supabets and Interbet teams are but two recent examples of many initiatives we have capitalised on over the years to ensure we thrive.

We have built a large international business off the excellent South African horseracing that Phumelela has been pivotal in nurturing at home. International income, through tote betting and media rights, is the largest contributor this year at 134% of pre-tax profit. As we grow our domestic fixed odds and tote offering organically and through acquisition, international will nevertheless continue to contribute a healthy portion of profits, with the foreign currency hedge an additional advantage.

We have revised segmental disclosure to better present our operational transition. These segments are Betting Operations, Media Operations and Administrative and Support Services, with the latter providing shared services. In line with accounting convention, our segments represent wholly or majority-owned operations on a consolidated basis whilst our equity-accounted associates are represented within a single line item. The totality of all the businesses is considerably greater than that reflected on the income statement and balance sheet.

The year had its share of disappointments and challenges but despite this the Group ended the year on a positive operational and financial note and with a clear strategic purpose. Modernisation and repositioning for the future included meaningful cost savings, implemented by way of a voluntary severance programme, aligning the management structure to the way the Group is now managed and investing in our retail footprint as we upgrade the customer experience.

The composition of the Board and Board committees has been substantially strengthened, with the appointment of outstanding individuals. Ms Fikile Magubane, Mr S'celo Mahlalela, Mr Steve Müller and Ms Lindiwe Rakharebe (pending regulatory approval) bring strong credentials to the Board in their roles as non-executive directors and members of Board committees. Furthermore, Mr Moses Tembe has joined the Board as Lead Independent Director, strengthening the role of the Chair and in the spirit of King IV fulfilling the duties usually assigned to a Deputy Chairman. The Group now has two female black non-executive directors (with a further appointment pending regulatory approval) and in total seven black non-executive directors.

Segment review

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

Our horseracing operations are reflected within the new Media segment and comprise the selling of media and data rights of South African horseracing locally and internationally. The local horseracing operations remain loss making on a standalone basis with international profitable and supported by solid international demand. New Zealand has been added as a territory for commingling and fixed odds, the Hong Kong Jockey Club imported twelve simulcast race meetings this year, there was extended simulcast in to Singapore and the Singapore Turf Club is seeking regulatory approval to promote new simulcasts, and there is expansion of coverage in Greece given that SA product generates substantially more turnover compared with competitor simulcast content.

Taking Betting World, TAB, Supabets and Interbet together on a 100% consolidated basis the reach of the Group is now considerable, with over R8 billion in betting turnover flowing through these channels.

Income growth in Betting Operations slowed as the year progressed, ending the year marginally higher. Despite this we nevertheless managed to increase the sports betting turnover, with betting on soccer dominating and continuing to prove popular. We continue to refine product mix and ensure that odds management is effective. New international agreements have been concluded in several African countries.

Whilst the Group's strategic initiatives to drive non-OTC betting turnover are yielding positive results, largely through the internet and smart devices, physical retail stores remain popular as a socially appealing gathering place where fellow punters can share tips, celebrate or commiserate. Betting shops are an important part of our transformation franchise

REVIEW OF RESULTS AND FINANCIAL POSITION CONTINUED

Segment review continued

initiative, such as in the North West. The Supabets and the jointly owned Supaworld outlets are all large format physical stores that attract a substantial throng of customers throughout the day. Four Supaworld stores were operating by 31 July 2018 and we anticipate at least a dozen mega stores being operational within two years.

PGI, located on the Isle of Man, ended the year strongly in a competitive betting environment and benefited from securing a major new customer. Revenue from premium customers betting on local racing improved during the second half. International tote to tote commingled revenue was in line with the prior year.

Group financial analysis

Consolidated net income of R1 563,0 million is in line with the prior year, with Betting Operations contributing 68%, Media 30%, and Administrative and Support Services the balance.

Operating expenses increased by 3% to R1 475,2 million. Excluding the R27,1 million voluntary severance programme expense, which is a once-off item, combined expenses increased by only 1%, reflecting tight expense control.

Depreciation and amortisation of R70,4 million decreased by 1% and is allocated 54% to Betting Operations, 36% to Media and the balance to Administrative and Support Services. In all R67,5 million was spent on acquiring property, plant and equipment during the year.

Operating profit before the cost of the voluntary severance programme was R44,4 million, a 9% decrease on the R49,0 million in 2017. Including the costs of the voluntary severance programme operating profit decreased by 65% to R17,3 million.

Finance costs of R34,6 million, up by 70%, reflect higher borrowings arising from corporate investment activity.

Therefore, the Group incurred a loss before equity-accounted income of R17,3 million compared with a prior year profit of R28,7 million.

Profits from equity-accounted investees increased by 38% to R169,2 million, 111% of pre-tax profits, comprising our share of after-tax profits of PGI, Supabets, Interbet, Supaworld and SW Security. Share of profits from PGI increased by a pleasing 27% to R112,5 million. Interbet performed to expectation, growing profits by double digits to R16,6 million. Supaworld made a small loss in its start-up phase and is budgeted to be profitable next year.

Supabets grew turnover substantially and is gaining market share, although at the expense of margin in the short term. Profits underperformed due to substantially higher expenditure on marketing without commensurate turnover growth, betting margin squeeze (impacted by the VAT increase and smaller take-out margins on the popular win and spin bet offering) and costs associated with expanding the customer call centre. Supabets' contribution to profits nevertheless doubled to R40,6 million.

The R546 000 positive non-cash fair value adjustment relates to the investment in Automatic Systems Limited in Mauritius. These shares are not strategic but given that there is no imminent prospect of an open market sale they are held as an investment at market value.

Attributable profit for the year was 6% higher at R155,1 million, assisted by a lower income tax expense. Profit for the period of R151,8 million includes minority interests in the amount of R3,4 million.

The 16% increase in the weighted number of shares in issue, stemming from the R284 million rights issue in 2017 to part-fund the acquisition of Supabets, has had a dilutionary effect on per share earnings.

Earnings per share decreased by 9% to 153,78 cents with diluted earnings per share decreasing by 4%, also to 153,78 cents.

Headline earnings increased by 6% to R155,6 million and headline earnings per share decreased by 8% to 154,23 cents. The R2,8 million goodwill impairment that is backed out within headline earnings relates to Betting World Eastern Cape.

Normalised headline earnings adjusted for the R19,5 million after-tax cost of the voluntary severance programme increased by 20% to R175,1 million with normalised headline earnings per share increasing by 3% to 173,55 cents.

REPORT OF THE DIRECTORS CONTINUED
for the year ended 31 July 2018

REVIEW OF RESULTS AND FINANCIAL POSITION CONTINUED

Group financial analysis continued

Currency effects on the 2018 trading result were negligible.

The weighted average number of shares in issue increased by 16% to 100,9 million and on a fully diluted basis there was an 11% increase in weighted average shares, also to 100,9 million.

The Group bought back 3,1 million shares for R55,0 million at an average price of R17,49 per share. In all, 1,6 million shares were issued in terms of the share option scheme. The net effect of these transactions was to reduce the net issued share capital as at 31 July 2018 to 2% below the net issued share capital as at 31 July 2017.

A reduction in cash applied to working capital resulted in cash flow from operating activities improving to R62,9 million. Dividends paid to shareholders amounted to R113,7 million. Net loans received of R2,4 million compares to a net advance of R24,4 million. Net borrowings raised amounted to R177,7 million. In total, R79,0 million was paid of the contingent consideration in respect of Supabets and R8,0 million in respect of Interbet. Net dividends received from equity-accounted investees amounted to R130,4 million.

The statement of financial position reflects the material corporate activity in the 2017 financial year, with a considerable addition of cash-generating assets.

Total assets increased to R1 650,7 million and long-term assets increased to R1 338,9 million, with the value of equity-accounted investments at R690,4 million. Property, plant and equipment is valued at book of R464,7 million. Goodwill and intangibles of R57,4 million are small in the context of the entire balance sheet. The investment property valued at R18,7 million is the Arlington Racecourse in Port Elizabeth.

Included in our definition of gross debt of R345,1 million is a remaining contingent liability on Supabets of R28,8 million. Cash as at balance sheet date amounted to R114,4 million. Net debt is therefore R230,7 million compared with R129,2 million last year. The debt to equity ratio of 22,8% is conservative.

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

Return on average equity of 15% on attributable profit is affected by the substantially changed capital structure, with the Supabets acquisition yet to fully contribute, and the once-off severance costs. Normalised return on equity is 17%.

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 in the authorised share capital of the Company.

Issued share capital decreased by 1 590 422 shares or 2% compared to 31 July 2017. During the period, 3 146 330 shares were purchased as treasury shares and 1 555 908 shares were released in terms of the share option scheme.

In 2017, issued share capital increased by 16 602 230 rights offer shares, issued in part to fund the purchase of Supabets SA Holdings Proprietary Limited, whilst a further 8 796 443 shares were issued to the seller in terms of the Supabets purchase consideration.

At 31 July 2018, issued share capital amounted to 99 969 347 shares, net of 2 531 211 treasury shares.

Details of shareholders who directly own more than 3% of the issued share capital of the Company are disclosed on page 144 'Shareholder Information'.

SUBSEQUENT EVENTS

There are no significant subsequent events that have a material impact on the financial statements at 31 July 2018.

MATTERS OF CORPORATE INTEREST AND LITIGATION

In terms of disclosure contained in the annual financial statements for the year ended 31 July 2017, other than disclosed there are no further developments in this regard.

In 2015, the South African Bookmakers' Association applied to the Pretoria High Court to have totalisator betting on sports other than horseracing declared unlawful. On 7 May 2018 this application was dismissed by the Pretoria High Court, with costs. The South African Bookmakers' Association applied for and was granted leave to appeal to the Supreme Court of Appeal.

In 2014, Tellytrack instituted action against Marshalls World of Sport in the Durban High Court in respect of the infringement of Tellytrack's copyright. On 13 February 2018 this claim was dismissed by the Durban High Court and on 3 August 2018 leave to appeal to the Supreme Court of Appeal was granted to Tellytrack.

As a result of proceedings which were instituted in 2014, Phumelela was charged with contravening condition 10 of its Turffontein race meeting licence. This condition pertains to the visual broadcasts of race meetings. On 31 August 2018, the disciplinary committee issued a preliminary recommendation to the Gauteng Gambling Board that Phumelela be found guilty of contravening its licence. The disciplinary committee found that Phumelela is obliged to provide the Tellytrack service to all bookmakers, regardless of their geographic location, on a cost recovery basis. Phumelela was afforded an opportunity to make further written submissions to the disciplinary committee. On 19 September 2018, the disciplinary committee confirmed its preliminary recommendation. Phumelela will be afforded an opportunity to make submissions regarding the sanction to be imposed on it.

If the Gauteng Gambling Board decides to find Phumelela guilty of contravening its licence conditions in accordance with the disciplinary committee's recommendation, Phumelela has been advised to apply to the High Court to have such decision reviewed and set aside.

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

Shareholders' attention is drawn to the general update following the meeting of the Board of Directors of Phumelela on 12 July 2018 that was issued on the Johannesburg Stock Exchange News Service on 18 July 2018. The Board of Directors of Phumelela engaged in initial conceptual discussions with stakeholders of thoroughbred horses and breeders and the Thoroughbred Trust with regard to the administration of horseracing in South Africa and tote betting. These conceptual discussions could result in a change in ownership of the administration of horseracing and/or tote betting and/or the restructure if they came to fruition but as at the date of this report there is nothing further to convey.

RELATED PARTIES

During the year Betting World Proprietary Limited sold four fixed odds licences to Supaworld Proprietary Limited, a company jointly owned by Betting World and Supabets.

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

DIVIDENDS TO ORDINARY EQUITY HOLDERS

A final gross cash dividend of 70 cents per share (56 cents per share net of dividend withholding tax at a rate of 20%) for the year ended 31 July 2017 was declared to shareholders recorded in the register on 3 November 2017 and paid on 6 November 2017.

An interim gross cash dividend of 42,00 cents per share (33,60 cents per share net of dividend withholding tax at a rate of 20%) was declared to shareholders recorded in the register on 26 April 2018 and paid on 30 April 2018.

The Board has declared a final gross cash dividend of 62,00 cents per share (49,60 cents per share net of dividend withholding tax at a rate of 20%) for the year ended 31 July 2018 to shareholders recorded in the register on 2 November 2018 and payable on 5 November 2018.

REPORT OF THE DIRECTORS CONTINUED

for the year ended 31 July 2018

SHARE INCENTIVE SCHEMES

Details pertaining to share option schemes approved by shareholders' are set out in the remuneration policy and implementation report on pages 51 to 57.

AUDITORS

At the annual general meeting held on 12 December 2017, 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 12 December 2017:
Mr JB Walters
Dr E Nkosi

The appointment of Mr. P Anastassopoulos as a director of the Company with effect from 8 March 2017 was approved at the annual general meeting held on 12 December 2017.

The following directors were elected to serve on the Audit Committee at the annual general meeting held on 12 December 2017:
Mr R Cooper
Ms NJ Mboweni
Mr JB Walters

With effect from:

- 25 August 2017, Mr Brian Finch resigned from the Board as a non-executive director;
- 6 December 2017, Mr Markus Jooste resigned from the Board as a non-executive director;
- 12 December 2017, Mr Peter Malungani retired from the Board after twenty years of service;
- 13 December 2017, Mr Bernard Kantor, an independent non-executive director, assumed the role of Chairman;
- 24 January 2018, Mr Steve Müller was appointed to the Board as a non-executive director and on 3 July 2018, appointed as Chairman of the Audit Committee;
- 16 July 2018, Mr Siza Khampepe was appointed as member of the Remuneration and Nominations Committee;
- 16 July 2018, Ms Nolwandle Mboweni was appointed as member of the Social and Ethics Committee in addition to her membership to the Audit and Risk Committee;
- 16 July 2018, Mr S'celo Mahlalela was appointed as a non-executive director and member of the Audit and Risk Committee;
- 14 August 2018, Ms Fikile Magubane was appointed as a non-executive director and member of the Audit and Risk Committee;
- 17 September 2018, Mr Rian du Plessis resigned from the Board as Group CEO;
- 18 September 2018, Mr John Stuart was appointed as Group CEO;
- 21 September 2018, Mr Moses Tembe was appointed as Lead Independent Director;
- Pending the date of approval of the relevant regulatory authorities, Ms Lindiwe Rakharebe was appointed as a non-executive director and member of the Social and Ethics Committee.

There are no other changes to the composition of the Board.

The Board expresses sincere thanks to Mr Malungani for his valued contribution and 20 years' loyal service to the Company as Chairman. The Board also wishes to thank Mr Finch and Mr Jooste for their contributions. The Board would like to thank Mr Du Plessis for his valued service and contribution over the past ten years and wishes him every success in his future endeavours. The Board further welcomes the appointment of Mr Kantor as Chairman, the appointments of Mr Müller, Mr Mahlalela, Ms Magubane, Ms Rakharebe (pending regulatory approval) and Mr Tembe to the Board and Mr Stuart as Group CEO.

In terms of the Company's Memorandum of Corporation ("MoI"), Messrs R Cooper, B Kantor, KC Khampepe and CJH van Niekerk retire at the annual general meeting. Messrs B Kantor and KC Khampepe being eligible, offer themselves for re-election. Messrs CJH van Niekerk and R Cooper have not offered themselves for re-election and will retire at the conclusion of the AGM and Board meeting scheduled for 11 December 2018.

