Phumelela Gaming

Phumelela Gaming and Leisure Limited

2019

INTEGRATED REPORT

CONTENTS

OVERVIEW

OTHER PUBLICATIONS ONLINE

Notice of annual general meeting
Notice of annual general meeting can be found at www.irphumelela.com

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

King IV report
Our King IV report can be found at www.irphumelela.com/financials/KingIV_Assessment_2019.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 2019 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 28 November 2019, the Board approved the Integrated Report.

B KANTOR
Chairman
28 November 2019

JA STUART
Group Chief Executive Officer

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

- Withdrawal of the Gauteng betting levy is a R75 million annualised loss of income
- Further restructuring costs of R30 million with R57 million incurred over two years
- Headline loss of R98,2 million compared with headline earnings of R155,6 million
- Headline loss per share of 98,20 cents compared with headline earnings per share of 154,23 cents
- Attributable loss of R92,3 million compared with an attributable profit of R155,1 million
- Attributable loss per share of 92,32 cents compared with attributable profit of 153,78 cents per share
- Equity-accounted profits R163,3 million compared with R169,2 million
- A 9% rise in international profits to R223,4 million
- Net asset value per share reduces by 16% to 849,94 cents
- No interim or final dividend per share declared
- Net debt to equity ratio 33% compared with 23%

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 2018 to 31 July 2019. Our previous report was published in 2018. 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

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

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

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

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

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% equity interest), 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 an equity interest of approximately 30% 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:

- 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
- 42 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.

94% of our employees are **BLACK**

68% of our employees are **FEMALE**

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

Over R10 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

RACING

IT'S A RUSH

Some of the major players in South African horse racing have joined forces to launch a Young Blood campaign to market this incredible sport and promote its core values.

The goal is to reinvigorate the sport and bring back the glamour, thrill and excitement of horse racing. The brand is fresh, inspired and exciting and is discovering, attracting and engaging with a new generation of horse racing enthusiasts.

The idea is that the younger generation is exposed to a number of facets – the rush of racing, the fashion and the fun that comes with a day at the races. Using an interactive website and an ever-increasing social media presence, a new wave of followers is being taught the intricacies of a sport that carries a proud history and is unearthing a new wave of talent.

There is still a long way to go as far as the end goal is concerned but the brand is on the right path and has the necessary support required to achieve a number of objectives.

As with most industries, there are a number of complex challenges but at the same time the brand is confident that it has the necessary support to recognise any opportunity to promote horse racing in the future.

Part of the journey includes removing stigmas, educating a new, expanding audience and promoting a number of event experiences across South Africa.

POPULAR EVENTS HELD:

Gins 'n Roses on Champions Day

We went down to "Paradise City" on Saturday, the 4th May for the spectacular Gins 'n Roses Festival at Turffontein Racecourse. This Champion's Day symbolises the pinnacle of our racing calendar. Originally, combined with last leg of the Triple Crown and Tiara series, we felt that it needed its own celebration and that it would be best to honour the season's champions with their own special day. The stalwarts from all age groups rallying together to give an action-packed race day!

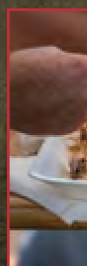
Everyone enjoyed the day in style; friends came together and enjoyed the autumn afternoon sun, the majestic Joburg skyline and an action-packed day. There was live entertainment, outstanding food vendors and a rose wall – perfect to get that all-important selfie.

Sipping on a gin and tonic from the array of gin houses, enjoying the day at the races with the sun gently kissing your shoulder doesn't get any better than this!

Now what is a race day without food, live entertainment and prize giveaways? Patrons were spoilt for choice on Joburg's annual Prawn Festival which took place on 30 March. There are not too many places where you can get 12 Queen prawns, chips, rice and a sauce for just R125. The beer garden offered a variety of prawn and seafood dishes, as well as other meals. By just purchasing a Prawn voucher, you immediately qualified to be in the draw to win one of 10 Neon IQ Tablets, 6 Sansui 40' LED TVs, 2 Skyworth 40E6 FHD Android TV's, 1 Hisense 40" TV, 1 Hisense Refrigerator, 1 Hisense Microwave, 1 Blue Tooth Boom Box, an electric grill, a toaster and a small phones. A great day was had by all after a full tonne of prawns were sold out by the end of the day.

This day breathes style and elegance, with a dash of colour, so be sure to mark it in the calendar for next year!

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




#ItsARush
#ItsARush
RUSH

GROUP REVIEW

	2019 R'000	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000
GROUP STATEMENTS OF COMPREHENSIVE INCOME							
Year ended 31 July							
Income	**1 416 110**	1 526 979	1 520 515	1 500 797	1 266 205	1 192 109	1 014 826
(Loss)/profit from operations	**(239 822)**	17 315	49 029	43 098	79 301	61 833	85 304
Finance costs	**(35 488)**	(34 577)	(20 323)	(9 368)	(5 828)	(1 183)	(779)
(Loss)/profit before share of profit of equity-accounted investees	**(275 310)**	(17 262)	28 706	33 730	73 473	60 650	84 525
Share of profit of equity-accounted investees	**163 310**	169 169	122 591	94 694	47 060	57 983	26 705
(Loss)/profit before income tax expense	**(112 000)**	151 907	151 297	128 424	120 533	118 633	111 230
Fair value adjustments	**2 964**	546	946	5 578	(21 298)	11 135	
(Loss)/profit before income tax expense	**(109 036)**	152 453	152 243	134 002	99 235	129 768	111 230
Income tax expense	**13 220**	(707)	(9 641)	(12 912)	(19 713)	(19 373)	(25 257)
(Loss)/profit for the year	**(95 816)**	151 746	142 602	121 090	79 522	110 395	85 973
Attributable to non-controlling interest	**3 523**	3 366	3 918	854	(6)	14	(102)
(Loss)/profit attributable to ordinary equity holders of the parent	**(92 293)**	155 112	146 520	121 944	79 516	110 409	85 871
GROUP STATEMENTS OF FINANCIAL POSITION							
At 31 July							
Assets							
Non-current assets	**1 322 828**	1 338 850	1 280 609	635 466	575 088	567 518	495 400
Current assets	**268 773**	311 824	259 200	308 484	200 751	220 537	149 028
Total assets	**1 591 601**	1 650 674	1 539 809	943 950	775 839	788 055	644 428
Equity and liabilities							
Capital and reserves	**849 684**	1 012 624	1 029 993	513 051	447 743	478 791	432 345
Non-current liabilities	**1 498**	301 319	123 370	64 489	54 735	9 397	3 734
Current liabilities	**740 419**	336 731	386 446	366 410	273 361	299 867	208 349
Total equity and liabilities	**1 591 601**	1 650 674	1 539 809	943 950	775 839	788 055	644 428
GROUP CASH FLOW STATEMENTS							
Year ended 31 July							
Net cash (outflow)/inflow from operating activities	**(173 872)**	(94 640)	(62 201)	38 594	3 761	40 724	66 706
Net cash generated/(utilised) in investing activities	**125 571**	(25 101)	(250 879)	(19 549)	(54 057)	(11 293)	(105 731)
Net cash (outflow)/inflow from financing activities	**(1 257)**	122 679	332 195	12 743	1 073	8 586	
Net (decrease)/increase in cash and cash equivalents	**(49 558)**	2 938	19 115	31 788	(49 223)	38 017	(39 025)

	2019 cents	2018 cents	2017 cents	2016 cents	2015 cents	2014 cents	2013 cents
Year ended 31 July							
Basic earnings per share	**(92,32)**	153,78	168,46	163,62	105,98	146,07	113,61
Diluted earnings per share	**(92,32)**	153,78	160,84	155,01	101,14	139,13	110,85
Headline earnings per share	**(98,20)**	154,23	167,96	164,51	117,06	132,1	114,46
Diluted headline earnings per share	**(98,20)**	154,23	160,36	155,85	111,72	125,83	111,69
Net asset value per share	**849,94**	1 012,93	1 014,17	688,33	600,79	633,04	571,58
Dividends per share	**62**	112	104	104	88	88	88

	2019	2018	2017	2016	2015	2014	2013
PROFITABILITY RATIOS	**%**	%	%	%	%	%	%
Earnings attributable / net income	**(5,57)**	9,92	9,64	8,13	6,28	9,26	8,46
EBITDA [1] margin	**(10,21)**	5,74	7,91	6,97	10,2	8,49	12,34
Return on equity [2]	**(9,91)**	15,19	18,48	25,38	17,16	24,23	20,23
Return on total assets [3]	**(5,80)**	9,40	11,15	14,6	16,29	16,26	13,24
SOLVENCY AND LIQUIDITY RATIOS							
Solvency ratio [4]	**2,14**	2,59	3,02	2,19	2,36	2,55	3,04
Current ratio	**0,36**	0,93	0,67	0,84	0,73	0,74	0,72
Acid test ratio	**0,36**	0,91	0,66	0,84	0,73	0,73	0,69
EFFICIENCY RATIOS							
Asset turnover [5]	**1,04**	0,95	0,99	1,59	1,63	1,51	1,57
Property, plant and equipment turnover [6]	**3,77**	3,36	3,25	3,27	2,85	2,68	2,91

[1] Earnings before interest, tax, depreciation and amortisation to net 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

for the year ended 31 July 2019

	2019 % change	2019 R'000	2018 R'000	2017 R'000	2016 R'000	201 R'000	2014 R'000	2013 R'000
Value created								
Gross betting income	**(9,8)**	**1 066 907**	1 182 525	1 176 913	1 198 796	1 044 329	927 253	875 827
Other income	**(3,7)**	**577 409**	599 620	588 498	526 443	435 685	441 021	296 493
Income from investments	**3,1**	**13 973**	13 547	15 846	5 331	2 074	2 815	1 795
Income from equity-accounted investees	**(3,5)**	**163 310**	169 169	122 591	94 694	47 060	57 983	26 705
Income from operations	**(7,3)**	**1 821 599**	1 964 861	1 903 848	1 825 264	1 529 148	1 429 072	1 200 820
Other overhead costs	**9,5**	**(994 950)**	(908 610)	(843 426)	(789 212)	(731 314)	(615 668)	(457 944)
Total value created	**(21,7)**	**826 649**	1 056 251	1 060 422	1 036 052	797 834	813 404	742 876
Value distribution								
Stakes	**3,3**	**216 440**	209 520	208 756	202 871	189 772	186 299	175 689
Employees	**0,8**	**404 044**	400 978	389 999	380 809	293 532	274 432	245 115
Finance costs	**2,6**	**35 488**	34 577	20 323	9 369	5 828	1 183	779
Distribution to shareholders	**(45,5)**	**61 981**	113 734	86 875	70 057	66 389	66 517	59 713
Government	**(7,0)**	**216 495**	232 764	241 752	255 317	217 784	197 202	199 404
– Value added tax (paid on betting income)	**(7,1)**	**129 969**	139 888	137 321	139 473	120 806	107 058	100 994
– Betting tax	**(6,8)**	**86 526**	92 876	90 989	93 772	83 017	73 604	66 980
– Income tax	**(89,7)**	**2 171**	21 008	13 442	22 072	13 961	16 540	31 430
Total distributed	**(5,8)**	**934 448**	991 573	947 705	918 423	773 305	725 633	680 700
Reinvested in the Group to maintain and develop operations								
Depreciation and amortisation	**0,2**	**70 531**	70 393	71 207	61 471	49 825	39 374	39 885
Deferred tax	**(24,2)**	**(15 391)**	(20 301)	(3 620)	(9 160)	5 752	2 833	(6 173)
Retained (loss)/profit		**(162 940)**	14 586	45 130	65 318	(31 048)	45 565	28 464
Total retained	**(266,7)**	**(107 799)**	64 678	112 717	117 629	24 529	87 772	62 176
Total value distributed/retained	**(21,7)**	**826 649**	1 056 251	1 060 422	1 036 052	797 834	813 405	742 876


IT'S A RUSH

RACING
IT'S A RUSH

It's not often that the sport of kings finds a real-life, fairy-tale princess in the crowds – especially in Johannesburg. But that is exactly what racegoers experienced on 13 April at the Royal Race Day at Turffontein.

Her Serene Highness Princess Charlene of Monaco confirmed her attendance – promising that the Royal Race Day would be the social event of the year.

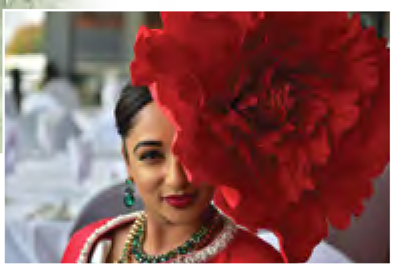
With a top hat and tails dress code, the Royal Race Day promised to be the most elegant affair on the racing calendar. Combined with the red and white colour palette chosen for the day, and free entrance for the public, it was undoubtedly a picture-perfect, grand royal affair.

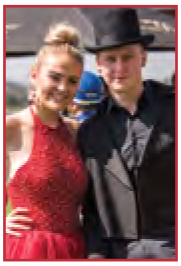
The Royal Race Day is an annual event held in honour of Princess Charlene at the Turffontein Racecourse in Johannesburg that features a strong charity component focusing on children.

As part of the festivities on the Royal Race Day, learners from Gugulesizwe Primary School and Lesabe Primary School from Benoni attended the day together with learners from various schools from the Turffontein area. The children were hosted for the day and the main group welcomed Princess Charlene on her arrival. Free entertainment was on offer for all children at the race day, including a demarcated area with jumping castles and other activities, a jungle gym in the piazza area, a farrier demonstrating live hot-shoeing, and a puppet or magic show.

The Royal Race Day is very much a family day. Children are at the heart of the Princess' foundation and we therefore urge families to come and celebrate the day with us in the future. The Cinderella horse-drawn carriage, as well as pony rides, made for unique photo opportunities. As far as the racing is concerned, the headline race on the day was the Grade 1 HSH Princess Charlene Empress Cub Stakes for fillies and mares over 1 600m with total stakes of R1 000 000.

Two Maiden Plates, of which one is for fillies and mares only, with total stakes of R250 000 each and sponsored by Princess Charlene of Monaco, served as supporting acts. These races carry huge prize money considering the runners are maidens, having never won a race, but it has become customary in recognition of the Princess's well-documented support for what is usually considered the underdog.





PHUMELELA BETTING DATA

	% change	2019 R'million	2018 R'million	2019 %	2018 %
SA totalisator	(5,6)	2 980	3 156	56,5	62,2
Eastern Cape	(17,2)	106	128	2,0	2,5
Free State	(6,3)	135	144	2,6	2,8
Gauteng	(4,4)	2 151	2 249	40,7	44,4
Limpopo	(9,1)	211	232	4,0	4,6
Mpumalanga	(7,7)	131	142	2,5	2,8
North West	(5,0)	207	218	3,9	4,3
Northern Cape	(9,3)	39	43	0,7	0,8
Fixed odds	19,9	2 299	1 918	43,5	37,8
	4,0	5 279	5 074	100	100

	% change	2019 R'million	2018 R'million	2019 %	2018 %
SA totalisator	(5,6)	2 980	3 156	56,5	62,2
On course	(3,7)	52	54	1,0	1,1
Off course – branches	(8,0)	1 498	1 629	28,4	32,1
Off course – agents	0,5	385	383	7,3	7,5
Non-over-the-counter	(4,1)	1 045	1 090	19,8	21,5
Fixed odds	19,9	2 299	1 918	43,5	37,8
Over-the-counter	(0,5)	1 576	1 584	29,9	31,2
Non-over-the-counter	116,5	723	334	13,7	6,6
	4,0	5 279	5 074	100	100

	% change	2019 R'million	2018 R'million	2019 %	2018 %
SA totalisator	(5,6)	2 980	3 156	56,5	62,2
South African horseracing	(6,4)	1 393	1 488	26,4	29,4
International horseracing	(5,4)	559	591	10,6	11,6
Other sports	(4,5)	1 028	1 077	19,5	21,2
Fixed odds	19,9	2 299	1 918	43,5	37,8
Horseracing	32,4	707	534	13,4	10,5
Other sports	63,2	506	310	9,6	6,1
Numbers	1,0	1 086	1 075	20,6	21,2
	4,0	5 279	5 074	100	100

	% change	2019 R'million	2018 R'million	2019 %	2018 %
SA totalisator	(5,7)	773	820	72,5	69,3
Eastern Cape	(18,2)	27	33	2,5	2,8
Free State	(5,3)	36	38	3,4	3,2
Gauteng	(4,3)	550	575	51,6	48,6
Limpopo	(9,5)	57	63	5,3	5,3
Mpumalanga	(7,9)	35	38	3,3	3,2
North West	(6,6)	57	61	5,3	5,2
Northern Cape	(8,3)	11	12	1,0	1,0
Fixed odds	(19,3)	293	363	27,5	30,7
	(9,9)	1 066	1 183	100	100

OUR SOUTH AFRICAN OPERATIONS

Phumelela operates in South Africa and through its international division it has commercial relationships with 42 international jurisdictions across six continents.

PHUMELELA TOTALISATOR BETTING OUTLETS AS AT 31 JULY 2019

87 *branches* **78** *agencies* *Betting World fixed odds* **16** *outlets*

TAB: TOTALISATOR BETTING OUTLETS

Phumelela regions	Branches	Agents	Total
Gauteng	57	37	**100**
Limpopo	4	13	**25**
Mpumalanga	5	13	**22**
Free State	11	0	**11**
Northern Cape	1	0	**1**
Eastern Cape	8	12	**20**
North West	1	3	**13**
Total	**87**	**78**	**165**

BETTING WORLD FIXED ODDS OUTLETS

Limpopo	2	North West	1
KwaZulu-Natal	1	North West Franchises	13
Western Cape	17		

TAB/BETTING WORLD FIXED ODDS OUTLETS (COLLOCATING)

Gauteng	9	Northern Cape	1
Limpopo	10	North West	9
Mpumalanga	5		

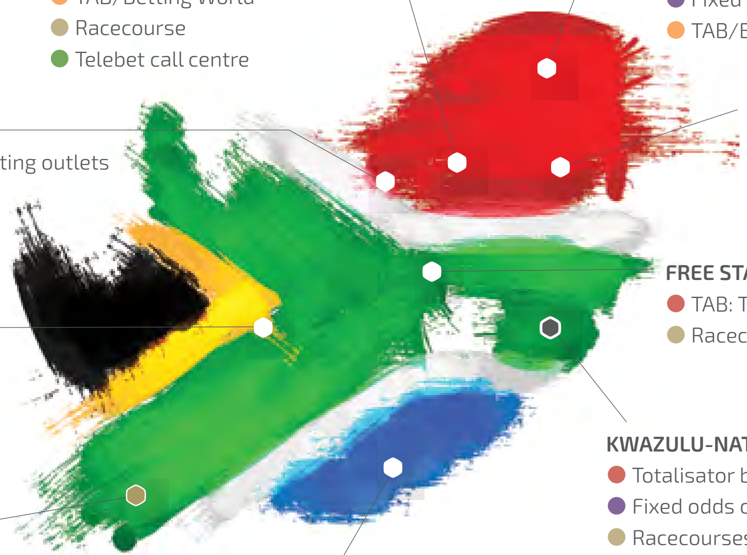
RACECOURSES

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)

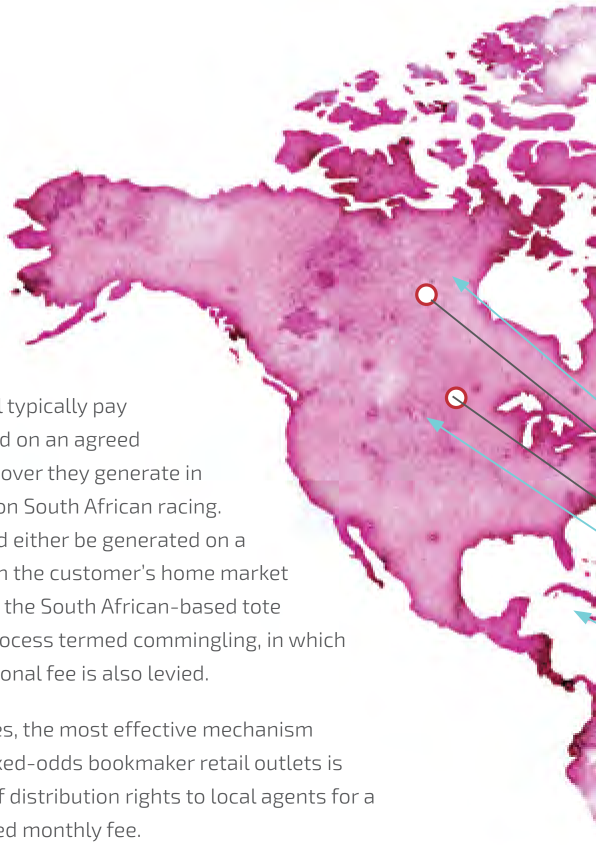
TELEBET CALL CENTRES

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 42 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 430 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 is a joint service between PI and At The Races ("ATR") comprising of predominantly South African and UK tracks for which PI & ATR respectively hold the international media rights. Together with this, the channel also consists of Dubai, Singaporean* and Zimbabwean racing for which PI holds distribution rights; 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 brick-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 South African racing content. Where live video streams are made available to punters over the internet, a fee is also charged per stream.

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.

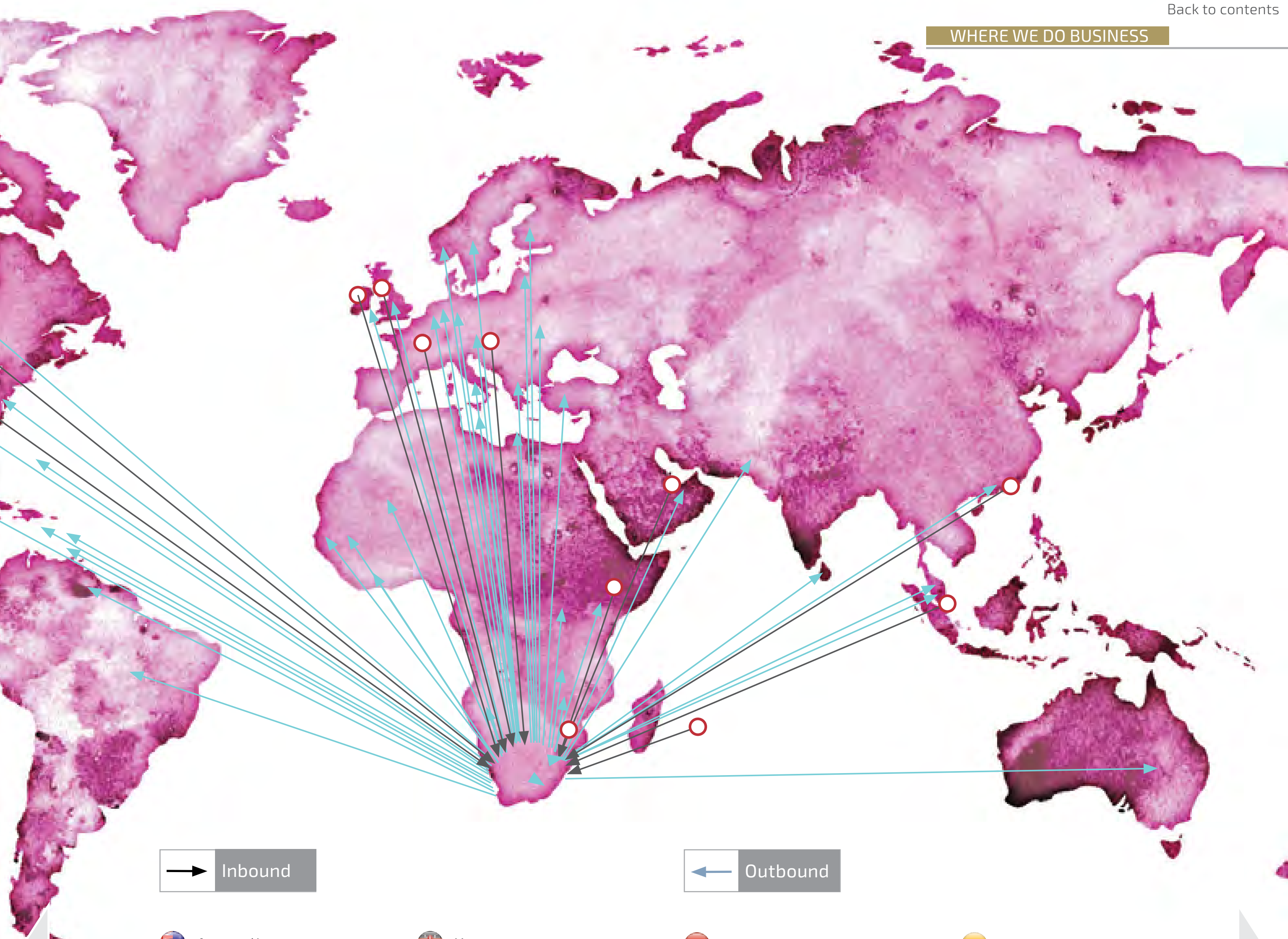
In certain instances where PGL is unable to commingle local pools into a foreign tote, standalone pools are created in South Africa. However, where PGL is able to commingle, SA punters have the opportunity to bet into larger pools situated offshore.

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.

** in territories where permission was granted until March 2019*

Back to contents



Inbound

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

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
- Norway
- Pakistan
- Rwanda
- Senegal
- Singapore
- Sri Lanka
- Swaziland
- Sweden
- Trinidad and Tobago
- Turkey
- UK
- USA
- Zambia
- Zimbabwe

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.

A tough year

INTRODUCTION

My closing remark in the Chairman's review of 2018 was "we look forward with excitement to the challenges and opportunities that lie ahead". How wrong I was. During the current financial year, we encountered many challenges which were daunting and difficult. The Board and the executive are nevertheless confident that opportunities will eventuate from adversity. Experience has taught us never to waste a good crisis and in line with this principle there is a lot of good work underway by the executive to restructure the business and render it more efficient.

Sadly, in this past year our Group has been under siege. We are branded as representing an elitist sport and industry. We are subjected to permanent and constant surveillance by government and regulators. And, we are attacked by people in our very own industry.

I firmly believe that many people do not appreciate the activities that Phumelela undertakes. I therefore feel it appropriate to describe in brief what we do and how we go about doing it and then look at the challenges that we are confronted with.

Phumelela is a complex organisation with interconnected moving parts. This must be understood. We can't have one part without the other. We stage horse race meetings at several venues throughout South Africa, we are involved in the maintenance of racetracks, training tracks and the associated facilities for racegoers. We provide training facilities, grooms accommodation at some of the tracks, even though grooms do not work for us but rather the trainers, and of course we provide stabling for racehorses.

We operate the tote and its many branches as well as a fixed odds betting business under the name of Betting World, all of which have in excess of 180 branches or agencies.

Tellytrack provides broadcast services which combine our horseracing picture with racing from many other centres around the world and then distributes this to betting shops globally and locally to the home user. Our horse racing picture is our intellectual property and we export it to over 40 countries globally. This activity earns us gross income in excess of R500 million in foreign currencies, before intellectual property costs and other operating costs. The rights to export the South African horse racing picture are exercised through Phumelela International. We furthermore collate racing fields and data and distribute these publications globally.

