Phumelela Gaming

Phumelela Gaming and Leisure Limited

Integrated Report 2015

CONTENTS

www.phumelela.com

WELCOME TO PHUMELELA GAMING AND LEISURE LIMITED

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

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

KEY FEATURES OF THE TRADING YEAR

- **Phumelela ranked eighth most empowered** company listed on the JSE in 2015 by Empowerdex
- **Good growth** in tote betting on soccer and other sports
- **High costs to combat abuse** of intellectual property by certain bookmakers and related matters
- Earnings per share reduced **by 27% to 105,98 cents**
- Adjusted headline earnings per share increased **by 7% to 141,48 cents**
- Total tax contribution up **10% to R218 million**
- Operating profit from fixed odds continuing operations increases **by 153% to R21 million**
- **Improved second half result** from PGI
- Impairment of **Betting World Nigeria** and a mark-to-market adjustment of **ASL Mauritius**
- Headline earnings per share reduced **by 11% to 117,06 cents**
- A maintained final gross dividend of **60 cents declared**

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 2014 to 31 July 2015. Our previous report was published in 2014. Phumelela is listed on the JSE under the share code PHM in the travel and leisure sector.

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

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

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

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

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

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

We have applied the Global Reporting Initiative (GRI) G3 guidelines to assist us in our assessment process and to identify performance indicators relevant to our business.

We welcome your feedback and/or questions relating to the sustainability initiatives and data in this report.
To do so, please contact Freda Moloi (fredam@phumelela.com).

MISSION, VISION, PURPOSE AND VALUES

Phumelela Gaming and Leisure Limited is a JSE listed, level 2 B-BBEE business, which is licensed to operate horseracing and totalisator betting in seven of South Africa's nine provinces.

OUR MISSION	OUR VISION	OUR PURPOSE
To create exciting opportunities that facilitate betting on sport and other events.	To be recognised as a global leader in the betting market.	To grow the sport of thoroughbred horseracing in South Africa on a sustainable basis and make it globally respected and desirable.

BACKGROUND AND NATURE OF THE GROUP OPERATIONS

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

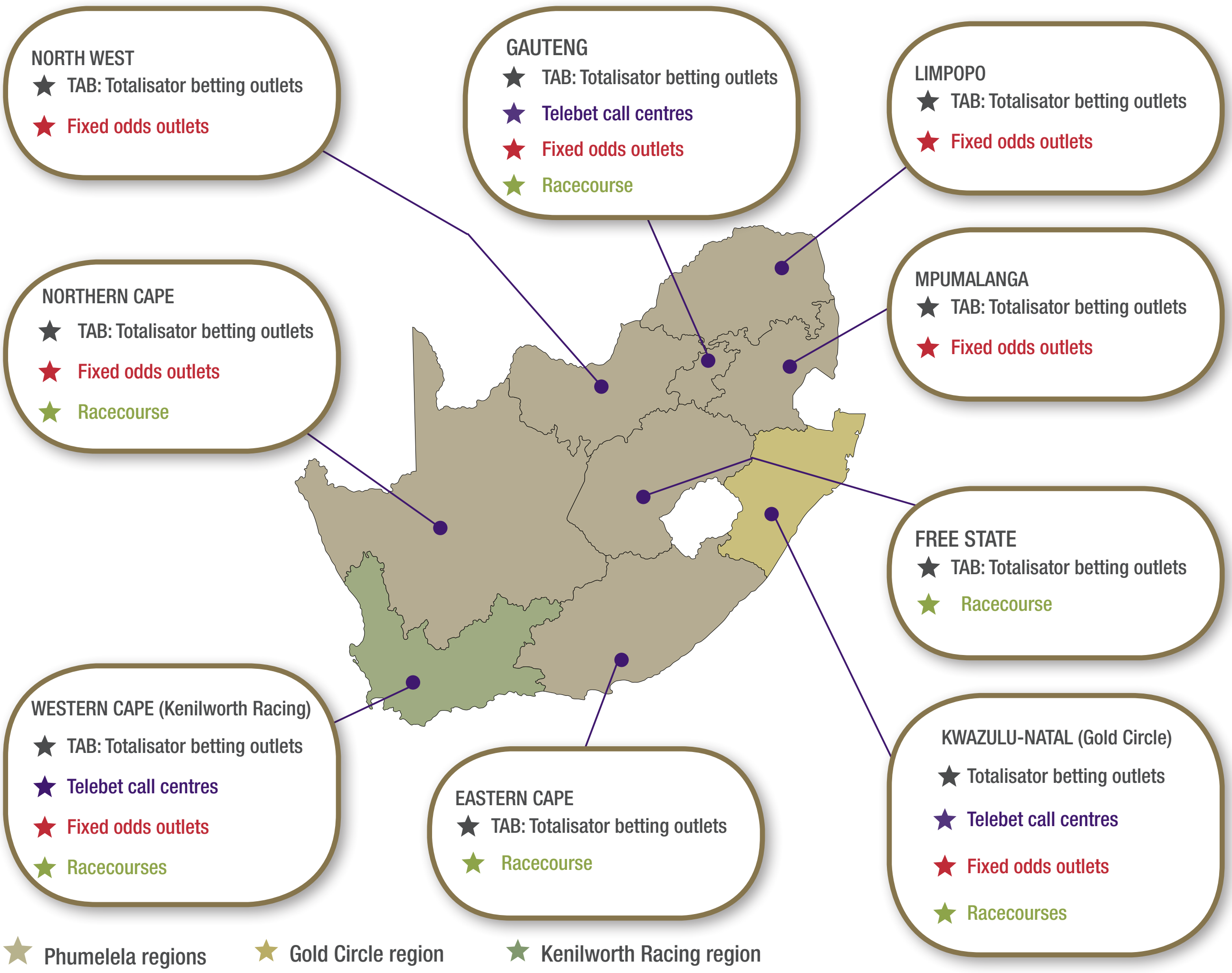
Phumelela's main shareholder, the Thoroughbred Horseracing Trust (35% shareholder), is a not-for-profit entity which was formed at the insistence of the Gauteng government. The principal objective of the Trust is to "promote the interest of all persons interested in, and affected by, the sport of thoroughbred horseracing in South Africa with a view to the long-term viability of the sport". Additional objectives relate to the promotion of 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

