

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

PHUMELELA GAMING AND LEISURE LIMITED

**AUDITED ABRIDGED CONSOLIDATED
ANNUAL FINANCIAL RESULTS**

FOR THE 12 MONTHS ENDED 31 JULY 2019
AND FURTHER CAUTIONARY ANNOUNCEMENT

A continued deterioration in trading conditions coupled with several adverse financial circumstances has resulted in a loss for the year

OPERATIONAL FEATURES OF THE YEAR

- An unusually high number of local and international sporting results favoured gaming customers, affecting margins at Betting World and Supabets
- Betting operations struggled in a depressed economy
- Horseracing under considerable pressure and facing regulatory uncertainty
- PGI on the Isle of Man once again performed very well
- Demand for live South African horseracing remains buoyant internationally
- Rightsizing of headcount and footprint targeted to realise significant long-term savings

FINANCIAL FEATURES OF THE 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%

RESULTS OVERVIEW

The Group has had its worst year since the business was first incorporated in 1997. Whilst our international operations are continuing to perform at a high level the local operations, both horseracing and betting, had a terrible year. International operations contributed R223,4 million in pre-tax profit but local operations lost a combined R332,4 million, up from R51,9 million.

As a consumer facing business in South Africa, Phumelela is faced with the consequences of political turbulence, labour unrest, criminality, a stagnant economy, low business and consumer confidence, increasing unemployment, higher tax, and inflationary administered prices. The increase in VAT to 15% with effect from 1 April 2018 is a direct cost to the Group and there is little doubt that the VAT increase has further depressed discretionary spending.

We experienced an unusually high number of local and international sporting results, particularly in football, favouring gaming customers, leading to reduced profit margins at Betting World and Supabets. Tote turnovers on horseracing and other sports declined as well.

The Group incurred a R31,9 million impairment against the franchise operation in the North West province.

Losses were exacerbated by the withdrawal, with effect from April 2019, of the Group's 50% share of the 6% levy on punters' winnings on fixed-odds bets on horseracing in Gauteng. This cost the Group approximately R26 million for the four-month period through July and will have an annualised negative impact of approximately R75 million.

The Group has had no alternative but to take further decisive measures to cut costs, with in excess of 15% of the Group's workforce retrenched and premises closed. A cumulative R57 million has been incurred in the past two financial years in restructuring charges. Consequently, annual cash savings of approximately R60 million are targeted to be realised.

Horseracing is at an unenviable juncture. The Group has warned for several years that escalating losses could not be sustained and that a more equitable funding dispensation was crucial for the sport to survive, let alone thrive. Local horseracing on a standalone basis, the cost engine that drives the sport in South Africa, increased losses this year. The Board remains open to any realistic and constructive ideas that may benefit horseracing.

During the year, management engaged with key stakeholders in the horseracing industry to discuss the challenges being faced with a vision to strive for an inclusive, financially sound, and transformed industry that flies the flag for South Africa. Phumelela also seeks to build constructive relationships with government and regulators and remains open to realistic suggestions that may benefit horseracing.

Premier Gateway International ("PGI") on the Isle of Man continues to perform well whilst our international Media business benefits from interest in live South African horseracing.

Jointly owned Supabets and online betting exchange Interbet had lower profitability, reflecting commercial realities. Wholly owned Betting World has reduced both its headcount and retail footprint.

The Group has a clear strategic objective to be the standard bearer for the sport of thoroughbred South African horseracing and offer punters an exciting gaming experience through the complementary brands TAB, Betting World, Supabets and Interbet.

BETTING OPERATIONS

The Betting Operations segment comprises over-the-counter ("OTC") retail outlets and non-OTC, which consist of 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.

Consolidated betting income in South Africa reduced by 10% with downward top line and betting margin pressure in both tote and fixed odds. Tote betting income declined by 6% and fixed odds betting income declined by 19%. Same store betting income was down in Tab, Betting World and Supabets. Trading densities declined across all formats.

The decline in top line to the extent of R105,7 million, together with restructuring costs, an impairment against the North West franchise and inflationary increases in operating expenses amounting to R94,5 million, flowed through to the bottom line with a R201,7 million reduction in pre-tax profit before equity-accounted investees.