In addition to the above, we have investments in the following associated companies:

- A 50% interest in a tote on the Isle of Man, which entertains professional gamers who can place tote bets on horse racing in many racing centres around the world, including South Africa; it is also the de facto worldwide hub that is used for inter-tote connectivity to facilitate comingling of betting pools;

- A 50% shareholding in Supabets, a gaming company focusing on sports and numbers betting; it has recently started to offer betting on horse racing;
- A 50% shareholding in Interbet, a betting exchange mostly to accommodate bookmakers and which also offers online tote and fixed odds betting on horse racing.

We contribute significantly to the cost of The National Horse Racing Authority ("NHA") which performs the role of policing and regulating the broader industry.

The above gives a picture of the co-dependency of our activities around the world.

Let us now look at some of the serious challenges which we are now facing.

In 1997 it was understood that due to the cost of staging horse racing and all the allied activities Phumelela could not be a commercially sustainable, viable business. Nothing has changed in the intervening years. To protect the South African horse racing industry and the jobs it sustains, Phumelela was given support in the form of (1) the tote license which was granted to generate income to contribute towards the costs and (2) it was agreed that 50% of the bookmaker betting levy would be refunded to Phumelela.

In 2006, ten years after the granting of the original tote license, the Supreme Court allowed bookmakers to take bets linked to tote dividends, the "open bet". The unintended consequences of this is the reduction in the income from the Tote and therefore the viability of Phumelela as an on-going concern.

In effect, Phumelela is unilaterally paying the costs associated with racing but there is very little contribution from other beneficiaries and players. In realty, Phumelela is subsidising the majority of the bookmakers, some of whom pirate our IP. The Supreme Court of Appeal has handed down judgement in the recent days upholding our IP rights and thus confirming that it is illegal to pirate our rights. The necessary steps to enforce this judgement will be taken without delay. It is obvious to us that regulatory intervention is essential to prohibit the "open bet" or at least force a similar contribution from bookmakers who offer the open bet. The Department of Trade and Industry Parliamentary Portfolio Committee on gaming recommended that the "open bet" be outlawed. It is almost 2020, and nothing has happened.

It is grossly unfair that Phumelela must bear all the costs whilst others contribute a bare minimum, if at all. The operational cost, the payment of stakes and our contribution to the NHA is in excess of R400 million a year.

The other effect of continuing to allow the "open bet" is that there is insufficient contribution to the stakes pot which reduces the attraction for people to support the industry and therefore it's long term survival.

Furthermore, in 1997, as previously articulated, the Gauteng Government understood the need to assist with the cost of staging racing. They agreed that 50% of the betting tax/levy would be refunded to help Phumelela meet the burgeoning costs. With effect from April 2019 and without advising Phumelela, this longstanding arrangement was simply and unilaterally removed by the Gauteng Member of the Executive Council responsible for Economic Development. This removal amounts to approximately R75 million per annum. It follows on from a report by the Public Protector with findings we regard as baseless and with which we are in vehement disagreement.
This report is the subject of review proceedings before the High Court. Because Phumelela's share of the betting levy has been withdrawn the original intention and agreement of compensating Phumelela for bearing the cost of horse racing has been violated.

Because of all the above, our means to reinvest to the extent we would wish to in our facilities and betting estate has been diminished, which affects our ability to compete effectively.

We are exhausted by the endless assaults and legal challenges from all quarters that distract us from getting on with running our business. This is very costly, time wasting and unnecessary. Support is desperately needed from the Gauteng MEC and all MEC's from other provinces.

The discord and squabbling that exists between the various players in the horse racing industry, including Phumelela, breeders, owners, and trainers does nothing to enhance the situation. We could all learn a lesson from our diverse national rugby team who have shown us what is possible when a team pulls together as one with each playing to their strengths. This is a proud example for a template to make changes for the better in South African horse racing. Let us not forget that many thousands of people are dependent on the survival of the horse racing value chain and allied activities for their daily bread

If nothing else, this poor set of financial results is a wake-up for all and a catalyst for cooperation for the greater good.

Whilst we have to acknowledge some own goals this year, such as in the fixed odds business where we frankly had our eye off the ball, we cannot take away from the fact that Phumelela has reached a crossover point where the success of our international operations and other acquisitions is not sufficient to offset the escalating losses of administering South African horse racing.

GOING FORWARD

Phumelela's racing and betting executives are pulling together at this time of adversity and uncertainty and are confident that the business will return to previous levels of profitability by adopting, enforcing and supporting the following strategies:

- A continued reduction in the costs which has already been reduced by in excess of R50 million over the last 12 months
- A stabilisation of Betting World which we look forward to returning to previous levels of profitability
- Growing the Isle of Man tote by bringing in other key totes and professional gamers from around the world
- The return of Supabets to its previous levels of profitability and more
- The rationalisation of costs between Betting World, the Tote and Supabets.
- We see huge benefits of rationalisation by moving closer to some of our associates, especially Supabets
- The growth of limited payout machines
- The lobbying of the Gauteng MEC to return our share of the betting levy
- The lobbying of government and the National Gambling Board to force the "open bet" bookmakers to contribute a fair share to the costs of administering horse racing or ban the practice all together
- Improving our working relationships with government, various provincial MEC's and gambling boards
- Motivating for an improvement in what is fragmented regulation in the provinces and inconsistent approaches to the practice of that, differing tax rates and licensing requirements
- Simplification of the stakes model and the contribution to the stakes by the bookmakers and other beneficiaries to ensure racing remains attractive
- Driving the discussions with Gold Circle and Kenilworth Racing to work closer together, thereby bringing huge benefits to horse racing in South Africa
- Implement additional B-BBEE participation throughout our organisation but imperative that the shareholding of our B-BBEE partners is at least 26%.

By following through with the above strategies, we are confident that Phumelela will be restored to its rightful position.

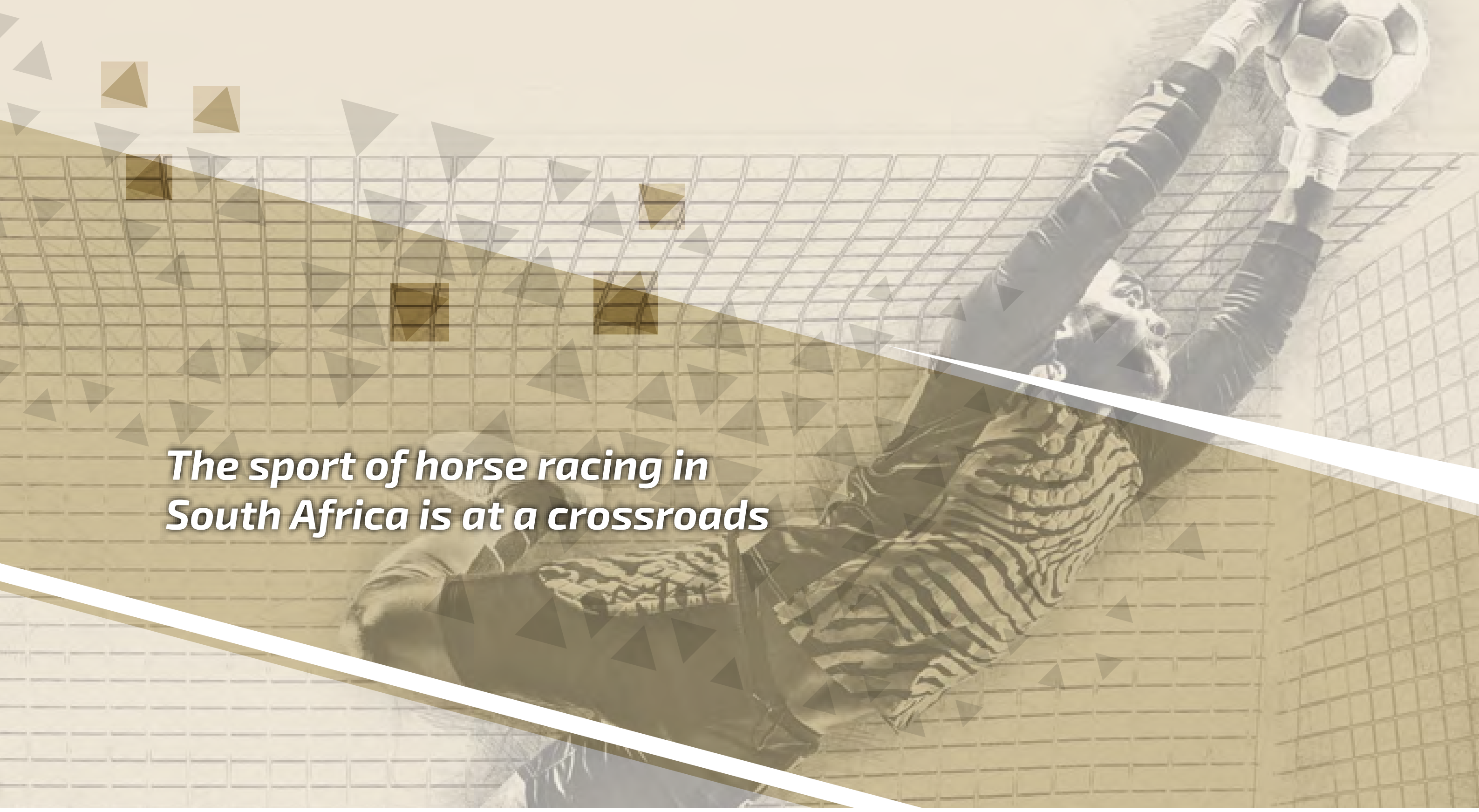
It should be well understood and appreciated that capital raising initiatives and/or structured debt funding are under examination and discussion.

This will be my final review as Chairman of the Board as I shall be standing down from this position at the annual general meeting. I nevertheless will continue to be a fervent defender of Phumelela and a passionate advocate for horse racing in South Africa.

I wish to thank my fellow Board members for their counsel over the past year. I also thank our executive team and our staff for your efforts in trying circumstances. I thank our numerous customers for placing your business with Phumelela. Finally, I thank our broad range of stakeholders who partner with us.

B KANTOR
Chairman
28 November 2019

CHIEF EXECUTIVE OFFICER'S REVIEW



A YEAR OF SIGNIFICANT OPERATIONAL CHALLENGE AND FINANCIAL DIFFICULTY

On my appointment as Group CEO of Phumelela on 18 September 2018, I believed it to be important to reach out beyond the organisation to listen, learn, and understand how we can work better in partnership and with transparency for a common cause. This I have strived to do. Nevertheless, it is disappointing to report that we are fighting for our very survival as a Group and as an industry.

A longstanding funding model for horse racing has been summarily overturned, coinciding with a report by the Public Protector into horse racing, that, as our Chairman has pointed out, is fundamentally flawed in its conception and its conclusion.

After the near collapse of horse racing in South Africa, post the introduction of other forms of gambling after 1994, horse racing in Gauteng signed a memorandum of understanding ("MOU") with the MEC for Finance and Economic Affairs of the Gauteng government to ensure its sustainability. The funding model provided for in the MOU was an exclusive tote licence and a 50% share of the 6% fixed odds levy on a punters' winning bets withheld by bookmakers.

The agreement between the racing industry and government at the time of corporatisation resulted in Phumelela being tasked with the job of administering horse racing. Gauteng constitutes by far the largest share of the racing industry in South Africa, with the betting levy in Gauteng for example 90% of the nationwide income in respect of betting taxes received by Phumelela and approximately half of all betting taxes received by the industry across the country.

Tote exclusivity disappeared in 2006 with the legalisation of the "open bet". Then, in April 2019, Phumelela's entitlement to a 50% share of the 6% levy on punters' winnings on fixed-odds bets on horseracing in Gauteng was removed. There is now effectively no funding model for horse racing in Gauteng. Our Chairman has given context to this situation.

We have also faced other regulatory slings and arrows, which is public domain information, and we have battled with a longstanding struggle to be reasonably compensated for use of our intellectual property for commercial purposes. Despite all these issues the horse racing industry remains at loggerheads with Phumelela, with perpetual infighting.

Against this unfavourable backdrop we have also had to contend with a weak economic environment, political turbulence, labour unrest, criminality at racing premises, increasing unemployment, cost pressures and an increase in VAT that we cannot recover.

Whilst we thought that the voluntary retrenchment programme in the previous year would be enough to right-size the Group for tough times this has sadly been insufficient, and we have had to make further deep cuts this financial year to staff numbers and premises.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

I have been involved since the inception of the new racing dispensation and from 2006 I headed up our international division, before taking up the Group CEO role last year. I have therefore experienced all aspects of this Group over an extensive period and shared with colleagues the ups and downs, the thrills and spills, that characterise a great sporting industry worldwide.

The Group has made its first loss since incorporation. This has been a horrible year. For management, external distractions, which typically have had a legal consequence, have meant we cannot apply our minds and energies 100% to the difficult task of steering the enterprise day-to-day at a critical time.

We get criticism where we should get help and support. We take on costs and responsibilities, such as grooms' welfare and accommodation, that is not our responsibility to take on but as a socially responsible organisation we feel we have no alternative. Phumelela sponsors international jockey days, notwithstanding the fact that the benefit is for owners and trainers. We heavily subsidise stabling, training, and transportation.

As a listed public entity, governed by regulation, we are in the spotlight and yet must juggle competing and often irreconcilable demands and expectations from different stakeholders.

Phumelela shoulders a significant burden in supporting horse racing, but we do so with one hand tied behind our back. The Group stages all horseracing in Gauteng, the Free State, the Eastern Cape and the Northern Cape and we manage Kenilworth Racing in Cape Town. Phumelela is also licensed to operate totalisator betting in seven of South Africa's nine provinces.

The cost engine in horse racing is now approximately R450 million per annum but the funding model is broken. The Group has warned for several years that escalating losses could not be sustained. A more equitable funding arrangement is not just desirable but urgently necessary otherwise racing will simply not survive. Whilst we built a large and profitable international business from virtually nothing, a crossover point has been reached where the success of that is insufficient to offset escalating losses in running South African horse racing.

Media operations, which include horse racing administration, lost R368 million in the year to 31 July 2019. It goes without saying that putting up the show costs far more than the income received. Other revenues are critical to cross-subsidise a loss-making endeavour. This comes from betting and the intellectual property that resides in Tellytrack, which produces and broadcasts live racing visuals. Despite bookmakers having a dominant market share of betting turnover on South African horseracing, they make a tiny contribution to the costs of administering the sport. This cannot be right. The removal of the Gauteng levy adds insult to injury. Without international income, Phumelela would have ceased to exist.

For the first time, I fear for the future of horse racing in South Africa. Whilst I stated in my first CEO review last year that there will be no imminent change in strategy, the events of this past year mean we have no alternative now but to press ahead with creative and well-informed solutions to ensure the economic resuscitation of racing. In this, all role-players must step up and be counted.

OPERATIONAL ASSESSMENT

As elaborated on in our Financial Director's review, all our operations, with the sole exception of international, came under pressure. Whilst an increased loss had already been budgeted for in horse racing it is particularly disappointing that fixed odds betting returned such a significantly reduced result in the second six months. Even if we exclude one-off costs, the results were poor. The overall loss for the year cannot just be laid at the feet of horse racing, betting was the biggest contributor to the sizeable reversal in fortunes.

Market circumstances did play a role, such as a run of matches in soccer favouring punters, and this affected both Betting World and Supabets. Both, but particularly Supabets, were also impacted by the market shift from high-margin football bets to numbers betting with materially lower margins.

But there is no sugar-coating the fact that we scored own goals at Betting World. A decision to adapt the strategy to attract big betters, as turnover and profits had been declining, was ill-timed. Whilst the strategy worked in the first two months, it was disastrous in the following two months. With hindsight we should have delayed this strategy change until after the restructuring of the business when we could have been more focused on it.

Tote turnovers were under pressure throughout the year and ended 6% down in total, with tote turnover on local horseracing also down 6%. This decline should be seen in the context of continued growth in betting on horse racing at bookmakers, whose market share has risen every year. As pointed out previously, the practice of the open bet has eroded Phumelela's income. Fixed odds turnover this past year increased by 19% but as previously explained this growth was at the expense of profitability.

If we must be critical of ourselves, the retail park has been poorly managed in the past and the declines we are seeing have been five years in the making. Also, with the move to numbers betting in fixed odds the tote could not compete as it did not have a numbers bet. This has been rectified and applications for various new bet types have been lodged and awaiting approval from regulators.

Betting shops, we believed, could be an important part of our transformation franchise initiative. We provide a turn-key and fully managed odds solution within Betting World and TAB with franchises and agencies offered to previously disadvantaged individuals. This has, sadly, not been successful. We have sustained significant bad debts and no value has been realised.

We are largely obligated, because of provincial license conditions where B-BBEE is a requirement, to do empowerment deals but sadly our experience shows them to be unworkable unless there is a radical rethink as to how they are designed. When it comes to racing, as a listed entity we have B-BBEE compliance requirements that the rest of the industry does not necessarily have.

Same-store betting income was down in Tab and Betting World. The Tab footprint has been shrunk and merged into Betting World. Trading densities declined across all formats. Betting World licences are being deployed as Supabets mega outlets and although Supaworld is loss-making it is early days and we see potential. Digital is a focus and a trend internationally but in South Africa well located physical stores will remain an important part of the mix.

In total there were 199 retail stores across the Group, including 11 Supabets and 7 Supaworld stores at the end of the financial year. This encompasses 74 000 m^2 of trading space, serving over 90 000 non-OTC active accounts, and generating R1,1 billion in betting income, a decline of 10%. Supabets stores generated higher sales per square metre than Betting World and Tab. The format of Supabets is such that trading density would typically be higher in any event, but a greater focus and footprint rationalisation should improve trading density, assisted by synergies between the two tote and fixed odds formats.

We value our joint venture partnerships with Supabets and Interbet and they both provide valuable learnings on how we can improve the Betting World and Tab customer experience. Whilst there have been development delays the Betting World website is now operational and powered by Supabets.

Premier Gateway International enjoyed another good year. A high level of customer service and an excellent 24/7 betting experience is key to the success of our joint venture with Tabcorp. A commingling agreement with Hong Kong has been renewed for a further five years.

Phumelela International is growing its sports pools presence in Africa and is establishing good relationships with members of the African Lotteries Association.

We are confident that our international operations, which have become a mainstay for the Group, will contribute positively in the 2020 financial year. Excellent relationships have been established in our various territories over many years and are carefully nurtured.

Our local horse racing operations have been under new executive leadership with effect from April 2019 and have benefited from a refreshed strategic and operational purpose with a host of improvements underway. Transformation initiatives are high on the agenda with several black individuals identified for senior roles. During the year, a new beach training track was installed at Turffontein and a new sand training track at Randjesfontein was completed.

Phumelela strives to be a good corporate citizen and to give back where we can. Nevertheless, for us to do our part well we need a profitable and thriving horse racing industry. Financial pressures have intensified, and we have unfortunately had to shed many hundreds of jobs with remaining jobs under further threat if the financial situation does not improve. We are also committed to transformation initiatives across the Company, including succession planning and look forward to seeing significant changes in the new financial year and beyond.

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

IN CONCLUSION

We ended the 2019 financial year on a depressing note and the Group is in a difficult financial position. Many challenges are being faced every day and we have hurdles yet to surmount. Our Financial Director has provided qualitative financial analysis on where we find ourselves. All measures necessary are being taken to steady the ship and executives are being held accountable for delivery on key performance targets.

Our Chairman, Mr Bernard Kantor, has been a pillar of support and has been practically engaged in helping the Group through probably its most difficult year ever.

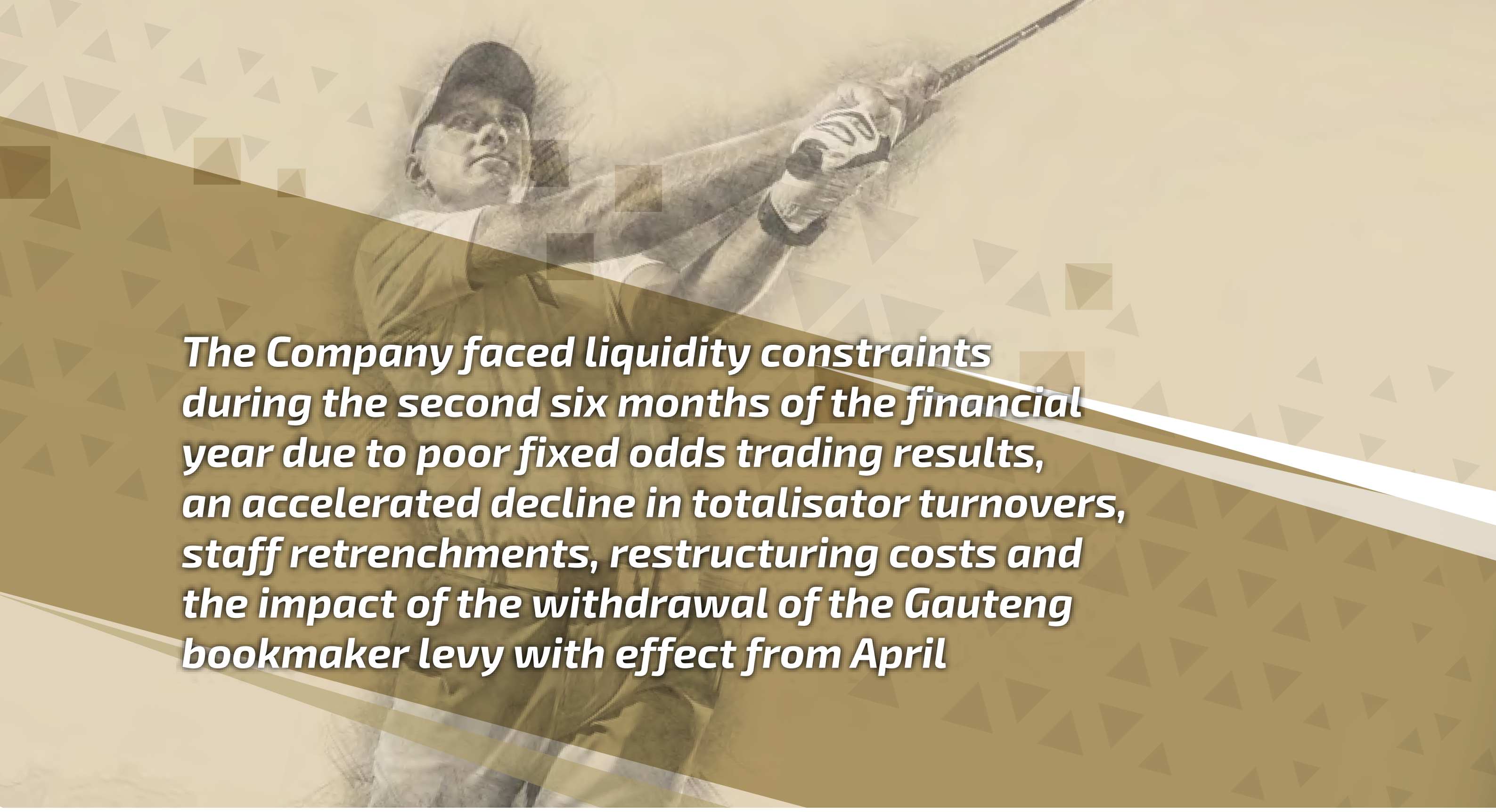
Thank you to each of our non-executive directors for the roles you play and in the oversight you provide.

Whilst I thank my whole executive management team for their work ethic during this tough time and unbelievable commitment to the cause, I need hardly emphasise that we are on a journey out of a deep hole and that a herculean task lies ahead. My thanks also go to our staff for doing your part every working day.

I thank our varied stakeholders and our numerous customers for their business.

JA STUART
Chief Executive Officer
28 November 2019

GROUP FINANCE DIRECTOR'S REVIEW



The Company faced liquidity constraints during the second six months of the financial year due to poor fixed odds trading results, an accelerated decline in totalisator turnovers, staff retrenchments, restructuring costs and the impact of the withdrawal of the Gauteng bookmaker levy with effect from April

KEY FINANCIAL FEATURES OF THE TRADING YEAR

- *Attributable loss of R92,3 million compared with an attributable profit of R155,1 million*
- *Attributable loss per share of 92,32 cents compared with attributable profit of 153,78 cents per share*
- *Headline loss of R98,2 million compared with headline earnings of R155,6 million*
- *Headline loss per share of 98,20 cents compared with headline earnings per share of 154,23 cents*
- *Equity accounted profits of R163,3 million compared with R169,2 million*
- *Pre-tax profits at local betting operations fell by 47% to R262,0 million*
- *Total media operations loss increased by 31% to R368,1 million*
- *Total international pre-tax profits increased by 9% to R223,4 million*
- *Net asset value per share reduces by 16% to 849,94 cents*
- *No interim or final dividend per share declared*
- *Net debt to equity ratio 33% compared with 23%*
- *Attention is drawn to the directors' going concern assessment in the financial statements and to the going concern emphasis of matter paragraph included in the auditors unmodified opinion*

PERSPECTIVE TO THE GROUP FINANCIAL RESULT

The Group financial result for the year ended 31 July 2019 is one of two distinct halves, an attributable profit in the first half and a loss-making second half with the outcome being that the Group is loss-making for the full year. For shareholders and stakeholders to get a better sense of how our financial performance evolved during the year, the following perspective is provided.

For the six months ended 31 January 2019, the Group reported attributable earnings down by 17% to R70,0 million and headline earnings down by 18% to R68,0 million. For the 12 months ended 31 July 2019, the Group is reporting an attributable loss of R92,3 million, a swing of R247,4 million from the attributable profit of R155,1 million in 2018, with the headline loss of R98,2 million representing a negative variance of R253,7 million.

At the time of the interim financial results, the Group advised that commercial realities necessitated further significant cost savings and right sizing following a largely disappointing performance locally. Consolidated local operations were loss making at the interim to the extent of R61,4 million before tax, exacerbated by a 27% increase in losses from local media operations that include the cost of horse racing and a 12% decline in pre-tax income from local betting operations. Our international businesses, namely Premier Gateway International ("PGI") on the Isle of Man and Phumelela International ("PI"), continued to perform very well, increasing pre-tax profit by 15% to R113,5 million, and provided strong cash flows.

The directors, cognisant of the fact that the first half results were poor, and that funding headroom was limited, determined that all measures necessary to stabilise the position had to be taken given the uncertainties faced by the Group. In the interests of conserving cash, the Board resolved not to declare an interim cash dividend.

In the months following release of the interim results, the Group, in the interests of transparency, kept shareholders and stakeholders in general well informed of developments affecting Phumelela through voluntary communications via the Stock Exchange News Service of the Johannesburg Stock Exchange.

The debt to equity ratio at 31 July 2019 has risen to 33% from 23% in the prior year but is stable compared to the position at 31 January 2019.