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

SUBSIDIARY COMPANIES

Details of subsidiary companies are disclosed on page 143.

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 July 2018

TO THE SHAREHOLDERS OF PHUMELELA GAMING AND LEISURE LIMITED

Report on the Group financial statements and financial statements

Opinion

We have audited the consolidated and separate financial statements of Phumelela Gaming and Leisure Limited (the group and company) set out on pages 74 to 143 which comprise the statements of financial position as at 31 July 2018, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, accounting policies, notes to the financial statements and details of subsidiary companies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Phumelela Gaming and Leisure Limited as at 31 July 2018, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of gross betting income (applicable to the consolidated and separate financial statements)

Refer to accounting policies note 1.13 and notes 23 and 24 to the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Included in the consolidated and separate financial statements is gross betting income amounting to R1 183 million and R759 million, respectively. Gross betting income is typically derived from high volume, low value transactions and is dependent on the outcome of events wagered on. The completed and accurate recording of the gross betting income is dependent on the configuration of the underlying IT systems, how these interface with the accounting system, and the effectiveness of the related application and manual controls. Due to the complexity of the processes related to the recognition of revenue, a risk exists that the revenue may not be complete and accurately recorded and that the identification of processing anomalies may go undetected or are not detected on a timely basis. Recognition of gross betting income is considered to be a key audit matter due to the volume of transactions and the significant work effort exerted by the audit team in this area.	Our audit procedures included the following procedures: • With the assistance of our information technology specialists, we evaluated the assurance obtained from the auditor's report on the controls performed at a service organisation, in order to confirm that the controls of the underlying IT systems could be relied upon. • We tested the manual controls over the reconciliations of bets placed to cash collected and recorded in the accounting system. • We evaluated the reasonableness of gross betting revenue recognised by analysing betting revenue against betting dividends paid to customers on a monthly basis and obtaining corroborating explanations for monthly movements that did not meet the expectation. • We inspected the journals processed in the accounting system against gross betting income to identify and evaluate the reasonableness of any non-standard journal entries.

INDEPENDENT AUDITOR'S REPORT CONTINUED

for the year ended 31 July 2018

Annual impairment assessments of goodwill and intangibles assets with an indefinite useful life

(applicable to the consolidated and separate financial statements)

Refer to accounting policies notes 1.5, 1.6 and 1.9 and notes 5 and 6 to the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
As required by IAS 36: Impairment of Assets, the directors conduct annual impairment assessments to test the recoverability of carrying amounts of goodwill and intangible assets with an indefinite useful life (betting licenses). The recoverable amount of goodwill and intangible assets is estimated using a value in use derived from the discounted cash flow model. Management apply significant judgement in their assessment of the impairment particularly with regard to the assumptions used to estimate the recoverable amount of the Cash Generating Units (CGU's). This model uses several key assumptions, including estimates of: • Growth in earnings before interest and tax; • Weighted average cost of capital (as informed by estimates of cost of equity, cost of debt and target debt to equity ratios); • Capital expenditure; and • Working capital movements. The annual testing of impairment on goodwill and intangible assets with an indefinite useful life is considered to be a key audit matter due to the significant judgements applied by the directors in determining their recoverable amount.	Our audit procedures included the following procedures: • We evaluated whether the discounted cash flow model used by the directors to calculate the value in use of the individual CGUs complies with the requirements of IAS 36. • We challenged the assumptions used by the directors in the calculations for each CGU by: – Involving our internal valuation specialists to evaluate and re-calculate the weighted average cost of capital and growth in earnings before interest and tax in relation to external market data and our knowledge of the Group and the industries in which it operates; – Analysing the future projected cash flows for the individual CGUs to determine whether they are reasonable and supportable given the current macro-economic climate and expected future performance of each CGU; and – Performing sensitivity analyses on key assumptions. • We compared the projected cash flows and assumptions used in prior years to current year performance, to evaluate the accuracy of the directors' projections. • We evaluated the adequacy of the financial statement disclosures, including the disclosure of key assumptions made by the directors against the requirements of IAS 36.

Impairment assessment of franchise loans and receivables (applicable to the consolidated and separate financial statements)
Refer to notes 10 and 15 to the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
The directors conducted an impairment assessment to test the recoverability of carrying amounts of franchise loans and receivables due from franchisees that are currently in the start-up phase of operations. An impairment assessment was performed using a discounted cash flow model. This model uses key assumptions which are judgemental in nature. The impairment of franchise loans and receivables is considered to be a key audit matter given the judgement applied by the directors in their assessment of the recoverable amount of the franchise loans and receivables.	Our audit procedures included the following procedures: • We evaluated whether the discounted cash flow model used by the directors to calculate the recoverable amount of the franchise loans and receivables was appropriate and in compliance with the applicable financial reporting framework; • We challenged the assumptions used by the directors in determining whether the franchise loans and receivables should be impaired by: – Assessing the reasonableness of assumptions relating to revenue growth and profit growth in respect of the franchise owner in relation to our knowledge of the Group and the industries in which it operates and given the current macro-economic environment, comparing the projected cash flows, including the assumptions relating to revenue growth rates and profit growth, against historical performance to test the accuracy of the directors' projections; – Subjecting the key assumptions to sensitivity analyses; and – Evaluating the adequacy of the financial statement disclosures.

Other information
The directors are responsible for the other information. The other information comprises the report of the directors, the report of the Audit Committee and the report of the Company Secretary as required by the Companies Act of South Africa and the other information included in the group annual financial statements and the annual financial statements, which we obtained prior to the date of this report, and the integrated report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements
The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT CONTINUED

for the year ended 31 July 2018

Responsibilities of the directors for the consolidated and separate financial statements continued

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/ or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's responsibilities for the audit of the consolidated and separate financial statements continued

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 of Phumelela Gaming and Leisure Limited for 12 years.

KPMG INC

Registered Auditor

Per D Read

Chartered Accountant (SA)
Registered Auditor
Director
5 October 2018

KPMG Crescent
85 Empire Road
Parktown
Johannesburg 2122

STATEMENTS OF FINANCIAL POSITION

as at 31 July 2018

		GROUP		COMPANY	
		2018	2017	**2018**	2017
	Note	**R'000**	R'000	**R'000**	R'000
ASSETS					
Non-current assets		**1 338 850**	1 280 609	**1 056 769**	1 051 691
Property, plant and equipment	4	**464 707**	468 388	**307 288**	310 881
Goodwill	5	**12 362**	15 206		
Intangible assets	6	**45 000**	51 939	**1 033**	1 547
Investment in subsidiaries	7			**96 336**	96 336
Investments	8	**12 108**	11 562	**12 108**	11 562
Interest in equity-accounted investees	9	**690 421**	638 074	**581 531**	581 531
Long-term loans	10	**63 341**	64 309	**30 427**	40 967
Investment property	11	**18 700**	18 700		
Deferred taxation asset	12	**32 211**	12 431	**25 225**	6 046
Amounts owing by subsidiary companies	13.1			**2 821**	2 821
Current assets		**311 824**	259 200	**346 423**	313 768
Inventories	14	**3 773**	2 466	**2 778**	1 024
Trade and other receivables	15	**155 679**	129 855	**134 767**	125 299
Amounts owing by subsidiary companies	13.2			**84 402**	99 231
Income tax receivable		**23 348**	19 395	**18 568**	13 842
Defined benefit funds	18.1	**14 650**	9 029	**14 650**	9 029
Cash and cash equivalents	16	**114 374**	98 455	**91 258**	65 343
Total assets		**1 650 674**	1 539 809	**1 403 192**	1 365 459
EQUITY AND LIABILITIES					
Total equity		**1 012 624**	1 029 993	**802 703**	863 912
Equity attributable to ordinary shareholders		**1 019 908**	1 033 911	**802 703**	863 912
Share capital and premium	17.1	**473 786**	473 826	**474 143**	474 143
Retained earnings		**546 092**	560 678	**328 560**	389 769
Translation reserve	17.2	**30**	(593)		
Non-controlling interest	17.3	**(7 284)**	(3 918)		
Non-current liabilities		**301 319**	123 370	**300 000**	120 000
Deferred taxation liability	12	**872**	1 393		
Borrowings	19	**300 447**	121 977	**300 000**	120 000
Current liabilities		**336 731**	386 446	**300 489**	381 547
Trade and other payables	20	**278 118**	267 146	**236 880**	230 957
Short-term borrowings	19	**1 639**	2 400		
Amounts owing to subsidiary companies	21			**14 697**	41 081
Contingent consideration liability	22	**28 806**	101 434	**28 806**	101 434
Income tax payable		**24**	24		
Betting dividends payable		**13 965**	13 621	**5 927**	6 254
Bank overdraft	19	**14 179**	1 821	**14 179**	1 821
Total equity and liabilities		**1 650 674**	1 539 809	**1 403 192**	1 365 459

	cents	cents
Net asset value per share	**1 012,9**	1 014,2

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 July 2018

		GROUP		COMPANY	
	Note	**2018 R'000**	2017 R'000	**2018 R'000**	2017 R'000
Income	23	**1 526 979**	1 520 515	**1 246 087**	1 245 775
Gross betting income	24	**1 182 525**	1 176 913	**759 031**	763 273
Value added tax		**(139 888)**	(137 321)	**(88 233)**	(87 004)
Betting taxes		**(92 876)**	(90 989)	**(70 590)**	(69 861)
Net betting income	25	**949 761**	948 603	**600 208**	606 408
Other operating income					
– Local operations		**283 558**	281 654	**278 438**	281 029
– International operations		**316 062**	306 844	**309 695**	306 844
Investment income					
– Local operations		**12 928**	15 200	**148 657**	139 682
– International operations		**619**	646	**618**	646
Net income		**1 562 928**	1 552 947	**1 337 616**	1 334 609
Stakes		**(209 520)**	(208 756)	**(209 520)**	(208 756)
National Horseracing Authority levies		**(36 296)**	(34 134)	**(36 296)**	(34 134)
Operating expenses and overheads					
– Local operations		**(1 074 913)**	(1 047 039)	**(770 310)**	(761 217)
– International operations		**(224 884)**	(213 989)	**(224 709)**	(201 364)
Profit from operations	26	**17 315**	49 029	**96 781**	129 138
Finance costs					
– Local operations	27	**(34 577)**	(20 323)	**(34 303)**	(19 233)
(Loss)/profit before share of profit of equity-accounted investees		**(17 262)**	28 706	**62 478**	109 905
Share of profit of equity-accounted investee after tax	9	**169 169**	122 591		
Profit before assets held for sale fair value adjustment		**151 907**	151 297	**62 478**	109 905
Fair value adjustment in respect of investments	8.2	**546**	946	**546**	946
Profit before income tax expense		**152 453**	152 243	**63 024**	110 851
Income tax (expense)/credit	28	**(707)**	(9 641)	**19 179**	4 730
Profit for the year		**151 746**	142 602	**82 203**	115 581
Other comprehensive income for the year					
Other comprehensive income to profit or loss		**2 018**	(151)	**1 395**	
Items that may subsequently be reclassified					
– Remeasurement of defined benefit obligation		**1 395**		**1 395**	
– Exchange differences on translation of foreign subsidiaries		**623**	(151)		
Total comprehensive income for the year		**153 764**	142 451	**83 598**	115 581
Profit attributable to:					
– Ordinary equity holders of the parent		**155 112**	146 520		
– Non-controlling interest		**(3 366)**	(3 918)		
		151 746	142 602		
Total comprehensive income attributable to:					
– Ordinary equity holders of the parent		**157 130**	146 369		
– Non-controlling interest		**(3 366)**	(3 918)		
		153 764	142 451		
		cents	cents		
Earnings per ordinary share	30				
Basic earnings per share		**153,78**	168,46		
Diluted earnings per share		**153,78**	160,84		

STATEMENTS OF CASH FLOWS

for the year ended 31 July 2018

		GROUP		COMPANY	
		2018	2017	**2018**	2017
	Note	**R'000**	R'000	**R'000**	R'000
Net cash outflow from operating activities		**(94 640)**	(62 201)	**(52 371)**	(27 805)
Cash generated by operations	35.1	**70 716**	88 771	**(16 059)**	21 983
Movements in working capital	35.2	**(7 815)**	(43 022)	**(36 817)**	(87 277)
Cash generated/(utilised) by operating activities		**62 901**	45 749	**(52 876)**	(65 294)
Income tax (paid)/refunded	35.3	**(24 961)**	(15 082)	**(4 726)**	4 220
Dividends paid to shareholders		**(113 734)**	(86 875)	**(114 801)**	(88 822)
Interest received		**8 385**	11 320	**11 161**	11 132
Dividends received		**618**	637	**136 446**	127 819
Finance costs paid		**(27 849)**	(17 950)	**(27 575)**	(16 860)
Net cash outflow from investing activities		**(25 101)**	(250 879)	**(114 072)**	(307 798)
Acquisition of intangible assets		**(199)**	(3 611)		(241)
Acquisition of property, plant and equipment		**(67 316)**	(78 612)	**(36 038)**	(37 757)
Proceeds on disposal of property, plant and equipment		**626**	1 664	**270**	863
Contingent consideration liability paid		**(86 979)**	(330)	**(87 356)**	(330)
Investment in equity-accounted investees		**(3 993)**	(255 010)		(255 010)
Loans advanced		**(130 925)**	(99 904)	**(124 231)**	(90 795)
Loans repaid		**133 283**	75 472	**133 283**	75 472
Dividends received from equity-accounted investees		**130 402**	109 452		
Net cash inflow from financing activities		**122 679**	332 195	**180 000**	347 915
Repayment of finance leases			(425)		(425)
Shares repurchased and options issued		**(55 030)**	(14 276)		
Borrowings raised		**178 470**	60 000	**180 000**	60 000
Borrowings repaid		**(761)**	(1 444)		
Share capital raised			288 340		288 340
Net increase in cash and cash equivalents for the year		**2 938**	19 115	**13 557**	12 312
Effect of conversion of foreign operations on cash and cash equivalents		**623**	(151)		
Cash and cash equivalents at beginning of year		**96 634**	77 670	**63 522**	51 210
Cash and cash equivalents at end of year		**100 195**	96 634	**77 079**	63 522
Make-up of balance of cash and cash equivalents					
Cash and cash equivalents	16	**114 374**	98 455	**91 258**	65 343
Bank overdraft	19	**(14 179)**	(1 821)	**(14 179)**	(1 821)
Cash and cash equivalents at end of year		**100 195**	96 634	**77 079**	63 522

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 July 2018

	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 2016	1 863		(442)	511 630	513 051		513 051
Total comprehensive income for the year			(151)	146 520	146 369	(3 918)	142 451
– Profit for the year				146 520	146 520	(3 918)	142 602
– Other comprehensive income			(151)		(151)		(151)
Transactions with owners recorded directly in equity							
– Share issue – Rights offer	415	288 298			288 713		288 713
– Direct listing costs		(373)			(373)		(373)
– Share issue – Acquisition shares	220	183 362			183 582		183 582
– Share repurchase	(12)			(10 588)	(10 600)		(10 600)
– Shares issued in terms of the share option scheme	53			(3 729)	(3 676)		(3 676)
– Share-based payment				3 720	3 720		3 720
– Dividends paid to equity holders				(86 875)	(86 875)		(86 875)
Balance at 31 July 2017	2 539	471 287	(593)	560 678	1 033 911	(3 918)	1 029 993
Total comprehensive income for the year			**623**	**156 507**	**157 130**	**(3 366)**	**153 764**
– Profit for the year				**155 112**	**155 112**	**(3 366)**	**151 746**
– Other comprehensive income			**623**	**1 395**	**2 018**		**2 018**
Transactions with owners recorded directly in equity							
– Share repurchase	**(79)**			**(54 950)**	**(55 029)**		**(55 029)**
– Shares issued in terms of the share option scheme	**39**			**(39)**			
– Share-based payment				**(2 370)**	**(2 370)**		**(2 370)**
– Dividends paid to equity holders				**(113 734)**	**(113 734)**		**(113 734)**
Balance at 31 July 2018	**2 499**	**471 287**	**30**	**546 092**	**1 019 908**	**(7 284)**	**1 012 624**
COMPANY							
Balance at 31 July 2016	1 928	293		412 317	414 538		
Total comprehensive income for the year				115 581	115 581		
– Profit for the year				115 581	115 581		
Transactions with owners recorded directly in equity							
– Share issue – Rights offer	415	287 925			288 340		
– Share issue – Acquisition shares	220	183 362			183 582		
– Shares issued in terms of the share option scheme				(53 027)	(53 027)		
– Share-based payment				3 720	3 720		
– Dividends paid to equity holders				(88 822)	(88 822)		
Balance at 31 July 2017	2 563	471 580		389 769	863 912		
Total comprehensive income for the year				**83 598**	**83 598**		
– Profit for the year				**82 203**	**82 203**		
– Other comprehensive income				**1 395**	**1 395**		
Transactions with owners recorded directly in equity							
– Shares issued in terms of the share option scheme				**(27 636)**	**(27 636)**		
– Share-based payment				**(2 370)**	**(2 370)**		
– Dividends paid to equity holders				**(114 801)**	**(114 801)**		
Balance at 31 July 2018	**2 563**	**471 580**		**328 560**	**802 703**		

ACCOUNTING POLICIES

for the year ended 31 July 2018

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 60 to 142 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.