Non-OTC combined is 26% of betting income in South Africa with Tote at 23%. Non-OTC active accounts at Tab, Betting World and Supabets all increased. Whilst the Group is investing in improving the customer digital online experience there is no doubt that physical stores, appropriately located, will remain popular in South Africa. New bet offerings continue to be evolved and improved. There is healthy cooperation between the Phumelela and Supabets teams.

Rationalisation of the footprint resulted in 25 Tab premises closed and 31 merged into Betting World branches. The deployment of Betting World licences as Supabets mega outlets through a best of both strategies is working well and seven were operating by year end.

COMMENTARY CONTINUED

Turnovers in Supabets JV outlets are higher than the previous Betting World outlets and Phumelela is entitled to a 75% share of earnings. Supabets trades from 11 stores, unchanged for the year.

PGI located on the Isle of Man enjoyed another good year with equity-accounted income up by 18%. 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.

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

Profit before equity-accounted income was down by 47% to R231,8 million. Equity-accounted income was down by 3% to R163,3 million of which international contributed R133,1 million, and thus the total segment pre-tax income was down by 34% to R395,1 million.

MEDIA OPERATIONS

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

The UK, Australia, Singapore and France are the most important international markets for the South African horseracing picture. There is pleasing demand from international betting operators for the media and data rights of South African thoroughbred horseracing. Commingled media and data rights fees from countries outside South Africa continue to be positive. International profit was R90,3 million for the year.

Locally, political agitation has been a challenge whilst trade unions have been pressing for rises in minimum wages for grooms. Violent incidents have occurred and there has been disruption to stable yards and meetings.

Under new executive leadership with effect from April 2019, the horseracing operations 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.

The stakes agreement with the Racing Association has an agreed formula for prize money and is calculated retrospectively. Whilst stakes increased by 3% to R216,4 million, the current state of the sport and Phumelela's reduced financial circumstances means that stakes will fall in the coming year.

The combined loss of both local and international operations increased by 31% to R368,1 million.

GROUP FINANCIAL ANALYSIS

Shareholders' attention is drawn to the following accounting standards and consequent restatements.

- 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.
- IFRS 9 deals with expected loss provisioning and has not affected disclosure. The impairment model has been changed from an incurred loss model to an expected credit loss model. A R31,9 million impairment against the North West franchise debt was raised in the current year.
- With effect from 1 August 2019, the Group will adopt IFRS 16 Leases. The Group's initial assessment is that it will impact the following areas:
 - 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 R61 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.
 - It is estimated that the earnings effect from an income statement perspective will be immaterial.

COMMENTARY CONTINUED

Phumelela's annual financial statements for the year ended 31 July 2017 were selected for review by the JSE as part of its pro-active monitoring of annual financial statements process. The JSE questioned the appropriateness of disclosing betting taxes and value added tax ("VAT") in betting income as 'revenue' in the statement of comprehensive income. The JSE concluded that Phumelela's response did not provide an IFRS-based justification for presenting these 'costs' as a deduction from the revenue line item (net betting revenue). Consequently, betting taxes and value added tax are now excluded from within net income and disclosed separately as an expense. Consequently, net income as previously stated is now higher by the collective amount of the betting taxes and value added tax whilst expenses are increased by the same amount. There is no effect on EBITDA or profit from operations. Comparative information has accordingly been restated.

Consolidated net income decreased by 8% to R1 658,3 million of which local income accounted for 80% compared with 82% in the prior year. Betting Operations contributed 72%, Media 27%, and Administrative & Support Services the balance. Local income declined by 10% and international income increased by 3%.

Group operating expenses increased by 7% to R1 827,6 million. Included in expenses are restructuring costs of R30 million and an impairment of R31,9 million against the North West franchise. International expenses increased by 4% as reported in rand. Intellectual property rights fees increased by 5%. Stakes increased by 3% in terms of the formula contained in the stake's agreement with the Racing Association and calculated retrospectively.

Local expenses within the Group's control are under tight scrutiny with cost savings being identified wherever possible. However, there is upward pressure on wages and administrative and municipal charges are going up ahead of consumer price inflation.

The increase in VAT in the 2018 budget from 14% to 15% cost the Group R11,6 million for the year and this is an ongoing reduction in income as there is no relief on the take-out ratio after provincial taxes and levies.