Trading conditions in our local betting operations did not improve in the second half with factors that negatively affected the first half result persisting, including sporting results disproportionately benefitting customers, a tough local economic climate compounded by political instability, high unemployment rates, labour unrest, stiff competition for the gambling rand and an unsuccessful change in betting strategy.

Local betting operations contributed pre-tax profit of R229,3 million in the first six months and R262,0 million for the full year, which includes the expenses of restructuring the estate, with 25 Tab premises closed and 31 merged into Betting World branches, and impairment against the North West franchise. The restructuring plan was implemented with effect from April but took longer than expected to complete because of protracted trade union negotiations to agree severance terms. If the restructuring costs of R30,0 million and North West franchise impairment of R31,9 million are excluded, the pre-tax result is R323,9 million, a negative variance of R166,2 million on the prior year R490,1 million, a 34% decline. It therefore follows that local betting operations in total made R94,6 million on an adjusted basis in the second half compared with R228,4 million in the second half of the 2018 financial year. The negative variance is R133,8 million, a 59% decline.

As disclosed in note 34 of these annual financial statements and in the segment disclosure to the interim results, betting income for the year was R1 066,9 million, with R582,4 million reported for the first six months and R484,5 million in the second six months. In 2018, betting income for the year was R1 182,5 million with R627,3 million reported in the first six months and R555,2 million reported in the second six months. In the first six months of 2019, there was a negative variance of R44,9 million or 7%, in the second six months a negative variance of R70,7 million or 13% whilst for the full year the negative variance is R115,6 million or 10%.

Of the R115,6 million decline in betting income, R45,0 million is due to the Tote whilst R70,6 million is due to fixed odds. As this is before expenses and impairments, the earnings effect is considerably greater. Furthermore, the decline in the collective contribution of equity accounted associates Supabets, Supaworld and Interbet is R28,0 million for the full year compared with a decline of R8,1 million in the first six months meaning that these businesses collectively earned 80% less in the second six months than the first six months and 50% less for the full year.

Limited pay-out machine income in both tote and fixed odds was the only category to experience a positive year-on-year variance with a 13% increase in income.

However, the decline in net betting income in fixed odds does not reveal the reduced percentage profitability on fixed odds turnover, being the total amount of money wagered by customers. Tote turnover declined by 6% but fixed odds turnover increased by 19% for the year with most of the increase in turnover occurring in the second half of the year.

This increase in fixed odds turnover was part of a Betting World strategy to attract bigger betting customers with more generous gambling limits and odds. The theory is that these "high rollers", highly professional gamblers, spend more but even if they win more and reduce the takeout percentage the absolute rand value of net gaming revenue increases. In effect the idea is that you bank more rand for less margin.

This revised strategy to attract a larger spending customer to fixed odds also coincided with the restructuring in betting operations, exit of senior personnel, considerable internal disruption and staff unhappiness, a lack of proper supervision of the book and subsequent evidence of negligent conduct.

The strategy adopted can work and is indeed common practice in the gaming industry. However, it became apparent by June that the increase in the dividend pay-out to customers exceeded the increase in the turnover. There was an immediate cessation of the revised strategy and the situation has since been normalised. The staffing situation is settled and there is constant professional oversight of the book. The challenge for the 2020 financial year is to increase the margin on turnover closer to previous norms and restore an equitable balance between the economics of the bookmaker and the winnings of our customers.

GROUP FINANCE DIRECTOR'S REVIEW CONTINUED

From a financial point of view, it was evident during both the first six months and the second six months that the profitability of fixed odds betting at Betting World and Supabets was being adversely affected by a string of top team favourites in soccer internationally winning a very high percentage of games played. There was therefore an increasing predictability of this pattern, which in turn affected betting behaviour.

Administering the sport of thoroughbred horse racing cost Phumelela R437,0 million in 2019, up from R389,0 million, an increase of 12%.

An amendment to Regulation 276 of the Gauteng Gambling Regulations, 1997, revoked with effect from April the Group's 50% share of the 6% levy on punters' winnings on fixed-odds bets on horseracing. The levy has been a legislative fixture since Phumelela's inception and was put in place to contribute to Phumelela sustaining the administration of South African horse racing. This was a material part of the agreement between the racing industry and government at the time of corporatisation. Whilst Phumelela has adopted a conciliatory approach in order to try and get this matter settled amicably, in the meantime there is a month-to-month cash flow negative impact.

The revocation of the 50% share of the levy cost the Group approximately R26 million in lost income for the second half, a direct hit to the bottom line, with an annualised cost of at least R75 million. To put the loss of the levy in context, the receipt of R75,1 million in the prior financial year was equal to 48% of attributable income. If the levy is not restored the net loss in racing operations will increase further in the 2020 financial year.

The Group result was further affected by the full year impact of the increase in the South African value added tax rate from 14% to 15% in April 2018, which cannot be recovered. This cost the Group R11,6 million, up from R3,9 million, due to the take-out ratio after provincial taxes and levies not being changed to accommodate the VAT increase.

A Gauteng Gambling Board fine, which Phumelela is appealing, reduced attributable income by R2,5 million.

For the year, consolidated local operations are loss making to the extent of R332,4 million, of which R271,0 million was incurred in the second half. As analysed above, this is a function of several adverse factors impacting both betting and horse racing. Of the total, R114 million is due to either one-off factors, such as restructuring charges, impairments, or to the withdrawal of Phumelela's share of the Gauteng Gambling Board levy, or the permanent negative effect of the VAT increase. Consequently, the Group faced liquidity constraints during the second six months of the financial year.

The Group's international operations have become increasingly pivotal. PGI, our joint venture with Tabcorp which replicates the tote betting in South Africa and operates as a worldwide totalisator hub, continues to perform well. Phumelela earns 100% of profit originating from our home market and 50% of the profit from international markets. Our international Media business through PI benefits from interest in live South African horse racing, which is conducted 364 days a year, with visuals exported and in turn live horse racing is imported.

Combined international pre-tax income was R223,4 million, an increase of 9% on 2018. This income has been steadily built over two-decades as part of a deliberate and successful strategy to diversify income streams and the geographical sources thereof. Nevertheless, this income cannot be derived in isolation from the need to maintain a sound horse racing base in South Africa and there is a crucial commercial and financial interconnectedness.

FINANCIAL ANALYSIS

Total Group income of R1 658,3 million, which includes betting income as referred to above and a miscellany of other income streams (disclosed in note 34), was 8% or R137,4 million below 2018, primarily due to the decline in betting income.

Included in income is a profit on foreign exchange of R19,8 million versus R15,4 million in the prior year.

Local expenses within management control, excluding stakes (prize money) in the amount of R216,4 million and National Horseracing Authority levies of R37,1 million, were tightly controlled. Employee expenses on a like-for-like basis were R392,3 million, up 4.9% from the R373,9 million in 2018. Operating lease expenses increased by 3,4%.

The Group took further decisive measures to cut costs, with in excess of 15% of the Group's workforce retrenched and premises closed, and a cumulative restructuring charge of R57 million incurred in the past two financial years. Annual cash savings of approximately R60 million are targeted. Furthermore, capex is being sharply curtailed and the R56,7 million spent on the estate this past financial year will drop to R20 million in 2020. Cash conservation measures also include disposal of a surplus asset valued at R30 million, collection of outstanding debts in the amount of R15 million, liquidation and distribution of the pension fund surplus worth R14,7 million, and renegotiated terms with suppliers to align cash inflows with outflows.

Intellectual property rights fees of R200,6 million are included in expenses, up from R191,3 million, and reflective of growth of the international betting and media rights activities.

The depreciation and amortisation charge of R70,5 million was flat on the prior year.

Pressure on betting meant that betting taxes and VAT fell by R16,3 million or 7% to R216,5 million. Betting taxes and VAT are now disclosed separately as an expense with income as previously stated higher by the same amount in the Group and expenses increased by the same amount.

Media operations recorded a loss of R368,1 million, up 31% from R281,6 million. Local media operations include the horse racing cost engine and remain loss making whilst international is profitable. The national cost of staging 440 race meetings a year is now approximately R850 million, including prize money, and a cost shouldered by the tote and racing operators.

Included within the Media expenses is stakes in the amount of R216,4 million compared with R209,5 million and is in accordance with the formula contained in the stakes agreement with the Racing Association and calculated retrospectively.

The current state of the sport of horse racing, decline in tote turnover and withdrawal of Phumelela's share of the Gauteng Gambling Board levy means that stakes will fall substantially in the coming year.

Over half of the annual stakes pool is derived from an agreed percentage of tote turnover whilst set percentages of other Phumelela revenue streams go into prize money. Previously 80% of the share of dividends accruing to the Thoroughbred Horseracing Trust from its 26,7% shareholding in Phumelela were added to the stakes pool. Based on the 2018 annual dividend declared by the Board, this equates to approximately R22 million no longer available due to the cessation of dividends.

Betting operations in aggregate recorded a pre-tax profit of R395,1 million, down R207,5 million or 34%, with over the counter (entirely local) contributing a 35% share and non-over the counter (local and international) a 65% share. International alone contributes 34%, up from 19% due to the reduced profitability locally. This includes the share of profits from equity accounted investees, Supabets, Interbet and Premier Gateway International.

The Group shares in 50% share of profits of Supabets and Interbet and 33% of profits of SW Security Solutions. Supabets contributed R15,1 million, down 63%, Interbet contributed R15,7 million, down 5%, whilst SW Security Solutions increased its contribution to R1,8 million.

The Supaworld JV had a loss of R2,4 million, which is disappointing, but as a relatively new start-up the Group is positive about its future.

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

Pre-tax profit from international operations was up by 9% to R223,4 million. Group international income is derived from the rights of 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 PGI tote operator on the Isle of Man. PI recorded a profit from operations of R90,3 million and PGI contributed equity accounted income of R133,1 million. Currency effects were relatively small in the context of the overall Group loss. Note 2 provides further detail on exchange rates applied for the year. Whilst the rand is the reporting currency the Group manages and measures international operations in foreign currency.

Finance costs of R35,5 million comprise R30,0 million paid on the R300 million revolving credit facility and R5,5 million on overdraft. The revolving credit facility has certain covenants which were breached but condoned subsequent to 31 July 2019. The Group has been honouring its commitment to pay R10 million per quarter on the principal in addition to servicing the interest per quarter. Because of the breach as at 31 July 2019 the revolving credit facility was reclassified as a current liability. With effect from November 2019 the revolving credit facility reverts to non-current liabilities. At 31 July 2019 the Group bank overdraft was R40,9 million and cash on hand was R91,3 million of which R49,9 million was held in foreign currency. The Group had interest received of R13,1 million for the year.

An income tax credit of R13,2 million is reflected whereas there was an income tax charge of R0,7 million in the prior year. The credit is made up of a R2,2 million current tax charge and a R15,4 million deferred tax credit. Estimated tax losses available for utilisation against future taxable Income are R132,4 million of which R23,4 million was applied to increase the deferred tax asset. 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 Company and the Group has estimated tax losses of R218,2 million which has not resulted in a deferred tax asset of R61 million, however an assessment has been performed and the deferred tax asset raised will be recovered.

GROUP FINANCE DIRECTOR'S REVIEW CONTINUED

The Group's investment of 421 323 ordinary shares in Automatic Systems Limited, a company registered on the Mauritian Stock Exchange, was realised on 27 May 2019 for a disposal consideration of R14,4 million.

At 31 July 2019, Group total assets were R1 591,6 million with long-term assets R1 322,8 million. The value of equity accounted investments increased to R710,4 million from R690,4 million. Property, plant and equipment is valued at book of R439,8 million with goodwill and intangibles reflected at R55,1 million.

No interim or final dividend has been declared this year.

The Group utilised cash from operating activities in the amount of R84,9 million, this is after adjustment for share of profit of equity accounted investees in the amount of R163,3 million.

Dividends received from equity-accounted investees increased to R148,8 million from R130,4 million, an increase of 14%, with R123,1 million received from PGI, R10 million received from Supabets and R15,8 million received from Interbet. Equity accounted investees are a significant source of cash flow.

With effect from 1 August 2019, the Group adopted IFRS 16 Leases. The primary differences between IAS 17 and IFRS 16 are that a right of use asset and lease liability will be on balance sheet whilst the income statement will reflect a smoothed depreciation expense and a finance cost rather than a rental expense. A modified retrospective approach is adopted whereby prior financial information is not restated. Rental expenses on a straight-line basis over the lease term will henceforth be on a right-of-use recognition. Had IFRS 16 applied in 2019, the effect would be R61 million with a corresponding lease liability of the same amount.
An operating lease charge is replaced by a depreciation charge in respect of the right-of–use assets and an interest charge relating to the respective lease liabilities. The Group will reverse the lease-smoothing liability amounting of R4,1 million against retained earnings. The earnings effect is immaterial.

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

In view of the liquidity constraints that the Group finds itself in the Board considered and assessed the going concern status, of which detail is provided in the Report of the Directors. A further independent assessment of the Group's ability to continue as a going concern for the following 12 months was also commissioned by the Board in August 2019. The Group's auditors have further expressed their opinion in this regard.

Relief of the liquidity constraints will be dependant, *inter alia*, on an improvement in the trading position of the fixed odds and totalisator operations, including an improved performance from equity accounted investees, continued positive performance from the Group's international operations, reinstatement of the Group's share of the gambling levy in Gauteng, retention of borrowing facilities, the probability and timing of outstanding debts due to the Group, the probability and timing of the R28 million contingent consideration in relation to Supabets, disposal of surplus assets, raising of new equity capital or loans and the success of cost saving initiatives already implemented. There is thus material uncertainty as at the date of this annual report.

Management has put in place robust mechanisms to mitigate this position. Subsequent to the year end, the Group's bankers condoned the debt covenant breach as at 31 July 2019 and the facility has not become immediately due and payable. The condonement is subject to certain terms and conditions that include the provision of a full security package (to the satisfaction of the Lender) and revised debt covenants (disclosed in note 19).
The indulgence provided extends Group facilities for a further year provided the requisite terms and conditions are adhered to. In addition, a R50 million working capital standby credit facility with a 13-month term has been made available. The Group is keeping its bankers abreast of trading conditions and reports back regularly on cash flow. Overtures with a view to an underpin of the equity position are being progressed.

AW HEIDE
Group Finance Director
28 November 2019

RISK MANAGEMENT

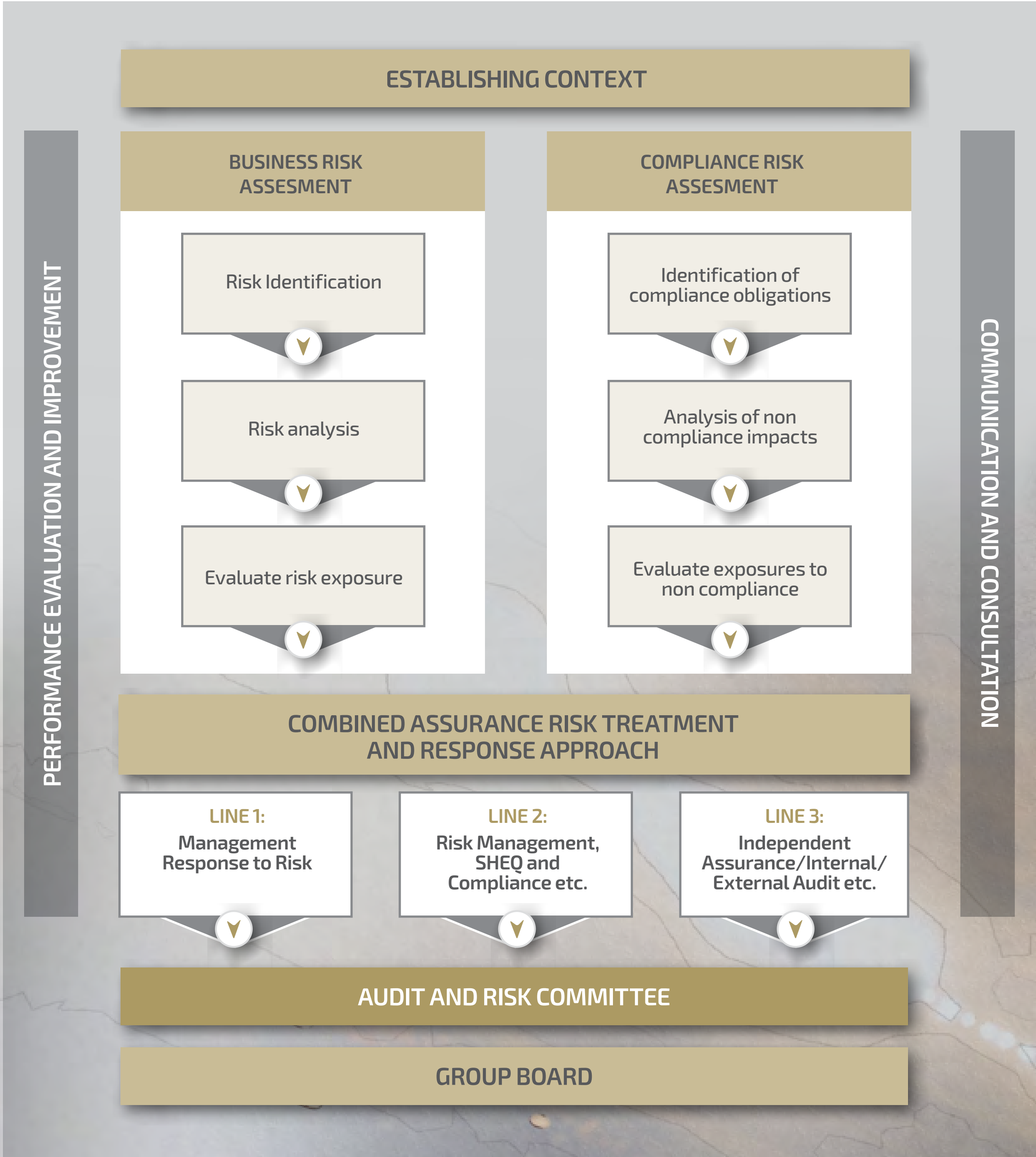
Phumelela is fully committed to effective risk management. In an environment of change and uncertainty, risk management is a critical success factor for achieving Phumelela's strategic and business objectives.

The Board, assisted by the Audit and Risk Committee, is ultimately responsible for risk governance 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. This year, we have conducted a comprehensive review of our risk management and combined assurance policy and framework. This was done in line with the JSE listings requirements, the King IV™ report on Corporate Governance and other leading practices such as the COSO II Risk Management Framework, the ISO 31000: 2018 Risk Management Principles and ISO 19600: 2014 International Standard for Compliance Management. The purpose of this review was to ensure that our risk and compliance processes are sufficiently robust to deal with the complexities of our operating environment. Our risk management and combined assurance policy and framework ensure that:

- we have a uniform process to manage strategic, financial, operational, compliance, information and technology risk; and
- we apply a combined assurance model as our risk mitigation approach.

In an environment of increasing change and uncertainty, agile risk management is a critical success factor for achieving Phumelela's strategic and business objectives. The implementation of effective risk and compliance management is a strategic imperative that has the full support of Phumelela's Board, management, and staff. The updated framework provides a systematic and integrated approach to risk and compliance management. Illustrated in the diagram on the following page are the key elements of our risk management and combined assurance policy and framework:

Figure 1: Phumelela Enterprise Risk Management Process



The Board has delegated the oversight for assurance services to the Audit and Risk Committee. The combined assurance provided by our three lines of defence model is designed to satisfy the Audit and Risk Committee that significant risk areas within the organisation are being addressed.

The role of Internal Audit is to examine, evaluate, report and make recommendations to the Audit and Risk Committee regarding the adequacy and maturity of the Group's risk management process through the evaluation of the control environment in terms of the risk based internal audit plan. The control environment is monitored through Phumelela's own internal controls and regular progress reports from internal audit on high risk areas.

To ensure that Phumelela's risk and compliance management are appropriately structured and have integrity, roles and responsibilities for risk and compliance management have been defined and embedded in business processes by applying a combined assurance approach. Our combined assurance approach defines three lines of defence, namely:

- **Line 1:** Management and staff - The definition of "management" includes all levels of management;
- **Line 2:** Group Risk Management, Health and Safety, Compliance Function, The Combined Assurance Forum and other Corporate Functions (independent from the operations) that perform key functions to provide a second line of assurance to the Board;
- **Line 3:** Independent internal and external assurance providers made up of internal audit, external audit, external regulators and any other external assurance provider such as the verification and/or certification agencies. These structures are largely independent of the operational activities of the Company and provide assurance to the Board.

Information technology ("IT") forms an integral part of the Group's risk management approach. Reports and IT risk assessments are tabled at Board meetings 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 delivering 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 is satisfied that the Group's risk and compliance management processes as intended are effective.

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. 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.

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 2018 remained relevant for the 2019 financial year.

In 2019, we identified the following material matters:

MACRO-ECONOMIC ENVIRONMENT

Phumelela is a consumer-facing business that is directly affected locally by several negative macro factors. 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.

Management has taken a view that in the likely absence of a meaningful improvement in the domestic economy, there is no option but to right size the Group for commercial realities. As part of the Group's strategy to minimise the cost base, the tote and fixed odds businesses have fully integrated and closure of TAB branches that are loss making or poorly located has been completed.

HUMAN CAPITAL MANAGEMENT

Phumelela may not be able to obtain and retain specialised skills to execute its strategy of improving its existing businesses whilst creating new growth. The right capabilities and structures are required to support the strategy execution as well as retention of key employees and skills.

Strategic talent management is being progressed across the Group, focusing on attracting, developing and retaining key and highly skilled employees.

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.

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

LEVEL OF GEARING

The Group's net gearing ratio has increased to 33% and as a consequence the debt covenants have been breached. Managing high debt levels in a tough economic environment is imperative in ensuring we continue to provide sustainable shareholder value. Efforts to reduce the Group's debt levels and strengthening the balance sheet continue.

Subsequent to the year end, the Group's bankers condoned the debt covenant breach as at 31 July 2019 and the facility has not become immediately due and payable. The condonement is subject to certain terms and conditions that include the provision of a full security package (to the satisfaction of the Lender) and revised debt covenants (refer note 19). The indulgence provided extends Group facilities for a further year provided the requisite terms and conditions are adhered to. In addition, a R50 million working capital standby credit facility with a 13-month term has been made available. The Group is keeping its bankers abreast of trading conditions and reports back regularly on cash flow.

CUSTOMER VALUE CREATION

Phumelela continues to explore 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

Transformation in the Group continues to receive strategic focus and the Phumelela Board is committed to meeting its transformation objectives. The amended B-BBEE Codes of Good Practice have set a challenging bar with the new weightings. As the Group has recently completed its restructure programme, succession planning has been prioritised particularly aimed at providing meaningful opportunities to previously disadvantaged individuals.

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. Implementation and ongoing monitoring of safety standards receives leadership support.

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, a 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 attacks can result in a major disruption to the entire businesses operating systems and infrastructure, which could lead to financial loss as well as loss or decline in revenue, damaged or lost customer relationships, reputational and brand-value damage and loss of intellectual property.

Due to advancements in the information technology arena, risks are continually escalating. The prevention of cyber attacks is becoming more complex, requiring multiple layers of protection to create an environment that is sufficiently hardened, thereby safeguarding company assets and information, and ensuring uninterrupted user experience. To mitigate these risks, an IT strategy has been implemented and a CIO forum has been established. Ongoing vulnerability testing and remediation is in place. This area has been identified as a key focus area which is being guided and monitored by appropriate forums.

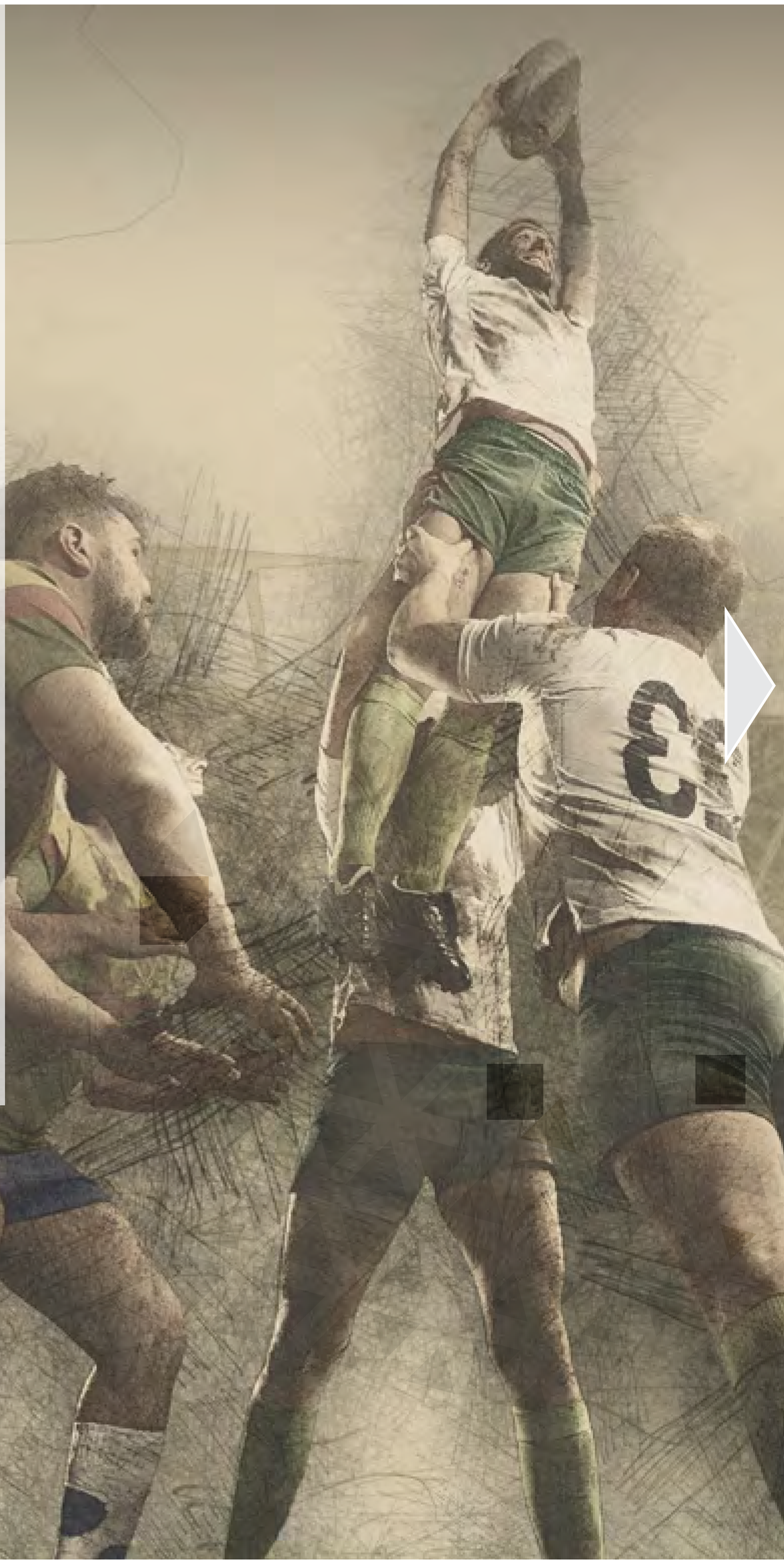
STAKEHOLDER ENGAGEMENT

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.