OPERATIONAL GEOGRAPHY SOUTH AFRICA



Phumelela totalisator betting outlets:

148 branches
60 agencies
Betting World fixed odds
67 outlets

▷ TAB: Totalisator betting outlets	
Phumelela regions	
Gauteng	(83 branches – 35 agencies)
Limpopo	(15 branches – 7 agencies)
Mpumalanga	(10 branches – 4 agencies)
Northern Cape	(2 branches)
Free State	(15 branches – 3 agencies)
Eastern Cape	(12 branches – 7 agencies)
North West	(11 branches – 4 agencies)

▷ Telebet call centres		
Phumelela region	**Gold Circle region**	**Kenilworth Racing**
Gauteng	KwaZulu-Natal	Western Cape

▷ Fixed odds outlets	
Limpopo (12)	Gauteng (17)
North West (2)	Western Cape (27)
Mpumalanga (5)	KwaZulu-Natal (3)
Northern Cape (1)	

▷ 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)

competitive imperative given the significant challenges that faced the sport at the time, in particular the cycle of decline in betting turnovers, owners, horses, trainers, jockeys, prize money and financial reserves, all exacerbated by high betting taxes and the imminent legalisation of other forms of gambling (casinos and the national lottery). It is important to record that it was a political imperative imposed by government with a goal to transform the sport to a “transparent, accountable, professionally managed, governed and profit-driven enterprise with appropriate black economic empowerment credentials”.

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

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

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

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

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

In terms of a technical support agreement concluded with Zimbabwe, Phumelela provides strategic and technical assistance to Mashonaland Turf Club’s horseracing and totalisator betting business in Zimbabwe.

PHUMELELA AT A GLANCE

HORSERACING AND DESTINATION MARKETING BUSINESS

BETTING AND INFORMATION BUSINESS

BUSINESS FOCUS

SCOPE OF PRODUCTS AND SERVICES

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

ANCHORED IN SOUTH AFRICA

- Revenue
- Resources
- Intellectual property
- Assets

SCOPE OF GEOGRAPHICAL REACH

- **6 continents**
- **41 countries**
- **South Africa**

BUSINESS DRIVERS OF AN INTERDEPENDENT BUSINESS

INFRASTRUCTURE

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

THE CUSTOMER

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

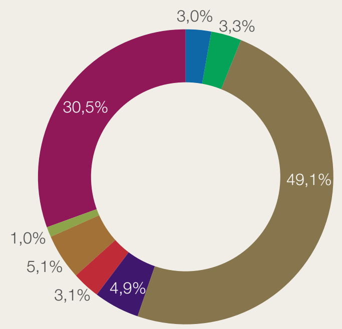
MARKETING

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

OUR PEOPLE

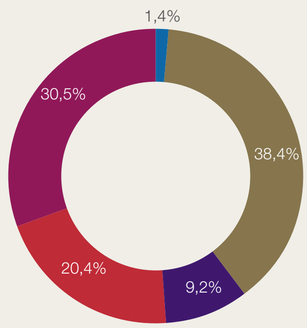
- PERFORMANCE MANAGEMENT
- BRAND AMBASSADORS
- RETENTION AND UPSKILLING
- BEHAVIOURS
- RECRUITMENT
- VALUES
- INSPIRATION/MOTIVATION
- ONE TEAM