The financial statements were approved by the Board of Directors for issue on 5 October 2018.

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.

Non-controlling interests

Non-controlling interests are measured at the proportional share of the minorities' interest in the identifiable net assets at acquisition date and adjusted in the same proportion according to the profit and losses at each reporting date.

Changes in the Group's interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

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.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.3 Basis of consolidation continued

Joint operations *continued*

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.

Equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures. Associates are those companies in which the Group has significant influence but not control or joint control over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control and is equity-accounted. 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 is 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.

1.5 Goodwill

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

ACCOUNTING POLICIES CONTINUED
for the year ended 31 July 2018

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.5 Goodwill continued

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

Finite useful life intangible assets

The Group's finite useful life intangible assets comprise 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:

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.

1.7 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 deterioration of these surfaces and no depreciation is therefore provided. 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.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.7 Property, plant and equipment continued

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 expenditure

The cost of replacing a part of an item of property, plant and equipment is capitalised 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 Investment property

Investment property is a property owned by the Group not used by the Group in its operations. Investment property is measured at cost less accumulated depreciation and impairment losses. Depreciation is charged at 2% on improvements but is based on the residual value and useful life of the property. Land is not depreciated. Any gain or loss on disposal of investment property is recognised in profit or loss.

1.9 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.

ACCOUNTING POLICIES CONTINUED

for the year ended 31 July 2018

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.9 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 in 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.

1.10 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.

1.11 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.

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 tax assets against 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.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.11 Taxation continued

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 20% 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 for the totalisator represents bets struck net of betting dividends paid to customers. Gross betting income from fixed odds is a derivative instrument and net winnings are presented as gross betting income. The gross betting income is the total of bets struck less betting dividends paid, refunds and rebates. Net betting income in note 25 is after value added taxes and betting taxes have been deducted.

Other income includes commingling fees charged for hosting the pools and supplying betting content, subscription fees for provision of content for betting both locally and internationally, stable rental, unclaimed dividends, gambling boards levies received and commission received on limited payout machines. 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 statements 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.

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.

ACCOUNTING POLICIES CONTINUED

for the year ended 31 July 2018

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

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 is 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 values 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 arising from 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 Black-Scholes-Merton 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.

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

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.16 Employee benefits continued

***Equity participation plan** continued*

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 statements 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 of 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.

ACCOUNTING POLICIES CONTINUED

for the year ended 31 July 2018

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 both at an individual asset and a collective level. 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. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

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 the 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 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 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.

ACCOUNTING POLICIES CONTINUED

for the year ended 31 July 2018

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 – goodwill and indefinite useful life intangible assets

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 impacts the income tax and deferred tax provisions in the period in which such determination is made.

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.

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

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 and Intangible assets

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.

Valuation of the equity-accounted investment's intangible assets and goodwill

Management made use of external experts to perform the purchase price allocation for the purchase of its shares in Supabets SA Holdings Proprietary Limited and Uptonvale Services Proprietary Limited effective 1 March 2017. The purchase price allocation valued separately identifiable intangible assets and goodwill arising on acquisition. The key assumptions used in the valuations included long-term revenue growth rates, royalty rates and discount rates. The resulting values are disclosed in note 9.

Tellytrack revenue recognition

Customers are using the Tellytrack channel for revenue-generating purposes. Customers are required to pay for the use of this channel when generating revenue. As the revenue recognition is subject to numerous legal procedures that are ongoing, the recognition of the revenue requires management's estimation and judgements, as disclosed in note 31.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2018

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 repurchases 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 15. 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's exposure to credit risk as a result of the introduction of the franchise model continues to receive attention. There are equipment and start-up costs funded by the Group which increases credit exposure. Management therefore is required to monitor and provide additional support to the franchisee to mitigate the increased credit exposure until the franchisee is fully operational and producing profits. Refer note 10.2 in the financial statements for the amounts involved.

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 15.

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 companies. The exposure of the entity to credit risk according to these concentrations for dormant Group companies is R2 821 000 (2017: R2 821 000) and active trading Group companies R84 402 000 (2017: R99 231 000).

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 is disclosed in note 16.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
The maximum exposure to credit risk at the reporting date was as follows				
Investments	**12 108**	11 562	**12 108**	11 562
Long-term secured loan	**30 427**	38 639	**30 427**	38 639
Long-term unsecured loan	**32 914**	25 669		2 328
Amounts owing by Group companies			**87 223**	102 052
Trade and other receivables	**155 679**	129 855	**134 767**	125 299
Cash and cash equivalents	**114 374**	98 455	**91 258**	65 343
	345 502	304 180	**355 783**	345 223

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 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 20.

Management determines its concentration of liquidity risk for amounts owing to Group companies by reference to the level of trading activity of the Group companies. The entity's exposure to such liquidity risk regarding dormant Group companies is R9 076 000 (2017: R9 085 000) and regarding active companies is R5 621 000 (2017: R31 996 000).

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 current liabilities exceed their current assets. The Group has an unused revolving credit facility of R20 million (2017: R100 million), unused general banking facilities of R40 million (2017: R50 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

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	Total R'000
GROUP				
2018				
Trade and other payables	**33 506**	**244 612**		**278 118**
Borrowings			**300 447**	**300 447**
Contingent consideration liability		**28 806**		**28 806**
Operating leases		**54 003**	**68 225**	**122 228**
Betting dividends payable	**13 965**			**13 965**
Bank overdraft	**14 179**			**14 179**
Total	**61 650**	**327 421**	**368 672**	**757 743**
2017				
Trade and other payables	45 008	222 075		267 083
Finance lease		63		63
Borrowings			121 977	121 977
Contingent consideration liability		101 434		101 434
Operating leases		57 677	48 072	105 749
Betting dividends payable	13 621			13 621
Bank overdraft	1 821			1 821
Total	60 450	381 249	170 049	611 748
COMPANY				
2018				
Trade and other payables	**29 083**	**207 797**		**236 880**
Borrowings			**300 000**	**300 000**
Contingent consideration liability		**28 806**		**28 806**
Operating leases		**35 231**	**44 836**	**80 067**
Betting dividends payable	**5 927**			**5 927**
Bank overdraft	**14 179**			**14 179**
Owing to subsidiaries	**14 697**			**14 697**
Total	**63 886**	**271 834**	**344 836**	**680 556**
2017				
Trade and other payables	42 689	188 205		230 894
Finance lease		63		63
Borrowings			120 000	120 000
Contingent consideration liability		101 434		101 434
Operating leases		35 563	19 605	55 169
Betting dividends payable	6 254			6 254
Bank overdraft	1 821			1 821
Owing to subsidiaries	41 081			41 081
Total	91 845	325 265	139 605	556 715

The Group has minimised its liquidity risk by ensuring that it 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 15, 16 and 20) 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 15, 16 and 20 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 15, 16 and 20 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	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 risk management *continued*					
Foreign currency exchange risk 2018					
Australian dollar	**5**	**1 330 178**	**656**	**1 330 178**	**656**
British pound	**5**	**1 702 550**	**1 483**	**1 661 206**	**1 447**
Euro	**5**	**1 337 813**	**1 038**	**1 337 813**	**1 038**
Hong Kong dollar	**5**	**3 661 815**	**310**	**3 701 062**	**313**
Singapore dollar	**5**	**996 242**	**486**	**996 242**	**486**
Swedish krona	**5**	**(893 168)**	**(67)**	**(893 168)**	**(67)**
United States dollar	**5**	**(54 521)**	**(36)**	**(54 521)**	**(36)**
Foreign currency exchange risk 2017					
Australian dollar	5	1 125 610	594	1 125 610	594
British pound	5	678 076	591	667 621	582
Euro	5	1 709 888	1 334	1 709 888	1 334
Singapore dollar	5	(97 600)	(2)	(97 600)	(2)
Swedish krona	5	471 338	229	471 338	229
United States dollar	5	(1 155 240)	(94)	(1 155 240)	(94)

The following significant exchange rates were applied during the year:

	Year end		Average	
	GROUP AND COMPANY		GROUP AND COMPANY	
	2018 R	2017 R	**2018 R**	2017 R
Australian dollar	**9,86**	10,55	**9,89**	10,22
British pound	**17,42**	17,42	**17,35**	17,10
Euro	**15,52**	15,60	**15,35**	14,92
Hong Kong dollar	**1,69**		**1,64**	
Singapore dollar	**9,75**	9,73	**9,59**	9,74
Swedish krona	**1,51**	1,63	**1,53**	1,56
United States dollar	**13,28**	13,18	**12,87**	13,57

2. FINANCIAL RISK MANAGEMENT CONTINUED

Foreign currency 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.

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 as at 31 July 2018 (2017: 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.

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 R87 223 000 (2017: R102 052 000). The fair value of the amount owed to Group companies is R14 697 000 (2017: R41 081 000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

			GROUP		
Class of financial instrument	At fair value R'000	Loans and receivables R'000	Financial liabilities measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS					
2018					
Financial assets					
Investments	11 416	692			12 108
Long-term secured loans		30 427			30 427
Long-term unsecured loans		32 914			32 914
Trade and other receivables		140 352		15 327	155 679
Cash and cash equivalents		114 374			114 374
Total	11 416	318 759		15 327	345 502
Financial liabilities					
Borrowings			302 086		302 086
Trade and other payables			247 342	30 776	278 118
Contingent consideration liabilities			28 806		28 806
Betting dividends payable			13 965		13 965
Bank overdraft			14 179		14 179
Total			606 378	30 776	637 154
2017					
Financial assets					
Investments	10 870	692			11 562
Long-term secured loans		38 639			38 639
Long-term unsecured loans		25 669			25 669
Trade and other receivables		117 555		12 300	129 855
Cash and cash equivalents		98 455			98 455
Total	10 870	281 010		12 300	304 180
Financial liabilities					
Finance lease			64		64
Borrowings			123 584		123 584
Trade and other payables			213 030	54 053	267 083
Contingent consideration liabilities			101 434		101 434
Betting dividends payable			13 621		13 621
Bank overdraft			1 821		1 821
Total			453 554	54 053	507 607

Class of financial instrument	At fair value R'000	Loans and receivables R'000	COMPANY Financial liabilities measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS CONTINUED					
2018					
Financial assets					
Investments	11 416	692			12 108
Long-term secured loan		30 427			30 427
Amounts owing by subsidiary companies		87 223			87 223
Trade and other receivables		128 983		5 784	134 767
Cash and cash equivalents		91 258			91 258
Total	11 416	338 583		5 784	355 783
Financial liabilities					
Borrowings			300 000		300 000
Trade and other payables			220 474	16 406	236 880
Amounts owing to subsidiary companies			14 697		14 697
Contingent consideration liabilities			28 806		28 806
Betting dividends payable			5 927		5 927
Bank overdraft			14 179		14 179
Total			584 083	16 406	600 489
2017					
Financial assets					
Investments	10 870	692			11 562
Long-term secured loan		38 639			38 639
Long-term unsecured loans		2 329			2 329
Amounts owing by subsidiary companies		102 656			102 656
Trade and other receivables		120 721		4 578	125 299
Cash and cash equivalents		65 343			65 343
Total	10 870	330 380		4 578	345 828
Financial liabilities					
Finance lease			64		64
Borrowings			120 000		120 000
Trade and other payables			198 698	32 173	230 871
Amounts owing to subsidiary companies			41 081		41 081
Contingent consideration liabilities			101 434		101 434
Betting dividends payable			6 254		6 254
Bank overdraft			1 821		1 821
Total			469 352	32 173	501 525

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	GROUP							
	Freehold R'000	Leasehold improve-ments R'000	Plant and machinery R'000	Infor-mation 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								
2018								
Balance at beginning of year	235 412	57 235	76 993	49 448	17 819	30 565	916	468 388
Current year movements								
– Additions	3 782	24 658	16 550	14 270	2 433	4 661	962	67 316
– Disposals	(254)	(2 119)	(234)	(175)	(143)	(867)		(3 792)
– Depreciation	(9 687)	(19 778)	(13 557)	(15 734)	(3 894)	(4 134)	(421)	(67 205)
Balance at end of year	229 253	59 996	79 752	47 809	16 215	30 225	1 457	464 707
Made up as follows:								
Assets at cost	296 569	151 686	193 528	122 059	41 168	65 288	4 037	874 335
Accumulated depreciation	(67 316)	(91 690)	(113 776)	(74 250)	(24 953)	(35 063)	(2 580)	(409 628)
Carrying value	229 253	59 996	79 752	47 809	16 215	30 225	1 457	464 707
2017								
Balance at beginning of year	235 488	53 712	76 226	44 019	18 462	29 947	1 060	458 914
Current year movements								
– Additions	10 180	24 684	13 790	19 523	4 076	5 942	417	78 612
– Disposals		(75)	(84)	(47)	(391)	(447)	(15)	(1 059)
– Depreciation	(10 256)	(21 086)	(12 939)	(14 047)	(4 328)	(4 877)	(546)	(68 079)
Balance at end of year	235 412	57 235	76 993	49 448	17 819	30 565	916	468 388
Made up as follows:								
Assets at cost	292 788	136 921	177 908	109 442	40 237	62 410	3 075	822 780
Accumulated depreciation	(57 376)	(79 686)	(100 915)	(59 994)	(22 418)	(31 845)	(2 159)	(354 392)
Carrying value	235 412	57 235	76 993	49 448	17 819	30 565	916	468 388