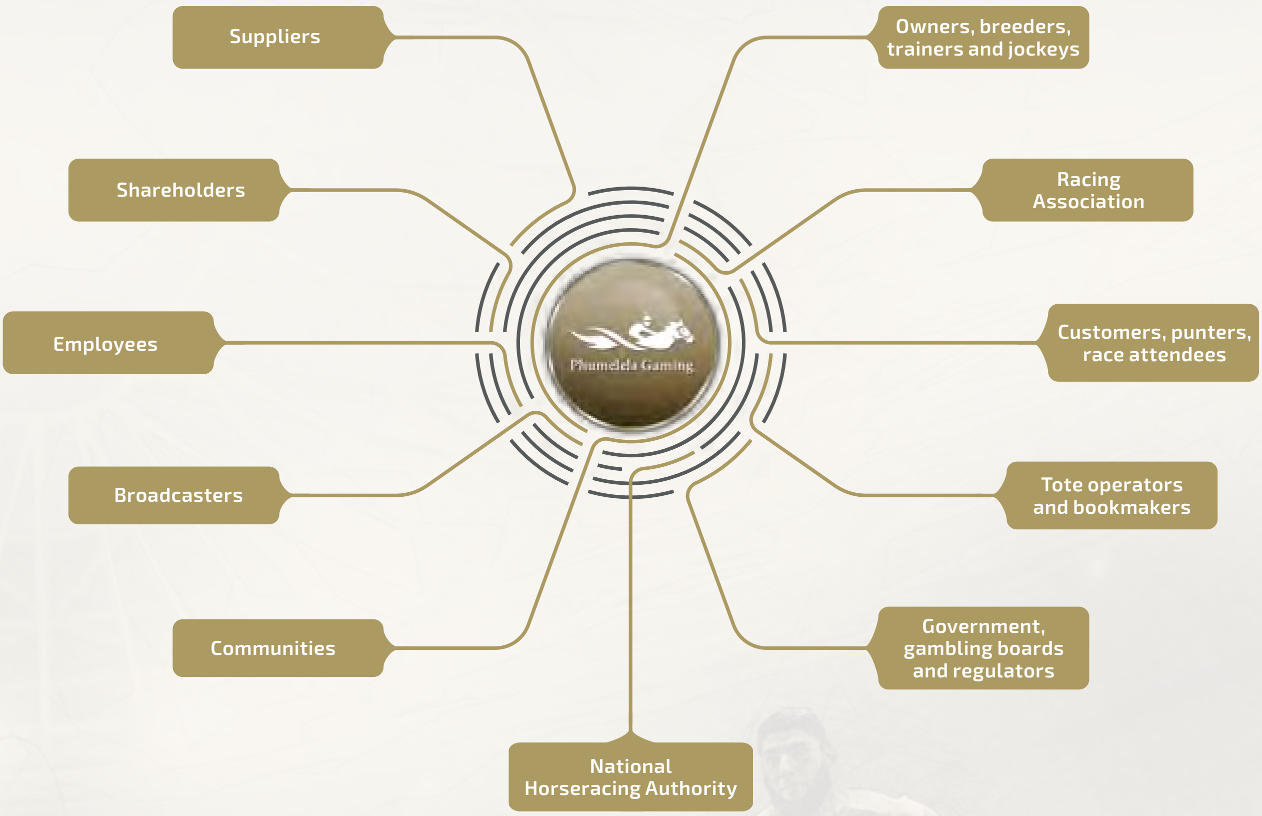
This is based on the understanding that our decisions and activities may have an impact on the stakeholders and environment in which we operate.

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

1
JA STUART
Executive director
Chief Executive Officer

2
AW HEIDE
Executive director
Chief Operating Officer and Group Finance Director

3
B KANTOR
Non-executive director
Chairman

4

M TEMBE

Lead Independent Director

5

KC KHAMPEPE

Non-executive director

6

SA MAHLALELA

Non-executive director

7

NJ MBOWENI

Non-executive director

OUR BOARD CONTINUED

8

SH MÜLLER

Non-executive director

9

E NKOSI

Non-executive director

10

JB WALTERS

Non-executive director

11

FS MAGUBANE

Non-executive director

OUR BOARD: *CURRICULUM VITAE*

1
JA STUART (63)~
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 40 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, Executive Director of Premier Gateway International.

2
AW HEIDE (54)~†
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 23 years within the horseracing and gaming 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
B KANTOR (70)#*
Chairman

Appointed 1999 and as Phumelela Board Chairman in 2017

Bernard has broad experience of international businesses, he has sat on various boards and has led management teams in different parts around the world. Bernard has a keen interest in the sport of horse racing, is a passionate owner of race horses and enjoys breeding. Bernard is an Honorary Member of the Jockey Club in the United Kingdom. He secured the sponsorship of the Epsom Derby which is known as the Investec Epsom Derby. Bernard, furthermore, spent in excess of 40 years at Investec Bank where as Managing Director of the Group he was pivotal in building the UK business.

4
M TEMBE (58)#*
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, member of the board of the Durban Infrastructure Development Trust and served 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.

5
KC KHAMPEPE (68)#*
BA, MBA (UK)

Appointed 2000

Khang (known as "Siza") is the Chairman of Khamse Financial Services. He has been active in developing business in South Africa. Siza is also founder and contributed to the growth and success of Black Business Executive Circle. He holds a BA and MBA (UK).

~ Executive director ° Non-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: *CURRICULUM VITAE CONTINUED*

6 SA MAHLALELA (49)#^

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 ("SOC's").

7 NJ MBOWENI (58)#^†

BA Ed, MAP

Appointed 2004

Nolwandle holds a Senior Teachers Diploma from East Rand College, a BA degree in Education in University of Johannesburg ("Vista") 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, Bombela Concession ("Gautrain"), 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.

8 SH MÜLLER (58)#^

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 Equity a position which he held till he semi-retired in 2008.

9 DR E NKOSI (58)#†

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.

10 JB WALTERS (75)#*^

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.

11 FS MAGUBANE (64)#^

BA (Economics and Accounting)

Appointed 2018 (Resigned 30 October 2019)

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.

~ Executive director ° Non-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 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 2019 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 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. For detail on the material issues and related risks facing the Group and how that informs the Group's strategy, please refer to page 27 to 31 of this 2019 integrated annual report.

THE PHUMELELA BOARD

The Board is constituted in terms of Phumelela's Memorandum of Incorporation. The responsibility for the success of the Company lies with the Board. The Board is expected to act in the best interest of the Company including 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 with the assistance of the Nominations Committee 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 2019 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 all directors maintained their independence. We seek to promote independent judgement and diverse mind-sets and views. All directors must exercise their judgement independently, irrespective of their status. Independent non-executive directors are assessed annually in accordance with the JSE Listings Requirements and King IV recommendations.

King IV recommends that any term beyond nine years, or an independent non-executive director, should be subject to a particularly rigorous review 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 over 9 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

At the end of the year under review, the Board comprised of two executive directors and nine non-executive directors, including the chairman.

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.

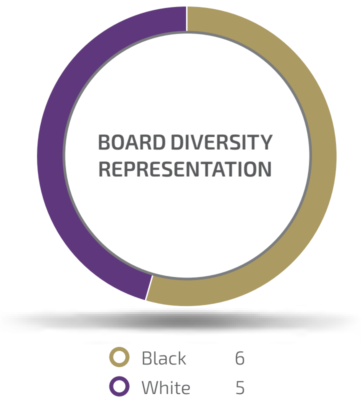
Membership and diversity

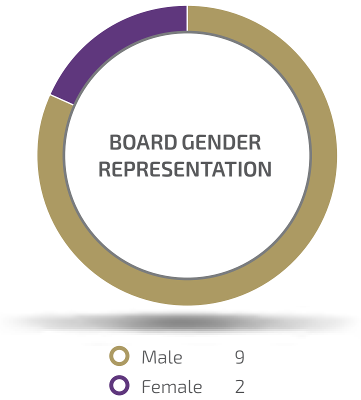
The procedures for appointing directors to the Board are formal and transparent. At the end of the year under review, six of the Board members were black and two of its members were black women.

The Board recognises and embraces the benefits of diversity (which includes, but not limited to age, race and gender) at Board level, to enhance the quality of deliberations and of directors' perspectives. Having a diverse Board and workplace is and remains important to the Group.

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 assists 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. Post year-end Ms Fikile Magubane tendered her resignation from the Board and as member of the Audit and Risk Committee.

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

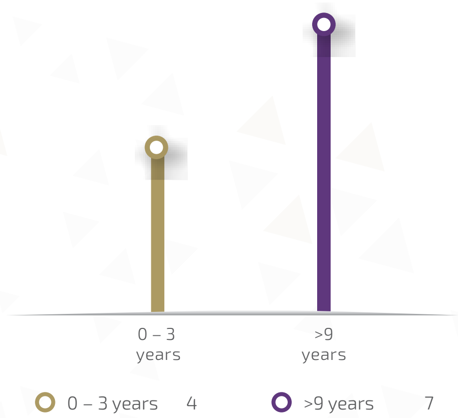




Appointment of directors

Directors are appointed through a formal process. The remuneration and nominations committee is responsible for identifying suitable candidates as independent non-executive directors to be proposed to the Board and, on its recommendation to shareholders for approval. This committee is also responsible for overseeing that diversity at Board level is maintained.

BOARD TENURE



The Board has staggered rotation of directors to retain knowledge, skills and experience and to maintain continuity, while introducing new expertise and perspectives. Directors

CORPORATE GOVERNANCE CONTINUED

serving over nine years are subject to a rigorous review by the Board annually. Length of service is reviewed as part of succession planning.

Changes to the Board

During the year, we announced the retirement of Mr CJH van Niekerk as director and Chairman of the Remuneration and Nominations Committee as well Mr R Cooper as director and Chairman of the Audit and Risk Committee. We also announced the appointment of Mr M Tembe as Lead Independent Director. In addition, Mr VJ Moodley resigned as executive director, Mr AW du Plessis resigned as executive director and Group CEO, Mr JA Stuart was appointed in his stead, Mr P Anastassopoulos and Mr MA Currie resigned as non-executive directors.

As previously announced, Ms L Rakharebe's appointment as director and member of the Social and Ethics Committee as well as Mr J Sexwale's appointment as director are subject to approval of the relevant regulatory authority. Post year end, Ms Magubane resigned as non-executive director and member of the Audit and Risk Committee.

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.

Induction and training

On appointment, new directors undergo an induction programme to facilitate their understanding of the business environment. This programme is facilitated by the Company Secretary and includes, *inter alia*, information and guidance on:

- group structure and business objectives;
- financial performance;
- managing conflicts of interests and upholding ethical standards in line with the Company's code of ethics;
- familiarisation through site visits and consultation with senior management; and
- corporate policies and procedures, and information on directors' roles and responsibilities in terms of legislation, regulatory requirements and best practice including the JSE Listings Requirements.

Directors and senior management also attended a workshop on corporate governance, risk and compliance management during the year.

CHAIRMAN

B Kantor

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. He is also responsible for:

- representing the Board with shareholders and indirectly with other stakeholders
- ensuring the integrity and effectiveness of the governance process of the Board
- maintaining regular dialogue with the CEO on all operational matters and consults the Board on any matter that may be of major concern
- ensuring that during Board meetings no director dominates discussions, that various views are heared and that discussions result in logical and understandable outcomes.

LEAD INDEPENDENT DIRECTOR

M Tembe

The Lead Independent Director assists the Chairman in the execution of his duties and such other functions as the Board may wish to delegate to him. He is also responsible for:

- leading in the absence of the chair;
- serving as a sounding board for the chair;
- acting as an intermediary between the chair and other members of the Board;
- strengthening the independence on the Board;
- chairing discussions and decision making by the Board on matters where the chair has a conflict of interest; and
- leading the performance appraisal of the chair.

GROUP CHIEF EXECUTIVE

JA Stuart

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. He is also responsible for:

- monitoring and managing the day-to-day operational requirements and administration of the Company;
- managing/ensuring the submission of reports, financial statements and consolidated budgets for consideration by the Board;
- overseeing the financial management of the Company, including financial planning, cash flow and management reporting;
- involving himself in Group related affairs through the executive committee and acting as its chair; and
- not causing or permitting any practice, activity that is contrary to commonly accepted good business practice, good corporate governance or professional ethics in line with the organisations' code of ethics.

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 Board continues to be committed to regularly reviewing its own effectiveness and that of its committees. Given the changes in the Board composition during the year, trading pressures, bookmakers' disputes, amendments to the Gauteng Gambling Regulations, report of the Public Protector in connection with the corporatisation of the horseracing industry in South Africa, possible restructuring and survival of the horseracing industry, the Board deemed it prudent to defer the effectiveness review. Various sub-committees were appointed to assist the Board with these challenges.

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 special Board meetings to consider matters of strategic importance.

The meetings follow a formal agenda ensuring that substantive matters are properly addressed, and all relevant information is supplied timeously.

A total of seven Board meetings were held during the financial year ended 31 July 2019 with four being scheduled meetings and three being special Board meetings. During the year, sub-committees of the Board were established to assist the Board with strategic matters of importance. Although non-member director attendance is not reflected in the table, attendance is consistently high, which facilitates transparency and robust informed deliberations.

The chair of the Social and Ethics Committee as well as the chair of the Remuneration and Nominations Committee represented the Company at the Parliamentary Portfolio Committee on Labour on matters pertaining to Grooms in the horse racing industry.

Board member	Number of meetings attended	Special Board meetings	Board Induction session	Grooms sub-committee and Parlia-mentary Portfolio committee	Transfor-mation sub-committee	Technical sub-committee	Invesment sub-committee
B Kantor (Chairman) *Non-executive*	4	3				√	
M Tembe[1] *(Lead Independent Director)* *Independent non-executive*	4	3	√		√	√	√
JA Stuart (Chief Executive Officer)	4	3	√		√		√
AW Heide (Chief Operating Officer and Group Finance Director)	4	3	√	√	√	√	√
P Anastassopoulos[2] *Independent non-executive*	2						
R Cooper[3] *Independent non-executive*	2						
SA Mahlalela *Independent non-executive*	3	1	√				√
KC Khampepe *Independent non-executive*	4	3		√√			
NJ Mboweni *Independent non-executive*	4	3		√			
VJ Moodley[4]	1						
E Nkosi *Independent non-executive*	4	3		√√	√	√	
Mark Currie[2]	4	2					
CJH van Niekerk[3] *Independent non-executive*	2						
JB Walters *Independent non-executive*	4	3					√
SH Müller *Independent non-executive*	4	3	√			√	
F Magubane *Independent non-executive*	4	3		√		√	

[1] *Appointed September 2018.*
[2] *Resigned July 2019.*
[3] *Retired December 2018.*
[4] *Resigned November 2018.*

KEY AREAS OF FOCUS DURING THE REPORTING PERIOD

- Considered the possible restructure of the horseracing industry in South Africa;
- Approved the appointment of the Group Chief Executive on recommendation of the Nominations Committee;
- Considered the Report of the Public Protector in respect of the investigation into allegations of maladministration and improper conduct in connection with the memorandum of understanding entered into between the Gauteng Provincial Government and the Gauteng Horseracing Industry in 1997, which subsequently led to the corporatisation of the Horseracing Industry;
- Considered the implications of the amendments to the Gauteng Gambling Regulations, 1997 ("the Regulations");
- Considered the implications of the General Notice in the Extraordinary Provincial Gazette in respect of the Gauteng Gambling Act (4/1995) ("the Act"), as amended;
- Approved the restructure/rightsizing of the Group;
  - Reviewed and approved the 2020 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;
- Discussed and considered the going concern status of the Company;
- Reviewed and approved cash flow reports;
- Reviewed and approved capital expenditure budget;
- Approved the reduction in 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, JB Walters and M Tembe

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.

Two scheduled meetings were held during the financial year ended 31 July 2019 as well as four ad-hoc special meetings:

Board member	Number of meetings attended	Number of ad-hoc meetings
CJH van Niekerk *(Chairman)* [1]	1	2
B Kantor	2	4
KC Khampepe [2]	2	4
M Tembe [3]	1	1
JB Walters	2	4

[1] *Retired December 2018.*
[2] *Appointed chairman January 2019.*
[3] *Appointed to the committee in December 2018.*

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;
- assessed the Company's going concern status;
- 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 2019 as well as one special meeting:

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

[1] *Retired December 2018.*

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 an additional non-executive 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;
- Reviewed and approved the corporate social investments;
- Reviewed the environmental management including the status of occupational health and public safety;
- Undertook site visits to grooms' quarters in Gauteng and the Vaal;
- 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 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.

The Committee further monitors progress against the Company's equity targets and B-BBEE shortfalls. We will continue to review current initiatives and their effectiveness and make appropriate recommendations to the Board.

Forward focus

The Committee will continue to attend to all the matters within its mandate, specifically the Group's role in society, and strengthening relationships with regulators.

Two meetings were held during the financial year ended 31 July 2019:

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

[1] *Retired in December 2018.*

[2] *Appointed Chairman February 2019.*

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 ethics line to report any incidents. All incidents of ethics, 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. All employees including directors 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.

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. Although Mr B Kantor served as managing director of Investec Bank Limited, 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. Emphasis is placed on information security, system integration, automation and simplification of processes. The CIO forum has been established to ensure ICT strategy alignment and governance implementation.

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 horseracing, 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. During the year, the Group spent over R4 million on staff training including bursaries for the Group.

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% 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 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 can 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 pay-out.

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 considering 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 2019.

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 Group Chief Executive Officer and the Finance Director.

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 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 need 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 50^{th} 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.

Long-term share incentive schemes

The following share option schemes have been approved by the shareholders with active options disclosed on page 122 (note 32) of the financial statements.

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.

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

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 10 250 000 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.

	2019		2018	
	Number of shares	**Weighted average exercise price R**	Number of shares	Weighted average exercise price R
Summary of share options granted				
Balance at beginning of year	**5 982 469**	**17,50**	6 181 858	18,99
Granted	**2 275 000**	**12,65**	3 225 281	14,76
Forfeited	**(737 346)**	**17,38**	(200 000)	20,70
Lapsed			(3 224 670)	17,44
	7 520 123	**16,04**	5 982 469	17,50

2019 Group Chief Executive and Finance Director option scheme

Shareholder approval for the granting of 437 000 options to the Group Chief Executive and 341 000 options to the Group Finance Director was obtained at the Company's annual general meeting held on 11 December 2018.

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.

Date of option	**1 October 2018**
Number of shares	**778 000**
Dividend yield	**6,67%**
Interest rate	**6,15%**
Volatility	**29,20%**
Option take-up	**100,00%**
Equity price	**R13,29**
Maturity date	**1 October 2021**

	2019 Number of shares	2019 Exercise price cents
Summary of share options granted		
JA Stuart – 1 October 2018	**437 000**	
AW Heide – 1 October 2018	**341 000**	
	778 000	**2,5**

Executive directors' remuneration

Total remuneration outcomes for 2019

Total emoluments paid during the year ended 31 July 2019 and for 31 July 2018 are contained in the table below.

	2019 R'000	2018 R'000
FEES FOR MANAGEMENT SERVICES		
WA du Plessis [1]	**1 203**	4 580
Basic salary	**778**	4 442
Retirement, medical, accident and health benefits	**24**	138
Bonuses and performance-related payments	**401**	
AW Heide	**3 373**	2 475
Basic salary	**2 776**	2 206
Retirement, medical, accident and health benefits	**331**	269
Bonuses and performance-related payments	**266**	
VJ Moodley [2]	**1 359**	2 572
Basic salary	**1 015**	2 315
Retirement, medical, accident and health benefits	**112**	257
Bonuses and performance-related payments	**232**	
JA Stuart	**3 569**	2 226
Basic salary	**3 006**	2035
Retirement, medical, accident and health benefits	**276**	191
Bonuses and performance-related payments	**287**	
Total executive emoluments paid	**9 504**	11 853

[1] *Resigned September 2018.*
[2] *Resigned November 2018.*

REMUNERATION POLICY AND IMPLEMENTATION REPORT CONTINUED

Executive directors' remuneration continued

Total remuneration outcomes for 2019 continued

	2019 R'000	2018 R'000
PRESCRIBED OFFICERS		
CC Basel (Racing Executive) [3]	**1 599**	2 029
Basic salary	**1 252**	1 793
Retirement, medical, accident and health benefits	**169**	236
Bonus	**178**	
BK McLoughlin (Chief Financial Officer)	**1 843**	1 607
Basic salary	**1 502**	1 419
Retirement, medical, accident and health benefits	**199**	188
Bonus	**142**	
PSG Davis (Racing Executive) [4]	**625**	
Basic salary	**561**	
Retirement, medical, accident and health benefits	**64**	
RT Scott (Betting Executive) [5]	**2 395**	
Basic salary	**2 231**	
Bonus	**164**	
DC Attfield (Chief Information Officer)	**2 111**	
Basic salary	**1 783**	
Retirement, medical, accident and health benefits	**161**	
Bonus	**167**	
D Sawarjith (International Executive) [6]	**1 655**	
Basic salary	**1 359**	
Retirement, medical, accident and health benefits	**163**	
Bonus	**133**	
CSJ Goodman (Chief Executive, Tellytrack) [7]	**1 032**	
Basic salary	**960**	
Retirement, medical, accident and health benefits	**72**	
NG Fowler (Retail Executive)	**1 706**	
Basic salary	**1 411**	
Retirement, medical, accident and health benefits	**164**	
Bonus	**131**	
Total prescribed officers' emoluments paid	**12 966**	3 636

[3] *April 2019, reassigned to a role in events, hospitality and sales.*
[4] *April 2019, appointed Racing Executive.*
[5] *November 2018, appointed Betting Executive.*
[6] *October 2018, appointed International Executive.*
[7] *January 2019, appointed Tellytrack CEO.*

The criteria for qualification of prescribed officers has been reviewed following the re-assignment of roles of the members of the Executive Committee. These have been reviewed based on the following criteria:

- Job description;
- Exercise of general executive control over the management of a significant portion of the business of the Company and its activities and operations;
- Levels of delegated authority; and
- Participation in strategic meetings, amongst other things.

There are no service contracts for non-executive directors.

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.

Given the tough economic conditions, a 20% reduction in non-executive directors' fees and committee fees will be proposed for the year ending 31 July 2020 and the proposals are set out in the notice of annual general meeting.

Board member	**Directors' fees 2019 R'000**	**Other services^ 2019 R'000**	**Total 2019 R'000**	Directors' fees 2018 R'000	Other benefits 2018 R'000	Total 2018 R'000
B Kantor (Chairman)	**729**	**107**	**836**	314	67	382
JB Walters	**291**	**247**	**538**	157	202	360
KC Khampepe	**292**	**212**	**503**	197		197
NJ Mboweni	**291**	**212**	**503**	197	135	331
SH Müller	**291**	**292**	**583**	79	202	281
E Nkosi	**291**	**113**	**404**	197	42	238
R Cooper [8]	**83**	**106**	**189**	197	335	532
CJH van Niekerk [8]	**83**	**178**	**261**	157	169	326
M Tembe [9]	**583**	**64**	**647**			
F Magubane [10]	**291**	**173**	**464**			
SA Mahlalela	**166**	**149**	**315**			
MA Currie [11]	**42**		**42**			
	3 433	**1 853**	**5 286**	1 771	1 174	2 945

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

[8] *Retired December 2018*

[9] *Appointed Sep 2018*

[10] *Appointed Oct 2018*

[11] *Appointed Dec 2018; resigned July 2019 at the behest of his employer due to potential conflict of interest.*

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.

PHUMELELA GAMING AND LEISURE LIMITED
Group annual financial statements and annual financial statements
for the year ended 31 July 2019

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 2019

The Company's directors are responsible for the preparation and fair presentation of the Group annual financial statements and seperate Company annual financial statements of Phumelela Gaming and Leisure Limited, comprising the statements of financial position as at 31 July 2019, 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 as set out in the Report of the Directors.

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 2019

The Group annual financial statements and annual financial statements of Phumelela Gaming and Leisure Limited were approved by the Board of Directors on 28 November 2019 and signed.

B KANTOR
Chairman
28 November 2019

JA STUART
Group Chief Executive Officer

REPORT OF THE COMPANY SECRETARY

for the year ended 31 July 2019

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
28 November 2019

REPORT OF THE AUDIT AND RISK COMMITTEE

for the year ended 31 July 2019

The Audit and Risk Committee presents its report for the financial year ended 31 July 2019. 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 the Company and its wholly owned subsidiaries.

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 independent 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 year end, the committee comprised of five independent non-executive directors, namely SH Müller (Chairman), NJ Mboweni, JB Walters, FS Magubane and SA Mahlalela. 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. Post year end, Ms Magubane resigned from the Board and also as member of the committee.

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 met four times during the year. The Chief Executive Officer, Finance Director, Chief Financial Officer, 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 2019

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 2020 financial year with Mr D Read as the registered auditor responsible for the audit.

TERMS OF REFERENCE

For the year under review, the committee is satisfied that it has met its responsibilities in accordance with its terms of reference, as fully set out in 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 2019 and recommended it for approval by the Board;
- considered and assessed the Company's going concern status;
- 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; 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;
- considered the Independent Regulatory Board for Auditors ("IRBA") inspection report as well as remedial actions implemented or to be implemented by the firm;
- the JSE's latest report on the pro-active monitoring of financial statements for compliance with IFRS ("the 2018 report");
- considered the firm's audit quality report back in terms of section 22.15 (h) of the JSE listings requirements;
- noted that non-audit services were not rendered during the financial year;
- reviewed the audit report including the new accounting standards;
- considered and responded to the JSE's letters on the proactive monitoring of annual financial statements;
- determined the fees to be paid to the external and internal auditors and their terms of engagement;
- considered the disclosure of gambling taxes which the Company has addressed and complied with the JSE's proactive monitoring recommendations;
- 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.

GOING CONCERN

Management is required to assess the going concern assumption used in the preparation of the annual financial statements. This assessment involves making a judgement, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

Management has used all available information at the time of making the assessment including considering the budget and cash flow forecast for the year ending 31 July 2020, timing of inflows from defined benefit funds, disposal of non-core assets, collection of long-overdue debt as well as overtures with the view to an underpin of the equity position. The committee interrogated management's key assumptions used for determining the cash flow forecasts used in the going concern assessment as more fully explained in the Report of the Directors and note 36 to the financial statements.

Management has devised plans to mitigate the liquidity risk. The implementation and management of these plans are an essential element of securing adequate liquidity for the business going forward. Sensitivity and what-if analysis have been applied to the cash flow analysis in stress testing the assumptions and timing of inflows to provide comfort to the committee of the robustness of the analysis.

The committee noted the Group's liquidity constraints and management's plans to mitigate this position. These plans and the successful implementation indicate that the Group can raise sufficient cash resources for the foreseeable future. If not concluded successfully, cash flow resources available to the Group will be impacted materially.