SALIENT FEATURES



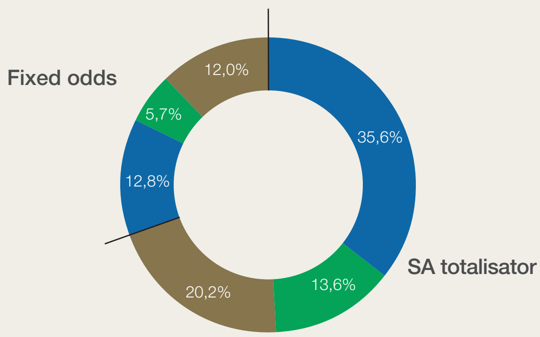
Betting handle by operational geography

	2015 R'000	2014 R'000	2015 %	2014 %
SA totalisator	3 331 688	3 107 232	**69,5**	76,5
Eastern Cape	145 534	139 557	**3,0**	3,4
Free State	156 788	159 688	**3,3**	3,9
Gauteng	2 353 363	2 177 739	**49,1**	53,6
Limpopo	237 119	232 078	**4,9**	5,7
Mpumalanga	146 643	134 068	**3,1**	3,3
North West	245 206	218 389	**5,1**	5,4
Northern Cape	47 035	45 712	**1,0**	1,1
Fixed odds	1 465 181	956 866	**30,5**	23,5
	4 796 869	**4 064 098**	**100,0**	**100,0**



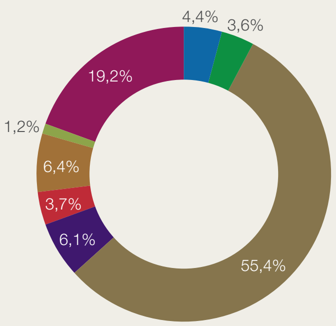
Betting handle by betting medium

	2015 R'000	2014 R'000	2015 %	2014 %
SA totalisator	3 331 688	3 107 232	**69,5**	76,5
On course	68 183	59 401	**1,4**	1,5
Off course				
– branches	1 842 661	1 751 307	**38,4**	43,1
– agents	441 773	482 414	**9,2**	11,9
non-over-the counter	979 071	814 109	**20,4**	20,0
Fixed odds	1 465 181	956 866	**30,5**	23,5
	4 796 869	4 064 098	**100,0**	100,0



Betting handle by betting product

	2015 R'000	2014 R'000	2015 %	2014 %
SA totalisator	3 331 688	4 064 098	**69,5**	80,9
South African horseracing	1 744 040	1 726 773	**35,6**	34,4
International horseracing	618 075	561 628	**13,6**	11,2
Other sports	969 573	818 831	**20,2**	16,3
Fixed odds	1 465 181	956 866	**30,5**	19,1
South African horseracing	615 414	462 485	**12,8**	9,2
International horseracing	274 269	220 917	**5,7**	4,4
Other sports	575 499	273 463	**12,0**	5,4
	4 796 869	**5 020 963**	**100,0**	**100,0**



Net betting income by operational geography

	2015 R'000	2014 R'000	2015 %	2014 %
SA totalisator	678 922	632 592	**80,8**	84,7
Eastern Cape	36 640	27 280	**4,4**	3,7
Free State	30 633	31 583	**3,6**	4,2
Gauteng	465 280	437 681	**55,4**	58,6
Limpopo	51 376	50 224	**6,1**	6,7
Mpumalanga	31 039	28 079	**3,7**	3,8
North West	53 915	48 032	**6,4**	6,4
Northern Cape	10 038	9 713	**1,2**	1,3
Fixed odds	161 584	113 999	**19,2**	15,3
	840 506	**746 591**	**100,0**	**100,0**

RACING IT'S A RUSH

THE GOLDEN AGE OF RACING IS COMING

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

For the first time in local racing history, the major players in South African horseracing have joined together to launch a campaign to market this incredible sport and promote its core values to all South Africans.