	Land and buildings Freehold R'000	Leasehold improve-ments R'000	Plant and machinery R'000	Infor-mation 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
				COMPANY				
4. PROPERTY, PLANT AND EQUIPMENT CONTINUED								
2018								
Balance at beginning of year	166 098	18 667	75 738	24 044	14 206	11 233	895	310 881
Current year movements								
– Additions	3 782	6 792	16 290	5 389	1 954	1 014	817	36 038
– Disposals			(73)	(10)	(105)	(2)		(190)
– Depreciation	(6 759)	(7 638)	(13 157)	(6 676)	(3 200)	(1 601)	(410)	(39 441)
Balance at end of year	163 121	17 821	78 798	22 747	12 855	10 644	1 302	307 288
Made up as follows:								
Assets at cost	209 989	71 229	189 508	70 937	35 636	30 243	3 649	611 191
Accumulated depreciation	(46 868)	(53 408)	(110 710)	(48 190)	(22 781)	(19 599)	(2 347)	(303 903)
Carrying value	163 121	17 821	78 798	22 747	12 855	10 644	1 302	307 288
2017								
Balance at beginning of year	162 715	24 830	74 972	25 362	15 546	12 391	1 039	316 855
Current year movements								
– Additions	10 180	4 885	13 467	5 502	2 291	1 039	393	37 757
– Disposals			(74)	(2)	(152)	(17)	(13)	(258)
– Depreciation	(6 797)	(11 048)	(12 627)	(6 818)	(3 479)	(2 180)	(524)	(43 473)
Balance at end of year	166 098	18 667	75 738	24 044	14 206	11 233	895	310 881
Made up as follows:								
Assets at cost	206 208	64 437	173 942	66 159	34 279	29 283	2 831	577 139
Accumulated depreciation	(40 110)	(45 770)	(98 204)	(42 115)	(20 073)	(18 050)	(1 936)	(266 258)
Carrying value	166 098	18 667	75 738	24 044	14 206	11 233	895	310 881

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
5. GOODWILL				
Acquired on acquisition of:				
– Betting World Eastern Cape Proprietary Limited		2 844		
– Opening balance	**2 844**			
– Impaired during year	**(2 844)**			
– Betting World Proprietary Limited	**8 915**	8 915		
– TAB North West Proprietary Limited	**3 126**	3 126		
– Phumelela Gold International Limited	**186**	186		
Arising on restructure of				
– Phumelela Gold Enterprises international	**135**	135		
Balance at end of year	**12 362**	15 206		
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)	**28 356**	32 107		
Computer software (note 6.2)	**16 644**	19 832	**1 033**	1 547
	45 000	51 939	**1 033**	1 547
6.1 Indefinite useful life intangible assets				
Betting licences				
Cost				
Balance at beginning of year	**32 107**	29 343		
Acquisitions	**199**	2 764		
Disposed of to Supaworld Proprietary Limited	**(3 950)**			
Balance at end of year	**28 356**	32 107		

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
- Licences are renewed annually by the gambling boards 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 and goodwill, each year and whenever impairment indicators are present, the recoverable amount of the asset is calculated and recorded 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 systemic 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.
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	14,64% (2017: 13,55%)
Cost of equity	
– Risk-free rate	8,67% – R186 at 31 July 2018 (8,62% – R186 at 31 July 2017)
– 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	9,5% (2017: 9,9%)
Target debt:equity	25:75

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
6.2 Computer software				
Cost				
Balance at beginning of year	**29 604**	28 756	**2 842**	2 601
Capitalised during the year		848		241
Balance at end of year	**29 604**	29 604	**2 842**	2 842
Accumulated amortisation				
Balance at beginning of year	**(9 772)**	(6 644)	**(1 295)**	(781)
Amortisation charge	**(3 188)**	(3 128)	**(514)**	(514)
Balance at end of year	**(12 960)**	(9 772)	**(1 809)**	(1 295)
Carrying amount	**16 644**	19 832	**1 033**	1 547

7. INVESTMENT IN SUBSIDIARIES

Subsidiaries			**96 336**	96 336

Details of investments in subsidiaries are disclosed on page 143.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

		GROUP		COMPANY	
		2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
8.	**INVESTMENTS**				
	Unlisted investments (note 8.1)	**692**	692	**692**	692
	Listed investments (note 8.2)	**11 416**	10 870	**11 416**	10 870
		12 108	11 562	**12 108**	11 562
8.1	**Unlisted investments**				
	Investment in:				
	Kenilworth Racing Quarantine Centre				
	– At cost*				
	– Loan to Company (measured at amortised cost)	**692**	692	**692**	692
	Omphe Tshiamo Investment Proprietary Limited				
	– At cost*				
	Directors' valuation	**692**	692	**692**	692
	** Below R1 000*				
8.2	**Listed Investments**				
	Opening balance	**10 870**	9 924	**10 870**	9 924
	Revaluation to market value	**546**	946	**546**	946
	Balance at end of year	**11 416**	10 870	**11 416**	10 870

The Company owns 421 323 ordinary shares in Automatic Systems Limited, a company registered on the Mauritian Stock Exchange. The investment is held at fair value through profit and loss.

The investment is carried at fair value using the current market value.

		GROUP		COMPANY	
		2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
9.	**INTEREST IN EQUITY-ACCOUNTED INVESTEES**				
	Premier Gateway International Limited	**51 179**	31 628		
	Supabets SA Holdings Proprietary Limited	**512 031**	490 826	**470 475**	470 475
	Supaworld Proprietary Limited	**13 155**			
	SW Security Solutions Group	**4 198**	4 400	**1 056**	1 056
	Uptonvale Services Proprietary Limited	**109 858**	111 220	**110 000**	110 000
		690 421	638 074	**581 531**	581 531
	Movement				
	Balance at beginning of year	**638 074**	75 460	**581 531**	32 056
	Acquisitions		549 475		549 475
	Loans advanced	**13 956**			
	Profit for the year	**169 169**	122 591		
	Dividends	**(130 778)**	(109 452)		
	Balance at end of year	**690 421**	638 074	**581 531**	581 531

9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED

Premier Gateway International Limited

– Comprising Premier Gateway International Limited and Premier Gateway Services Limited

Shareholding 50% (2017: 50%) through 100% owned subsidiary Phumelela Gold International Limited incorporated on the Isle of Man.

Company licensed to conduct pari-mutuel betting on the Isle of Man and a service company providing logistical support, both of which are jointly owned with Tabcorp Holdings Limited (Australia).

Premier Gateway is a replica of the tote betting facilities in South Africa and operates as a worldwide totalisator hub.

Supabets SA Holdings Proprietary Limited

Shareholding 50% effective 1 March 2017 and is jointly controlled.

Supabets is a sports and gaming group operating in South Africa offering primarily fixed odds on sports betting and numbers.

Supaworld Proprietary Limited

Shareholding 50% (operating from December 2017 through 100% owned subsidiary Betting World Proprietary Limited).

The company is controlled by Supabets and Betting World offering primarily fixed odds on sports betting and numbers.

SW Security Solutions Group

– Comprising SW Security Solutions SA Proprietary Limited, SW Fire Services (Gauteng) Proprietary Limited, SW Fire Services (Cape) Proprietary Limited, SW Fire Services (KZN) Proprietary Limited and SW Security Solutions Africa Limited

Shareholding 33% (2017: 33%)

The group provides security and fire protection solutions in South Africa and Africa.

Uptonvale Services Proprietary Limited

Uptonvale Services Proprietary Limited trading as Interbet provides a secure online betting exchange.

Shareholding 50% and is jointly controlled.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED

	Premier Gateway Group		Supabets Holdings	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
GROUP				
Cost including goodwill	**2**	2	**470 475**	470 475
Opening cost	**2**	2	**470 475**	
Acquisition during the year				437 058
Transactional costs capitalised				19 625
Post-acquisition dividend paid from pre-acquisition reserves				(16 820)
Price adjustment on acquisition shares marked to market at effective date				30 612
Shareholders' loans				
Advanced during the year				
Cost and advances	**2**	2	**470 475**	470 475
Share of post-acquisition reserves	**51 177**	31 626	**41 556**	20 351
– Balance at beginning of year	**31 626**	41 240	**20 351**	
– Share of current year's income after taxation	**112 521**	88 786	**40 618**	20 351
– Share of current year's income after taxation	**112 521**	88 786	**42 993**	21 368
– *Less:* intangible asset amortisation			**(3 299)**	(1 412)
– Tax effect of amortisation			**924**	395
– *Less:* dividend received	**(92 970)**	(98 400)	**(19 413)**	
Balance at end of year	**51 179**	31 628	**512 031**	490 826
ASSETS				
Non-current assets	**8 034**	4 609	**148 701**	50 655
Property, plant and equipment	**8 034**	4 609	**48 877**	29 349
Intangible assets			**89 835**	15 383
Investment			**4 341**	
Long-term receivables			**5 648**	2 474
Deferred tax				3 449
Current assets	**926 755**	660 117	**294 254**	246 826
Trade and other receivables	**169 086**	22 489	**130 902**	87 724
Loans to related parties	**102 372**	105 061	**146 739**	132 759
Cash on hand	**655 297**	532 567	**16 613**	26 343
Total assets	**934 789**	664 726	**442 955**	297 481
EQUITY AND LIABILITIES				
Capital and reserves	**197 776**	171 518	**306 205**	192 248
Liabilities				
Non-current liabilities	**4 181**	4 181	**22 586**	11 666
Interest-bearing borrowings			**5 851**	8 083
Shareholders' loan	**4 181**	4 181		
Long-term operating lease charge			**6 503**	
Deferred tax liablility				
Finance lease liability			**10 232**	3 583
Current liabilities	**732 832**	489 027	**114 164**	93 567
Trade and other payables	**732 832**	489 027	**78 461**	47 285
Interest-bearing borrowings			**3 000**	3 000
Finance lease liabilities			**6 137**	5 738
Current tax payable			**21 815**	34 544
Loans from related parties			**4 751**	3 000
Total equity and liabilities	**934 789**	664 726	**442 955**	297 481

Supaworld		SW Securities Group		Uptonvale Services group		Total	
2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
		1 056	1 056	**110 000**	110 000	**581 533**	581 533
		1 056	1 056	**110 000**	31 000	**581 533**	32 058
					79 000		516 058
							19 625
							(16 820)
							30 612
13 956						**13 956**	
13 956		**1 056**	1 056	**110 000**	110 000	**595 489**	581 533
(801)		**3 142**	3 344	**(142)**	1 220	**94 932**	56 541
		3 344	2 260	**1 220**	(98)	**56 541**	43 402
(801)		**193**	1 667	**16 638**	1 882	**169 169**	112 686
(801)		**193**	1 667	**17 134**	12 193	**172 040**	124 014
				(327)	158	**(3 626)**	(1 254)
				(169)	(10 469)	**755**	(10 074)
		(395)	(583)	**(18 000)**	(564)	**(130 778)**	(99 547)
13 155		**4 198**	4 400	**109 858**	111 220	**690 421**	638 074
70 123		**1 384**	728	**10 831**	9 083	**239 073**	65 075
35 220		**1 243**	563	**2 531**	783	**95 905**	35 304
33 525		**83**	99	**7 800**	7 800	**131 243**	23 282
		39				**4 380**	
		19	27	**500**	500	**6 167**	3 001
1 378			39			**1 378**	3 488
9 366		**15 102**	15 692	**26 223**	23 311	**1 271 700**	945 946
2 768		**2 359**	9 306	**3 988**	6 425	**309 103**	125 944
		1 101				**250 212**	237 820
6 598		**11 642**	6 386	**22 235**	16 886	**712 385**	582 182
79 489		**16 486**	16 420	**37 054**	32 394	**1 510 773**	1 011 021
(1 602)		**9 518**	9 909	**18 435**	20 166	**530 332**	393 841
		147				**26 914**	15 847
						5 851	8 083
		19				**4 200**	4 181
						6 503	
		128				**128**	
						10 232	3 583
81 091		**6 821**	6 511	**18 619**	12 228	**953 527**	601 333
10 514		**3 671**	5 291	**16 651**	10 513	**842 129**	552 116
		1 063	510			**4 063**	3 510
441						**6 578**	5 738
		922	551	**1 968**	1 715	**24 705**	36 810
70 136		**1 165**	159			**76 052**	3 159
79 489		**16 486**	16 420	**37 054**	32 394	**1 510 773**	1 011 021

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED

	Premier Gateway Group*		Supabets Holdings	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
GROUP				
Gambling revenue			**419 671**	139 517
Other income	**582 594**	564 527	**72 445**	22 690
Interest received	**2 255**	2 025	**8 580**	4 387
Income	**584 849**	566 552	**500 696**	166 594
Expenditure			**(375 595)**	(100 877)
Depreciation	**(2 409)**	(1 208)		(5 442)
Profit/(loss) before finance charges	**582 440**	565 344	**125 101**	60 275
Finance charges			**(3 661)**	(1 113)
Profit/(loss) before equity-accounted investees	**582 440**	565 344	**121 440**	59 162
Share of equity-accounted investee loss			**(801)**	
Profit/(loss) before income tax expense	**582 440**	565 344	**120 639**	59 162
Income tax expense			**(32 814)**	(16 427)
Profit/(loss) for the year	**582 440**	565 344	**87 825**	42 735
The carrying value is reconciled as follows:				
Share capital and reserves	**51 179**	31 628	**136 524**	112 944
Loans advance				
Post-acquisition dividend paid from pre-acquisition reserves			**(16 820)**	(16 820)
Purchase price allocation:				
– Licences (Indefinite use for life)			**36 086**	36 086
– Brand (Amortised over ten years)			**28 279**	31 578
– Customer base (Amortised over five years)				
– Internally generated software (Amortised over ten years)				
– Deferred tax			**(18 022)**	(18 946)
– Goodwill			**345 984**	345 984
Carrying value	**51 179**	31 628	**512 031**	490 826

* *In respect of the Premier Gateway Group the share of profits of the shareholders is 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's share of undistributed profits.