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
28 November 2019

REPORT OF THE DIRECTORS

for the year ended 31 July 2019

The directors have pleasure in presenting the consolidated and separate financial statements for the year ended 31 July 2019, which have been audited in compliance with the Companies Act. The preparation of these annual financial statements was supervised by the Group's CFO, Barry McLoughlin.

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 stand-alone 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, Supaworld Proprietary Limited and Uptonvale Proprietary Limited (trading as Interbet), 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 produces a television channel containing 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, a company incorporated in The Isle of Man ("IOM"). The remaining shares are held by Tabcorp Holdings Limited (Australia). The Company owns a totalisator license in the IOM and provides betting/commingling opportunities via its on-line totalisator operation to a worldwide customer base.

FINANCIAL RESULTS

Further comment and detail are set out in the financial statements and accompanying notes.

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.

At 31 July 2019, 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 134 'Shareholder Information'.

GOING CONCERN

The Board are required to assess the ability of the Group and the Company to continue as going concerns and have disclosed their considerations below.

The Group incurred a loss for the year of R96 million (2018: profit of R154 million) and the Company a loss for the year of R72 million (2018: profit of R84 million). The current liabilities of the Group exceed the current assets by R472 million (2018: R25 million) and the current liabilities of the Company exceed the current assets by R398 million.

The matters described below have placed significant pressure on the overall liquidity of the Group and Company:

- The decline in local fixed odds and totalisator betting revenues and profits by the Group and Company in the current financial year;
- The R30 million section 189 retrenchment and restructure programme by the Group and Company in the current financial year;
- The current challenging local economic environment within the retail sector, compounded by political instability and large-scale unemployment; and

GOING CONCERN CONTINUED

- The ability of the Group and Company to obtain further short to medium-term funding supported by its bankers as required in terms of the revolving credit facility agreement.

The Board has considered the Group's and Company's ability to continue as a going concern. In assessing this, various aspects of the future business including the following were considered:

- The budget and stress tested forecast cash flow for the year ending 31 July 2020;
- An independent assessment of the Group's and Company's ability to continue as a going concern for the following 12 months commissioned by the Board in August 2019 that concluded: "The liquidity of Phumelela is of major concern. Based on all the considerations discussed above, there is a high risk that Phumelela may experience cash shortages at a future date. There appears to be significant doubt whether Phumelela can generate adequate cash flow to maintain its operations and therefore this would give rise to a material uncertainty that Phumelela can continue as a going concern";
- The decline in local fixed odds and totalisator betting revenues/profits and the Group's ability to arrest same;
- The long-term sustainability of profits and dividends received from international business operations that include the Group's 50% equity interest in the Isle of Man totalisator operation;
- The withdrawal of the Gauteng bookmaker levy that deprives the Group of approximately R75 million in annual revenue;
- Cost saving initiatives that include a Section 189 programme with 371 employees retrenched and 25 retail stores closed by 31 July 2019;
- On 28 August 2019, the Province of Gauteng issued an Extraordinary Provincial Gazette in respect of the Gauteng Gambling Act (4/1995) ("the Act"), as amended. The purpose of the General Notice was to invite expressions of interest to develop, own and operate a race meeting licence in the Gauteng Province and to invite an expression of interest to operate a totalisator licence in the Gauteng Province. The Group offered to assist the Gauteng Gambling Board in respect of the process and awaits the outcome thereof;
- At 31 July 2019 the Group's total facilities, include an unsecured revolving credit ("RCF") facility of R300 million and bank overdraft facility of R55 million. The covenants of the RCF have been breached. The cashflow forecast factors in a repayment of R40 million (R10 million per quarter) required in terms of the RCF agreement in the next 12 months. Executive management remains in regular contact with the Group's bankers;
- The probability and timing of trade and other receivables, including long overdue debts from Mashonaland Turf Club (Zimbabwe) and Omphe Tshiamo (North West franchisee), and various other claims being pursued; and
- The probability and timing of trade and other payables including the R28 million contingent consideration in relation to the Supabets purchase consideration and guarantees and sureties lodged with bankers, insurers and regulators.

The Group plans to improve cash flow sustainability by focusing on:

- Cost cutting initiatives in excess of R60 million for the year ending 31 July 2020;
- A substantial reduction on capital expenditure to R20 million for the year ending 31 July 2020;
- A strong focus on the Group's fixed odds businesses, in particular Betting World that is budgeted to return to normalised profits of approximately R50 million per annum from a loss incurred in FY2019;
- A freeze on dividend payments to shareholders;
- Disposal of non-core assets that include the Arlington property in Port Elizabeth expected to realise in excess of R30 million;
- Collecting long outstanding debts from Mashonaland Turf Club and Omphe Tshiamo, likely to realise R15 million in the next 12 months;
- Finalising the liquidation and distribution of the employer surplus from the defined benefit funds estimated at in excess of R14,7 million;
- Renegotiating payment terms with associates and suppliers to more closely match cash inflows with outflows;
- Subsequent to the year end, the Group's bankers condoned the debt covenant breach as at 31 July 2019 and the facility has not become immediately due and payable (refer to Subsequent Events paragraph below);
- Ongoing constructive interaction with regulators/government; and
- Overtures with a view to an underpin of the equity position being progressed.

Consequently, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

However, the ability of the Group and Company to settle their liabilities as and when they fall due is largely dependent on the successful realisation of these projected cash inflows. If the Group and Company do not realise the cash inflows in a timely manner and in the quantum estimated, then the cash flow resources available to the Group will be materially impacted.

GOING CONCERN CONTINUED

As a result of the events and conditions described above, there is a material uncertainty on the timing and quantum of the cash inflows included in the cash flow forecast that may cast doubt on the Group and Company's ability to continue as going concerns and, therefore, the Group and Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

SUBSEQUENT EVENTS

Subsequent to the year end, the Group's bankers condoned the debt covenant breach as at 31 July 2019 and the facility has not become immediately due and payable. The condonement is subject to certain terms and conditions that include the provision of a full security package (to the satisfaction of the Lender) and revised debt covenants (refer note 19). The indulgence provided extends Group facilities for a further year provided the requisite terms and conditions are adhered to. In addition, a R50 million working capital standby credit facility with a 13-month term has been made available. The Group is keeping its bankers abreast of trading conditions and reports back regularly on cash flow.

Other than the above there are no significant subsequent events that have an impact on the financial information at 31 July 2019.

MATTERS OF CORPORATE INTEREST AND LITIGATION

There are no further developments to report pursuant to the disclosure contained in the annual financial statements for the year ended 31 July 2018.

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.

Gambling Regulations – Review application

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

These included an amendment which has the effect of depriving Phumelela of a portion of a betting levy (deducted by bookmakers from punters' winnings on horseracing bets), to which it has been entitled since the corporatisation of the industry.

The betting levy received by Phumelela in Gauteng constitutes 90% of the betting levies received by it in South Africa and amounts to an amount in excess of R75 million per year.

Following the publication of the amended Regulations, Phumelela instituted an application to have the amendments reviewed and set aside as well as an urgent application to stay the implementation of the amendments , pending the outcome of the review application. Should the review application be successful, Phumelela will be entitled to payment of all levies which would have been due to it, since 1 April 2019 to the date of judgment.

The urgent application was removed from the roll by agreement between the parties who have entered into negotiations aimed at settling the matter. To this end, a draft settlement agreement has been circulated and is being considered by the MEC and the Board. The settlement agreement, in its current form, provides for the payment to Phumelela of all levies which would have been payable, from 1 April 2019 to date. The settlement agreement once signed will be made an order of court.

In view of the fact that the settlement negotiations have been delayed, Phumelela is pursuing the review application.

Disciplinary proceedings

On 29 May 2019, the Gauteng Gambling Board upheld a recommendation by a disciplinary committee and found that Phumelela had contravened condition 10 of its race-meeting licence. The Board imposed a fine of R5 million, of which R2,5 million is suspended for a period of five years.Condition 10 requires Phumelela to make available visual broadcasts of race meetings for betting purposes and entitles it to recover the reasonable costs of doing so, provided that such costs are approved by the Board. The disciplinary committee recommended that Phumelela be found guilty of contravening condition 10, on the basis that the condition requires Phumelela to provide Tellytrack (including international racing) to bookmakers around South Africa on a cost-recovery basis. Phumelela disputes this interpretation on the condition.

MATTERS OF CORPORATE INTEREST AND LITIGATION CONTINUED

Disciplinary proceedings continued

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

Phumelela has applied to the High Court to have the decision of the Gauteng Gambling Board reviewed and set aside.

Public Protector - High Court Review Application

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

On 21 June 2019, Phumelela instituted an application to review and set aside the findings contained in the Public Protector's Final Report, on the basis that it is irrational and unlawful.

The Gauteng Gambling Board has instituted a separate High Court application to review and set aside the findings contained in the Public Protector's Final Report. It is likely that the two review applications will be heard together.

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

KwaZulu-Natal Bookmakers' Society: Sports Pool Betting Application

The KwaZulu-Natal Bookmakers' Society (now known as the South African Bookmakers' Association) instituted a High Court application seeking an order interdicting Phumelela from offering totalisator betting on sports other than horseracing, on the basis that Phumelela was operating sports pools in contravention of the National Lotteries Act 57 of 1997.

On 7 May 2018, the High Court of South Africa, Gauteng Division, Pretoria dismissed the application with costs. The KwaZulu-Natal Bookmakers' Society was granted leave to appeal to the Supreme Court of Appeal against the judgement and on 19 September 2019 the appeal was dismissed with costs awarded to the Company.

Nadomine Proprietary Limited

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

Phumelela is opposing the application.

Marshalls World of Sport, Tellytrack Copyright Action

In 2014 Tellytrack instituted action in the Durban High Court against Marshalls World of Sport ("MWOS"). The action was a result of MWOS displaying the Tellytrack service in its betting outlets, for betting purposes, without having a licence to do so.

Following a trial in October 2016, the Durban High Court dismissed Tellytrack's action in February 2018. In August 2018, Tellytrack was granted leave to appeal to the SCA against the dismissal of its action.

The appeal was upheld on 25 November 2019, with costs awarded to the Company.

RELATED PARTIES

During the year Betting World Proprietary Limited sold three fixed odds licenses 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 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 was declared to shareholders recorded in the register on 2 November 2018 and paid on 5 November 2018.

REPORT OF THE DIRECTORS CONTINUED
for the year ended 31 July 2019

DIRECTORS' EMOLUMENTS

The remuneration of directors is set out in note 27 on page 116.

SHARE INCENTIVE SCHEMES

Details pertaining to share option schemes approved by shareholders' is set out in the Remuneration Report on pages 49 to 55.

AUDITORS

At the Annual General Meeting held on 11 December 2018, 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 11 December 2018:

- Mr B Kantor
- Mr KC Khampepe

The appointment of the following directors to the Board of the Company was approved at the Annual General Meeting held on 11 December 2018:

- Mr SH Müller with effect from 24 January 2018
- Mr SA Mahlalela with effect from 16 July 2018
- Mrs FS Magubane with effect from 14 August 2018
- Mr M Tembe with effect from 21 September 2018

The following directors were elected to serve on the Audit and Risk Committee at the Annual General Meeting held on 11 December 2018:

- Mr SH Müller
- Mrs FS Magubane
- Mr SA Mahlalela
- Mrs NJ Mboweni
- Mr JB Walters

With effect from:

- 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.
- 30 November 2018, Mr Vee Moodley resigned as executive director, Sports Betting.
- 11 December 2018, Mr Chris van Niekerk retired from the Board as a non-executive director.
- 11 December 2018, Mr Rob Cooper retired from the Board as a non-executive director.
- 29 July 2019, Mr Photios Anastassopoulos and Mr Mark Currie resigned from the Board as a non-executive directors.
- Pending the date of approval of the relevant regulatory authorities, Colonel Johnny Sexwale and Ms Lindiwe Rakharebe were appointed as non-executive directors and Ms Rakharebe was appointed as a member of the Social and Ethics Committee.

Subsequent to the year end, Ms Magubane resigned from the Board with effect from 30 October 2019. Furthermore, Mr B Kantor has advised of his intention to stand down as Chairman at the AGM in January 2020. There are no other changes to the composition of the Board.

The Board expresses sincere thanks to Messrs Anastassopoulos, Cooper, du Plessis, Moodley, van Niekerk and Ms Magubane for their valued contribution and loyal service to the Company and wish them well in their future endeavours. The Board further welcomes the appointment of Mr Tembe as lead independent director.

In terms of the Company's Memorandum of Incorporation, Mr JB Walters, Dr E Nkosi and Ms NJ Mboweni retire at the Annual General Meeting and being eligible, offer themselves for re-election.

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 133.

INDEPENDENT AUDITOR'S REPORT
for the year ended 31 July 2019

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 72 to 133, which comprise the statements of financial position as at 31 July 2019, and the statements of comprehensive income, the statements of cash flows and statements of changes in equity for the year then ended, accounting policies and notes to the financial statements.

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 Proprietary Limited as at 31 July 2019, 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. 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 betting income (applicable to the consolidated and separate financial statements)
Refer to accounting policies note 1.13 and notes 23 to the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Included in the consolidated and separate financial statements is betting income amounting to R1 067 million and R717 million, respectively. Betting income is typically derived from high volume, low value transactions and is dependent on the outcome of events wagered on. The complete and accurate recording of the betting income is dependent on the underlying systems, how these interface with the accounting system, and the effectiveness of the 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. The recognition of 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: • 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 betting income 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 expectation. • We inspected the journals processed in the accounting system against 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 2019

Annual impairment assessments of goodwill and intangible assets with an indefinite useful life
(applicable to the consolidated and separate financial statements)
Refer to accounting policies notes 1.5, 1.6, 1.9 and 1.23, 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 licences). 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 (CGUs). 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.	• 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 compared the projected cash flows and assumptions used in prior years to current year performance to evaluate the accuracy of the directors' projections. • We challenged the assumptions used by the directors in the calculations for each CGU by: – Analysing the future projected cash flows for the individual CGUs to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of each CGU; and – Performing sensitivity analyses on key assumptions. • 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 included in long-term unsecured loans and trade and other receivables (applicable to the consolidated and separate financial statements)
Refer to accounting policy notes 1.17, use of estimates, judgements and assumptions note 1.23, and 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; and – Subjecting the key assumptions to sensitivity analyses. • 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.

Material uncertainty relating to going concern
We draw attention to Note 36 of the consolidated and separate financial statements, which indicates that the Group and Company incurred a net loss of R96 million and R72 million respectively during the year ended 31 July 2019 and, as of that date, the Group and Company's current liabilities exceeded its current assets by R472 million and R398 million respectively. As stated in note 36, these events or conditions, along with other matters as set forth in note 36, indicate that a material uncertainty exists that may cast significant doubt on the group and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information
The directors are responsible for the other information. The other information comprises the information included in the document titled "Phumelela Gaming and Leisure Limited Integrated Report 2019" which includes the Report of the Directors, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. The 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, 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 , 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.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and 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 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 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's 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 and 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 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.

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 Proprietary Limited for 13 years.

KPMG INC

Registered Auditor

Per D Read
Chartered Accountant (SA)
Registered Auditor
Director
28 November 2019

KPMG Crescent
85 Empire Road
Parktown
Johannesburg 2122

STATEMENTS OF FINANCIAL POSITION

as at 31 July 2019

	Note	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
ASSETS					
Non-current assets		**1 322 828**	1 338 850	**1 019 771**	1 056 769
Property, plant and equipment	4	**439 836**	464 707	**293 487**	307 288
Goodwill	5	**12 362**	12 362		
Intangible assets	6	**42 694**	45 000	**1 511**	1 033
Investment in subsidiaries	7			**96 336**	96 336
Investments	8		12 108		12 108
Interest in equity-accounted investees	9	**710 367**	690 421	**581 531**	581 531
Long-term loans	10	**50 830**	63 341	**21 341**	30 427
Investment property	11	**18 700**	18 700		
Deferred taxation asset	12	**48 039**	32 211	**25 225**	25 225
Amounts owing by subsidiary companies	13.1			**340**	2 821
Current assets		**268 773**	311 824	**363 143**	346 423
Inventories	14	**4 249**	3 773	**3 134**	2 778
Trade and other receivables	15	**131 353**	155 679	**113 904**	134 767
Amounts owing by subsidiary companies	13.2			**144 531**	84 402
Income tax receivable		**27 186**	23 348	**17 017**	18 568
Defined benefit funds	18.1	**14 650**	14 650	**14 650**	14 650
Cash and cash equivalents	16	**91 335**	114 374	**69 907**	91 258
Total assets		**1 591 601**	1 650 674	**1 382 914**	1 403 192
EQUITY AND LIABILITIES					
Total equity		**849 684**	1 012 624	**662 107**	802 703
Equity attributable to ordinary shareholders		**860 491**	1 019 908	**662 107**	802 703
Share capital and premium	17.1	**473 786**	473 786	**474 143**	474 143
Retained earnings		**386 832**	546 092	**187 964**	328 560
Translation reserve	17.2	**(127)**	30		
Non-controlling interest	17.3	**(10 807)**	(7 284)		
Non-current liabilities		**1 498**	301 319		300 000
Deferred taxation liability	12	**1 309**	872		
Borrowings	19	**189**	300 447		300 000
Current liabilities		**740 419**	336 731	**760 807**	300 489
Trade and other payables	20	**359 976**	278 118	**321 120**	236 880
Short-term borrowings	19	**300 640**	1 639	**300 000**	
Amounts owing to subsidiary companies	21			**24 578**	14 697
Contingent consideration liability	22	**28 806**	28 806	**28 806**	28 806
Income tax payable			24		
Betting dividends payable		**10 142**	13 965	**5 448**	5 927
Bank overdraft	19	**40 855**	14 179	**40 855**	14 179
Total equity and liabilities		**1 591 601**	1 650 674	**1 382 914**	1 403 192

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 July 2019

		GROUP		COMPANY	
		2019	2018	**2019**	2018
	Note	**R'000**	R'000	**R'000**	R'000
Income	23	**1 416 110**	1 526 979	**1 222 284**	1 246 087
Betting income		**1 066 907**	1 182 525	**717 253**	759 031
Other operating income					
– Local operations		**253 531**	283 558	**240 102**	278 438
– International operations		**323 878**	316 062	**320 223**	309 695
Investment income					
– Local operations		**13 147**	12 928	**163 462**	148 657
– International operations		**826**	619	**826**	618
Net income		**1 658 289**	1 795 692	**1 441 866**	1 496 439
Stakes		**(216 440)**	(209 520)	**(216 440)**	(209 520)
Value added tax		**(129 969)**	(139 888)	**(86 885)**	(88 233)
Betting taxes		**(86 526)**	(92 876)	**(67 185)**	(70 590)
National Horseracing Authority levies		**(37 119)**	(36 296)	**(37 119)**	(36 296)
Operating expenses and overheads					
– Local operations		**(1 167 895)**	(1 074 913)	**(835 872)**	(770 310)
– Allowance for expected credit losses		**(25 761)**		**(3 773)**	
– International operations		**(234 401)**	(224 884)	**(234 198)**	(224 709)
(Loss)/profit from operations	24	**(239 822)**	17 315	**(39 606)**	96 781
Finance costs					
– Local operations	25	**(35 488)**	(34 577)	**(35 418)**	(34 303)
(Loss)/profit before share of profit of equity-accounted investees		**(275 310)**	(17 262)	**(75 024)**	62 478
Share of profit of equity-accounted investee after tax	9	**163 310**	169 169		
(Loss)/profit before assets held for sale fair value adjustment		**(112 000)**	151 907	**(75 024)**	62 478
Fair value adjustment in respect of investments	8.2	**2 964**	546	**2 964**	546
(Loss)/profit before income tax expense		**(109 036)**	152 453	**(72 060)**	63 024
Income tax expense	26	**13 220**	(707)		19 179
(Loss)/profit for the year		**(95 816)**	151 746	**(72 060)**	82 203
Other comprehensive income for the year					
Other comprehensive income		**(157)**	2 018		1 395
Items that may subsequently be reclassified to profit or loss					
– Remeasurement of defined benefit obligation			1 395		1 395
– Exchange differences on translation of foreign subsidiaries		**(157)**	623		
Total comprehensive income for the year		**(95 973)**	153 764	**(72 060)**	83 598
(Loss)/profit attributable to:					
– Ordinary equity holders of the parent		**(92 293)**	155 112		
– Non-controlling interest		**(3 523)**	(3 366)		
		(95 816)	151 746		
Total comprehensive income attributable to:					
– Ordinary equity holders of the parent		**(92 450)**	157 130		
– Non-controlling interest		**(3 523)**	(3 366)		
		(95 973)	153 764		
		cents	cents		
Earnings per ordinary share	28				
Basic earnings per share		**(92,32)**	153,78		
Diluted earnings per share		**(92,32)**	153,78		

STATEMENTS OF CASH FLOWS

for the year ended 31 July 2019

		GROUP		COMPANY	
		2019	2018	**2019**	2018
	Note	**R'000**	R'000	**R'000**	R'000
Net cash outflow from operating activities		**(173 872)**	(94 640)	**(45 910)**	(52 371)
Cash (utilised)/generated by operations	33.1	**(145 708)**	70 716	**(150 091)**	(16 059)
Movements in working capital	33.2	**60 851**	(7 815)	**40 998**	(36 817)
Cash (utilised)/generated by operating activities		**(84 857)**	62 901	**(109 093)**	(52 876)
Income tax (paid)/refunded	33.3	**(1 691)**	(24 961)	**1 551**	(4 726)
Dividends paid to shareholders		**(61 981)**	(113 734)	**(63 550)**	(114 801)
Interest received		**9 319**	8 385	**7 629**	11 161
Dividends received		**826**	618	**152 971**	136 446
Finance costs paid		**(35 488)**	(27 849)	**(35 418)**	(27 575)
Net cash inflow/(outflow) from investing activities		**125 571**	(25 101)	**(2 117)**	(114 072)
Acquisition of intangible assets		**(1 090)**	(199)	**(983)**	
Acquisition of property, plant and equipment		**(55 659)**	(67 316)	**(30 388)**	(36 038)
Proceeds on disposal of property, plant and equipment		**17 101**	626	**2 100**	270
Proceeds on sale of investments		**14 380**		**14 380**	
Contingent liability paid			(86 979)		(87 356)
Investment in equity-accounted investees		**(4 342)**	(3 993)		
Loans advanced		**(17 435)**	(130 925)	**(11 000)**	(124 231)
Loans repaid		**23 774**	133 283	**23 774**	133 283
Dividends received from equity-accounted investees		**148 842**	130 402		
Net cash (outflow)/inflow from financing activities		**(1 257)**	122 679		180 000
Shares repurchased and options issued			(55 030)		
Borrowings raised			178 470		180 000
Borrowings repaid		**(1 257)**	(761)		
(Decrease)/increase in cash and cash equivalents for the year		**(49 558)**	2 938	**(48 027)**	13 557
Effect of conversion of foreign operations on cash and cash equivalents		**(157)**	623		
Cash and cash equivalents at beginning of year		**100 195**	96 634	**77 079**	63 522
Cash and cash equivalents at end of year		**50 480**	100 195	**29 052**	77 079
Make up of balance of cash and cash equivalents					
Cash and cash equivalents	16	**91 335**	114 374	**69 907**	65 343
Bank overdraft	19	**(40 855)**	(14 179)	**(40 855)**	(1 821)
Cash and cash equivalents at end of year		**50 480**	100 195	**29 052**	63 522

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 July 2019

	Share capital R'000	Share premium R'000	Translation reserves R'000	Retained earnings R'000	Shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
GROUP							
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
Total comprehensive income for the year			**(157)**	**(92 293)**	**(92 450)**	**(3 523)**	**(95 973)**
– Loss for the year				**(92 293)**	**(92 293)**	**(3 523)**	**(95 816)**
– Other comprehensive income			**(157)**		**(157)**		**(157)**
Transactions with owners recorded directly in equity							
– Share-based payment				**(4 986)**	**(4 986)**		**(4 986)**
– Dividends paid to equity holders				**(61 981)**	**(61 981)**		**(61 981)**
Balance at 31 July 2019	**2 499**	**471 287**	**(127)**	**386 832**	**860 491**	**(10 807)**	**849 684**
COMPANY							
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			
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		
Total comprehensive income for the year							
– Loss for the year				**(72 060)**	**(72 060)**		
Transactions with owners recorded directly in equity							
– Share-based payment				**(4 986)**	**(4 986)**		
– Dividends paid to equity holders				**(63 550)**	**(63 550)**		
Balance at 31 July 2019	**2 563**	**471 580**		**187 964**	**662 107**		

ACCOUNTING POLICIES

for the year ended 31 July 2019

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 page 72 to 132 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 other than the effects of the implementation of IFRS 15 Revenue from Contracts with Customers (refer accounting policy 1.13 Revenue Recognition) and IFRS 9 Financial Instruments which replaces the earlier version and replaces IAS 39 Financial Instruments: Recognition and Measurement (refer accounting policy 1.17 Financial Assets).

As a consequence of these changes in accounting standards and the JSE proactive monitoring panel recommendations relating to betting taxes paid, the following consequential restatements have been made:

- IFRS 9 deals with expected loss provisioning and has an immaterial effect and has not affected disclosure. The impairment model has been changed from an incurred loss model to an expected credit loss model. There is no significant increase in the provision for bad debts due to the adoption of the credit loss model. Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.
- IFRS 15 addresses revenue recognition of customer contracts, requiring that revenue and related costs are only recognised when a performance obligation has been satisfied and so the timing of when revenue is recognised and the amount thereof. IFRS 15 is based on the principle that revenue is recognised when control of goods and services is transferred to a customer, the notion of control replaces the existing notion of risk and rewards. There was no significant effect on the adoption of this standard.
- Betting taxes and value added tax are now no longer included within net income and disclosed separately as an expense in compliance with a request from the JSE to reevaluate the treatment of these taxes. Consequently, net income as previously stated is now higher by the collective amount of the betting taxes and value added tax of R216,5 million (2018: R232,7 million) in the Group and R154,1 million (2018: R158,8 million) in the Company whilst expenses are increased by the same amount. There is no effect on EBITDA or profit from operations. Comparative information has accordingly been restated.

The financial statements were approved by the Board of Directors for issue on 28 November 2019.

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.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.3 Basis of consolidation continued

***Subsidiaries** continued*

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.

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.

ACCOUNTING POLICIES CONTINUED
for the year ended 31 July 2019

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.4 Business combinations continued

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 operations over the fair value of the identifiable assets, liabilities and contingent liabilities at dates of acquisition.

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

Goodwill is measured at cost less any impairment in value.

1.6 Intangible assets

Indefinite useful life intangible assets

Indefinite useful life intangible assets that are acquired by the Group are initially measured at cost and are not amortised.

The 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 and software development costs.

Software costs

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

Software development costs

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

Subsequent expenditure

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

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

- Software costs and software development costs 10% to 33% per annum (once commissioned).