Racing. It's a Rush – was officially launched in August last year, with the aim of bringing horseracing back to the forefront of the lifestyle entertainment industry. We want to bring back the glamour, the excitement, the thrill and the rush of horseracing in South Africa.

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

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

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

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

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

INTERNATIONAL REPRESENTATION

INTERNATIONAL

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

PI has commercial relationships with 41 international jurisdictions across six continents. These relations enable the export of live South African horseracing globally, earning PGL foreign revenue on South African racing.

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

Outbound

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

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

INBOUND

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

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

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

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

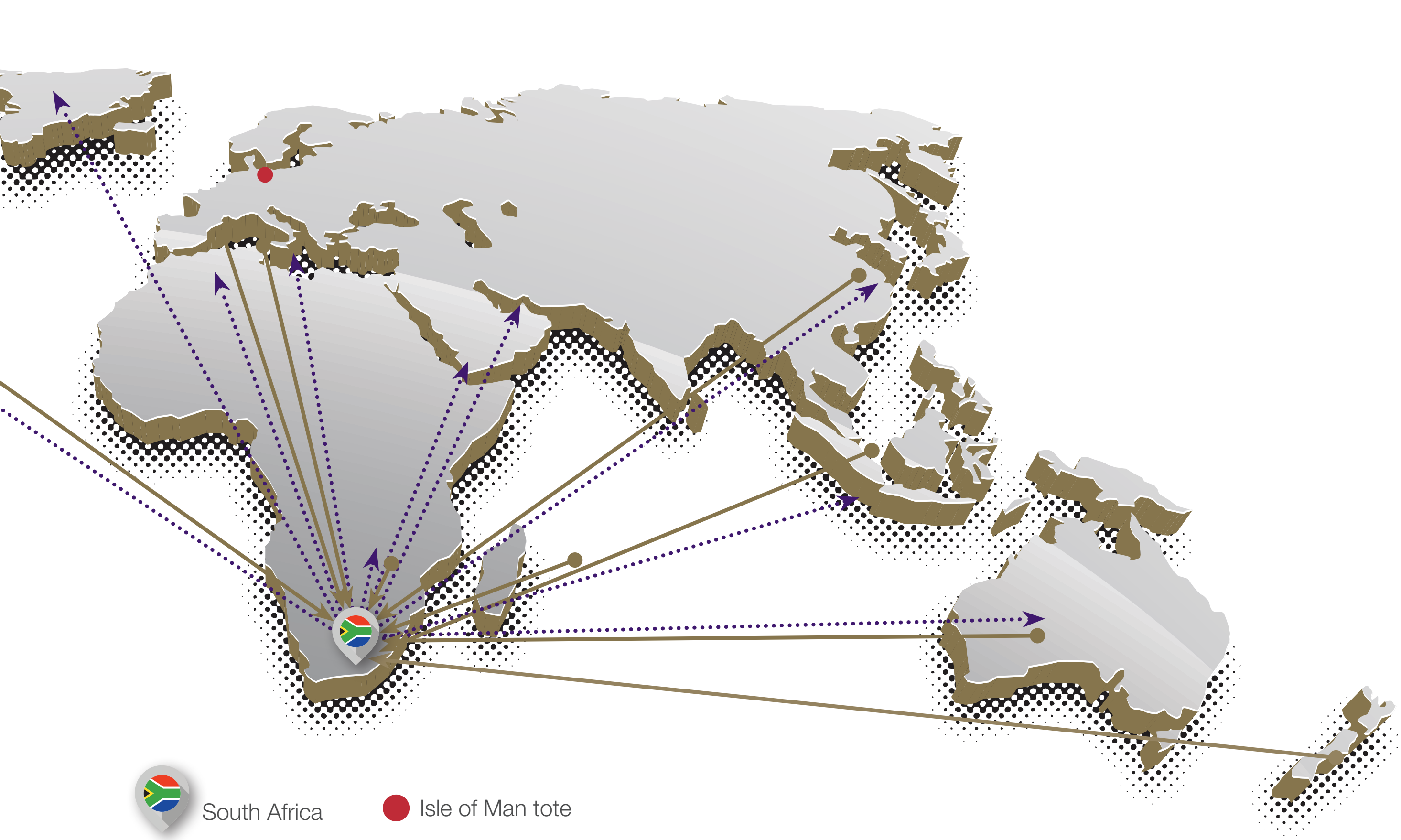
In territories where the audio-visual rights to South African racing are purchased directly by independent bookmaker groups, a fixed monthly fee is levied.