The following amounts are outstanding with regard to the purchase price:

		GROUP		COMPANY	
		2018	2017	**2018**	2017
	Note	**R'000**	R'000	**R'000**	R'000
Trade payables	20				
Uptonvale Services Proprietary Limited			8 000		8 000
Contingent consideration liabilities	22				
Supabets SA Holdings Proprietary Limited		**28 806**	101 057	**28 806**	101 057
SW Security Solutions Group			377		377
		28 806	109 434	**28 806**	109 434

Supaworld		SW Securities Group		Uptonvale Services group		Total	
2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
31 413						**451 084**	139 517
1 938		**50 986**	51 200	**64 177**	62 631	**772 140**	701 048
15		**226**	77	**1 460**	1 510	**12 536**	7 999
33 366		**51 212**	51 277	**65 637**	64 141	**1 235 760**	848 564
(32 906)		**(48 418)**	(43 866)	**(16 733)**	(20 192)	**(473 652)**	(164 935)
(3 421)		**(288)**	(273)	**(1 238)**	(785)	**(7 356)**	(7 708)
(2 961)		**2 506**	7 138	**47 666**	43 164	**754 752**	675 921
(19)		**(84)**	(95)			**(3 764)**	(1 208)
(2 980)		**2 422**	7 043	**47 666**	43 164	**750 988**	674 713
						(801)	
(2 980)		**2 422**	7 043	**47 666**	43 164	**750 187**	674 713
1 378		**(1 834)**	(1 992)	**(13 397)**	(12 003)	**(46 667)**	(30 422)
(1 602)		**588**	5 051	**34 269**	31 161	**703 520**	644 291
		3 142	3 344	**9 218**	10 082	**200 063**	157 998
13 956						**13 956**	
(801)						**(17 621)**	(16 820)
						36 086	36 086
				1 197	1 051	**29 476**	32 629
				3 042	2 910	**3 042**	2 910
				5 795	5 441	**5 795**	5 441
				(2 810)	(2 640)	**(20 832)**	(21 586)
		1 056	1 056	**93 416**	94 376	**440 456**	441 416
13 155		**4 198**	4 400	**109 858**	111 220	**690 421**	638 074

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
10. LONG-TERM LOANS				
Long-term secured loans (refer 10.1)	**30 427**	38 639	**30 427**	38 639
Long-term unsecured loans (refer 10.2)	**32 914**	25 670		2 328
Total long-term loans	**63 341**	64 309	**30 427**	40 967
10.1 Long-term secured loans				
Balance at beginning of year	**38 639**	24 790	**38 639**	24 790
Amounts advanced during the year	**120 154**	84 083	**120 154**	84 083
Amounts repaid during the year	**(133 283)**	(75 472)	**(133 283)**	(75 472)
Interest charged	**4 917**	5 238	**4 917**	5 238
	30 427	38 639	**30 427**	38 639
Kenilworth Racing Proprietary Limited				
Balance at beginning of year	**25 093**	13 071	**25 093**	13 071
Amounts advanced during the year	**120 154**	83 583	**120 154**	83 583
Amounts repaid during the year	**(133 283)**	(75 472)	**(133 283)**	(75 472)
Interest charged	**3 474**	3 911	**3 474**	3 911
Balance at end of year	**15 438**	25 093	**15 438**	25 093
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	**13 546**	11 719	**13 546**	11 719
Amounts advanced during the year		500		500
Interest charged	**1 443**	1 327	**1 443**	1 327
Balance at end of year	**14 989**	13 546	**14 989**	13 546
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 R26 560 000 (2017: R27 780 000) set to expire on 31 December 2018.				
10.2 Long-term unsecured loans				
Balance at beginning of year	**25 670**		**2 328**	
Amounts advanced during the year	**7 298**	11 907	**600**	2 800
Transfer from account receivable		11 723		
Impairment	**(3 155)**	(522)	**(3 155)**	(522)
Interest charged	**3 101**	2 562	**227**	50
Balance at end of year	**32 914**	25 670		2 328

The loans are enterprise development loans that bear interest at variable rates between interest free and prime plus 3%, are unsecured and are repayable between September 2019 and September 2022. The balance includes amount due from the franchisee of R33 million (2017: R23 million). In support of the franchise loans, management has prepared a discounted cash flow based on future expected earnings. This takes into account the start-up operations of the businesses, anticipated new stores and introduction of other gaming operations into existing stores, the result of which indicates that the loans advanced are recoverable. The franchise gaming licences are owned by a Group subsidiary company, and coupled with the licences over leasehold improvements and fixture and fittings, management is of the view that the loan and related receivable are recoverable and no impairment is required.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
11. INVESTMENT PROPERTY				
Carrying value at cost	**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 book value of the property and related costs were 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. 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. However this asset was reclassified to investment property as there are no compelling indicators that the property will be sold in the short term. The property is currently on the market for sale and was independently valued at R51 million by Haacke and Associates in October 2016. The sale of the property is being actively pursued.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
12. DEFERRED TAXATION				
Deferred tax asset	**32 211**	12 431	**25 225**	6 046
Deferred tax liability	**(872)**	(1 393)		
Balance at end of year	**31 339**	11 038	**25 225**	6 046
Deferred tax				
The deferred tax asset/(liability) arises as a result of:				
Property, plant and equipment	**(2 653)**	(3 214)	**(4 492)**	(3 678)
Provisions and accruals	**1 037**	1 049	**570**	530
Lease straight-lining	**1 179**	1 259	**388**	494
Deferred revenue	**1 348**	2		2
Estimated tax losses	**30 514**	12 486	**28 845**	9 242
Prepayments	**(86)**	(544)	**(86)**	(544)
	31 339	11 038	**25 225**	6 046
Deferred tax asset/(liability) raised				
Balance at beginning of year	**11 038**	7 418	**6 046**	3 682
Credit to profit or loss	**20 301**	3 620	**19 179**	2 364
Balance at end of year	**31 339**	11 038	**25 225**	6 046

Deferred tax has been provided at a rate of 28% (2017: 28%) other than for capital temporary differences where a rate of 22,4% (2017: 22,4%) has been applied.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	COMPANY	
	2018	2017
	R'000	R'000
13. AMOUNTS OWING BY SUBSIDIARY COMPANIES		
13.1 Non-current assets		
Glenfiddich Investments Proprietary Limited	**269**	269
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	2 821
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.		
13.2 Current assets		
Betting World Proprietary Limited	**24 413**	31 802
East Cape Racing Proprietary Limited	**55 113**	61 111
TAB North West Proprietary Limited	**4 720**	6 318
Tote Properties Proprietary Limited	**156**	
Highveldt Training Centre Proprietary Limited		
– Amount owing		605
– Impaired		(605)
	84 402	99 231
Balance owing by subsidiary companies	**87 223**	102 052

The amounts owing by subsidiary companies bear no interest other than the loan to Betting World which attracts interest at the rate of prime less 1%. The amounts receivable have no fixed terms of repayment.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
14. INVENTORIES				
Consumable stores at cost	**3 314**	2 007	**2 319**	565
Digital satellite decoders	**459**	459	**459**	459
	3 773	2 466	**2 778**	1 024

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

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
15. TRADE AND OTHER RECEIVABLES				
Trade receivables	**136 593**	101 750	**108 664**	88 499
Allowance for impairment	**(17 304)**	(7 416)	**(14 999)**	(7 265)
Trade receivables after impairment	**119 289**	94 334	**93 665**	81 234
Subsidiary company current account			**18 496**	22 714
Prepayments	**8 014**	12 300	**6 850**	4 578
Other receivables	**28 376**	23 221	**15 756**	16 773
	155 679	129 855	**134 767**	125 299
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	**11 477**	9 560	**11 477**	9 560
Gross amount payable	**(51 027)**	(44 025)	**(51 027)**	(44 025)
Net amount payable	**(39 550)**	(34 465)	**(39 550)**	(34 465)
Included in:				
Trade and other payables (note 20)	**(39 550)**	(34 465)	**(39 550)**	(34 465)
Trade and other receivables include the following foreign currency-denominated monetary assets:				
South African rand thousands				
Australian dollar	**4 486**	4 726	**4 486**	4 726
British pound	**570**	306	**510**	306
Euro	**11 675**	17 517	**11 675**	17 517
Hong Kong dollar	**66**		**66**	
Singapore dollar	**6 164**	5 112	**6 164**	5 112
United States dollar	**8 812**	5 981	**8 812**	5 981
	31 773	33 642	**31 713**	33 642
Foreign currency				
Australian dollar	**454 957**	448 151	**454 957**	448 151
British pound	**32 735**	17 573	**29 258**	17 573
Euro	**752 329**	1 122 617	**752 329**	1 122 617
Hong Kong dollar	**39 247**		**39 247**	
Singapore dollar	**632 234**	525 616	**632 234**	525 616
United States dollar	**663 821**	453 780	**663 821**	453 780
The foreign currency amounts reflect the geographical make-up.				
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	**7 416**	9 192	**7 265**	9 138
Charged to profit and loss	**10 262**	2 019	**7 994**	1 905
Written back to profit and loss	**(114)**	(1 024)		(1 024)
Utilised during the year	**(260)**	(2 771)	**(260)**	(2 754)
Allowance at end of year	**17 304**	7 416	**14 999**	7 265

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	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
15. TRADE AND OTHER RECEIVABLES CONTINUED					
As at 31 July, the ageing of trade receivables is as follows:					
GROUP					
2018	**119 289**	**44 310**	**14 865**	**4 788**	**55 326**
2017	94 334	26 668	25 275	7 421	34 970
COMPANY					
2018	**93 665**	**37 006**	**13 685**	**3 683**	**39 291**
2017	81 234	26 643	22 751	6 036	25 804

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 R4 million (2017: R15 million) included in >90 days past due and not impaired (refer note 10). The Ministero Delle Politiche Agricole Alimentari e Forestali owes R9 million (2017: R10 million), which is effectively the Italian government, where experience shows there is no history of default. The advances to the franchisee of R14 million (2017: R7 million), which are being monitored and currently as a start up, do not warrant a provision as an agreement is in place to treat as an advance in long- term loans and to capitalise R10 million of the outstanding balance.

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Net balances owing by Mashonaland Turf Club:				
Trade and other receivables	**15 344**	17 724	**15 344**	15 759
Commission payable included in trade payables	**(3 435)**	(3 097)	**(3 435)**	(3 097)
Long-term secured loan (refer note 10.1)	**14 989**	13 546	**14 989**	13 546
Net amount receivable	**26 898**	28 172	**26 898**	26 208

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
16. CASH AND CASH EQUIVALENTS				
Cash on cash management at bank and on hand	**39 155**	46 885	**16 299**	13 940
Short-term bank deposits	**75 219**	51 570	**74 959**	51 403
	114 374	98 455	**91 258**	65 343
Included in cash and cash equivalents are the following foreign currency-denominated monetary assets:				
South African rand				
Australian dollar	**11 252**	8 103	**11 252**	8 103
British pound	**32 849**	17 205	**32 135**	16 976
Euro	**10 853**	10 779	**10 853**	10 779
Hong Kong dollar	**6 390**		**6 390**	
Singapore dollar	**7 193**	8 092	**7 193**	8 092
Swedish krona	**391**	970	**391**	970
United States dollar	**3 983**	4 623	**3 983**	4 623
	72 911	49 772	**72 197**	49 543
Foreign currency				
Australian dollar	**1 141 015**	768 365	**1 141 015**	768 365
British pound	**1 885 413**	987 533	**1 844 441**	974 352
Euro	**699 352**	690 790	**699 352**	690 790
Hong Kong dollar	**3 778 326**		**3 778 326**	
Singapore dollar	**737 741**	831 976	**737 741**	831 976
Swedish krona	**259 099**	593 899	**259 099**	593 899
United States dollar	**300 011**	350 715	**300 011**	350 715

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 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				
Balance at beginning of year – 102 500 588 (2017: 77 101 885) ordinary shares of 2,5 cents each	**2 563**	1 928	**2 563**	1 928
Issued in terms of rights offer – 16 602 230 ordinary shares of 2,5 cents each		415		415
Issued in terms of acquisition of Supabets Holding SA Proprietary Limited – 8 796 443 ordinary shares of 2,5 cents each ("acquisition shares")		220		220
Balance at end of year – 102 500 558 ordinary shares of 2,5 cents each	**2 563**	2 563	**2 563**	2 563
Treasury shares				
2 531 211 (2017: 940 789) ordinary shares of 2,5 cents each repurchased	**(64)**	(24)		
Opening balance 940 789 (2017: 2 566 400) ordinary shares of 2,5 cents each repurchased	**(24)**	(65)		
Repurchased 3 146 330 (2017: 500 000) ordinary shares of 2,5 cents each	**(79)**	(12)		
Issued in terms of option scheme 1 555 908 (2017: 2 125 611) ordinary shares of 2,5 cents each	**39**	53		
Net share capital	**2 499**	2 539	**2 563**	2 563
Share premium	**471 287**	471 287	**471 580**	471 580
Balance at beginning of year	**471 287**		**471 580**	293
Proceeds from rights issue		288 298		288 298
Attributed on acquisition shares		152 750		152 750
Acquisition shares marked to market at effective date		30 612		30 612
Less: direct costs		(373)		(373)
Total share capital and premium after deducting treasury shares 99 969 347 (2017: 101 559 769) ordinary shares of 2,5 cents each	**473 786**	473 826	**474 143**	474 143

Rand Sporting Club Proprietary Limited, a 100% subsidiary of the Company, holds 2 531 211 (2017: 940 789) ordinary shares at year end.

	Direct beneficial	Indirect beneficial	Total	Percentage %
17. SHARE CAPITAL AND PREMIUM CONTINUED				
17.1 Share capital continued				
Directors' interests in share capital at 31 July 2018				
Non-executive directors				
B Kantor	**235 000**	**5 034 653**	**5 269 653**	**5,14**
E Nkosi	**14 465**		**14 465**	**0,01**
CJH van Niekerk	**57 542**		**57 542**	**0,06**
JB Walters	**59 228**		**59 228**	**0,06**
Executive directors				
WA du Plessis	**861 558**	**4 651 017**	**5 512 575**	**5,38**
AW Heide	**341 000**		**341 000**	**0,33**
VJ Moodley	**145 854**	**3 000**	**148 854**	**0,15**
JA Stuart	**437 000**	**5 295**	**442 295**	**0,43**
	2 151 647	**9 693 965**	**11 845 612**	**11,56**

There has been no movement in the disclosed interests during the period 31 July 2018 to the date of signature of this report.

	Direct beneficial	Indirect beneficial	Total	Percentage %
Directors' interests in share capital at 31 July 2017				
Non-executive directors				
B Kantor		5 019 252	5 019 252	4,90
MJ Jooste	2 051	4 709 599	4 711 650	4,60
E Nkosi	14 465		14 465	0,01
CJH van Niekerk	57 742		57 742	0,06
JB Walters	4 551	54 677	59 228	0,06
Executive directors				
WA du Plessis	4 500	3 732 228	3 736 728	3,65
AW Heide	340 000		340 000	0,33
VJ Moodley	145 854	3 000	148 854	0,15
JA Stuart	436 000	5 295	441 295	0,43
	1 005 163	13 524 051	14 529 214	14,19

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	GROUP 2018 R'000	GROUP 2017 R'000
17. SHARE CAPITAL AND PREMIUM CONTINUED		
17.2 Translation reserves		
Foreign currency translation reserve arising on consolidation of the interests held in Phumelela Gold International Limited	**30**	(593)

	%	%
17.3 Non-controlling interest		
Betting World Eastern Cape Proprietary Limited		
Non-controlling interest	**48,79**	48,79

	R'000	R'000
Non-current assets	**4 857**	7 564
Current assets	**2 164**	2 380
Non-current liabilities	**(11 296)**	(547)
Current liabilities	**(10 654)**	(17 427)
	(14 929)	(8 030)
Carrying value	**(7 284)**	(3 918)
Current year losses allocated	**(3 366)**	(2 500)
Net movement in cash and cash equivalents	**(210)**	540

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. All pensioners were outsourced to Old Mutual with effect from 1 January 2018 and as such the funds no longer have any obligation in respect of pensioners.

The most recent actuarial valuations performed at 31 July 2018 on the above funds showed that these funds are adequately funded.

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Pension fund surplus				
Balance at beginning of year	**9 028**	8 183	**9 028**	8 183
Recognition of employer's surplus in benefit funds				
– Past service costs included in profit and loss	**7 017**	846	**7 017**	846
– Actuarial remeasurement included in other comprehensive income	**(1 395)**		**(1 395)**	
Balance at end of year	**14 650**	9 029	**14 650**	9 029

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
2018				
Fair value of assets	**10 715**	**4 534**	**1 413**	**16 662**
Benefit obligations			**(2 012)**	**(2 012)**
Funded benefit plan assets	**10 715**	**4 534**	**(599)**	**14 650**
2017				
Fair value of assets	16 857	24 609	1 587	43 053
Benefit obligations	(7 565)	(23 811)	(2 648)	(34 024)
Funded benefit plan assets	9 292	798	(1 061)	9 029

The shortfall in Newmarket Pension Fund will be paid out of the surpluses on the other two funds.