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

Research costs

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

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.7 Property, plant and equipment

Racing surfaces, which are classified as land, are substantially made up of either grass or sand and by their very nature require continual maintenance. The ongoing maintenance programmes adequately cover any deterioration of these surfaces and no depreciation is therefore provided. Synthetic surfaces are depreciated over their expected useful lives which range between 7 and 15 years.

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

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

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

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 derecognition 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.

ACCOUNTING POLICIES CONTINUED
for the year ended 31 July 2019

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.9 Impairment of non-financial assets continued

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.

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.11 Taxation continued

***Deferred tax** continued*

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.

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 when the performance obligation has been met, in the prior year revenue was recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured.

Betting income for the totaliser represents bets struck net of betting dividends paid to customers and is recognised in income when the bet has been resulted.

Betting income from fixed odds is a derivative instrument. Net winnings are presented, this amount is the total of bets struck less betting dividends paid, refunds and rebates and is recognised in income when the bet has been resulted.

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 and other incidental income is recognised in income when invoiced in terms of the contract with the customer. If denominated in a foreign currency is converted into rand at the rate ruling on the day of invoicing.

Other income also includes unclaimed dividends, gambling boards levies and commission received on limited pay-out machines.

Unclaimed dividends are recognised in income when the dividend is not claimed within the contract period.

Gambling board levies and commission received on limited pay-out machines are recognised in income on receipt of the funds.

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 recognised in income.

ACCOUNTING POLICIES CONTINUED

for the year ended 31 July 2019

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

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.

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.

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 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. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

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 and long-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 marketplace.

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

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.

Expected credit loss of financial instrument

At each reporting date an assessment is made on a case-by-case basis of whether there is any objective evidence of an expected credit loss of a financial asset both at an individual asset and a collective level. Criteria used to determine whether there is objective evidence of an expected credit 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 have an expected credit loss if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An expected credit 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.

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 recognised in 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. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.20 Foreign currency translations

The assets and liabilities of foreign subsidiaries are translated into the Group 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 ("CEO") to make decisions about resources to be allocated to the segment and to assess its performance and for which discrete financial information is available.

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

1.22 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 expected credit 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 estimates and judgements:

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 recognised 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.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. IFRS 9 requires the Group to recognise an allowance for ECL for all debt instruments not held at fair value through profit or loss and contract assets.

The Group applies the simplified approach to calculate the ECL of trade receivables and contract assets. The provision rates are based on days past due for grouping that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates and is then adjusted with forward looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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.

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

Impairment testing – goodwill and indefinite useful life intangible assets *continued*

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

Share-based incentives

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

Property, plant and equipment 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 value. 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. 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.

Each year the Group reviews the carrying value in the light of market and economic conditions which may result in the investment not achieving their carrying value. An impairment would then be applied to the respective investment.

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. In the prior year as the revenue recognition was subject to numerous legal procedures that are ongoing, the recognition of the revenue required management's estimation and judgements; however, following the adoption of IFRS 15 by the Group, no revenue has been recognised in the current year.

Assessment of going concern

Going concern is assessed applying management's best estimates and assumptions to financial forecasts assuming trading conditions remain relatively consistent. The economic climate remains volitile and this may impact the going concern assessment.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

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 2019

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 and debt. At 31 July 2019 the Group's debt to equity ratio is 33% (2018: 23%).

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 and foreign currency 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.

During the year the Group assessed its credit risk exposure to the North West franchise operation, Omphe Tshiamo Investments ("the franchisee"). As a consequence the long term loan to the franchisee was impaired by R10 million and a provision for bad debts of R21 million was raised against accounts receivable from the franchisee. Other than the aforementioned 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 R340 000 (2018: R2 821 000) and active trading Group companies R144 531 000 (2018: R84 402 000).

2. FINANCIAL 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	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
The maximum exposure to credit risk at the reporting date was as follows:				
Investments		12 108		12108
Long-term secured loan	**21 341**	30 427	**21 341**	30 427
Long-term unsecured loan	**29 489**	32 914		
Amounts owing by Group companies			**144 871**	87 223
Trade and other receivables	**122 520**	147 665	**106 504**	127 893
Cash and cash equivalents	**91 335**	114 374	**69 907**	91 258
	264 685	337 488	**342 623**	348 909

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, short- to medium-term interest-bearing finance and contingent consideration liability.

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.

Due to current trading conditions and the breach in the covenants imposed by the lenders (subsequently condoned) there has been a significant increase to liquidity risk. The Group is now closely monitoring all expenditure both operational and capital with commitments made once affordability has been assessed.

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 R15 503 000 (2018: R9 076 000) and regarding active companies is R9 075 000 (2018: R5 621 000).

The Group current liabilities exceed their current assets. The Group has an unused general banking facilities of R10 million (2018: R40 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 2019

2. FINANCIAL RISK MANAGEMENT CONTINUED

The following tables summarise the maturity profiles of the Group's and Company's financial liabilities at 31 July based on contractual undiscounted payments.

	On demand R'000	Less than one year R'000	Two to five years R'000	Total R'000
GROUP				
2019				
Trade and other payables	**51 591**	**284 889**		**336 480**
Borrowings		**300 640**	**189**	**300 829**
Contingent consideration liability		**28 806**		**28 806**
Betting dividends payable	**10 142**			**10 142**
Bank overdraft	**40 855**			**40 855**
Total	**102 588**	**614 335**	**189**	**717 112**
2018				
Trade and other payables	25 350	229 663		255 013
Borrowings			300 447	300 447
Contingent consideration liability		28 806		28 806
Betting dividends payable	13 965			13 965
Bank overdraft	14 179			14 179
Total	53 494	258 469	300 447	612 410
COMPANY				
2019				
Trade and other payables	**45 139**	**266 469**		**311 608**
Borrowings		**300 000**		**300 000**
Contingent consideration liability		**28 806**		**28 806**
Betting dividends payable	**5 448**			**5 448**
Bank overdraft	**40 855**			**40 855**
Owing to subsidiaries	**24 578**			**24 578**
Total	**116 020**	**595 275**		**711 295**
2018				
Trade and other payables	24 328	186 292		210 620
Borrowings			300 000	300 000
Contingent consideration liability		28 806		28 806
Betting dividends payable	5 927			5 927
Bank overdraft	14 179			14 179
Owing to subsidiaries	14 697			14 697
Total	59 131	246 476	300 000	574 229

A reassessment of the financial instruments resulted in the operating lease liability being removed in the comparative numbers and adjustments to trade payables have resulted in the following restatements:

	GROUP 2018	COMPANY 2018
Trade payables	(23 105)	(26 260)
Operating leases	(122 228)	(80 067)
Total reduction	(145 333)	(106 327)

Interest rate risk management

The Group is exposed to interest rate risk on its interest-bearing borrowings, 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.

2. FINANCIAL RISK MANAGEMENT CONTINUED

Interest rate risk management continued

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. Should interest rates increase/decrease by 100 basis points, and all other factors remain constant, the effects on the Group's earning and equity would increase/decrease by R1,44 million (2018: R1 million).

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 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.

		GROUP PROFIT OR LOSS IMPACT		COMPANY PROFIT OR LOSS IMPACT	
	Increase or decrease in currency rate %	Net foreign currency balance	Profit or loss impact R'000	Net foreign currency balance	Profit or loss impact R'000
Foreign currency exchange risk 2019					
Australian dollar	**5**	**4 337 595**	**2 129**	**4 337 595**	**2 129**
British pound	**5**	**1 100 813**	**960**	**1 085 625**	**947**
Euro	**5**	**667 631**	**530**	**667 631**	**530**
Hong Kong dollar	**5**	**393 129**	**36**	**393 129**	**36**
Singapore dollar	**5**	**636 906**	**332**	**636 906**	**332**
Swedish krona	**5**	**(224 491)**	**(17)**	**(224 491)**	**(17)**
United States dollar	**5**	**(681 767)**	**(489)**	**(681 767)**	**(489)**
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)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

2. FINANCIAL RISK MANAGEMENT CONTINUED

***Foreign currency risk management** continued*

The following significant exchange rates were applied during the year:

	Year end		Average	
	GROUP AND COMPANY		GROUP AND COMPANY	
	2019	2018	**2019**	2018
	R	R	**R**	R
Australian dollar	**9,82**	9,86	**10,11**	9,89
British pound	**17,45**	17,42	**18,35**	17,35
Euro	**15,89**	15,52	**16,15**	15,35
Hong Kong dollar	**1,83**	1,69	**1,82**	1,64
Singapore dollar	**10,44**	9,75	**10,43**	9,59
Swedish krona	**1,49**	1,51	**1,55**	1,53
United States dollar	**14,35**	13,28	**14,23**	12,87

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.

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.

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 R144 871 000 (2018: R87 223 000). The fair value of the amount owed to Group companies is R24 578 000 (2018: R14 697 000).

Class of financial instrument	At fair value through profit and loss R'000	Amortised cost* R'000	Financial liabilities measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
			GROUP		
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS					
2019					
Financial assets					
Long-term secured loans		**21 341**			**21 341**
Long-term unsecured loans		**29 489**			**29 489**
Trade and other receivables		**122 520**		**8 833**	**131 353**
Cash and cash equivalents		**91 335**			**91 335**
Total		**264 685**		**8 833**	**273 518**
Financial liabilities					
Borrowings			**300 189**		**300 189**
Trade and other payables			**336 480**	**23 496**	**359 976**
Contingent consideration liabilities			**28 806**		**28 806**
Betting dividends payable			**10 142**		**10 142**
Bank overdraft			**40 855**		**40 855**
Total			**716 472**	**23 496**	**739 968**
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[1]		147 665		8 014	155 679
Cash and cash equivalents		114 374			114 374
Total	11 416	326 072		8 014	345 502
Financial liabilities					
Borrowings			302 086		302 086
Trade and other payables[2]			255 013	23 105	278 118
Contingent consideration liabilities			28 806		28 806
Betting dividends payable			13 965		13 965
Bank overdraft			14 179		14 179
Total			614 049	23 105	637 154

** There was minimal effect under the adoption of IFRS 9 as opposed to IAS 39 whereby there is only a name change from loans and receivables to Amortised cost in respect of receivables and cash and cash equivalents.*

[1] On reassessment of IAS 9 and 39, R7 313 was taken off non financial instruments and included with amortised costs in the prior year.

[2] On reassessment of IAS 9 and 39, R9 113 was added to non financial instruments and included with financial liabilities measured at amortised costs in the prior year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

	COMPANY				
Class of financial instrument	At fair value through profit and loss R'000	Amortised cost* R'000	Financial liabilities measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS CONTINUED					
2019					
Financial assets					
Long-term secured loan		**21 341**			**21 341**
Amounts owing by subsidiary companies		**144 871**			**144 871**
Trade and other receivables		**106 504**		**7 400**	**113 904**
Cash and cash equivalents		**69 907**			**69 907**
Total		**342 623**		**7 400**	**350 023**
Financial liabilities					
Borrowings			**300 000**		**300 000**
Trade and other payables			**311 878**	**9 242**	**321 120**
Amounts owing to subsidiary companies			**24 578**		**24 578**
Contingent consideration liabilities			**28 806**		**28 806**
Betting dividends payable			**5 448**		**5 448**
Bank overdraft			**40 855**		**40 855**
Total			**711 565**	**9 242**	**720 807**
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		127 893		6 874	134 767
Cash and cash equivalents		91 258			91 258
Total	11 416	337 493		6 874	355 783
Financial liabilities					
Borrowings			300 000		300 000
Trade and other payables			210 620	26 260	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			574 229	26 260	600 489

** There was minimal effect under the adoption of IFRS 9 as opposed to IAS39 whereby there is only a name change from loans and receivables to Amortised cost in respect of receivables and cash and cash equivalents.*

	Land and buildings Freehold R'000	Leasehold improvements R'000	Plant and machinery R'000	Information technology equipment R'000	Motor vehicles, heavy duty trucks and trailers R'000	Furniture and fittings R'000	Marks, names and signage R'000	Total R'000
	GROUP							
4. PROPERTY, PLANT AND EQUIPMENT								
2019								
Balance at beginning of year	**229 253**	**59 996**	**79 752**	**47 809**	**16 215**	**30 225**	**1 457**	**464 707**
Current year movements								
– Additions	**9 413**	**11 766**	**10 436**	**16 142**	**1 779**	**4 294**	**1 829**	**55 659**
– Disposals	**(7 690)**	**(2 921)**	**(820)**	**(111)**	**(250)**	**(1 270)**	**(117)**	**(13 179)**
– Depreciation	**(9 037)**	**(20 008)**	**(14 699)**	**(15 501)**	**(3 313)**	**(4 297)**	**(496)**	**(67 351)**
Balance at end of year	**221 939**	**48 833**	**74 669**	**48 339**	**14 431**	**28 952**	**2 673**	**439 836**
Made up as follows:								
Assets at cost	**296 462**	**143 643**	**201 023**	**125 962**	**42 504**	**65 691**	**5 229**	**880 514**
Accumulated depreciation	**(74 523)**	**(94 810)**	**(126 354)**	**(77 623)**	**(28 073)**	**(36 739)**	**(2 556)**	**(440 678)**
Carrying value	**221 939**	**48 833**	**74 669**	**48 339**	**14 431**	**28 952**	**2 673**	**439 836**
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	41 169	65 288	4 037	874 336
Accumulated depreciation	(67 316)	(91 690)	(113 776)	(74 250)	(24 954)	(35 063)	(2 580)	(409 629)
Carrying value	229 253	59 996	79 752	47 809	16 215	30 225	1 457	464 707

	COMPANY							
	Land and buildings Freehold R'000	Leasehold improvements R'000	Plant and machinery R'000	Information technology equipment R'000	Motor vehicles, heavy duty trucks and trailers R'000	Furniture and fittings R'000	Marks, names and signage R'000	Total R'000
4. PROPERTY, PLANT AND EQUIPMENT CONTINUED								
2019								
Balance at beginning of year	**163 121**	**17 821**	**78 798**	**22 747**	**12 855**	**10 644**	**1 302**	**307 288**
Current year movements								
– Additions	**4 970**	**7 591**	**10 284**	**3 937**	**794**	**983**	**1 829**	**30 388**
– Disposals	**(1 889)**	**(2 520)**	**(822)**	**(74)**	**(248)**	**(838)**	**(117)**	**(6 508)**
– Depreciation	**(6 089)**	**(6 129)**	**(14 326)**	**(6 472)**	**(2 534)**	**(1 680)**	**(451)**	**(37 681)**
Balance at end of year	**160 113**	**16 763**	**73 934**	**20 138**	**10 867**	**9 109**	**2 563**	**293 487**
Made up as follows:								
Assets at cost	**211 417**	**61 819**	**197 306**	**70 712**	**35 987**	**29 194**	**4 841**	**611 276**
Accumulated depreciation	**(51 304)**	**(45 056)**	**(123 372)**	**(50 574)**	**(25 120)**	**(20 085)**	**(2 278)**	**(317 789)**
Carrying value	**160 113**	**16 763**	**73 934**	**20 138**	**10 867**	**9 109**	**2 563**	**293 487**
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

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

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
5. GOODWILL				
Acquired on acquisition of:				
– 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**	12 362		

The impairment review process for goodwill is set out in note 6.1.

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
6. INTANGIBLE ASSETS				
Intangible assets				
Indefinite useful life intangible assets (note 6.1)	**28 247**	28 356		
Computer software (note 6.2)	**14 447**	16 644	**1 511**	1 033
	42 694	45 000	**1 511**	1 033
6.1 Indefinite useful life intangible assets				
Betting licences				
Cost				
Balance at beginning of year	**28 356**	32 107		
Acquisitions	**30**	199		
Disposed of to Supaworld Proprietary Limited	**(139)**	(3 950)		
Balance at end of year	**28 247**	28 356		

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 is recorded as 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 weighted-average cost of capital rate based on a market risk-free rate plus a debt and equity rate.

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 4% 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	18% (2018: 14,64%)
Cost of equity	
– Risk-free rate	8,31% – R186 at 31 July 2019 (8,67% – R186 at 31 July 2018)
– 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	9,25% (2018: 9,5%)
– Entity specific risk premium	4,34% - additional risk factor
Target debt: equity	25:75

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
6. INTANGIBLE ASSETS CONTINUED				
6.2 Computer software				
Cost				
Balance at beginning of year	**29 604**	29 604	**2 842**	2 842
Capitalised during the year	**983**		**983**	
Balance at end of year	**30 587**	29 604	**3 825**	2 842
Accumulated amortisation				
Balance at beginning of year	**(12 960)**	(9 772)	**(1 809)**	(1 295)
Amortisation charge	**(3 180)**	(3 188)	**(505)**	(514)
Balance at end of year	**(16 140)**	(12 960)	**(2 314)**	(1 809)
Carrying amount	**14 447**	16 644	**1 511**	1 033
7. INVESTMENT IN SUBSIDIARIES				
Subsidiaries			**96 336**	96 336
Details of investments in subsidiaries are disclosed on page 133.				
8. INVESTMENTS				
Unlisted investments (note 8.1)		692		692
Listed investments (note 8.2)		11 416		11 416
		12 108		12 108
8.1 Unlisted investments				
Investment in:				
Kenilworth Racing Quarantine Centre				
– At cost*				
– Loan to Company (measured at amortised cost)	**692**	692	**692**	692
– Amount written off	**(692)**		**(692)**	
Omphe Tshiamo Investment Proprietary Limited				
– At cost*				
Directors' valuation		692		692
** Below R1 000*				
8.2 Listed investments				
Opening balance	**11 416**	10 870	**11 416**	10 870
Fair value adjustment	**2 964**	546	**2 964**	546
Disposal	**(14 380)**		**(14 380)**	
Balance at end of year		11 416		11 416

The Company owned 421 323 ordinary shares in Automatic Systems Limited, a company registered on the Mauritian Stock Exchange. The investment was held at fair value through profit and loss. The entire investment was sold on 27 May 2019.

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
9. INTEREST IN EQUITY-ACCOUNTED INVESTEES				
Premier Gateway International Limited	**61 204**	51 179		
Supabets SA Holdings Proprietary Limited	**517 416**	512 031	**470 475**	470 475
Supaworld Proprietary Limited	**16 217**	13 155		
SW Security Solutions Group	**5 956**	4 198	**1 056**	1 056
Uptonvale Services Proprietary Limited	**109 844**	109 858	**110 000**	110 000
	710 367	690 421	**581 531**	581 531
Movement				
Balance at beginning of year	**690 421**	638 074	**581 531**	581 531
Loans advanced	**5 478**	13 956		
Profit for the year	**163 310**	169 169		
Dividends	**(148 842)**	(130 778)		
Balance at end of year	**710 367**	690 421	**581 531**	581 531

Premier Gateway International Limited

– Comprising Premier Gateway International Limited and Premier Gateway Services Limited.

Shareholding 50% (2018: 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% 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 in South Africa.

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% (2018: 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 in South Africa.

Shareholding 50% and is jointly controlled.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED

	Premier Gateway Group 2019 R'000	Premier Gateway Group 2018 R'000	Supabets Holdings 2019 R'000	Supabets Holdings 2018 R'000
GROUP				
Cost including goodwill	**2**	2	**470 475**	470 475
Opening cost	**2**	2	**470 475**	470 475
Shareholders loans				
– Balance at beginning of year				
– Advanced during the year				
Cost and shareholders loans	**2**	2	**470 475**	470 475
Share of post-acquisition reserves	**61 202**	51 177	**46 671**	41 556
– Balance at beginning of year	**51 177**	31 626	**41 556**	20 351
– Share of current year's income after taxation	**133 084**	112 521	**15 115**	40 618
– Share of current year's income after taxation	**133 084**	112 521	**17 490**	42 993
– Less intangible asset amortisation			**(3 299)**	(3 299)
– Tax effect of amortisation			**924**	924
– *Less:* dividend received	**(123 059)**	(92 970)	**(10 000)**	(19 413)
Balance at end of year	**61 204**	51 179	**517 146**	512 031
Assets				
Non-current assets	**7 958**	8 034	**170 761**	148 701
Property, plant and equipment	**7 958**	8 034	**47 374**	48 877
Intangible assets			**108 678**	89 835
Investment				4 341
Long-term receivables			**4 376**	5 648
Deferred tax			**10 333**	
Current assets	**1 071 572**	926 755	**362 578**	294 254
Trade and other receivables	**128 445**	169 086	**138 761**	130 902
Current tax receivable				
Loans to related parties	**148 873**	102 372	**196 581**	146 739
Cash on hand	**794 254**	655 297	**27 036**	16 613
Total assets	**1 079 530**	934 789	**533 139**	442 955
Equity and liabilities				
Capital and reserves	**224 322**	197 776	**320 804**	306 205
Liabilities				
Non-current liabilities	**4 187**	4 181	**68 945**	22 586
Interest-bearing borrowings			**54 615**	5 851
Shareholders loan	**4 187**	4 181		
Long term operating lease charge			**10 033**	6 503
Deferred tax liability				
Finance lease liability			**4 297**	10 232
Current liabilities	**851 021**	732 832	**143 390**	114 164
Trade and other payables	**842 640**	732 832	**71 624**	78 461
Interest-bearing borrowings			**2 094**	3 000
Finance lease liabilities			**5 951**	6 137
Operating lease liabilities			**7 073**	
Current tax payable			**35 502**	21 815
Loans from related parties	**8 381**		**21 146**	4 751
Total equity and liabilities	**1 079 530**	934 789	**533 139**	442 955

Supaworld 2019 R'000	Supaworld 2018 R'000	SW Securities Group 2019 R'000	SW Securities Group 2018 R'000	Uptonvale Services group 2019 R'000	Uptonvale Services group 2018 R'000	Total 2019 R'000	Total 2018 R'000
		1 056	1 056	**110 000**	110 000	**581 533**	581 533
		1 056	1 056	**110 000**	110 000	**581 533**	581 533
19 434	13 956					**19 434**	13 956
13 956						**13 956**	
5 478	13 956					**5 478**	13 956
19 434	13 956	**1 056**	1 056	**110 000**	110 000	**600 967**	595 489
(3 217)	(801)	**4 900**	3 142	**(156)**	(142)	**109 400**	94 932
(801)		**3 142**	3 344	**(142)**	1 220	**94 932**	56 541
(2 416)	(801)	**1 791**	193	**15 736**	16 638	**163 310**	169 169
(2 416)	(801)	**1 791**	193	**17 826**	17 134	**167 775**	172 040
				(2 903)	(327)	**(6 202)**	(3 626)
				813	(169)	**1 737**	755
		(33)	(395)	**(15 750)**	(18 000)	**(148 842)**	(130 778)
16 217	13 155	**5 956**	4 198	**109 844**	109 858	**710 367**	690 421
98 326	70 123	**1 614**	1 384	**11 318**	10 831	**289 977**	239 073
45 979	35 220	**1 430**	1 243	**1 927**	2 531	**104 668**	95 905
49 047	33 525		83	**7 800**	7 800	**165 325**	131 243
		67	39			**67**	4 380
55		**19**	19	**1 250**	500	**5 700**	6 167
3 245	1 378	**98**		**341**		**14 017**	1 378
11 652	9 366	**18 146**	15 102	**21 376**	26 223	**1 503 293**	1 271 700
6 175	2 768	**3 761**	2 359	**5 616**	3 988	**282 758**	309 103
88		**1 823**				**1 911**	
			1 101			**345 454**	250 212
5 389	6 598	**12 562**	11 642	**15 760**	22 235	**855 001**	712 385
109 978	79 489	**19 760**	16 486	**32 694**	37 054	**1 775 101**	1 510 773
(6 434)	(1 602)	**16 595**	9 518	**22 589**	18 435	**577 876**	530 332
1 174		**19**	147			**74 325**	26 914
						54 615	5 851
		19	19			**4 206**	4 200
1 174						**11 207**	6 503
			128				128
						4 297	10 232
115 238	81 091	**3 146**	6 821	**10 105**	18 619	**1 122 900**	953 527
9 732	10 514	**1 988**	3 671	**9 404**	16 651	**935 388**	842 129
		937	1 063			**3 031**	4 063
1 913	441					**7 864**	6 578
						7 073	
			922	**701**	1 968	**36 303**	24 705
103 593	70 136	**221**	1 165			**133 341**	76 052
109 978	79 489	**19 760**	16 486	**32 694**	37 054	**1 775 101**	1 510 773

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED

	Premier Gateway Group*		Supabets Holdings	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
GROUP				
Gambling revenue			**409 327**	419 671
Other income	**733 608**	582 594	**36 878**	72 445
Interest received	**2 738**	2 255	**13 886**	8 580
Income	**736 346**	584 849	**460 091**	500 696
Expenditure	**(58 451)**		**(387 278)**	(360 339)
Depreciation	**(2 714)**	(2 409)	**(17 001)**	(15 256)
Profit before finance charges	**675 181**	582 440	**55 812**	125 101
Finance charges	**(1 378)**		**(6 078)**	(3 661)
Profit before equity-account investees	**673 803**	582 440	**49 734**	121 440
Share of equity-accounted investee loss			**(793)**	(801)
Profit before income tax expense	**673 803**	582 440	**48 941**	120 639
Income tax expense			**(9 478)**	(32 814)
Profit for the year	**673 803**	582 440	**39 463**	87 825
The carrying value is reconciled as follows:				
Share capital and reserves	**61 204**	51 179	**127 194**	136 524
Loans advance				
Post-acquisition dividend paid from pre-acquisition reserves				(16 820)
Purchase price allocation:				
– Licences (Indefinite use for life)			**36 086**	36 086
– Brand (Amortised over ten years)			**24 980**	28 279
– Customer base (Amortised over five years)				
– Internally generated software (Amortised over ten years)				
– Deferred tax			**(17 098)**	(18 022)
– Goodwill			**345 984**	345 984
Carrying value	**61 204**	51 179	**517 146**	512 031

* *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	
	Note	**2019 R'000**	2018 R'000	**2019 R'000**	2018 R'000
Contingent liabilities (note 22)					
Supabets SA Holdings Proprietary Limited		**28 806**	28 806	**28 806**	28 806
		28 806	28 806	**28 806**	28 806

Supaworld		SW Securities Group		Uptonvale Services group		Total	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
90 635	31 413					**499 962**	451 084
5 315	1 938	**23 502**	50 986	**69 684**	64 177	**868 987**	772 140
108	15	**646**	226	**1 541**	1 460	**18 919**	12 536
96 058	33 366	**24 148**	51 212	**71 225**	65 637	**1 387 868**	1 235 760
(101 110)	(32 906)	**(17 397)**	(48 418)	**(19 874)**	(16 733)	**(584 110)**	(473 652)
	(3 421)	**(408)**	(288)	**(1 690)**	(1 238)	**(21 813)**	(7 356)
(5 052)	(2 961)	**6 343**	2 506	**49 661**	47 666	**781 945**	754 752
(149)	(19)	**(107)**	(84)			**(7 712)**	(3 764)
(5 201)	(2 980)	**6 236**	2 422	**49 661**	47 666	**774 233**	750 988
						(793)	(801)
(5 201)	(2 980)	**6 236**	2 422	**49 661**	47 666	**773 440**	750 187
369	1 378	**(863)**	(1 834)	**(13 848)**	(13 397)	**(33 820)**	(46 667)
(4 832)	(1 602)	**5 373**	588	**35 813**	34 269	**749 620**	703 520
(3 217)	(801)	**4 900**	3 142	**11 295**	9 218	**201 376**	199 262
19 434	13 956					**19 434**	13 956
							(16 820)
						36 086	36 086
				941	1 197	**25 921**	29 476
				1 638	3 042	**1 638**	3 042
				4 553	5 795	**4 553**	5 795
				(1 999)	(2 810)	**(19 096)**	(20 832)
		1 056	1 056	**93 416**	93 416	**440 455**	440 456
16 217	13 155	**5 956**	4 198	**109 844**	109 858	**710 367**	690 421

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 July 2019

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
10. LONG-TERM LOANS				
Long-term secured loans (refer 10.1)	**21 341**	30 427	**21 341**	38 639
Long-term unsecured loans (refer 10.2)	**29 489**	32 914		
Total long-term loans	**50 830**	63 341	**21 341**	38 639
10.1 Long-term secured loans				
Balance at beginning of year	**30 427**	38 639	**30 427**	38 639
Amounts advanced during the year	**90 107**	120 154	**90 107**	120 154
Amounts repaid during the year	**(102 881)**	(133 283)	**(102 881)**	(133 283)
Interest charged	**3 688**	4 917	**3 688**	4 917
	21 341	30 427	**21 341**	30 427
Kenilworth Racing Proprietary Limited				
Balance at beginning of year	**15 438**	25 093	**15 438**	25 093
Amounts advanced during the year	**90 107**	120 154	**90 107**	120 154
Amounts repaid during the year	**(95 757)**	(133 283)	**(95 757)**	(133 283)
Interest charged	**2 153**	3 474	**2 153**	3 474
Balance at end of year	**11 941**	15 438	**11 941**	15 438
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	**14 989**	13 546	**14 989**	13 546
Amounts repaid during the year	**(7 124)**		**(7 124)**	
Interest charged	**1 535**	1 443	**1 535**	1 443
Balance at end of year	**9 400**	14 989	**9 400**	14 989
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 (2018: R27 780 000). The bank guarantee was called up on 31 December 2018 and partly honoured with US$500 000 received in June 2019 and a further US$500 000 in August 2019.				
10.2 Long-term unsecured loans				
Balance at beginning of year	**32 914**	25 670		
Amounts advanced during the year	**2 747**	7 298		
Impairment	**(10 000)**	(3 155)		
Interest charged	**3 828**	3 101		
Balance at end of year	**29 489**	32 914		

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 R29 million (2018: R33 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 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 remaining carrying value of the loan is recoverable and no further impairment is required.