Depreciation and amortisation of R70,5 million is allocated 56% to Betting Operations, 40% to Media, and the balance to Administrative & Support Services. The Group continues to reinvest in its estate with R56,7 million spent during the period.

A loss from operations of R239,8 million, before finance costs and share of equity-accounted investees, was incurred, which is a significant R257,1 million adverse movement from the profit of R17,3 million in the prior year. The adverse movement was due to an increase in the loss from Media of R86,5 million, a reduction in Betting operations profitability of R201,7 million and a R31,1 million reduction in the costs of Administration and Support Services. Within this is the R30 million cost incurred on restructuring and the R31,9 million franchise impairment.

Finance costs of R35,5 million increased by 3% due to higher borrowings and lower cash balances.

Profits from equity-accounted investees were down 3% to R163,3 million and comprises the Group's share of profits from PGI (up 18% to R133,1 million), Supabets (down 63% to R15,1 million), Interbet (down 5% to R15,7 million), SW Security (up significantly to R1,8 million) and Supaworld (a loss of R2,4 million). Equity-accounted profits were insufficient to absorb domestic losses.

Due to losses in the domestic operations, the Group recorded a tax credit of R13,2 million. Cash tax of R1,7 million was paid. The deferred tax asset on the balance sheet increased to R48 million. Tax losses are available for utilisation against future taxable income. Equity-accounted investees Supabets, Interbet, and SW Security are profitable and pay tax at the South African corporate tax rate.

A loss attributable to ordinary shareholders of R92,3 million is incurred compared to a profit of R155,1 million in the prior year. The loss translates to 92,32 cents per share compared to a profit of 153,78 cents.

A headline loss of R98,2 million compared with a headline profit of R155,6 million in the prior year. This loss translates to 98,20 cents compared to earnings of 154,23 cents previously.

The weighted average number of shares in issue reduced by 1% to 99 969 347, the same number of shares in issue. There was no movement in either shares bought back, or shares issued in terms of share options.

Operating activities absorbed cash of R84,9 million. Operations absorbed cash of R145,8 million and there was R60,9 million in cash retained from working capital.

Dividends paid to shareholders amounted to R62 million, reflecting the final dividend declared for the 2018 financial year and paid in the 2019 financial year.

Net dividends received from equity-accounted investees amounted to R148,8 million, up 14% from R130,5 million.

COMMENTARY CONTINUED

Gross debt of R370,5 million and cash of R91,3 million results in a net debt position of R279,2 million, up from R230,7 million as at 31 July 2018. Included in net debt is a remaining contingent consideration payable in respect of Supabets of R28,8 million with payment dependent on conditions pertaining to the sales agreement. The debt to equity ratio at year end has risen to 33% from 23%.

With consolidated EBITDA at negative R169,3 million and with equity-accounted income at R163,3 million the Group has a total EBITDA of negative R6 million compared with a positive R256,9 million in the previous year. The Group is in breach of its loan covenants. A further assessment is due by the Group's bankers post these audited results. The Group has been honouring its commitment to pay R10 million per quarter on the principal in addition to servicing the interest per quarter.

Despite losses in domestic horseracing and a deterioration in local gaming profitability this year, the Group enjoys strong international cash flows and profits, which amounted to R223,4 million, up 9% from R204,3 million.

Given the constrained domestic financial situation management is prioritising cash for critical capital expenditures. The restructuring initiatives this past two years to rightsize for tough times is designed to achieve R60 million in annual savings.

The Group called up a USD2 million bank guarantee to Mashonaland Turf Club in Zimbabwe. Repatriation of funds to South Africa are subject, *inter alia*, to Zimbabwe Reserve Bank approval and approximately half of this amount has already been repaid.

The Group has total assets of R1 591,6 million of which long term assets are R1 322,8 million, the largest component being equity-accounted investees to the value of R710,4 million. Equity of R849,7 million as at 31 July 2019 has reduced from R1 012,6 million as at 31 July 2018 and translates to a net asset value of 849,94 cents per share compared with 1 012,93 cents.

SHARE CAPITAL

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

At 31 July 2019, issued share capital amounted to 99 969 347 shares, net of 2 531 211 treasury shares.