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

Inbound

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

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, South African punters have the



opportunity to bet into larger pools situated offshore.

ISLE OF MAN

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

PGI uses the same technology deployed in the South African tote business. However, PGI is the world's first 24-hour tote operation. PGI operates as a worldwide totalisator hub, connecting punters, tote operators and internet betting websites from around the world to each other, effectively permitting the creation of pools with much greater liquidity. The 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.

OUTBOUND

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

GROUP REVIEW

	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
GROUP STATEMENTS OF COMPREHENSIVE INCOME								
Year ended 31 July								
Income	1 266 205	1 192 109	1 014 826	936 534	883 173	849 543	804 345	782 639
Profit from operations	79 301	61 833	85 304	82 546	98 367	93 863	104 860	152 494
Finance costs	(5 828)	(1 183)	(779)	(1 409)	(513)	(781)	(77)	(180)
Profit before share of profit of equity accounted investees	73 473	60 650	84 525	81 137	97 854	93 082	104 783	152 314
Share of profit of equity accounted investees*	47 060	69 118	26 705	15 544	336	5 471	3 390	4 108
Profit before income tax expense	120 533	129 768	111 230	96 681	98 190	98 553	108 173	156 422
Fair value adjustments	(21 298)							
Profit before income tax expense	99 235	129 768	111 230	96 681	98 190	98 553	108 173	156 422
Income tax expense	(19 713)	(19 373)	(25 257)	(27 801)	(31 429)	(30 485)	(37 508)	(43 361)
Profit for the year	79 522	110 395	85 973	68 880	66 761	68 068	70 665	113 061
Attributable to non-controlling interest	(6)	14	(102)	(206)	(4 402)	(4 730)	–	–
Profit attributable to ordinary equity holders of the parent	79 516	110 409	85 871	68 674	62 359	63 338	70 665	113 061
GROUP STATEMENTS OF FINANCIAL POSITION								
At 31 July								
Assets								
Non-current assets	575 088	567 518	495 400	415 390	393 941	378 558	320 806	307 840
Current assets	200 751	220 537	149 028	176 567	210 548	198 438	179 565	202 227
Total assets	775 839	788 055	644 428	591 957	604 489	576 996	500 371	510 067
Equity and liabilities								
Capital and reserves	447 743	478 791	432 345	403 881	410 791	394 682	363 980	347 110
Non-current liabilities	54 735	9 397	3 734	5 809	7 165	5 670	5 779	4 100
Current liabilities	273 361	299 867	208 349	182 267	186 533	176 644	130 612	158 857
Total equity and liabilities	775 839	788 055	644 428	591 957	604 489	576 996	500 371	510 067
GROUP CASH FLOW STATEMENTS								
Year ended 31 July								
Net cash flow from operating activities	3 761	40 724	66 706	53 883	67 243	82 153	(3 626)	67 411
Net cash flow from investing activities	(54 057)	(11 293)	(105 731)	(85 250)	(48 181)	(64 234)	(35 305)	(50 297)
Net cash flow from financing activities	1 073	8 586	–	(5 362)	(3 606)	(555)	(5 086)	(12 032)
Net (decrease)/increase in cash and cash equivalents	(49 223)	38 017	(39 025)	(36 729)	15 456	17 364	(44 017)	5 082

** Share of equity accounted investees includes R11,1 million profit on conversion of equity accounted investee to investment in 2014 and a R4,4 million profit on step up of Betting World to becoming a subsidiary in 2010.*

	2015 %	2014 %	2013 %	2012 %	2011 %	2010 %	2009 %	2008 %
Profitability ratios								
Profit attributable/income	6,28	9,26	8,46	7,33	7,06	7,46	8,79	14,45
EBITDA[1] margin	10,20	8,49	12,34	12,85	14,88	14,57	15,53	21,68
Return on equity[2]	17,16	24,23	20,23	16,91	16,33	17,12	19,88	35,17
Return on total assets[3]	16,29	16,26	13,24	13,94	16,27	16,71	20,00	28,55
Solvency and liquidity ratios								
Solvency ratio[4]	2,36	2,55	3,04	3,15	3,12	3,16	3,67	3,13
Current ratio	0,73	0,74	0,72	0,97	1,13	1,12	1,37	1,27
Acid test ratio	0,73	0,72	0,69	0,94	1,10	1,09	1,33	1,24
Efficiency ratios								
Asset turnover[5]	1,63	1,51	1,57	1,58	1,46	1,47	1,61	1,53
Property, plant and equipment turnover[6]	2,85	2,79	2,91	2,68	2,61	2,79	2,79	2,79