	Central Management Company (Sporting Clubs) Cusada Pension Plan		Totalisator Agency Board (Transvaal) Pension Plan		Newmarket Pension Fund	
	2018	2017	**2018**	2017	**2018**	2017
The funds are actuarially valued on an annual basis and were last valued on 31 July 2018.						
The following main assumptions were made by the actuary:						
Discount rate (per annum compound) (%)	**8,40**	8,40	**8,80**	8,80	**8,10**	8,10
Price inflation (per annum compound) (%)	**4,80**	4,80	**2,50**	2,50	**5,50**	5,50
Pensioner mortality	**PA(90)**	PA(90)	**PA(90)**	PA(90)	**PA(90)**	PA(90)
Membership at date of valuation						
Pensioners	**None**	17	**None**	32	**None**	10

Actuary note: As there is no liability to the fund as at 31 July 2018 as all the pensioners were outsourced during the valuation period, the valuation assumptions used at the date of the transfer are the same as those applied at 31 July 2017 as in the opinion of the actuary they are consistent with the requirements of IAS 19.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

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.

	GROUP		COMPANY	
	Members at 31 July	Employer contributions R'000	Members at 31 July	Employer contributions R'000
2018				
Phumelela Pension Fund	**101**	**1 099**	**101**	**1 099**
Phumelela Provident Fund	**2 346**	**19 058**	**1 338**	**10 348**
TAB Provident Fund	**22**	**122**	**22**	**122**
Saccawu National Provident Fund	**4**	**52**	**4**	**52**
	2 473	**20 331**	**1 465**	**11 621**
2017				
Phumelela Pension Fund	121	1 381	121	1 381
Phumelela Provident Fund	2 183	20 056	1 309	11 364
TAB Provident Fund	27	166	27	166
Saccawu National Provident Fund	5	58	5	58
	2 336	21 661	1 462	12 969

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
19. BORROWINGS				
Unsecured borrowings				
Non-current				
Term loan	**447**	1 977		
Revolving credit facility	**300 000**	120 000	**300 000**	120 000
	300 447	121 977	**300 000**	120 000
Current liability				
Non-controlling shareholders' loans	**639**	793		
Term loan	**1 000**	1 607		
Short-term borrowings	**1 639**	2 400		
Bank overdraft	**14 179**	1 821	**14 179**	1 821
	15 818	4 221	**14 179**	1 821

The Company has received an unsecured revolving credit facility from a local bank in the amount of R320 million (2017: R220 million) which is redeemable in full in June 2021 at an interest rate of JIBAR plus 260 basis points and has utilised R300 million (2017: R120 million) of the facility. The bank has imposed certain covenants which have all been complied with. 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	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
20. TRADE AND OTHER PAYABLES				
Trade payables	**181 335**	148 048	**162 540**	130 898
Accruals – staff costs	**16 668**	20 277	**15 603**	19 795
Accruals – other	**48 173**	60 410	**36 642**	50 929
Betting taxes	**4 085**	4 371	**3 097**	3 422
Financial leases current liability		63		63
Purchase consideration (refer note 9)		8 000		8 000
Other payables	**27 857**	25 977	**18 998**	17 850
	278 118	267 146	**236 880**	230 957
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	**11 477**	9 560	**11 477**	9 560
Gross amount payable	**(51 027)**	(44 025)	**(51 027)**	(44 025)
Net amount included in trade payables	**(39 550)**	(34 465)	**(39 550)**	(34 465)
Trade and other payables include the following geographical and foreign currency-denominated liabilities:				
South African rand				
Australian dollar	**2 621**	959	**2 621**	959
British pound	**3 756**	5 698	**3 702**	5 650
Euro	**1 767**	1 615	**1 767**	1 615
Hong Kong dollar	**197**		**197**	
Mauritian rupee	**66**		**66**	
Singapore dollar	**3 644**	8 620	**3 644**	8 620
Swedish krona	**1 740**	2 857	**1 740**	2 857
United States dollar	**13 519**	12 641	**13 519**	12 641
	27 310	32 390	**27 256**	32 342
Foreign currency				
Australian dollar	**265 795**	90 906	**265 795**	90 906
British pound	**215 598**	327 031	**212 493**	324 304
Euro	**113 868**	103 520	**113 868**	103 520
Hong Kong dollar	**116 511**		**116 511**	
Mauritian rupee	**170 800**		**170 800**	
Singapore dollar	**373 734**	886 253	**373 734**	886 253
Swedish krona	**1 152 267**	1 749 138	**1 152 267**	1 749 138
United States dollar	**1 018 353**	959 106	**1 018 353**	959 106

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 July 2018

	COMPANY	
	2018	2017
	R'000	R'000
21. AMOUNTS OWING TO SUBSIDIARY COMPANIES		
Highveld Racing Authority Technical Services Proprietary Limited	**8 799**	8 799
Rand Sporting Club Proprietary Limited	**5 612**	31 987
Tote Property Investments Proprietary Limited	**9**	9
Highveldt Training Centre Proprietary Limited	**277**	277
Silks Gaming and Leisure Proprietary Limited		9
	14 697	41 081

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

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
22. CONTINGENT CONSIDERATION LIABILITY				
Contingent consideration				
Balance at beginning of year	**101 434**	707	**101 434**	707
Arising on purchase of				
Supabets SA Holdings Proprietary Limited		98 684		98 684
Interest accrued	**6 728**	2 373	**6 728**	2 373
Repayment on contingency met	**(78 979)**		**(78 979)**	
Repaid in terms of agreement	**(377)**	(330)	**(377)**	(330)
Balance at end of year	**28 806**	101 434	**28 806**	101 434
22.1 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. With receipt of current year's dividends the amount is paid in full.		377		377
22.2 Supabets transaction (refer note 9)				
Part of the purchase consideration is payable contingent on transfer of ownership of certain licences, agreements and business operations to a Supabets subsidiary company as more fully set out in the Share Sale Agreement. The contingent consideration accrues interest at rates varying between that paid by the Group on overdraft facilities and 30-day fixed deposit rates.				
Opening balance	**101 057**		**101 057**	
Arising on purchase		98 684		98 684
Payment made	**(78 979)**		**(78 979)**	
Interest accrued	**6 728**	2 373	**6 728**	2 373
	28 806	101 057	**28 806**	101 057
Total contingent consideration liability	**28 806**	101 434	**28 806**	101 434

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
23. INCOME				
Revenue comprises:				
Gross betting income (note 24)	**1 182 525**	1 176 913	**759 031**	763 273
International division				
– Derived from international ventures	**309 694**	306 844	**309 694**	306 844
Proportionate share of Tellytrack Partnership				
– Derived from local operations	**19 397**	20 911	**28 087**	35 331
Interest received	**14 745**	15 210	**11 594**	12 509
Dividends received	**618**	637	**137 681**	127 818
	1 526 979	1 520 515	**1 246 087**	1 245 775
24. GROSS BETTING INCOME				
Bets struck net of betting dividends paid, refunds and rebates				
– South Africa – totalisator	**819 597**	823 485	**759 031**	763 273
– South Africa – fixed odds	**362 928**	353 428		
	1 182 525	1 176 913	**759 031**	763 273
25. NET BETTING INCOME				
Net betting income derived from bets struck:				
– South Africa – totalisator	**649 753**	655 792	**600 208**	606 408
– South Africa – fixed odds	**300 008**	292 811		
	949 761	948 603	**600 208**	606 408

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
26. PROFIT FROM OPERATIONS				
The operating profit is stated after:				
26.1 Income				
Dividends received				
– Unlisted investments			137 064	127 181
– Listed investments	618	637	618	637
Interest received	12 929	15 210	11 594	12 509
– Interest received on loans	7 976	7 799	5 143	5 288
– Interest received on guarantees and taxation	412			
– Interest received from banks	4 541	7 411	3 839	5 930
– Interest received from subsidiaries			2 612	1 291
Gambling Board levies received	85 563	74 676	85 563	74 676
Unclaimed dividends and breakages	50 083	50 665	24 946	27 384
Share-based payment release	2 370		2 370	
Profit on disposal of property, plant and equipment	79	605	79	605
Profit on disposal of intangible assets	6 014			
Profit on foreign exchange	15 436	4 411	9 069	16 782
26.2 Expenses				
Auditors' remuneration	3 832	3 247	2 674	1 837
Depreciation	67 205	68 079	39 441	43 473
– Buildings	9 687	10 256	6 759	6 797
– Plant and machinery	13 557	12 939	13 157	12 627
– Information technology equipment and software	15 734	14 047	6 676	6 818
– Motor vehicles, heavy duty trucks and trailers	3 894	4 328	3 200	3 479
– Furniture and fittings	4 134	4 877	1 601	2 180
– Marks and signs	421	546	410	524
On leasehold				
– Fittings and improvements	19 778	21 086	7 638	11 048
Amortisation on intangible assets	3 188	3 128	514	514
Goodwill impaired	2 844			
Agents' commission	40 888	36 882	37 260	33 935
– Horseracing	26 761	23 800	25 331	22 738
– Other sports	14 127	13 082	11 929	11 197
Operating lease expenses	95 378	72 854	53 862	44 020
– Office equipment	11 957	7 951	6 399	3 231
– Premises	83 421	64 903	47 463	40 789
Employee costs (permanent and part-time)	400 978	389 999	277 827	274 518
– Salaries and wages	344 545	362 285	233 716	256 448
– Retirement benefits	20 685	21 661	11 855	12 969
– Social security	8 676	6 053	6 444	5 101
– Voluntary retrenchment programme	27 072		25 812	
Share-based payment expense		3 720		3 720
Loss on disposal of property, plant and equipment	3 244			

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
27. FINANCE COSTS				
Interest paid	**34 577**	20 323	**34 303**	19 233
Interest paid on overdraft	**5 822**	5 264	**5 817**	5 231
Interest paid on borrowings	**21 926**	11 846	**21 659**	10 789
Interest paid related parties	**6 728**		**6 728**	
Interest paid other	**101**	3 213	**98**	3 213
28. INCOME TAX EXPENSE/(CREDIT)				
Current tax charge	**21 008**	13 261		(2 366)
Current year	**21 008**	15 809		
Prior year over provision		(2 548)		(2 366)
Deferred tax charge	**(20 301)**	(3 620)	**(19 179)**	(2 364)
Current year	**(20 120)**	(3 620)	**(19 179)**	(2 364)
Prior year over provision	**(181)**			
Total tax charge	**707**	9 641	**(19 179)**	(4 730)
Taxation reconciliation				
South African normal taxation at standard rate 28%	**42 687**	42 629	**17 647**	31 285
Adjusted for:				
Share of profit of equity-accounted investee	**(48 127)**	(34 326)		
Prior year over provision		(2 367)		(2 367)
Deferred tax asset prior year over provision	**(181)**	(181)		
Tax rate difference – foreign subsidiary	**(1 733)**	3 532		
Deferred tax reversed	**4 740**			
Exempt dividend income	**(173)**	(185)	**(38 551)**	(35 789)
Share-based payment expenses	**(664)**	1 042	**(664)**	1 042
Depreciation on capital expenditure not deductible	**514**	1 269	**505**	1 099
Assessed losses utilised	**(11)**	(1 698)		
Employee tax Incentive allowance	**(439)**	(376)		
Disallowable expenses	**4 094**	301	**1 884**	
Taxation in the current year	**707**	9 641	**(19 179)**	(4 730)
Estimated tax losses reconciliation				
Estimated tax losses brought forward	**44 593**	8 246	**33 007**	
Estimated loss utilised	**(1 709)**	(6 064)		
Estimated loss incurred in the current year	**70 012**	42 411	**70 012**	33 007
Estimated losses derecognised	**(3 918)**			
Estimated tax losses available for utilisation against future taxable Income	**108 978**	44 593	**103 019**	33 007
Applied to increase deferred tax asset	**(108 978)**	(44 593)	**(103 019)**	(33 007)
	%	%	**%**	%
Tax rate	**28**	28	**28**	28
	R'000	R'000	**R'000**	R'000
Amount per deferred tax proof	**30 514**	12 486	**28 845**	9 242

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	COMPANY 2018 R'000	COMPANY 2017 R'000
29. DIRECTORS' EMOLUMENTS		
Non-executive directors		
Fees as directors		
MP Malungani [1]	**197**	393
R Cooper	**197**	157
BP Finch [2]		157
MJ Jooste*[3]	**79**	79
B Kantor	**314**	157
KC Khampepe	**197**	157
NJ Mboweni	**197**	118
SH Müller	**79**	
E Nkosi	**197**	157
CJH van Niekerk	**157**	157
JB Walters	**157**	157
Other services*		
MP Malungani [1]	**22**	45
R Cooper	**335**	268
BP Finch [2]		67
MJ Jooste [3]		45
B Kantor	**67**	45
NJ Mboweni	**135**	67
SH Müller [4]	**202**	
E Nkosi	**42**	
CJH van Niekerk	**169**	112
JB Walters	**202**	146
	2 945	2 484
Executive directors		
Fees for management services		
WA du Plessis	**4 580**	6 580
Basic salary	**4 442**	4 454
Retirement, medical, accident and health benefits	**138**	126
Bonuses and performance-related payments***		2 000
AW Heide	**2 475**	3 485
Basic salary	**2 206**	2 203
Retirement, medical, accident and health benefits	**269**	272
Bonuses and performance-related payments***		1 010
VJ Moodley	**2 572**	3 573
Basic salary	**2 315**	2 318
Retirement, medical, accident and health benefits	**257**	254
Bonuses and performance-related payments***		1 001
ML Ramafalo		2 029
Basic salary		1 611
Retirement, medical, accident and health benefits		137
Bonuses and performance-related payments***		281
JA Stuart	**2 226**	3 402
Basic salary	**2 035**	2 050
Retirement, medical, accident and health benefits	**191**	214
Bonuses and performance-related payments***		1 138
Total executive emoluments paid	**11 853**	19 069

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

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

*** *Bonuses and performance-related payments relate to the previous year. In terms of the deferred bonus scheme, 70% of bonuses accrued in the prior year are paid out in the current year. No bonus or performance-related accruals or payments were made for the 2018 or 2017 financial year.*