ABRIDGED CONSOLIDATED SEGMENTAL ANALYSIS

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

	% change	TOTAL		BETTING OPERATIONS	
		31 July 2019 R000	31 July 2018 R000	31 July 2019 R000	31 July 2018 R000
Income					
Betting income	(10)	1 066 907	1 182 525	1 066 907	1 182 525
Other income	(4)	577 409	599 620	118 846	108 924
Investment income	3	13 973	13 547		
Total income	(8)	1 658 289	1 795 692	1 185 753	1 291 449
Expenses					
Intellectual property rights fees	5	200 550	191 287	117 734	109 851
Betting taxes		216 496	232 764	216 496	232 764
Operating expenses	10	1 380 541	1 256 862	550 040	477 181
Restructuring programme expense		29 992	27 071	29 992	
Total expenses	7	1 827 579	1 707 984	914 262	819 796
Profit/(loss) before depreciation and amortisation and finance costs	(293)	(169 290)	87 708	271 491	471 653
Depreciation and amortisation		70 532	70 393	39 687	38 171
Finance costs	3	35 488	34 577		
Profit/(loss) before share of equity-accounted income		(275 310)	(17 262)	231 804	433 482
Share of profit on equity-accounted income	(3)	163 310	169 169	163 310	169 169
Profit/(loss) before revaluation of investments	(174)	(112 000)	151 907	395 114	602 651
Revaluations of investments	443	2 964	546		
Profit and loss before tax	(172)	(109 036)	152 453	395 114	602 651
Local operations	540	(332 422)	(51 862)	262 030	490 130
International operations	9	223 386	204 315	133 084	112 521
Profit and loss before tax	(172)	(109 036)	152 453	395 114	602 651

COMMENTARY CONTINUED

Abridged segmental analysis continued

	MEDIA		ADMINISTRATION AND SUPPORT SERVICES	
	31 July 2019 R000	31 July 2018 R000	31 July 2019 R000	31 July 2018 R000
Income				
Betting income				
Other income	449 254	475 227	9 309	15 469
Investment income			13 973	13 547
Total Income	449 254	475 227	23 282	29 016
Expenses				
Intellectual property rights fees	82 816	81 436		
Betting taxes				
Operating expenses	706 260	650 301	124 241	129 380
Restructuring programme expense				27 071
Total expenses	789 076	731 737	124 241	156 451
Profit/(loss) before depreciation and amortisation and finance costs	(339 822)	(256 510)	(100 959)	(127 435)
Depreciation and amortisation	28 259	25 052	2 586	7 170
Finance costs			35 488	34 577
Profit/(loss) before share of equity-accounted income	(368 081)	(281 562)	(139 033)	(169 182)
Share of profit on equity-accounted income				
Profit/(loss) before revaluation of investments	(368 081)	(281 562)	(139 033)	(169 182)
Revaluations of investments			2 964	546
Profit and loss before tax	(368 081)	(281 562)	(136 069)	(168 636)
Local operations	(458 383)	(373 356)	(136 069)	(168 636)
International operations	90 302	91 794		
Profit and loss before tax	(368 081)	(281 562)	(136 069)	(168 636)

CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by directors.

	2019 R'000	2018 R'000
Contracted for	2 075	6 782
Not contracted for	17 925	95 979

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

INVESTMENTS

421 323 ordinary shares in Automatic Systems Limited in Mauritius were disposed of during the year. Net proceeds on disposal amounted to R14,4 million. There has been no further movement with respect to investments.

MATTERS OF CORPORATE INTEREST AND LITIGATION

In terms of disclosure contained in the annual financial statements for the year ended 31 July 2018 there are no further developments in this regard.

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

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

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 provide, *inter alia*, for the deduction by a bookmaker of 6% of a punters' winnings on bets on horseracing in the form of a betting tax. This tax is paid over to the Gauteng Gambling Board ("GGB"), who is obliged to pay half of this tax to Phumelela, in terms of Regulation 276. As the MEC has elected to amend Regulation 276, Phumelela has been deprived of its portion of the betting tax. Phumelela has engaged with the MEC and the GGB to seek an amicable solution.