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

	2015 cents	2014 cents	2013 cents	2012 cents	2011 cents	2010 cents	2009 cents	2008 cents
Year ended 31 July								
Basic earnings per share	105,98	146,07	113,61	90,85	82,50	83,79	93,35	148,13
Diluted earnings per share	101,14	139,13	110,85	89,09	82,08	83,43	93,35	147,73
Headline earnings per share	117,06	132,10	114,46	90,99	83,19	78,96	93,67	117,20
Diluted headline earnings per share	111,72	125,83	111,69	89,23	82,76	78,62	63,67	116,89
Net asset value per share	600,79	633,04	571,58	534,05	513,01	497,50	481,52	457,57
Dividends/capital distributions per share	88,00	88,00	88,00	76,00	68,00	68,00	68,00	65,00

VALUE ADDED STATEMENT

Contribution to South African economy R798 million
Total taxes paid up 10% to R218 million

	%	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000
Value created								
Gross betting income	12,6	1 044 329	927 253	875 827	823 717	811 115	764 599	692 986
Other income	(1,2)	435 685	441 021	296 493	252 444	204 388	210 589	211 838
Income from investments	(26,3)	2 074	2 815	1 795	2 597	3 005	2 916	9 651
Income from equity accounted investees	(18,8)	47 060	57 983	26 705	15 544	336	5 471	3 390
Income from operations	7,0	1 529 148	1 429 072	1 200 820	1 094 302	1 018 844	983 575	917 865
Other overhead costs	18,8	(731 314)	(615 668)	(457 944)	(436 638)	(398 068)	(384 648)	(349 538)
Total value created	(1,9)	797 834	813 404	742 876	657 664	620 776	598 927	568 327
Value distribution								
Stakes	1,9	189 772	186 299	175 689	165 149	153 863	157 986	156 982
Employees	7,0	293 532	274 432	245 115	202 418	189 548	170 072	147 613
Finance costs	392,6	5 828	1 183	779	1 409	513	781	77
Distribution to shareholders	(0,2)	66 389	66 517	59 713	51 399	51 399	51 402	51 585
Government	10,4	217 784	197 201	199 404	185 876	175 068	169 465	165 809
– Value added tax (paid on betting income)	12,8	120 806	107 058	100 994	95 075	86 922	84 197	75 748
– Betting tax	12,8	83 017	73 604	66 980	60 280	57 871	54 534	54 903
– Income tax	(15,6)	13 961	16 540	31 430	30 521	30 275	30 734	35 158
Total distributed	6,6	773 305	725 632	680 700	606 251	570 391	549 706	522 066
Reinvested in the Group to maintain and develop operations								
Depreciation and amortisation	26,5	49 825	39 374	39 885	38 018	33 122	32 803	24 831
Deferred tax	103,0	5 752	2 833	(6 173)	(2 720)	1 154	(249)	2 350
Retained profit	(168,1)	(31 048)	45 565	28 464	16 115	16 109	16 667	19 080
Total retained	(72,1)	24 529	87 772	62 176	51 413	50 385	49 221	46 261
Total value distributed/retained	(1,9)	797 834	813 404	742 876	657 664	620 776	598 927	568 327

The diversification of Phumelela over many years has resulted in the Group being on firm footing and thus able to withstand the commercial pressure that our traditional business is under.

FLYING THE FLAG FOR SOUTH AFRICA

Phumelela is flying the flag for the sport of South African thoroughbred horseracing and the country abroad. Our international division has commercial relationships with numerous jurisdiction across six continents. We are an exporter of a top-quality product and more people worldwide are being introduced to it every year. South African punters too have been opened up to a world of new betting options. We harness our infrastructure and intellectual property across a growing footprint, both locally and overseas.

In my 2014 review I observed that there is a pressing need for a fairer dispensation in respect of the funding of the sport of thoroughbred horseracing and for clarity in respect of government policy and legislation toward gaming, in particular horseracing and tote betting thereon. Very little progress has been made in this regard.

As the report of the directors details, there has once again been costly and time consuming litigation involving Phumelela and various bookmakers and bookmaker organisations and we have also had to take legal steps to combat abuse of our intellectual property.

We simply cannot tolerate a situation where not only do many bookmakers take far more from the sport than they contribute but that they also flagrantly pirate Tellytrack televisual content.

Our industry faces a further challenge in regulation. South Africa has fragmented regulation across provinces and inconsistency in approaches to the practical aspects of regulation. Where we need administrative stability and a depth of understanding there is an unusually high turnover rate of officials and often loss of institutional memory.