[1] *Retired 12 December 2017.*

[2] *Resigned 24 August 2017 (fees paid in the 2017 financial year).*

[3] *Resigned 6 December 2017.*

[4] *Appointed 24 January 2018.*

	COMPANY	
	2018	2017
	R'000	R'000
29. DIRECTORS' EMOLUMENTS CONTINUED		
Value of share options exercised during the year:		
WA du Plessis	**27 636**	
AW Heide		7 192
VJ Moodley		6 090
ML Ramafalo		4 698
JA Stuart		6 455
	27 636	24 435
Current year share-based payment (recoupment)/expense allocated as follows:		
WA du Plessis		2 870
AW Heide	**(303)**	64
VJ Moodley	**(236)**	57
ML Ramafalo		44
JA Stuart	**(303)**	57
Total executive director share-based payment costs	**(842)**	3 092
Total directors' emoluments	**41 591**	49 080
Prescribed officers' emoluments		
CC Basel Racing Executive	**2 029**	2 930
Basic salary	**1 793**	1 801
Retirement, medical, accident and health benefits	**236**	228
Bonuses and performance-related payments***		901
BK McLoughlin Chief Financial Officer	**1 607**	2 183
Basic salary	**1 419**	1 424
Retirement, medical, accident and health benefits	**188**	181
Bonuses and performance-related payments***		578
Total prescribed officers' emoluments paid	**3 636**	5 113
Value of share options exercised during the year:		
CC Basel		6 090
BK McLoughlin		4 795
Total prescribed officers' share-based payment costs		10 885
Current year share-based payment expense allocated as follows:		
CC Basel	**(247)**	57
BK McLoughlin	**(206)**	43
Total prescribed officers' share-based payment costs	**(453)**	100
Total prescribed officers	**3 183**	16 098
Total directors' and prescribed officers' emoluments	**44 774**	65 178
Paid by: the Company		
Emoluments	**18 434**	26 666
Share-based payment (recovery)/expense	**(1 295)**	3 192
Value of share options exercised during the year	**27 636**	35 319
Total directors' and prescribed officers' emoluments	**44 774**	65 178

*** *Bonuses and performance-related payments relate to the previous year. In terms of the deferred bonus scheme, 70% of bonuses accrued in the prior year are paid out in the current year. No bonus or performance-related accruals or payments were made for the 2018 or 2017 financial year.*

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

		GROUP	
		2018	2017
		cents	cents
30.	**EARNINGS PER ORDINARY SHARE**		
	Basic earnings per share	**153,78**	168,46
	Diluted earnings per share	**153,78**	160,84
	Headline earnings per share	**154,23**	167,96
	Diluted headline earnings per share	**154,23**	160,36
		R'000	R'000
30.1	**Reconciliation of basic/diluted earnings to headline earnings**		
	Earnings attributable to ordinary shareholders for basic and diluted earnings per share	**155 112**	146 520
	Adjusted for:		
	Equity-accounted investee impairment		
	Net loss/(profit) on disposal of property, plant and equipment	**3 165**	(605)
	Impairment of goodwill	**2 844**	
	Profit on disposal of licences	**(6 014)**	
	Tax effect	**461**	169
	Headline earnings attributable to ordinary shareholders	**155 568**	146 084
		Number	Number
	Number of shares in issue after deducting treasury shares	**99 969 347**	101 559 769
	Calculation of weighted average number of shares:		
	Weighted average number of shares		
	Number of shares in issue at beginning of year	**102 500 558**	77 101 885
	Treasury shares at beginning of year	**(940 789)**	(2 566 400)
	Opening shares not belonging to Group	**101 559 769**	74 535 485
	Effects of rights issue shares		7 823 517
	Effects of shares issued on acquisition investments		3 663 177
	Effect of shares purchased as treasury shares	**(1 872 133)**	(27 017)
	Effect of shares granted in term of share option scheme	**1 180 785**	979 114
	Weighted average number of shares at year end	**100 868 421**	86 974 276
	Weighted average number of ordinary shares in issue for basic and headline earnings per share	**100 868 421**	86 974 276
	Potential dilutive impact of outstanding share options		4 123 422
	Number of outstanding options	**7 482 469**	9 394 988
	Number of options deemed to be issued at fair value or not vesting	**(7 482 469)**	(5 271 566)
	Weighted average number of ordinary shares in issue for diluted basic and diluted headline earnings per share	**100 868 421**	91 097 697

	GROUP 2018 cents	2017 cents
30. EARNINGS PER ORDINARY SHARE CONTINUED		
30.2 Dividends per ordinary share		
Final dividend declared to shareholders recorded in the register on 3 November 2017 (2017: 4 November 2016) and paid on 6 November 2017 (2016: 7 November 2016)*	**70**	70
Interim dividend declared to shareholders recorded in the register on 23 May 2017 (2016: 20 May 2016) and paid on 26 May 2017 (2016: 23 May 2016)*	**42**	34
	112	104

** The final and interim dividends were 56,00 (2017: 59,50) and 28,90 (2016: 27,20) cents per share respectively net of the dividend withholding tax at a rate of 15% for the final dividend in 2017 and 20% for the remaining dividends.*

On 5 October 2018 the Board declared gross cash dividend from income reserves of 62,00 cents per share (49,60 cents per share net of dividend withholding tax at a rate of 20%) payable to shareholders recorded in the register on Monday, 5 November 2018.

The Company received dividends from its investments and although current assets are less than current liabilities, it has adequate resources to fund the dividends.

30.3 Definitions

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

31. 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 Company's share of the partnership income and expenditure for the year is 61% (2017: 61%) which is as follows:

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
ASSETS				
Non-current assets				
Property, plant and equipment	**7 911**	4 322	**7 911**	4 322
Current assets	**35 902**	15 527	**35 902**	15 527
Inventories	**459**	459	**459**	459
Trade and other receivables	**33 788**	14 193	**33 788**	14 193
Cash and cash equivalents	**1 655**	875	**1 655**	875
	43 813	19 849	**43 813**	19 849
CAPITAL AND RESERVES				
Partners' accounts	**34 435**	13 993	**34 435**	13 993
LIABILITIES				
Current liabilities				
Trade and other payables	**9 378**	5 856	**9 378**	5 856
	43 813	19 849	**43 813**	19 849
CASH FLOW				
Cash flows from operating activities	**(56 891)**	(34 823)	**(50 243)**	(34 823)
Cash flows from investing activities	**(3 589)**	(3 165)	**(3 589)**	(3 165)
Cash flows from financing activities	**61 260**	36 976	**54 612**	36 976
Net increase/(decrease) in cash and cash equivalents	**780**	(1 012)	**780**	(1 012)
INCOME	**16 659**	20 728	**23 307**	25 204
Expenditure	**(57 478)**	(54 071)	**(57 478)**	(54 071)
Loss for the year	**(40 819)**	(33 343)	**(34 171)**	(28 867)

Tellytrack has recognised revenue taking into account IAS 18 Revenue Recognition for rendering services whereby the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity. There have been numerous court cases and actions by bookmakers, which has resulted in issues around the revenue recognition and collection of amounts due. The outcome of the relevant actions noted above remains uncertain and may have an impact on future earnings.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
32. COMMITMENTS AND CONTINGENCIES				
32.1 Capital expenditure				
Commitments in respect of capital expenditure approved by directors				
– Contracted for	**6 782**		**6 782**	
– Not contracted for	**95 979**	125 683	**65 549**	90 547
The above capital expenditure will be financed out of cash and cash equivalents generated by operations or borrowing facilities as and when required.				
32.2 Operating leases				
Commitments in respect of operating leases				
Office equipment	**10 168**	6 448	**10 168**	6 448
Within one year	**2 976**	6 448	**2 976**	6 448
Between two to five years	**7 192**		**7 192**	
Leasehold properties	**112 060**	99 301	**69 899**	48 720
Within one year	**51 027**	51 229	**32 255**	29 115
Between two to five years	**61 033**	48 072	**37 644**	19 605
	122 228	105 749	**80 067**	55 168

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

32.3 Guarantees and surety issued

Guarantees in lieu of operating lease deposits amount to R961 030 (2017: R939 231) 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 in the amount of R1 500 00 (2017: R1 500 000).

The Company has stood surety in respect of the banking facilities of Kenilworth Racing Proprietary Limited in the amount of R50 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 R46 593 829 (2017: R48 657 450).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

33. 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 144.

Details of the directors', shareholding and options are set out in notes 17 and 34 respectively.

Treasury shares are set out in note 17.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 7 and on page 101.

Related party balances are disclosed in notes 13 and 21.

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

	COMPANY	
	2018 R'000	2017 R'000
Turnover levies received from TAB North West Proprietary Limited	**31 621**	32 348
Marketing sponsorship from Betting World Proprietary Limited	**9 132**	10 166
Sub-lease rental income received from Betting World Proprietary Limited	**9 096**	8 573
Tellytrack licence fees paid by Betting World Proprietary Limited	**6 648**	7 335
Interest received from Betting World Proprietary Limited	**2 612**	1 290
Sponsorship paid to Tellytrack by Uptonvale Services Proprietary Limited group	**1 080**	1 000
Leasehold property rentals paid to Betting World Proprietary Limited	**(994)**	(1 046)
Commission paid to Betting World Proprietary Limited	**(3 719)**	(3 689)
Leasehold property rentals paid to East Cape Racing Proprietary Limited	**(10 107)**	(10 183)
Agent's commission paid to Uptonvale Services Proprietary Limited	**(17 556)**	(14 191)
Security costs paid to SW Security Solutions SA Proprietary Limited	**(35 307)**	(28 109)

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 29, directors' interests in the Company in note 17 and share options in note 34.

Jointly controlled operation

Details of investments in joint operation are disclosed in note 31.

Equity-accounted investees

Details of investments in equity-accounted investees are disclosed in note 9.

34. SHARE OPTION SCHEMES

For purposes of IFRS 2 Share-based Payments, active share options were valued by an independent valuer using a Black-Scholes-Merton valuation model.

Summary of share options granted

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 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 Black-Scholes-Merton model.

Date of option	**17 July 2017**
Number of shares	2 957 188
Dividend yield	4,95%
Interest rate	7,57%
Volatility	22,50%
Option take-up	100%
Equity price	R20,70
Maturity date	17 July 2020

Executive option scheme 2018

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, extended at a meeting on 4 December 2014, was again extended at the meeting held on 12 December 2017 with the maximum number of shares stipulated at 10 250 000 shares.

The scheme rules relevant to exercising the options are identical to the 2014 scheme rules set out above.

Date of option	**12 April 2018**
Number of shares	**3 225 281**
Dividend yield	**6,58%**
Interest rate	**7,43%**
Volatility	**22,50%**
Option take-up	**100%**
Equity price	**R14,76**
Maturity date	**12 April 2021**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	2018		2017	
	Number of shares	Weighted average exercise price R	Number of shares	Weighted average exercise price R
34. SHARE OPTION SCHEMES CONTINUED				
Summary of share options granted				
Balance at beginning of year	6 181 858	18,99	5 870 000	17,27
Granted	3 225 281	14,76	2 957 188	20,7
Rights offer adjustment*			374 670	17,46
Exercised			(2 970 000)	15
Forfeited	(200 000)	20,70	(50 000)	17,34
Lapsed	(3 224 670)	17,44		
	5 982 469	17,50	6 181 858	18,99
Made up as follows:				
Granted to directors				
AW Heide – 16 July 2015*			459 528	17,34
AW Heide – 17 July 2017	352 470	20,70	352 470	20,70
AW Heide – 12 April 2018	412 500	14,76		
ML Ramafalo – 16 July 2015*			368 935	17,34
JA Stuart – 16 July 2015*			459 528	17,34
JA Stuart – 17 July 2017	352 470	20,70	352 470	20,70
JA Stuart – 12 April 2018	412 500	14,76		
VJ Moodley – 16 July 2015*			547 057	17,34
VJ Moodley – 17 July 2017	274 846	20,70	274 846	20,70
VJ Moodley – 12 April 2018	412 500	14,76		
Granted to staff				
Effective grant date – 12 January 2015*			236 547	18,58
Effective grant date – 16 July 2015*			1 153 075	17,34
Effective grant date – 17 July 2017	1 777 402	20,70	1 977 402	20,70
Effective grant date – 12 April 2018	1 987 781	14,76		
Balance at end of year	5 982 469	17,50	6 181 858	18,99
The above options may be exercised between the following dates:				
13 January 2018 to 12 July 2018			236 547	18,58
17 July 2018 to 16 January 2019			2 988 123	17,34
18 July 2020 to 17 January 2021	2 757 188	20,70	2 957 188	20,70
13 April 2021 to 12 October 2021	3 225 281	14,76		
	5 982 469	17,50	6 181 858	18,99

** Adjusted for Supabets deal rights offer.*

34. 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 meetings held on 4 December 2014 and 12 December 2017.

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	2017
Date of option	20 January 2012	2 March 2015	12 April 2018
Number of shares	1 500 000	1 500 000	1 500 000
Dividend yield	6,67%	5,25%	6,58%
Interest rate	6,15%	6,77%	7,43%
Volatility	29,20%	32,00%	22,50%
Option take-up	100%	100%	100%
Equity price	9,55	15,5	14,76
Maturity date	20 January 2015	2 March 2018	12 April 2021

	2018		2017	
	Number of shares	**Exercise price cents**	Number of shares	Exercise price cents
Summary of share options granted				
Effective grant date – 20 January 2012*	**1 558 101**	**2,5**	1 500 000	2,5
Effective grant date – 2 March 2015	**1 655 029**	**2,5**	1 500 000	2,5
Effect of rights offer			213 130	2,5
Effective grant date – 12 April 2018^	**1 500 000**	**2,5**		
Exercised	**(1 558 101)**	**2,5**		
Lapsed**	**(1 655 029)**	**2,5**		
	1 500 000	**2,5**	3 213 130	2,5
Granted to director				
WA du Plessis	**1 500 000**	**2,5**	3 213 130	2,5
The above options may be exercised between the following dates:				
21 January 2015 to 20 January 2018*			1 558 101	2,5
3 March 2018 to 2 March 2021**			1 655 029	2,5
13 April 2021 to 12 April 2024	**1 500 000**	**2,5**		
	1 500 000	**2,5**	3 213 130	2,5

* *Options vested and exercised in the current year.*
** *Options lapsed due to hurdles not achieved.*
^ *Forfeited on resignation September 2018.*

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
35. NOTES TO THE CASH FLOW STATEMENTS				
35.1 Cash generated by operations				
Profit before income tax expense	**152 453**	152 243	**63 024**	110 851
Adjustments for:				
Share of profit of equity-accounted investees	**(169 169)**	(122 591)		
Investment income	**(13 547)**	(15 846)	**(149 275)**	(140 328)
Finance costs	**34 577**	20 323	**34 303**	19 233
Depreciation	**67 205**	68 079	**39 441**	43 473
Amortisation of intangible assets	**3 189**	3 128	**514**	514
(Profit)/loss on disposal of property, plant and equipment	**3 165**	(605)	**(79)**	(605)
(Profit) on disposal of intangible assets	**(6 014)**			
Accrual and prepaid expenses release to the income statement		(18 410)		(14 487)
Fair value adjustment to investments	**(546)**	(946)	**(546)**	(946)
Impairment of investment	**2 844**			882
Post-retirement curtailments	**(4 226)**	(846)	**(4 226)**	(846)
Fair value recognition adjustment to loan	**3 155**	522	**3 155**	522
Share-based payment	**(2 370)**	3 720	**(2 370)**	3 720
	70 716	88 771	**(16 059)**	21 983
35.2 Movements in working capital				
(Increase)/decrease in inventories	**(1 307)**	(546)	**(1 754)**	5
Increase in trade and other receivables	**(25 824)**	(1 598)	**(9 467)**	(20 776)
Increase in amounts owing from subsidiary companies			**(12 807)**	(71 298)
(Increase)/decrease in amounts owing to subsidiary companies			**(26 384)**	31 831
Increase/(decrease) in trade and other payables	**19 316**	(40 878)	**13 595**	(27 039)
	(7 815)	(43 022)	**(36 817)**	(87 277)
35.3 Taxation paid				
Balance at beginning of year	**19 371**	17 550	**13 842**	15 695
Current year charge (note 28)	**(21 008)**	(13 261)		2 367
Balance at end of year	**(23 324)**	(19 371)	**(18 568)**	(13 842)
	(24 961)	(15 082)	**(4 726)**	4 220

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

36. SEGMENTAL ANALYSIS

The Group offers betting opportunities on South African and international sports and numbers and sells live media and data of South African horseracing content locally and internationally. 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 segmental disclosure has been revised to better present the operational transition. These segments are Betting Operations, Media Operations and Administrative and Support Services, with the latter providing shared services. In line with accounting convention, the segments represent wholly or majority-owned operations on a consolidated basis whilst the equity-accounted associates are represented within a single line.