COMMENTARY CONTINUED

The Group lodged papers on 21 June 2019 in the North Gauteng High Court to have the Public Protector's report into thoroughbred horseracing in Gauteng set aside on the basis that the findings of the Public Protector in the report are unlawful, irrational, unreasonable and unconstitutional. The GGB and the MEC filed a separate application, on 8 July 2019, to have the Public Protector's report (alternatively the remedial action) reviewed and set aside and to have the report remitted to the Public Protector for reconsideration.

The Group has objected to a decision by the GGB to find it guilty of contravening condition 10 of its Gauteng Race-Meeting licence, disputing the interpretation of condition 10 as well as the recommended sanction.

On 28 August 2019, the Province of Gauteng issued an Extraordinary Provincial Gazette in respect of the Gauteng Gambling Act (4/1995), as amended. The purpose of the General Notice was to invite an expression 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.

In a judgement handed down in the Supreme Court of Appeal, delivered on 19 September 2019, Judge KGB Swain (with the unanimous concurrence of the other judges) found in favour of Phumelela (and other respondents) in respect of the matter between the KwaZulu-Natal Bookmakers' Society and Phumelela. 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.

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.

COMMENTARY CONTINUED

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.

REPORTING ENTITY

Phumelela Gaming and Leisure Limited is a company domiciled in South Africa. The summarised consolidated financial statements as at and for the year ended 31 July 2019 comprises the Company and its subsidiaries and the Group's interests in equity-accounted investees and joint operations.

STATEMENT OF COMPLIANCE

The abridged audited consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

BASIS OF PREPARATION

The abridged audited consolidated financial statements do not include all the information and disclosures required for the audited consolidated financial statements. The abridged audited consolidated financial statements should be read in conjunction with the audited consolidated financial statements. The audited consolidated financial statements for the Group as at and for the year ended 31 July 2019 were prepared on the going-concern basis and are available for inspection at the Company's registered office.

COMMENTARY CONTINUED

The 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 and IFRS 9 Financial Instruments which replaces the earlier version and replaces IAS 39 Financial Instruments: Recognition and Measurement.

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 audited abridged consolidated annual financial results are prepared on the historical cost basis, except for certain financial instruments that are recognised at fair value.

Mr B McLoughlin CA (SA) Chief Financial Officer was responsible for supervising the preparation of the annual financial statements and preparing the audited abridged consolidated annual financial results.

REPORT OF THE INDEPENDENT AUDITORS

The auditors, KPMG Inc., have issued their opinion on the Group's consolidated financial statements for the year ended 31 July 2019. The auditors were not engaged to report on the summary financial statements. The audit was conducted in accordance with International Standards on Auditing. They have issued their unmodified opinion. A copy of the auditors' report together with a copy of the audited consolidated financial statements is available at the Company's registered office. The abridged audited consolidated financial statements have been derived from the Group's consolidated financial statements and are consistent in all material respects with the Group's consolidated financial statements. The auditors' report does not necessarily report on all the information contained in this announcement. Any reference to future financial information included in this announcement has not been reviewed or reported on by the auditors. Shareholders are advised that in order to obtain a full understanding of the nature of the auditors' engagement they should obtain a copy of that report together with the accompanying financial information from the Company's registered office. The summarised report is extracted from the audited information but is itself not audited. The directors take full responsibility for the preparation of the abridged results and the financial information is correctly extracted from the underlying annual financial statements.

GOING CONCERN/EMPHASIS OF MATTER

The Board are required to assess the ability of the Group to continue a going concern and has disclosed their considerations below.

The Group incurred a loss for the year of R96 million (2018: profit of R154 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:

- The decline in local fixed odds and totalisator betting revenues and profits by the Group in the current financial year;
- The R30 million section 189 retrenchment and restructure programme by the Group 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 to obtain further short to medium-term funding supported by its bankers as required in terms of the revolving credit facility agreement.

COMMENTARY CONTINUED

The Board has considered the Group'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 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 are 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 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 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's ability to continue as going concerns and, therefore, the Group 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.

COMMENTARY CONTINUED

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.

RELATED PARTIES

During the year Betting World Proprietary Limited sold three bookmaker licences to Supaworld Proprietary Limited a company jointly owned by Betting World and Supabets.