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	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 was transferred from non-current assets (property, plant and equipment) to current assets (inventories construction work-in-progress). All subsequent expenditure related to progressing the development has been allocated to the cost of construction as work-in-progress. 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 R28 million by Real Insight Proprietary Limited in August 2019 with two adjoining properties valued at R1,5 million by Haake and Associates in February 2017. The sale of the property is being actively pursued.

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
12. DEFERRED TAXATION				
Deferred tax asset	**48 039**	32 211	**25 225**	25 225
Deferred tax liability	**(1 309)**	(872)		
Balance at end of year	**46 730**	31 339	**25 225**	25 225
Deferred tax				
The deferred tax asset/(liability) arises as a result of:				
Property, plant and equipment	**(1 868)**	(2 653)	**(7 699)**	(4 492)
Provisions and accruals	**10 305**	1 037	**2 077**	570
Lease straight-lining	**1 232**	1 179	**536**	388
Deferred revenue		1 348		
Estimated tax losses	**37 061**	30 514	**30 311**	28 845
Prepayments		(86)		(86)
	46 730	31 339	**25 225**	25 225
Deferred tax asset/(liability) raised				
Balance at beginning of year	**31 339**	11 038	**25 225**	6 046
Credit to profit and loss	**15 391**	20 301		19 179
Balance at end of year	**46 730**	31 339	**25 225**	25 225

Deferred tax has been provided at a rate of 28% (2018: 28%) other than for capital temporary differences where a rate of 22,4% (2018: 22,4%) has been applied.

The Company and the Group has estimated tax losses of R218,2 million which has not resulted in a deferred tax asset of R61 million (2018: nil). An assessment has been performed and the deferred tax asset raised will be recovered.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

	COMPANY 2019 R'000	COMPANY 2018 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	**23**	24
Transvaal Racing Holdings Proprietary Limited		2 480
	340	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	**87 824**	24 413
East Cape Racing Proprietary Limited	**49 873**	55 113
TAB North West Proprietary Limited	**6 834**	4 720
Tote Properties Proprietary Limited		156
	144 531	84 402
Balance owing by subsidiary companies	**144 871**	87 223

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 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
14. INVENTORIES				
Consumable stores at cost	**1 416**	3 314	**301**	2 319
Digital satellite decoders	**2 833**	459	**2 833**	459
	4 249	3 773	**3 134**	2 778
Consumable stores are made up of fuel, betting vouchers, food and beverages stock on hand.				
15. TRADE AND OTHER RECEIVABLES				
Trade receivables	**115 007**	136 593	**89 802**	108 664
Allowance for expected credit losses	**(42 681)**	(17 304)	**(18 388)**	(14 999)
Trade receivables after impairment	**72 327**	119 289	**71 414**	93 665
Subsidiary company current account				18 496
Prepayments	**7 468**	8 014	**7 336**	6 850
Other receivables	**51 558**	28 376	**35 154**	15 756
	131 353	155 679	**113 904**	134 767
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		11 477
Gross amount payable	**(81 683)**	(51 027)	**(81 821)**	(51 027)
Net amount payable	**(81 683)**	(39 550)	**(81 821)**	(39 550)

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
15. TRADE AND OTHER RECEIVABLES CONTINUED				
Included in:				
Trade and other payables (note 20)	**(81 683)**	(39 550)	**(81 821)**	(39 550)
Trade and other receivables include the following foreign currency-denominated monetary assets:				
South African rand thousands				
Australian dollar	**35 941**	4 486	**35 941**	4 486
British pound	**1 393**	570	**1 317**	510
Euro	**3 877**	11 675	**3 877**	11 675
Hong Kong dollar	**5 463**	66	**5 463**	66
Singapore dollar	**10 891**	6 164	**10 891**	6 164
United States dollar	**9 472**	8 812	**9 472**	8 812
	67 037	31 773	**66 961**	31 713
Foreign currency				
Australian dollar	**3 660 461**	454 957	**3 660 461**	454 957
British pound	**79 850**	32 735	**75 505**	29 258
Euro	**244 066**	752 329	**244 066**	752 329
Hong Kong dollar	**2 980 754**	39 247	**2 980 754**	39 247
Singapore dollar	**1 043 104**	632 234	**1 043 104**	632 234
United States dollar	**660 292**	663 821	**660 292**	663 821
The foreign currency amounts reflect the geographical make-up.				
Reconciliation of the expected credit loss provision recognised with regard to trade and other receivables				
Allowance at beginning of year	**17 304**	7 416	**14 999**	7 265
Increase in allowance for expected credit losses	**25 761**	10 262	**3 773**	7 994
Written back to profit and loss	**(3)**	(114)	**(3)**	
Utilised during the year	**(381)**	(260)	**(381)**	(260)
Allowance at end of year	**42 681**	17 304	**18 388**	14 999

Trade receivables are considered for impairment under the expected credit loss model. Trade receivables are impaired when there is no reasonable prospect that the amounts will be recovered.

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 R18 million (2018: R15 million) included in >90 days past due and not impaired (refer note 10).

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
Net balances owing by Mashonaland Turf Club:				
Trade and other receivables	**21 997**	15 344	**21 997**	15 344
Commission payable included in trade payables	**(3 807)**	(3 435)	**(3 807)**	(3 435)
Long-term secured loan (refer note 10.1)	**9 400**	14 989	**9 400**	14 989
Net amount receivable	**27 590**	26 898	**27 590**	26 898

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 July 2019

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
16. CASH AND CASH EQUIVALENTS				
Cash on cash management at bank and on hand	**34 539**	39 155	**13 386**	16 299
Short-term bank deposits	**56 796**	75 219	**56 521**	74 959
	91 335	114 374	**69 907**	91 258
Included in cash and cash equivalents are the following foreign currency-denominated monetary assets:				
South African rand				
Australian dollar	**10 325**	11 252	**10 325**	11 252
British pound	**23 336**	32 849	**22 635**	32 135
Euro	**9 881**	10 853	**9 881**	10 853
Hong Kong dollar	**1 081**	6 390	**1 081**	6 390
Singapore dollar	**1 701**	7 193	**1 701**	7 193
Swedish krona	**1 298**	391	**1 298**	391
United States dollar	**2 252**	3 983	**2 252**	3 983
	49 874	72 911	**49 173**	72 197
Foreign currency				
Australian dollar	**1 051 575**	1 141 015	**1 051 575**	1 141 015
British pound	**1 337 648**	1 885 413	**1 297 509**	1 844 441
Euro	**621 972**	699 352	**621 972**	699 352
Hong Kong dollar	**589 911**	3 778 326	**589 911**	3 778 326
Singapore dollar	**162 958**	737 741	**162 958**	737 741
Swedish krona	**873 370**	259 099	**873 370**	259 099
United States dollar	**157 005**	300 011	**157 005**	300 011
Foreign currency translation rates applied at the reporting date as set out in note 2.				
17. SHARE CAPITAL, RESERVES AND NON-CONTROLLING INTEREST				
17.1 Share capital				
Authorised				
480 000 000 ordinary shares of 2,5 cents each	**12 000**	12 000	**12 000**	12 000
Issued				
102 500 558 ordinary shares of 2,5 cents each	**2 563**	2 563	**2 563**	2 563
Treasury shares				
2 531 211 (2018: 2 531 211) ordinary shares of 2,5 cents each repurchased	**(64)**	(64)		
Opening balance 2 531 211 (2018: 940 789) ordinary shares of 2,5 cents each repurchased	**(64)**	(24)		
Repurchased nil (2018: 3 146 330) ordinary shares of 2,5 cents each		(79)		
Issued in terms of option scheme nil (2018: 1 555 908) ordinary shares of 2,5 cents		39		
Net share capital	**2 499**	2 499	**2 563**	2 563
Share premium	**471 287**	471 287	**471 580**	471 580
Total share capital and premium after deducting treasury shares 99 969 347 ordinary shares of 2,5 cents	**473 786**	473 786	**474 143**	474 143

Rand Sporting Club Proprietary Limited, a 100% subsidiary of the Company, holds 2 531 211 (2018:2 531 211) ordinary shares at year end.

	Direct beneficial	Indirect beneficial	Total	Percentage %
17. SHARE CAPITAL, RESERVES AND NON-CONTROLLING INTEREST CONTINUED				
Non-executive directors				
B Kantor	**308 500**	**5 034 653**	**5 343 153**	**5,21**
E Nkosi	**14 465**		**14 465**	**0,01**
JB Walters	**59 228**		**59 228**	**0,06**
Executive directors				
AW Heide	**341 000**		**341 000**	**0,33**
JA Stuart	**437 000**	**5 295**	**442 295**	**0,43**
	1 160 193	**5 039 948**	**6 200 141**	**6,04**

There has been no movement in the disclosed interests during the period 31 July 2019 to the date of signature of this report.

	Direct beneficial	Indirect beneficial	Total	Percentage %
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	1 1845 612	11,56

	GROUP	
	2019 R'000	2018 R'000
17.2 Translation reserves		
Foreign currency translation reserve arising on consolidation of the interests held in Phumelela Gold International Limited	**(127)**	30
	%	%
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	**4 640**	4 857
Current assets	**1 680**	2 164
Non-current liabilities	**(12 972)**	(11 296)
Current liabilities	**(15 497)**	(10 654)
	(22 149)	(14 929)
Carrying value	**(10 807)**	(7 284)
Current year losses allocated	**(3 523)**	(3 366)
Net movement in cash and cash equivalents	**178**	(210)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

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 has any obligation in respect of pensioners.

As there are no more pensioners the funds as being closed down with the remaining surplus to be distributed to the Company. A liquidator is in the processes of being appointed to determine the finalisation of the funds and the payment of the surplus to the Company and as such no further valuations are required.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Pension fund surplus				
Balance at beginning of year	**14 650**	9 028	**14 650**	9 028
Recognition of employer's surplus in benefit funds				
– Past service costs included in profit and loss		7 017		7 017
– Actuarial remeasurement included in other comprehensive income		(1 395)		(1 395)
Balance at end of year	**14 650**	14 650	**14 650**	14 650

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	4 535	1 412	16 662
Benefit obligations			(2 012)	(2 012)
Funded benefit plan assets	10 715	4 535	(600)	14 650

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

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
2019				
Phumelela Pension Fund	**103**	**1 296**	**103**	**1 296**
Phumelela Provident Fund	**2 282**	**19 791**	**1 367**	**11 123**
TAB Provident Fund	**20**	**92**	**20**	**92**
Saccawu National Provident Fund	**3**	**46**	**3**	**46**
	2 408	**21 225**	**1 493**	**12 557**
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	125	22	122
Saccawu National Provident Fund	4	52	4	52
	2 473	20 334	1 465	11 621

The Phumelela Pension Fund and Phumelela Provident fund were subject to actuarial valuation as at 1 August 2018 and found to be in a sound financial position and able to meet their obligations.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
19. BORROWINGS				
Unsecured borrowings				
Non-current				
Term loan	**189**	447		
Revolving credit facility		300 000		300 000
	189	300 447		300 000
Current liability				
Non-controlling shareholders' loans	**640**	639		
Revolving credit facility	**300 000**		**300 000**	
Short-term borrowings		1 000		
	300 640	1 639	**300 000**	
Bank overdraft	**40 855**	14 179	**40 855**	14 179
	341 495	15 818	**340 855**	14 179

At 31 July 2019 the Company has an unsecured revolving credit facility ("RCF") from a local bank in the amount of R300 million (2018: R320 million) which is redeemable in full in June 2021 at an interest rate of JIBAR plus 260 basis points and has utilised R300 million (2018: R300 million) of the facility. The convenants of the RCF have been breached at that date.

The Company also has a R55 million demand facility from a local bank at the rate of prime minus 1%.

Subsequent to the year end, the Group's bankers condoned the debt covenant breach as at 31 July 2019 and the facility has not become immediately due and payable. The condonement is subject to certain terms and conditions that include the provision of a full security package (to the satisfaction of the Lender) and revised debt covenants relating to: debt to equity, debt to EBITDA and interest cover ratios. The indulgence provided extends Group facilities for a further year provided the requisite terms and conditions are adhered to. In addition, a R50 million working capital standby credit facility with a 13-month term has been made available.

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
20. TRADE AND OTHER PAYABLES				
Trade payables	**244 042**	181 335	**228 694**	162 540
Accruals – staff costs	**18 807**	16 668	**15 920**	15 603
Accruals – other	**66 699**	48 173	**54 342**	36 642
Betting taxes	**4 787**	4 085	**2 518**	3 097
Other payables	**25 641**	27 857	**19 646**	18 998
	359 976	278 118	**321 120**	236 880
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		11 477
Gross amount payable	**81 683**	(51 027)	**81 821**	(51 027)
Net amount included in trade payables	**81 683**	(39 550)	**81 821**	(39 550)
Trade and other payables include the following geographical and foreign currency-denominated liabilities:				
South African rand				
Australian dollar	**3 677**	2 621	**3 677**	2 621
British pound	**5 066**	3 756	**5 014**	3 702
Euro	**3 152**	1 767	**3 152**	1 767
Hong Kong dollar	**5 823**	197	**5 823**	197
Mauritian rupee	**68**	66	**68**	66
Singapore dollar	**5 942**	3 644	**5 942**	3 644
Swedish krona	**1 631**	1 740	**1 631**	1 740
United States dollar	**21 505**	13 519	**21 505**	13 519
	46 864	27 310	**46 812**	27 256
Foreign currency				
Australian dollar	**374 440**	265 795	**374 440**	265 795
British pound	**290 389**	215 598	**287 389**	212 493
Euro	**198 407**	113 868	**198 407**	113 868
Hong Kong dollar	**3 177 757**	116 511	**3 177 757**	116 511
Mauritian rupee	**170 800**	170 800	**170 800**	170 800
Singapore dollar	**569 156**	373 734	**569 156**	373 734
Swedish krona	**1 097 860**	1 152 267	**1 097 860**	1 152 267
United States dollar	**1 499 065**	1 018 353	**1 499 065**	1 018 353

	COMPANY	
	2019	2018
	R'000	R'000
21. AMOUNTS OWING TO SUBSIDIARY COMPANIES		
Highveld Racing Authority Technical Services Proprietary Limited	**8 799**	8 799
Transvaal Racing Holdings Proprietary Limited	**6 418**	
Rand Sporting Club Proprietary Limited	**7 067**	5 612
Silks Gaming and Leisure Proprietary Limited	**9**	9
Tote Property Investments Proprietary Limited	**2 008**	
Highveldt Training Centre Proprietary Limited	**277**	277
	24 578	14 697

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

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
22. CONTINGENT CONSIDERATION LIABILITY				
Contingent consideration				
Balance at beginning of year	**28 806**	101 434	**28 806**	101 434
Interest accrued		6 728		6 728
Repayment on contingency met		(78 979)		(78 979)
Repaid in terms of agreement		(377)		(377)
Balance at end of year	**28 806**	28 806	**28 806**	28 806
Supabets transaction (refer note 9) – Part of the purchase consideration payable is 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 is interest free.				
23. INCOME				
Revenue comprises:				
Betting income	**1 066 907**	1 182 525	**717 253**	759 031
Bets struck net of betting dividends paid, refunds and rebates				
– South Africa – totalisator	**774 653**	819 597	**716 301**	759 031
– South Africa – fixed odds	**292 254**	362 928	**952**	
International division				
– Derived from international ventures	**320 223**	309 694	**320 223**	309 694
Proportionate share of Tellytrack Partnership				
– Derived from local operations	**15 008**	19 397	**20 520**	28 087
Interest received	**13 147**	14 745	**11 317**	11 594
Dividends received	**826**	618	**152 971**	137 681
	1 416 110	1 526 979	**1 222 284**	1 246 087

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
24. LOSS/PROFIT FROM OPERATIONS				
24.1 Income				
Dividends received	**826**	619	**152 971**	137 681
– Unlisted investments			**152 145**	137 063
– Listed investments	**826**	619	**826**	618
Interest received	**13 147**	12 929	**11 317**	11 594
– Interest received on loans	**7 752**	7 976	**3 964**	5 143
– Interest received on guarantees and taxation	**644**	412		
– Interest received from banks	**4 751**	4 541	**4 226**	3 839
– Interest received from subsidiaries			**3 127**	2 612
Gambling Board levies received	**64 671**	85 563	**64 671**	85 563
Unclaimed dividends and breakages	**45 662**	50 083	**22 711**	24 946
Share-based payment release	**4 986**	2 370	**4 986**	2 370
Profit on disposal of property, plant and equipment	**3 922**	79		79
Profit on disposal of intangible assets	**5 262**	6 014		
Profit on foreign exchange	**19 840**	15 436	**16 186**	9 069
24.2 Expenses				
Auditors' remuneration	**3 845**	3 832	**2 674**	2 674
Depreciation	**67 351**	67 205	**37 681**	39 441
– Buildings	**9 037**	9 687	**6 089**	6 759
– Plant and machinery	**14 699**	13 557	**14 326**	13 157
– Information technology equipment and software	**15 501**	15 734	**6 472**	6 676
– Motor vehicles, heavy duty trucks and trailers	**3 313**	3 894	**2 534**	3 200
– Furniture and fittings	**4 297**	4 134	**1 680**	1 601
– Marks and signs	**496**	421	**451**	410
On leasehold				
– Fittings and improvements	**20 008**	19 778	**6 129**	7 638
Amortisation on intangible assets	**3 180**	3 188	**505**	514
Goodwill impaired		2 844		
Agents' commission	**43 201**	40 888	**39 340**	37 260
– Horseracing	**24 583**	26 761	**23 457**	25 331
– Other sports	**18 618**	14 127	**15 883**	11 929
Operating lease expenses	**98 642**	95 378	**57 201**	53 862
– Office equipment	**11 711**	11 957	**6 296**	6 399
– Premises	**86 931**	83 421	**50 905**	47 463
Employee costs (permanent and part-time)	**404 044**	400 978	**282 899**	277 827
– Salaries and wages	**362 437**	344 545	**253 539**	233 716
– Retirement benefits	**21 225**	20 685	**12 557**	11 855
– Social security	**8 638**	8 676	**6 092**	6 444
– Voluntary retrenchment programme		27 072		25 812
– Section 189 retrenchment and restructure programme	**11 744**		**10 711**	
Loss on disposal of property, plant and equipment		3 244	**4 408**	
25. FINANCE COSTS				
Interest paid	**35 488**	34 577	**35 418**	34 303
– Interest paid on overdraft	**5 470**	5 822	**5 468**	5 817
– Interest paid on borrowings	**30 009**	21 926	**29 943**	21 659
– Interest paid related parties		6 728		6 728
– Interest paid other	**9**	101	**7**	99

26. INCOME TAX (CREDIT)/EXPENSE

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
Current tax charge	**2 171**	21 008		
– Current year	**2 621**	21 008		
– Prior year adjustment	**(450)**			
Deferred tax charge	**(15 391)**	(20 301)		(19 179)
– Current year	**(15 391)**	(20 120)		(19 179)
– Prior year adjustment		(181)		
Total tax charge	**(13 220)**	707		(19 179)
Taxation reconciliation				
South African normal taxation at standard rate 28%	**(29 423)**	42 687	**(20 178)**	17 647
Adjusted for:				
Share of profit of equity-accounted investee	**(46 834)**	(48 127)		
Prior year over provision	**(450)**			
Deferred tax asset prior year adjustment		(181)		
Tax rate difference – foreign subsidiary	**(967)**	(1 733)		
Tax rate difference – capital gains tax	**(520)**			
Deferred tax reversed		4 740		
Exempt dividend income	**(231)**	(173)	**(42 832)**	(38 551)
Share-based payment expenses		(664)		(664)
Depreciation on capital expenditure not deductible		514	**1 212**	505
Losses not claimed/(utilised)	**61 098**	(11)	**61 098**	
Employee tax Incentive allowance		(439)		
Disallowable expenses	**4 107**	4 094	**700**	1 884
Taxation in the current year	**(13 220)**	707		(19 179)
Estimated tax losses reconciliation				
Estimated tax losses brought forward	**108 978**	44 593	**103 019**	33 007
Assessed loss utilised		(1 709)		
Estimated loss incurred in the current year	**23 382**	70 012	**5 234**	70 012
Estimated losses derecognised		(3 918)		
Estimated tax losses available for utilisation against future taxable Income	**132 360**	108 978	**108 253**	103 019
Applied to increase deferred tax asset	**(23 382)**	(108 978)	**(5 234)**	(103 019)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 July 2019

	COMPANY 2019 R'000	2018 R'000
27. DIRECTORS' EMOLUMENTS		
Non-executive directors		
Fees as directors		
MP Malungani [1]		197
R Cooper [2]	**83**	197
MJ Jooste*[3]		79
B Kantor	**729**	314
SKC Khampepe	**292**	197
NJ Mboweni	**291**	197
SH Müller	**291**	79
E Nkosi	**291**	197
CJH van Niekerk [4 3]	**83**	157
JB Walters	**291**	157
M Tembe	**583**	
SA Mahlalela	**166**	
FS Magubane	**291**	
MA Currie	**42**	
Other services*		
MP Malungani [1]		22
R Cooper [2]	**106**	335
B Kantor	**107**	67
SKC Khampepe	**212**	
NJ Mboweni	**212**	135
SH Müller	**292**	202
E Nkosi	**113**	42
CJH van Niekerk [4 3]	**178**	169
JB Walters	**247**	202
M Tembe	**64**	
SA Mahlalela	**149**	
FS Magubane	**173**	
	5 286	2 945
Executive directors		
Fees for management services		
WA du Plessis [5]	**1 203**	4 580
Basic salary	**778**	4 442
Retirement, medical, accident and health benefits	**24**	138
Bonuses	**401**	
AW Heide	**3 373**	2 475
Basic salary	**2 776**	2 206
Retirement, medical, accident and health benefits	**331**	269
Bonuses	**266**	
VJ Moodley [6]	**1 359**	2 572
Basic salary	**1 015**	2 315
Retirement, medical, accident and health benefits	**112**	257
Bonuses	**232**	
JA Stuart	**3 569**	2 226
Basic salary	**3 006**	2035
Retirement, medical, accident and health benefits	**276**	191
Bonuses	**287**	
Total executive emoluments paid	**9 504**	11 853

* *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.*
[1] *Retired December 2017.*
[2] *Retired December 2018.*
[3] *Resigned December 2017.*
[4] *Retired December 2018.*
[5] *Resigned September 2018.*
[6] *Resigned November 2018.*

27. DIRECTORS' EMOLUMENTS CONTINUED

	COMPANY 2019 R'000	COMPANY 2018 R'000
Value of share options exercised during the year:		
WA du Plessis		27 636
		27 636
Current year share-based payment (recoupment)/expense allocated as follows:		
WA du Plessis		
AW Heide		(303)
VJ Moodley		(236)
JA Stuart		(303)
Total executive director share-based payment costs		(842)
Total directors' emoluments	**14 790**	41 592
Prescribed officers' emoluments		
CC Basel (Racing Executive)[7]	**1 599**	2 029
Basic salary	**1 252**	1 793
Retirement, medical, accident and health benefits	**169**	236
Bonus	**178**	
BK McLoughlin (Chief Financial Officer)	**1 843**	1 607
Basic salary	**1 502**	1 419
Retirement, medical, accident and health benefits	**199**	188
Bonus	**142**	
PSG Davis (Racing Executive)[8]	**625**	
Basic salary	**561**	
Retirement, medical, accident and health benefits	**64**	
RT Scott (Betting Executive)[9]	**2 395**	
Basic salary	**2 231**	
Bonus	**164**	
DC Attfield (Chief Information Officer)	**2 111**	
Basic salary	**1 783**	
Retirement, medical, accident and health benefits	**161**	
Bonus	**167**	
D Sawarjith (International Executive)[10]	**1 655**	
Basic salary	**1 359**	
Retirement, medical, accident and health benefits	**163**	
Bonus	**133**	
CSJ Goodman (Chief Executive, Tellytrack)[11]	**1 032**	
Basic salary	**960**	
Retirement, medical, accident and health benefits	**72**	
NG Fowler (Retail Executive)	**1 706**	
Basic salary	**1 411**	
Retirement, medical, accident and health benefits	**164**	
Bonus	**131**	
Total prescribed officers' emoluments paid	**12 966**	3 636

[7] *April 2019, reassigned to a role in events, hospitality and sales.*
[8] *April 2019, appointed Racing Executive.*
[9] *November 2018, appointed Betting Executive.*
[10] *October 2018, appointed International Executive.*
[11] *January 2019, appointed Tellytrack CEO.*

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

	COMPANY 2019 R'000	2018 R'000
27. DIRECTORS' EMOLUMENTS CONTINUED		
Prescribed officers' emoluments continued		
Current year share-based payment expense allocated as follows:		
CC Basel		(247)
BK McLoughlin		(206)
Total prescribed officers' share-based payment costs		(453)
Total prescribed officers	**12 966**	3 183
Total directors' and prescribed officers' emoluments	**27 756**	44 775
Paid by: the Company		
Emoluments	**27 756**	18 434
Share-based payment recovery	**(4 986)**	(1 295)
Value of share options exercised during the year		27 636
Total directors' and prescribed officers' emoluments	**22 770**	44 775

The criteria for qualification of prescribed officers has been reviewed following the re-assignment of roles of the members of the Executive Committee. These have been reviewed based on the following criteria:

- Job description;
- Exercise of general executive control over the management of a significant portion of the business of the Company and its activities and operations;
- Levels of deligated authority; and
- Participation in strategic meetings, amongst other things.