The Betting Operations segment comprises over-the-counter ("OTC") retail stores and non-OTC, which comprises Internet and telephone betting in South Africa and internationally. Equity-accounted income from the jointly owned Premier Gateway International ("PGI") tote operator on the Isle of Man is included in the non-OTC segment.

Our horseracing operations are reflected within the new Media segment and comprise the selling of media and data rights of South African horseracing locally and internationally. The local horseracing operations remain loss making on a standalone basis, with International profitable and supported by solid international demand. New Zealand has been added as a territory for commingling and fixed odds, the Hong Kong Jockey Club imported twelve simulcast race meetings this year, there was extended simulcast into Singapore and the Singapore Turf Club is seeking regulatory approval to promote new simulcasts, and there is expansion of coverage in Greece given that SA product generates substantially more turnover compared with competitor simulcast content.

Taking Betting World, TAB, Supabets, and Interbet together on a 100% consolidated basis the reach of the Group is now considerable, with over R8 billion in betting turnover flowing through these channels.

Income growth in Betting Operations slowed as the year progressed, ending the year marginally higher. Despite this we nevertheless managed to increase the sports betting turnover, with betting on soccer dominating and continuing to prove popular. We continue to refine product mix and ensure that odds management is effective. New international agreements have been concluded in several African countries.

Whilst the Group's strategic initiatives to drive non-OTC betting turnover are yielding positive results, largely through the Internet and smart devices, physical retail stores remain popular as a socially appealing gathering place where fellow punters can share tips, celebrate or commiserate. Betting shops are an important part of our transformation franchise initiative, such as in the North West. The Supabets and the jointly owned Supaworld outlets are all large format physical stores that attract a substantial throng of customers throughout the day. Four Supaworld stores were operating by 31 July 2018 and we anticipate at least a dozen mega stores being operational within two years.

PGI located on the Isle of Man ended the year strongly in a competitive betting environment and benefited from securing a major new customer. Revenue from premium customers betting on local racing improved during the second half. International tote to tote commingled revenue was in line with the prior year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

36. SEGMENTAL ANALYSIS CONTINUED

The following information, which is internally forwarded to the executive team and chief operating decision maker, corresponds to the management reporting lines:

	Audited year ended 31 July 2018 R'000		
	Betting operations		
	Over the counter	Non-over the counter	Total
Income	875 011	307 514	1 182 525
Net betting income	706 021	243 740	949 761
– Totalisator	442 391	207 362	649 753
– Horseracing	263 200	143 949	407 149
– Other sports	179 191	63 413	242 604
– Fixed odds	263 630	36 378	300 008
– Horseracing	47 008	23 728	70 736
– Other sports	61 322	9 936	71 258
– Other	155 300	2 714	158 014
Other income			
Unclaimed dividends and breakages	50 083		50 083
Commission on limited payout machines	30 521		30 521
Stable rentals			
Gambling board levies			
Fee income			
– Saftote fees			
– Host track fees - Local			
– Host track fees - International			
– Subscription fee - local			
– Subscription fee - International			
– Sponsorships, events and publishing			
Sundry income	28 320		28 320
Investment income			
Total income	814 945	243 740	1 058 685
Expenses			
Stakes			
– Intellectual property rights fees - Local	51 464	28 146	79 610
– Intellectual property rights fees - International	20 589	9 651	30 240
Operating expenses	367 321	109 861	477 182
Voluntary retrenchment programme			
Total expenses	439 374	147 658	587 032
Profit/(loss) before depreciation and amortisation and finance costs	375 571	96 082	471 653
Depreciation and amortisation	38 035	136	38 171
Finance costs			
Profit/(loss) before share of equity-accounted income	337 536	95 946	433 482
Share of profit on equity-accounted income	31 481	137 688	169 169
Profit and loss before revaluation of investments	369 017	233 634	602 651
Revaluations of investments			
Profit and loss before tax	369 017	233 634	602 651
Local operations			490 130
International operations			112 521
Profit and loss before tax			602 651

	Audited year ended 31 July 2018 R'000					
	Media				Administration and Support Services	Total
	Local	International	Racing operations	Total		
	19 397	310 313		329 710	14 744	1 526 979
						949 761
						50 083
						30 521
			9 474	9 474		9 474
			85 563	85 563		85 563
					7 658	7 658
	19 567			19 567		19 567
		187 149		187 149		187 149
	19 397			19 397		19 397
		117 887		117 887		117 887
	24 918			24 918		24 918
		11 026	246	11 272	7 811	47 403
					13 547	13 547
	63 882	316 062	95 283	475 227	29 016	1 562 928
			209 520	209 520		209 520
		81 436		81 436		161 046
						30 240
	161 737	99 528	179 516	440 781	129 380	1 047 343
					27 071	27 071
	161 737	180 964	389 036	731 737	156 451	1 475 220
	(97 855)	135 098	(293 753)	(256 510)	(127 435)	87 708
	3 703	39	21 310	25 052	7 170	70 393
					34 577	34 577
	(101 558)	135 059	(315 063)	(281 562)	(169 182)	(17 262)
						169 169
	(101 558)	135 059	(315 063)	(281 562)	(169 182)	151 907
					546	546
	(101 558)	135 059	(315 063)	(281 562)	(168 636)	152 453
				(373 356)	(168 636)	(51 862)
				91 794		204 315
				(281 562)	(168 636)	152 453

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

36. SEGMENTAL ANALYSIS CONTINUED

	Audited year ended 31 July 2017 R'000		
	Betting operations		
	Over the counter	Non-over the counter	Total
Income	888 772	288 141	1 176 913
Net betting income	711 522	237 081	948 603
– Totalisator	452 765	203 027	655 792
– Horseracing	280 221	147 755	427 976
– Other sports	172 544	55 272	227 816
– Fixed odds	258 757	34 054	292 811
– Horseracing	56 725	21 000	77 725
– Other sports	56 502	10 297	66 799
– Other	145 530	2 757	148 287
Other income			
Unclaimed dividends and breakages	50 665		50 665
Commission on Limited pay-out machines	26 383		26 383
Stable rentals			
Gambling board levies			
Fee income			
– Saftote fees			
– Host track fees - Local			
– Host track fees - International			
– Subscription fee local			
– Subscription fee International			
– Sponsorships,events and publishing			
Sundry income	12 705		12 705
Investment income			
Total income	801 275	237 081	1 038 356
Expenses			
Stakes			
– Intellectual property rights fees - Local	53 630	28 278	81 908
– Intellectual property rights fees - International	19 823	8 889	28 712
Operating expenses	405 100	58 465	463 565
Total expenses	478 553	95 632	574 185
Profit/(loss) before depreciation and amortisation and finance costs	322 722	141 449	464 171
Depreciation and amortisation	37 828	202	38 030
Finance costs			
Profit/(loss) before share of equity-accounted income	284 894	141 247	426 141
Share of profit on equity-accounted income	10 815	111 776	122 591
Profit and loss before revaluation of investments	295 709	253 023	548 732
Revaluations of investments			
Profit and loss before tax	295 709	253 023	548 732
Local operations			455 947
International operations			88 785
Profit and loss before tax			548 732

Audited year ended 31 July 2017
R'000

Broadcasting Media and publications				Administration and Support Services	Total
Local	International	Racing operations	Total		
20 911	306 844		327 755	15 847	1 520 515
					948 603
					50 665
					26 383
		8 855	8 855		8 855
		74 676	74 676		74 676
				9 601	9 601
20 244			20 244		20 244
	181 607		181 607		181 607
20 911			20 911		20 911
	116 899		116 899		116 899
25 598			25 598		25 598
	8 338		8 338	32 016	53 059
				15 846	15 846
66 753	306 844	83 531	457 128	57 463	1 552 947
		208 756	208 756		208 756
	76 520		76 520		158 428
					28 712
144 334	102 770	182 258	429 362	143 888	1 036 815
144 334	179 290	391 014	714 638	143 888	1 432 711
(77 581)	127 554	(307 483)	(257 510)	(86 425)	120 236
2 789	72	21 558	24 419	8 758	71 207
				20 323	20 323
(80 370)	127 482	(329 041)	(281 929)	(115 506)	28 706
					122 591
(80 370)	127 482	(329 041)	(281 929)	(115 506)	151 297
				946	946
(80 370)	127 482	(329 041)	(281 929)	(114 560)	152 243
			(375 431)	(114 560)	(30 044)
			93 502		182 287
			(281 929)	(114 560)	152 243

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

37. SUBSEQUENT EVENTS

There are no significant subsequent events that have a material impact on the financial statements at 31 July 2018.

38. 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.

39. STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial statements of Phumelela Gaming and Leisure Limited for the year ended 31 July 2018, the following standards and interpretations were in issue but not yet effective:

Effective for the financial year commencing on/after 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)
- IFRIC 22 Foreign Currency Transactions and Advance Considerations

Effective for the financial year commencing on/after 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.

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 not have a material effect on reported Group results, but will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. Proposed treatment when adopted will result in a write-off of account receivable directly to retained income of income accruals in respect of the dispute with regard to Tellytrack customers, refer accounting policy note 1.24 Tellytrack revenue recognition. The income will be recognised through profit and loss when the contract is in place. The amount involved is estimated at R16,8 million.

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 an 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 different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, the expected credit loss model is not expected to increase the provision for bad debts recognised in the Group results.

The standard is effective for annual periods beginning on or after 1 August 2018 with retrospective application, early adoption is permitted.

39. STANDARDS AND INTERPRETATIONS CONTINUED

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.

Currently all share-based payment charges are equity settled and therefore there is an expectation that there will be no changes to the amounts currently recognised.

The amendments are effective for annual periods commencing on or after 1 August 2018.

IFRIC 22 Foreign Currency Transactions and Advance Considerations

When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item.

This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration.

For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

As the group already applies the transaction date rate this will have no material effect on the Group's results.

The interpretation applies for annual reporting periods beginning on or after 1 January 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2018

39. STANDARDS AND INTERPRETATIONS CONTINUED

IFRS 16 Leases *continued*

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 August 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The Group currently recognises rental expenses on a straight-line basis over the lease term. If the adoption of the standard was 1 August 2018, the effect of the adoption of the standard would result in the Group recognising the right-of-use assets (using discounted future minimum lease payments as at 31 July 2018) amounting to R95,2 million (Company: R50,4 million) and corresponding lease liabilities of the same amount. The Group's operating lease charge in profit or loss will be replaced by the depreciation charge in respect of the corresponding right-of–use assets and an interest charge relating to the respective lease liabilities. The adoption of the standard will also result in the Group reversing the lease-smoothing liability amounting to R4,1 million (Company: R1,3 million) directly against retained earnings.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transactional requirements are different for the lessees and lessors.

Transition

As a lessee, the Group can apply the standard using either a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 August 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 August 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

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 2018

Name and nature of business	2018 Investment R'000	2018 Issued capital R	2018 % held	2017 Investment R'000	2017 Issued capital R	2017 % 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 – deregistered in the current year					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 – Dormant operations		100	100		100	100
Direct subsidiaries incorporated in Isle of Man						
Phumelela Gold International Limited	329	100	100	329	100	100
- Licensed sports bookmaker and worldwide internet pari-mutuel service provider						
- Impairment Highveldt Training Centre Proprietary Limited	(277)			(277)		
	96 336			96 336		

Indirectly held subsidiaries held through Betting World Proprietary Limited

	Percentage holding 2018	Percentage holding 2017
Cerino Trading 13 Proprietary Limited	100	100
Newton Park Proprietary Limited (formely 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
Betting World Eastern Cape Proprietary Limited (formely Afribet Proprietary Limited)	51	51

SHAREHOLDER INFORMATION

for the year ended 31 July 2018

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	335	36,98	103 855	0,10
1 001 – 10 000 shares	361	39,85	1 295 856	1,26
10 001 – 100 000 shares	148	16,34	4 750 227	4,63
100 001 – 1 000 000 shares	46	5,08	14 936 584	14,57
1 000 001 shares and over	16	1,77	81 414 036	79,43
Totals	**906**	**100,00**	**102 500 558**	**100,00**

Distribution of shareholders	Number of shareholders	%	Number of shares	%
Banks/brokers	13	1,43	7 047 693	6,88
Close corporations	9	0,99	57 097	0,06
Empowerment	3	0,33	11 118 110	10,85
Endowment funds	4	0,44	13 615	0,01
Individuals	756	83,44	10 114 625	9,87
Insurance companies	7	0,77	402 215	0,39
Medical schemes	1	0,11	106 128	0,10
Mutual funds	20	2,21	8 635 742	8,43
Other corporations	9	0,99	7 001 843	6,83
Private companies	25	2,76	18 990 375	18,53
Public companies	3	0,33	5 864 509	5,72
Retirement funds	6	0,66	915 776	0,89
Share trust	1	0,11	381 985	0,37
Treasury stock	1	0,11	2 531 211	2,47
Trusts	48	5,30	29 319 634	28,60
Totals	**906**	**100,00**	**102 500 558**	**100,00**

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	**24**	**2,65**	**53 268 101**	**51,97**
Directors of the Company	18	1,99	11 845 612	11,56
Strategic holdings more than 10%	1	0,11	27 391 183	26,72
Own holdings/treasury stock	1	0,11	2 531 211	2,47
Share trust	1	0,11	381 985	0,37
Empowerment	3	0,33	11 118 110	10,85
Public shareholders	**882**	**97,35**	**49 232 457**	**48,03**
Totals	**906**	**100,00**	**102 500 558**	**100,00**

Beneficial shareholders holding 3% or more	Number of shares	%
The Thoroughbred Horseracing Trust	27 391 183	26,72
Kalamojo Trading and Investments Proprietary Limited	9 450 000	9,22
IHH Company Proprietary Limited	8 796 443	8,58
Du Plessis, WA	5 512 575	5,38
Yerranzano Property Investments Limited	4 498 011	4,39
Gride Investments Proprietary Limited	3 898 542	3,80
Dihla Investment Holdings Proprietary Limited	3 700 592	3,61
Vela Phumelela Investments	3 518 976	3,43
Peregrine	3 263 777	3,18
Totals	**70 030 099**	**68,32**

Institutional shareholders holding 3% or more	Number of shares	%
Truffle Asset Management	3 570 400	3,48
Totals	**3 570 400**	**3,48**

CORPORATE INFORMATION

DIRECTORS	B Kantor (Chairman) JA Stuart (Group Chief Executive Officer) AW Heide (Chief Operating Officer and Group Finance Director) VJ Moodley (Executive Director, Sports Betting) M Tembe (Lead Independent Director) P Anastassopoulos R Cooper KC Khampepe FS Magubane SA Mahlalela NJ Mboweni SH Müller E Nkosi CJH van Niekerk JB Walters
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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