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

SOCIAL RESPONSIBILITY

The Group recognises that it has a responsibility to the broader community to act in a socially responsible manner, for the benefit of all South Africans. Contributions to selected training, sports and community service-related projects continue. The Group has adopted appropriate BEE and employment equity, training, and procurement policies.

DIRECTORS

With effect from:

- 17 September 2018, Mr Rian du Plessis resigned as Chief Executive Officer;
- 30 November 2018, Mr Vee Moodley resigned as Executive Director, Sports Betting;
- 11 December 2018, subject to regulatory approval, Mr Mark Currie was appointed as a non-executive director;
- 11 December 2018, subject to regulatory approval, Colonel Johnny Sexwale was appointed as a non-executive director;
- 11 December 2018, Mr Rob Cooper retired from the Board;
- 11 December 2018, Mr Chris van Niekerk retired from the Board;
- 29 July 2019, Mr Mark Currie resigned from the Board;
- 29 July 2019, Mr Photios Anastassopoulos resigned from the Board.

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, Currie, 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.

PROSPECTS

The Company 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 and further information will be disclosed once clarity has been obtained.

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

DIVIDEND TO SHAREHOLDERS

In the interests of conserving cash, the Board has resolved not to declare a final cash dividend.

RENEWAL OF CAUTIONARY AND FURTHERMORE A NEW CAUTIONARY ANNOUNCEMENT

The Company remains under cautionary as engagements with the MEC and the Gauteng Gambling Board are still in progress.

Furthermore, the Company is considering capital raising initiatives with B-BBEE equity ownership high on the agenda. Should these initiatives be successfully concluded these may have a material effect on the Company's securities.

Shareholders are advised to continue to exercise caution when dealing in the Company's securities.

For and on behalf of the Board

B Kantor
Chairman
Turffontein, Johannesburg
28 November 2019

JA Stuart
Chief Executive Officer

ABRIDGED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	%	Audited 12 months 31 July 2019 R'000	Audited 12 months 31 July 2018 R'000
	change		
Income	(7)	1 416 110	1 526 979
Betting income			
– Local operations*	(10)	1 066 907	1 182 525
Other operating income			
– Local operations	(11)	253 531	283 558
– International operations	2	323 878	316 062
Investment income			
– Local operations	2	13 147	12 928
– International operations	33	826	619
Net income	(8)	1 658 289	1 795 692
Operating expenses and overheads			
– Value added tax included in betting income*	(7)	(129 969)	(139 888)
– Betting taxes*	(7)	(86 526)	(92 876)
– Stakes	3	(216 440)	(209 520)
– Local operations	11	(1 130 251)	(1 013 785)
– Restructuring programme expense	11	(29 992)	(27 071)
– International operations	4	(234 401)	(224 844)
(Loss)/profit before finance costs, income tax, depreciation and amortisation	(293)	(169 290)	87 708
Depreciation and amortisation		(70 532)	(70 393)
(Loss)/profit from operations		(239 822)	17 315
Finance costs			
– Local operations	3	(35 488)	(34 577)
(Loss)/profit before share of profit of equity-accounted investees		(275 310)	(17 262)
Share of profit of equity-accounted investees	(3)	163 310	169 169
(Loss)/profit before fair value adjustment	(174)	(112 000)	151 907
Fair value adjustment to investment		2 964	546
(Loss)/profit before income tax expense	(172)	(109 036)	152 453
Income tax expense		13 220	(707)
(Loss)/profit for the year	(163)	(95 816)	151 746
Other comprehensive income net of taxation			
Items that may subsequently be reclassified to profit or loss			
– Exchange differences on translation of foreign subsidiaries		(157)	623
– Remeasurement of defined benefit obligation			1 395
Total comprehensive income for the year	(162)	(95 973)	153 764
(Loss)/profit attributable to:			
Ordinary equity holders of the parent	(159)	(92 293)	155 112
Non-controlling interest	5	(3 523)	(3 366)
(Loss)/profit for the year	(162)	(95 816)	151 746
Total comprehensive income attributable to:			
Ordinary equity holders of the parent	(159)	(92 450)	157 130
Non-controlling interest	5	(3 523)	(3 366)
Total comprehensive income for the year	(162)	(95 973)	153 764
Earnings per ordinary share (cents)			
– Basic	(160)	(92,32)	153,78
– Diluted	(160)	(92,32)	153,78