There are no service contracts for non-executive directors.

	GROUP 2019 cents	2018 cents
28. EARNINGS PER ORDINARY SHARE		
Basic earnings per share	**(92,32)**	153,78
Diluted earnings per share	**(92,32)**	153,78
Headline earnings per share	**(98,20)**	154,23
Diluted headline earnings per share	**(98,20)**	154,23
	R'000	R'000
28.1 Reconciliation of basic/diluted earnings to headline earnings		
Earnings attributable to ordinary shareholders for basic and diluted earnings per share	**(92 293)**	155 112
Adjusted for:		
Equity-accounted investee impairment		
Net loss/(profit) on disposal of property, plant and equipment	**(3 922)**	3 165
Impairment of goodwill		2 844
Profit on disposal of licences	**(5 262)**	(6 014)
Tax effect	**3 308**	461
Headline earnings attributable to ordinary shareholders	**(98 169)**	155 568
	Number	Number
Number of shares in issue after deducting treasury shares	**99 969 347**	99 969 347
Calculation of weighted average number of shares:		
Weighted average number of shares		
Number of shares in issue at beginning of year	**102 500 558**	102 500 558
Treasury shares at beginning of year	**(2 531 211)**	(940 789)
Opening shares not belonging to Group	**99 969 347**	101 559 769
Effect of share purchased as treasury shares		(1 872 133)
Effect of share granted in term of share option scheme		1 180 785
Weighted average number of shares at year end	**99 969 347**	100 868 421

	GROUP 2019 Number	2018 Number
28. EARNINGS PER ORDINARY SHARE		
28.1 Reconciliation of basic/diluted earnings to headline earnings continued		
Weighted average number of ordinary shares in issue for basic and headline earnings per share	**99 969 347**	100 868 421
Potential dilutive impact of outstanding share options		
Number of outstanding options	**7 520 123**	7 482 469
Number of options deemed to be issued at fair value or not vesting	**(7 520 123)**	(7 482 469)
Weighted average number of ordinary shares in issue for diluted basic and diluted headline earnings per share	**99 969 347**	100 868 421

	cents	cents
28.2 Dividends per ordinary share		
Final dividend declared to shareholders recorded in the register on 2 November 2018 (2018: 3 November 2017) and paid on 5 November 2018 (2018: 6 November 2017)	**62**	70
No Interim dividend declared to shareholders in respect of the current year (2018 to shareholders recorded in the register on 23 May 2017 and paid on 26 May 2017)		42
	62	104

** The dividends were 49,60 cents per share (2018: 56,00 and 28,90 cents per share) net of the dividend withholding tax at a rate of 20%.*

28.3 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 weighted average 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 2019

29. 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% (2018: 61%) which is as follows:

Proportionate share of assets, liabilities, income and expenses for Tellytrack

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
ASSETS				
Non-current assets				
Property, plant and equipment	**6 858**	7 911	**6 858**	7 911
Current assets	**33 225**	35 902	**33 225**	35 902
Inventories	**781**	459	**781**	459
Amounts owing by Group companies				
Trade and other receivables	**29 321**	33 788	**29 321**	33 788
Cash and cash equivalents	**3 213**	1 655	**3 213**	1 655
	40 083	43 813	**40 083**	43 813
CAPITAL AND RESERVES				
Partners' accounts	**(710)**	34 435	**(710)**	34 435
LIABILITIES				
Current liabilities				
Trade and other payables	**40 793**	9 378	**40 793**	9 378
	40 083	43 813	**40 083**	43 813
CASH FLOW				
Cash flows from operating activities	**(25 693)**	(56 891)	**(20 159)**	(50 243)
Cash flows from investing activities	**(1 427)**	(3 589)	**(1 427)**	(3 589)
Cash flows from financing activities	**29 553**	61 260	**24 019**	54 612
Net increase/(decrease) in cash and cash equivalents	**2 433**	780	**2 433**	780
INCOME	**12 922**	16 659	**18 456**	23 307
EXPENDITURE	**(63 807)**	(57 478)	**(63 807)**	(57 478)
Loss for the year	**(50 885)**	(40 819)	**(45 351)**	(34 171)

Tellytrack previously 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 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
30. COMMITMENTS AND CONTINGENCIES				
30.1 Capital expenditure				
Commitments in respect of capital expenditure approved by directors				
– Contracted for	**2 075**	6 782	**2 075**	6782
– Not contracted for	**17 925**	95 979	**17 925**	65 549
The above capital expenditure will be financed out of cash and cash equivalents generated by operations or borrowing facilities as and when required.				
30.2 Operating leases				
Commitments in respect of operating leases				
Office equipment	**23 873**	10 168	**6 921**	10 168
Within one year	**6 987**	2 976	**2 026**	2 976
Between two and five years	**16 886**	7 192	**4 895**	7 192
Leasehold properties	**92 273**	112 060	**53 868**	69 899
Within one year	**49 508**	51 027	**30 352**	32 255
Between two and five years	**42 765**	61 033	**23 516**	37 644
	116 146	122 228	**60 789**	80 067

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

30.3 Guarantees and surety issued

Guarantees in lieu of operating lease deposits amount to R961 030 (2018: R961 030) 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 500 000 (2018: 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 R47 301 191 (2018: R46 593 829).

31. 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 directors', shareholding and options are set out in notes 17 and 32 respectively.
Treasury shares are set out in note 17.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 7 and on page 134.
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:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

	COMPANY 2019 R'000	2018 R'000
31. RELATED PARTIES CONTINUED		
Turnover levies received from TAB North West Proprietary Limited	**30 062**	31 621
Marketing sponsorship from Betting World Proprietary Limited	**13 930**	9 132
Sub-lease rental income received from Betting World Proprietary Limited	**9 914**	9 096
Tellytrack licence fees paid by Betting World Proprietary Limited	**5 534**	6 648
Interest received from Betting World Proprietary Limited	**3 150**	2 612
Sponsorship paid to Tellytrack by Uptonvale Services Proprietary Limited group	**1 628**	1 080
Leasehold property rentals paid to Betting World Proprietary Limited	**(1 190)**	(994)
Commission paid to Betting World Proprietary Limited	**(5 887)**	(3 719)
Leasehold property rentals paid to East Cape Racing Proprietary Limited	**(8 413)**	(10 107)
Agents commission paid to Uptonvale Services Proprietary Limited	**(19 446)**	(17 556)
Security costs paid to SW Security Solutions SA Proprietary Limited	**(31 359)**	(35 307)

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 27, directors' interests in the Company in note 16 and share options in note 32.

Jointly controlled operation

Details of investments in joint operation are disclosed in note 29.

Equity-accounted investees

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

32. 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

2014 Executive option scheme

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 the Black-Scholes-Merton valuation 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

32. SHARE OPTION SCHEMES CONTINUED

2018 Executive option scheme

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	1 August 2018	1 October 2018	1 January 2019	1 April 2019
Number of shares	3 225 281	250 000	1 425 000	300 000	300 000
Dividend yield	6,58%	8,00%	8,45%	9,12%	7,36%
Interest rate	7,43%	7,91%	8,20%	7,54%	7,74%
Volatility	22,50%	20,25%	23,75%	32,25%	49,50%
Option take-up	100%	100%	100%	100%	100%
Equity price	R14,76	R13,82	R13,29	R11,46	R9,82
Maturity date	12 April 2021	1 August 2021	1 October 2021	1 January 2022	1 April 2022

	2019		2018	
	Number of shares	**Weighted average exercise price R**	Number of shares	Weighted average exercise price R
Summary of share options granted				
Balance at beginning of year	**5 982 469**	**17,50**	6 181 858	18,99
Granted	**2 275 000**	**12,65**	3 225 281	14,76
Forfeited	**(737 346)**	**17,38**	(200 000)	20,70
Lapsed			(3 224 670)	17,44
	7 520 123	**16,04**	5 982 469	17,50
Made up as follows:				
Granted to directors				
AW Heide – 17 July 2017	**352 470**	**20,70**	352 470	20,70
AW Heide – 12 April 2018	**412 500**	**14,76**	412 500	14,76
AW Heide – 1 October 2018	**612 500**	**13,29**		
JA Stuart – 17 July 2017	**352 470**	**20,70**	352 470	20,70
JA Stuart – 12 April 2018	**412 500**	**14,76**	412 500	14,76
JA Stuart – 1 October 2018	**612 500**	**13,29**		
VJ Moodley – 17 July 2017			274 846	20,70
VJ Moodley – 12 April 2018			412 500	14,76
Granted to staff				
Effective grant date – 17 July 2017	**1 727 402**	**20,70**	1 777 402	20,70
Effective grant date – 12 April 2018	**1 987 781**	**14,76**	1 987 781	14,76
Effective grant date – 1 August 2018	**250 000**	**13,82**		
Effective grant date – 1 October 2018	**200 000**	**13,29**		
Effective grant date – 1 January 2019	**300 000**	**11,46**		
Effective grant date – 1 April 2019	**300 000**	**9,82**		
Balance at end of year	**7 520 123**	**16,04**	5 982 469	17,50
The above options may be exercised between the following dates:				
18 July 2020 to 17 January 2021	**2 432 342**	**20,70**	2 757 188	20,70
13 April 2021 to 12 October 2021	**2 812 781**	**14,76**	3 225 281	14,76
2 August 2021 to 1 February 2022	**250 000**	**13,82**		
2 October 2021 to 1 April 2022	**1 425 000**	**13,29**		
2 January 2022 to 1 July 2022	**300 000**	**11,46**		
2 April 2022 to 1 October 2022	**300 000**	**9,82**		
	7 520 123	**17,50**	5 982 469	17,50

** Adjusted for Supabets deal rights offer.*

32. SHARE OPTION SCHEMES CONTINUED

2019 Group Chief Executive and Finance Director option scheme

Shareholder approval for the granting of 437 000 options to the Group Chief Executive and 341 000 options to the Group Finance Director was obtained at the Company's annual general meeting held on 11 December 2018.

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.

	2019
Date of option	1 October 2018
Number of shares	778 000
Dividend yield	8,45%
Interest rate	8,20%
Volatility	23,75%
Option take-up	100,00%
Equity price	R13,29
Maturity date	1 October 2021

	2019 Number of shares	2019 Exercise price cents	2018 Number of shares	2018 Exercise price cents
Summary of share options granted				
JA Stuart – 1 October 2018	437 000			
AW Heide – 1 October 2018	341 000			
	778 000	2,5	3 213 130	2,5

The above options may be exercised between 1 October 2021 to 1 October 2024.

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
33. NOTES TO THE CASH FLOW STATEMENTS				
33.1 Cash (utilised)/generated by operations				
(Loss)/profit before income tax expense	(109 036)	152 453	(72 060)	63 024
Adjustments for:				
Share of profit of equity-accounted investees	(163 310)	(169 169)		
Investment income	(13 973)	(13 547)	(164 288)	(149 275)
Finance costs	35 488	34 577	35 418	34 303
Depreciation	67 351	67 205	37 681	39 441
Amortisation of intangible assets	3 180	3 189	505	514
(Loss)/profit on disposal of property, plant and equipment	(3 922)	3 165	4 408	(79)
Loss on sale of investment	(2 964)		(2 964)	
Profit on disposal of intangible assets	(5 262)	(6 014)		
Unpaid restructure costs	19 103		15 503	
Impairment of investments	32 623	2 844	692	
Post-retirement curtailments		(4 226)		(4 226)
Initial recognition adjustment to loan		3 155		3 155
Share-based payment	(4 986)	(2 370)	(4 986)	(2 370)
	(145 708)	70 716	(150 091)	(16 059)

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
33. NOTES TO THE CASH FLOW STATEMENTS CONTINUED				
33.2 Movements in working capital				
Increase in inventories	**(476)**	(1 307)	**(356)**	(1 754)
Decrease/(increase) in trade and other receivables	**2 395**	(25 824)	**20 863**	(9 467)
Decrease/(increase) in amounts owing from subsidiary companies			**9 881**	(12 807)
Decrease in amounts owing to subsidiary companies			**(57 648)**	(26 384)
Increase in trade and other payables	**58 932**	19 316	**68 258**	13 595
	60 851	(7 815)	**40 998**	(36 817)
33.3 Taxation paid				
Balance at beginning of year	**23 324**	19 371	**18 568**	13 842
Current year charge (note 26)	**2 171**	(21 008)		
Balance at end of year	**(27 186)**	(23 324)	**(17 017)**	(18 568)
	(1 691)	(24 961)	**1 551**	(4 726)

34. SEGMENTAL ANALYSIS

The Group offers betting opportunities on South African and international sports and numbers and sellers 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 Betting Operations segment comprise 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 horse racing operations are reflected within the new Media segment, and comprise the selling of media and data rights of South African horse racing locally and internationally. The local horse racing operations remain loss making on a stand-alone basis with international profitable and supported by solid international demand. New Zealand has been added as a territory for comingling 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 initiative, such as in the North West. The Supabets and the jointly owned Supaworld outlets are all large format physical stores that attract a large 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 2019

34. 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 2019 R'000		
	Betting operations		
	Over the counter	Non-over the counter	Total
Income	788 977	277 930	1 066 907
Betting income	788 977	277 930	1 066 907
– Totalisator	524 832	249 821	774 653
– Horseracing	325 655	162 954	488 609
– Other sports	199 177	86 867	286 044
– Fixed odds	264 145	28 109	292 254
– Horseracing	35 392	16 704	52 096
– Other sports	48 675	7 520	56 195
– Other	180 078	3 885	183 963
Other income			
Unclaimed dividends and breakages	45 662		45 662
Commission on limited payout machines	34 346		34 346
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	38 838		38 838
Investment income			
Total income	907 823	277 930	1 185 753
Expenses			
Stakes			
– Intellectual property rights fees - local	56 843	26 670	83 513
– Intellectual property rights fees - international	24 566	9 655	34 221
Operating expenses	479 375	70 665	550 040
Betting taxes	158 000	58 496	216 496
Restructure programme	29 992		29 992
Total expenses	748 776	165 486	914 262
Profit/(loss) before depreciation and amortisation and finance costs	159 048	112 444	271 491
Depreciation and amortisation	39 267	420	39 687
Finance costs			
Profit/(loss) before share of equity-accounted income	119 780	112 024	231 804
Share of profit on equity-accounted income	18 445	144 865	163 310
Profit and loss before revaluation of investments	138 225	256 889	395 114
Revaluations of investments			
Profit and loss before tax	138 225	256 889	395 114
Local operations	138 225	123 805	262 030
International operations		133 084	133 084
Profit and loss before tax	138 225	256 889	395 114

	Local	International	Racing operations	Media Total	Administration and Support Services	Total
			Audited year ended 31 July 2019 R'000			
	14 182	321 049		335 231	13 973	1 416 110
						1 066 907
						45 662
						34 346
			8 632	8 632		8 632
			64 671	64 671		64 671
					9 309	9 309
	3 130		14 418	17 548		17 548
		182 677		182 677		182 677
	15 008			15 008		15 008
		126 362		126 362		126 362
	19 518			19 518		19 518
		14 838		14 838		53 676
					13 973	13 973
	37 656	323 877	87 721	449 254	23 282	1 658 289
			216 440	216 440		216 440
		82 816		82 816		166 329
						34 221
	172 626	96 690	220 504	489 820	124 241	1 164 101
						216 496
						29 992
	172 626	179 506	436 944	789 076	124 241	1 827 579
	(134 971)	144 371	(349 223)	(339 822)	(100 959)	(169 290)
	9 545	28	18 686	28 259	2 586	70 532
					35 488	35 488
	(144 515)	144 343	(367 909)	(368 080)	(139 033)	(275 310)
						163 310
	(144 515)	144 343	(367 909)	(368 080)	(139 033)	(112 000)
					2 964	2 964
	(144 515)	144 343	(367 909)	(368 080)	(136 069)	(109 036)
	(144 515)	54 041	(367 909)	(458 383)	(136 069)	(332 422)
		90 302		90 302		223 386
	(144 515)	144 343	(367 909)	(368 080)	(136 069)	(109 036)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2019

34. SEGMENTAL ANALYSIS CONTINUED

	Audited year ended 31 July 2018 R'000		
	Betting operations		
	Over the counter	Non-over the counter	Total
Income	873 686	308 839	1 182 525
Net betting income	873 686	308 839	1 182 525
– Totalisator	556 999	262 599	819 598
– Horseracing	323 609	177 908	501 517
– Other sports	233 390	84 691	318 081
– Fixed odds	316 687	46 240	362 927
– Horseracing	52 909	27 730	80 639
– Other sports	72 740	14 995	87 735
– Other	191 038	3 515	194 553
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	982 610	308 839	1 291 449
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	363 068	114 114	477 182
Betting taxes	167 665	65 099	232 764
Restructure programme			
Total expenses	602 786	217 010	819 796
Profit/(loss) before depreciation and amortisation and finance costs	379 824	91 829	471 653
Depreciation and amortisation	38 035	136	38 171
Finance costs			
Profit/(loss) before share of equity-accounted income	341 789	91 693	433 482
Share of profit on equity-accounted income	31 481	137 688	169 169
Profit and loss before revaluation of investments	373 270	229 381	602 651
Revaluations of investments			
Profit and loss before tax	373 270	229 381	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
						1 182 525
						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	1 795 692
			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
						232 764
					27 071	27 071
	161 737	180 964	389 036	731 737	156 451	1 707 984
	(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

35. SUBSEQUENT EVENTS

Subsequent to the year end, the Group's bankers condoned the debt covenant breach as at 31 July 2019 and the facility has not become immediately due and payable. The condonement is subject to certain terms and conditions that include the provision of a full security package (to the satisfaction of the Lender) and revised debt covenants (disclosed in note 19). The indulgence provided extends Group facilities for a further year provided the requisite terms and conditions are adhered to. In addition, a R50 million working capital standby credit facility with a 13-month term has been made available. The Group is keeping its bankers abreast of trading conditions and reports back regularly on cash flow.

Other than the above there are no significant subsequent events that have an impact on the financial information at 31 July 2019.

36. GOING CONCERN

The Board are required to assess the ability of the Group and the Company to continue as going concerns and have disclosed their considerations below.

The Group incurred a loss for the year of R96 million (2018: profit of R154 million) and the Company a loss for the year of R72 million (2018: profit of R84 million). The current liabilities of the Group exceed the current assets by R472 million (2018: R25 million) and the current liabilities of the Company exceed the current assets by R398 million.

The matters described below have placed significant pressure on the overall liquidity of the Group and Company:

- The decline in local fixed odds and totalisator betting revenues and profits by the Group and Company in the current financial year;
- The R30 million section 189 retrenchment and restructure programme by the Group and Company in the current financial year;
- The current challenging local economic environment within the retail sector, compounded by political instability and large-scale unemployment; and
- The ability of the Group and Company to obtain further short to medium-term funding supported by its bankers as required in terms of the revolving credit facility agreement.

The Board has considered the Group's and Company's ability to continue as a going concern. In assessing this, various aspects of the future business including the following were considered:

- The budget and stress tested forecast cash flow for the year ending 31 July 2020;
- An independent assessment of the Group's and Company's ability to continue as a going concern for the following 12 months commissioned by the Board in August 2019 that concluded: "The liquidity of Phumelela is of major concern. Based on all the considerations discussed above, there is a high risk that Phumelela may experience cash shortages at a future date. There appears to be significant doubt whether Phumelela can generate adequate cash flow to maintain its operations and therefore this would give rise to a material uncertainty that Phumelela can continue as a going concern";
- The decline in local fixed odds and totalisator betting revenues/profits and the Group's ability to arrest same;
- The long-term sustainability of profits and dividends received from international business operations that include the Group's 50% equity interest in the Isle of Man totalisator operation;
- The withdrawal of the Gauteng bookmaker levy that deprives the Group of approximately R75 million in annual revenue;
- Cost saving initiatives that include a Section 189 programme with 371 employees retrenched and 25 retail stores closed by 31 July 2019;
- On 28 August 2019, the Province of Gauteng issued an Extraordinary Provincial Gazette in respect of the Gauteng Gambling Act (4/1995) ("the Act"), as amended. The purpose of the General Notice was to invite expressions of interest to develop, own and operate a race meeting licence in the Gauteng Province and to invite an expression of interest to operate a totalisator licence in the Gauteng Province. The Group offered to assist the Gauteng Gambling Board in respect of the process and awaits the outcome thereof;
- At 31 July 2019 the Group's total facilities, include an unsecured revolving credit ("RCF") facility of R300 million and bank overdraft facility of R55 million. The covenants of the RCF have been breached. The cashflow forecast factors in a repayment of R40 million (R10 million per quarter) required in terms of the RCF agreement in the next 12 months. Executive management remains in regular contact with the Group's bankers;

36. GOING CONCERN GOING CONCERN CONTINUED

- The probability and timing of trade and other receivables, including long overdue debts from Mashonaland Turf Club (Zimbabwe) and Omphe Tshiamo (North West franchisee), and various other claims being pursued; and
- The probability and timing of trade and other payables including the R28 million contingent consideration in relation to the Supabets purchase consideration and guarantees and sureties lodged with bankers, insurers and regulators.

The Group plans to improve cash flow sustainability by focusing on:

- Cost cutting initiatives in excess of R60 million for the year ending 31 July 2020;
- A substantial reduction on capital expenditure to R20 million for the year ending 31 July 2020;
- A strong focus on the Group's fixed odds businesses, in particular Betting World that is budgeted to return to normalised profits of approximately R50 million per annum from a loss incurred in FY2019;
- A freeze on dividend payments to shareholders;
- Disposal of non-core assets that include the Arlington property in Port Elizabeth expected to realise in excess of R30 million;
- Collecting long outstanding debts from Mashonaland Turf Club and Omphe Tshiamo, likely to realise R15 million in the next 12 months;
- Finalising the liquidation and distribution of the employer surplus from the defined benefit funds estimated at in excess of R14,7 million;
- Renegotiating payment terms with associates and suppliers to more closely match cash inflows with outflows;
- Subsequent to the year end, the Group's bankers condoned the debt covenant breach as at 31 July 2019 and the facility has not become immediately due and payable (refer to note 35);
- Ongoing constructive interaction with regulators/government; and
- Overtures with a view to an underpin of the equity position being progressed.

Consequently, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

However, the ability of the Group and Company to settle their liabilities as and when they fall due is largely dependent on the successful realisation of these projected cash inflows. If the Group and Company do not realise the cash inflows in a timely manner and in the quantum estimated, then the cash flow resources available to the Group will be materially impacted.

As a result of the events and conditions described above, there is a material uncertainty on the timing and quantum of the cash inflows included in the cash flow forecast that may cast doubt on the Group and Company's ability to continue as going concerns and, therefore, the Group and Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

37. STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial statements of Phumelela Gaming and Leisure Limited for the year ended 31 July 2019, the following standards and interpretations were in issue but not yet effective:

Effective for the financial year commencing on/after 1 August 2019

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)
- Annual Improvements to IFRS Standards 2015/2017 Cycle various standards

Effective for the financial year commencing 1 August 2020

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

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

37. STANDARDS AND INTERPRETATIONS CONTINUED

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor").

IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The 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 R60,9 million (Company: R37,1 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.

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 2019

Name and nature of business	2019 Investment R'000	2019 Issued capital R	2019 % held	2018 Investment R'000	2018 Issued capital R	2018 % 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						
Highveldt Training Centre Proprietary Limited						
– Dormant		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)		
	96 336			96 336		

Indirectly held subsidiaries held through Betting World Proprietary Limited

	Percentage holding 2019	Percentage holding 2018
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 2019

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	352	40,27	97 932	0,10
1 001 – 10 000 shares	318	36,38	1 197 423	1,17
10 001 – 100 000 shares	139	15,90	4 266 970	4,16
100 001 – 1 000 000 shares	48	5,49	15 832 555	15,45
1 000 001 shares and over	17	1,95	81 105 678	79,13
Totals	**874**	**100,00**	**102 500 558**	**100,00**

Distribution of shareholders	Number of shareholders	%	Number of shares	%
Banks/brokers	19	2,17	6 782 736	6,62
Close corporations	7	0,80	48 711	0,05
Empowerment	3	0,34	10 954 423	10,69
Endowment funds	4	0,46	8 856	0,01
Individuals	730	83,52	10 553 364	10,30
Insurance companies	8	0,92	483 039	0,47
Medical schemes	1	0,11	106 033	0,10
Mutual funds	16	1,83	8 460 746	8,25
Other corporations	6	0,69	2 956 399	2,88
Private companies	27	3,09	23 256 243	22,69
Public companies	3	0,34	5 857 118	5,71
Retirement funds	8	0,92	276 595	0,27
Share trust	1	0,11	367 585	0,36
Treasury stock	1	0,11	2 531 211	2,47
Trusts	40	4,58	29 857 499	29,13
Totals	**874**	**100,00**	**102 500 558**	**100,00**

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	**16**	**1,83**	**47 444 543**	**46,29**
Directors of the Company	10	1,14	6 200 141	6,05
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	367 585	0,36
Empowerment	3	0,34	10 954 423	10,69
Public shareholders	**858**	**98,17**	**55 056 015**	**53,71**
Totals	**874**	**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	5 562 575	5,43
Government Pension Fund – Norway	2 922 667	2,85
Yerranzano Property Investments Limited	4 498 011	4,39
Gride Investments Proprietary Limited	3 898 542	3,80
Dihla Investment Holdings Proprietary Limited	3 536 905	3,45
Vela Phumelela Investments	3 518 976	3,43
Peregrine	3 263 777	3,18
Totals	**72 839 079**	**71,06**

Institutional shareholders holding 3% or more	Number of shares	%
All Weather Capital	3 253 209	3,17
Truffle Asset Management	3 503 825	3,42
Totals	**6 757 034**	**6,59**

CORPORATE INFORMATION

DIRECTORS	B Kantor (Chairman) JA Stuart (Group Chief Executive Officer) AW Heide (Chief Operating Officer and Group Finance Director) M Tembe (Lead Independent Director) KC Khampepe SA Mahlalela NJ Mboweni SH Müller E Nkosi 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)