Taxes differ across provinces and the licensing requirements vary too. Stepping across a provincial line can result in a completely different dispensation.

The tax and administrative burden on horseracing is disproportionate. The equine industry is a large, labour intensive employer that encompasses stable hands through to veterinary surgeons. As the National Gambling Board statistics indicate, casinos account for 79% of all gambling turnover while all forms of betting account for 9%. Yet gambling taxes levied and collected by provincial licensing authorities on betting is 14% of the total with horseracing alone contributing 73% toward that.

The Gambling Review Commission (GRC) recommendation was that the funding model be reviewed to achieve standardisation of tax rates and levies in horseracing. Both the GRC and Department of Trade and Industry Parliamentary Portfolio Committee on gaming have come out in favour of a level playing field and a reallocation of taxes to favour gambling institutions that are more labour intensive.

The Portfolio Committee further observed that the open bet, that is bets based on the odds of the totalisator, be outlawed. As our CEO, Mr Rian du Plessis, has pointed out in his review, bookmakers have continued to gain at the expense of totalisators while not contributing proportionately to supporting the sport.

The report of the Portfolio Committee on Trade and Industry on the Report of the Gambling Review Commission was issued in March 2012 and we are no further along the road to an improved legislative and fiscal framework for the horseracing industry.

TESTING TIMES

In addition to our industry-specific difficulties, Phumelela is also trading in a difficult local macroeconomic environment.

Discretionary income is under pressure. Job losses in the private sector are escalating. Evidence of deindustrialisation is very disconcerting for a developing country. We face inflationary pressures. The commodity cycle is depressed with negative consequences for a country that generates a large proportion of foreign exchange from mining.

Nevertheless, there is a lot to take encouragement from and work towards.

As a nation, South Africans have much to be thankful for as we have mercifully few of the fractious fault lines that some other states exhibit.

> “We are an exporter of a top-quality product and we harness our infrastructure and intellectual property across a growing footprint.”
>
> **MP Malungani**
> *Chairman*

The only real challenge we need to circumvent is the economic one and we can do this off a relatively sound institutional and economic foundation. By and large our democracy works, if somewhat rambunctiously at times.

South Africa has several good businesses of scale, many of whom are spreading their wings globally. But we also need to encourage an enabling environment for enterprise to flourish at home. It is businesses that create wealth and a more prosperous economy is that much more able to provide the social infrastructure for a better quality of life for all.

Business, government and labour are actually on the same side, all have a part to play in a solution. Distribution of what is, as opposed to creation of what could be, is a zero-sum outcome. We have successfully transcended ideological obduracy in the past and so we have precedent.

I reiterate, we have a roadmap that all can subscribe to and that is the National Development Plan. All we need is implementation. We need leadership from those in a position to lead. People need hope – confidence is a powerful catalyst for pressing ahead and doing things.

INVESTING IN DIVERSIFICATION

The diversification of Phumelela over many years has resulted in the Group being on firm footing and thus able to withstand the commercial pressure that our traditional business is under.

The financial results for the year are analysed by our Financial Director, Mr Andreas Heide, and Rian analyses the strategic and operational background. As Chairman, I note with concern that our traditional business of horseracing has increased its losses this year and my earlier comments are relevant in this regard.

It is only thanks to farsighted initiatives to expand into complementary betting offerings and to internationalise horseracing content that we are able to secure sustainability for the business and the large number of people who rely on us for their livelihood.

I wish to record my deep appreciation to the owners, breeders, jockeys, and the many individuals in the horseracing and betting community who give so much to the sport in relation to what they receive back.

It is a pleasure to welcome our new partners, Mr Johnny Stark and Mr Gary Piha, to the Phumelela family. The investment that we have been privileged to secure in Interbet fits well with our strategic objectives and we look forward to a long and prosperous association.

I am also delighted that Phumelela remains at the forefront of business transformation and rates as one of top JSE listed companies in this regard across all key categories. Phumelela sees transformation as a critical business, not a compliance matter.

In addition to our contribution to good citizenship as a successful business, we are a large contributor to government and provincial tax revenues.

GOING FORWARD

Phumelela is innovative and we have an exciting future. The investments we have made are bearing fruit. There is more to come, locally and abroad.

We are resolute in tackling theft of our intellectual property and we shall pursue all avenues to achieve a just funding compromise for the sport of thoroughbred horseracing.

I thank my fellow Board members for their wisdom and selfless dedication to the Group and the industry.