* Phumelela's annual financial statements for the year ended 31 July 2017 were selected for review by the JSE as part of its pro-active monitoring of annual financial statements process. The JSE questioned the appropriateness of disclosing betting taxes and value added tax ("VAT") in betting income as 'revenue' in the statement of comprehensive income. The JSE concluded that Phumelela's response did not provide an IFRSA based justification for presenting these 'costs' as a deduction from the revenue line item (net betting revenue). As a consequence, these 'costs' are now disclosed as an expense in the statement of comprehensive income (refer to the 'Summarised consolidated segmental analysis'). Comparative information has been restated accordingly.

SUPPLEMENTARY STATEMENT OF COMPREHENSIVE INCOME INFORMATION

	%	Audited 12 months 31 July 2019 R'000	Audited 12 months 31 July 2018 R'000
	change		
Reconciliation of headline earnings			
Earnings attributable to equity holders of the parent	(160)	(92 293)	155 112
Adjusted for:			
Profit on sale of property, plant and equipment and intangible assets		(9 184)	(2 849)
Impairment of goodwill			2 844
Tax effect		3 308	461
Headline earnings	(163)	(98 169)	155 568
Headline earnings per share (cents)	(164)	(98,20)	154,23
Diluted headline earnings per share (cents)	(164)	(98,20)	154,23
Net asset value per share (cents)	(16)	849,94	1 012,93
Dividend to shareholders			
<i>Interim dividend</i>			
Dividend per ordinary share (cents)			42,00
<i>Final dividend</i>			
Dividend per ordinary share (cents)			62,00
Number of shares in issue		99 969 347	99 969 347
Weighted average number of shares in issue for basic and headline earnings per share calculation		99 969 347	100 868 421
Weighted average number of shares in issue for diluted earnings per share calculation		99 969 347	100 868 421

SUPPLEMENTARY PRO FORMA FINANCIAL INFORMATION

The pro forma normalised headline earnings and headline earnings per share has been compiled by the directors to illustrate the impact of the withdrawal of the Gauteng betting levy, Gauteng Gambling Board fine, impairment against franchise operation, restructuring programme, effect of VAT increase, loss on disposal of investments in ASL and the Quarantine centre and social responsibility development programme on the Group's financial performance for the years ending 31 July 2019 and 2018 for illustrative purposes only. This information is the responsibility of the directors and due to the nature of the information may not fairly present the Group's financial position, changes in equity, the results of operations and cash flows.

An unmodified reasonable assurance report has been issued by the Group's auditors KPMG Inc. in terms of ISAE 3420 (*Assurance Engagements to Report on the Compilation of the Pro Forma Financial Information included in a prospectus*) and is available for inspection at the Company's registered office. The pro forma financial information has been compiled in terms of the JSE Listings Requirements and the revised Guide on Pro Forma Information by SAICA.

	%	12 months 31 July 2019 R'000	12 months 31 July 2018 R'000
	change		
Reconciliation of headline earnings to normalised headline earnings			
Headline earnings		(98 169)	155 568
Loss on disposal of investments in ASL and the Quarantine centre		1 550	
Social responsibility development program		10 375	
Impairment against franchise operation		31 931	
Restructuring programme		29 992	27 071
Gauteng Gambling Board fine		2 500	
Gauteng Gambling Board levies withdrawn		(48 496)	(75 084)
Effect of VAT increase from 14% to 15%		11 622	3 913
Tax effected		(7 324)	(7 356)
Normalised headline earnings	(163)	(66 019)	104 112
Normalised headline earnings per share	(163)	(66,04)	103,22

ABRIDGED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited as at 31 July 2019 R'000	Audited as at 31 July 2018 R'000
ASSETS		
Non-current assets	1 322 828	1 338 850
Property, plant and equipment	439 836	464 707
Goodwill	12 362	12 362
Intangible assets	42 694	45 000
Interest in equity-accounted investees	710 367	690 421
Investments		12 108
Investment property	18 700	18 700
Long-term loans	50 830	63 341
Deferred taxation asset	48 039	32 211
Current assets	268 773	311 824
Inventories	4 249	3 773
Trade and other receivables	131 353	155 679
Pension fund surplus	14 650	14 650
Income tax receivable	27 186	23 348
Cash and cash equivalents	91 335	114 374
Total assets	1 591 601	1 650 674
EQUITY AND LIABILITIES		
Total equity	849 684	1 012 624
Equity attributable to ordinary shareholders	860 491	1 019 908
Share capital and premium	473 786	473 786
Retained earnings	386 832	546 092
Translation reserve	(127)	30
Non-controlling interest	(10 807)	(7 284)
Non-current liabilities	1 498	301 319
Deferred taxation liability	1 309	872
Borrowings	189	300 447
Current liabilities	740 419	336 731
Trade and other payables	359 976	278 118
Borrowings	300 640	1 639
Contingent consideration liability	28 806	28 806
Income tax payable		24
Betting dividends payable	10 142	13 965
Bank overdrafts	40 855	14 179
Total equity and liabilities	1 591 601	1 650 674

ABRIDGED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Audited 12 months 31 July 2019 R'000	Audited 12 months 31 July 2018 R'000
Net cash outflow from operating activities	(173 872)	(94 640)
Cash (utilised)/generated from operations	(145 708)	70 716
Movements in working capital	60 851	(7 815)
Cash (utilised)/generated from operating activities	(84 857)	62 901
Income tax paid	(1 691)	(24 961)
Investment income	10 145	9 003
Finance costs	(35 488)	(27 849)
Dividends paid to shareholders	(61 981)	(113 734)
Net cash inflow/(outflow) from investing activities	125 571	(25 101)
Acquisition of property, plant and equipment and intangible assets	(56 749)	(67 515)
Proceeds on disposal of property, plant and equipment	17 101	626
Investment in equity-accounted investees	(4 342)	(3 993)
Proceeds on sale of investment	14 380	
Prepayment and contingent settlements on investments		(86 979)
Net loans repaid	6 339	2 358
Dividends received from equity-accounted investee	148 842	130 402
Net cash (outflow)/inflow from financing activities	(1 257)	122 679
Net borrowings (repaid)/ raised	(1 257)	177 709
Shares repurchased and options exercised		(55 030)
Net (decrease)/increase in cash and cash equivalents	(49 558)	2 938
Effect of exchange fluctuations on cash and cash equivalents	(157)	623
Cash and cash equivalents at beginning of year	100 195	96 634
Cash and cash equivalents at end of year	50 480	100 195
Make up of balance of cash and cash equivalents		
Cash and cash equivalents	91 335	114 374
Bank overdraft	(40 855)	(14 179)
Cash and cash equivalents at end of year	50 480	100 195

ABRIDGED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital and premium R'000	Trans- lation reserves R'000	Retained earnings R'000	Share- holders' equity R'000	Non- con- trolling interest R'000	Total equity R'000
Balance at 31 July 2017	473 826	(593)	560 678	1 033 911	(3 918)	1 029 993
Total comprehensive income for the period	–	623	156 507	157 130	(3 366)	153 764
– Profit for the year			155 112	155 112	(3 366)	(3 366)
– Other comprehensive income		623	1 395	2 018		2 018
Transactions with owners recorded directly in equity						
– Shares repurchased	(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	473 786	30	546 092	1 019 908	(7 284)	1 012 624
Total comprehensive income for the period	–	(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 release			(4 986)	(4 986)		(4 986)
– Dividends paid to equity holders			(61 981)	(61 981)		(61 981)
Balance at 31 July 2019	473 786	(127)	386 832	860 491	(10 807)	849 684

Directors:	B Kantor (Chairman), M Tembe (Lead Independent Director), JA Stuart* (Group Chief Executive), AW Heide* (Group Finance Director and COO), SKC Khampepe, SA Mahlalela, NJ Mboweni (Mrs), SH Müller, Dr E Nkosi, JB Walters (*Executive)
Company Secretary:	F Moloi (Mrs)
Sponsor:	Investec Bank Limited
Registered Office:	Turffontein Racecourse, 14 Turf Club Street, Turffontein
Transfer Secretaries:	Computershare Investor Services Proprietary Limited
Share code:	PHM
ISIN:	ZAE000039269
Website:	www.phumelela.com