With effect from 8 October 2015 and subject to shareholder approval, Mr Brian Finch was appointed to the Board as a non-executive director and I extend a warm welcome to Brian on behalf of the Board. Brian serves as CEO of British American Tobacco South Africa. He is passionate about the sport of horseracing and brings a wealth of knowledge as a horse owner and hobby breeder.

A big thanks is owed to Rian for his outstanding leadership and his determination to drive the business to new heights. I thank his executive team too for their role in achieving this.

I acknowledge all of our people for the individual contributions they make to Phumelela. We have achieved a creditable result this past year in demanding circumstances thanks to your energy and dedication and I have every confidence this will be so in future.

MP Malungani
Chairman

Phumelela contributed R218 million to South Africa in value added tax, betting tax and income tax.

KEY OPERATIONAL FEATURES OF THE TRADING YEAR

- Phumelela ranked eighth most empowered company listed on the JSE in 2015.
- Good growth in tote betting on soccer and other sports.
- Betting World has grown to 67 retail outlets in business with more to follow.
- South African horseracing content retains strong appeal to an international audience.
- Strategic investment in Interbet with effect from 1 November 2014.

A YEAR OF INNOVATION AND DIVERSIFICATION

The year in review was one of continued innovation and diversification across all offerings with progress on a number of fronts. Our fixed odds business in particular is showing spectacular growth with the substantial investment made over the past few years now being reflected in improved profitability.

Phumelela's staunch support of South African thoroughbred horseracing is also being reflected through the fixed odds business with money wagered on horseracing up 33% this year. Tote betting on horseracing has also had growth in both 2014 and 2015.

A highlight of the year was the acquisition of a strategic 26% investment in Interbet, which offers an internet exchange on a business-to-business basis as well as internet betting opportunities to the South African public. This investment dovetails perfectly with Phumelela's increasingly diversified suite of horseracing and sports betting products.

While our international result was down for the year we are confident that it has a better base from which to go forward. International demand is buoyant for live South African horseracing and the opening up of large tote pools such as Hong Kong and Singapore underscores the fact that Phumelela is among the leaders in the world in commingling, simulcasting and cost efficient racing administration.

Our commitment to growth and development is exemplified by the considerable R115 million invested in the acquisition of assets and investments in associates during the

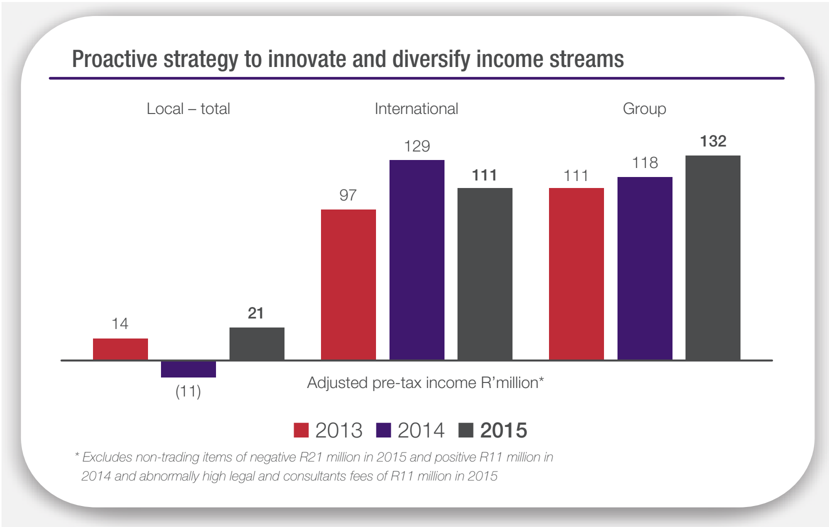
year. This includes our strategic shareholding of 26% in Interbet, expansion of Betting World and ongoing spend on our horseracing infrastructure.

The Group ended the year with negligible borrowings and a substantial reserve borrowing capacity. This strong position is due to the work over more than a decade to ensure commercial sustainability and has not been easily won. Without our diversification into complementary betting offerings to horseracing and our internationalisation of South African horseracing, things would be very different. The substantial business development expenses incurred to grow the fixed odds business and betting on sports other than horseracing is now starting to yield returns for our local operations.

Our results were negatively affected by a mark-to-market loss on our investment in Automated Systems Limited in Mauritius and an impairment of our investment in Betting World Nigeria, both of which are non-trading, non-cash items. Our results were further negatively affected by abnormally high legal and consulting costs. These three items reduced net attributable income by 28% compared with 2014 but adjusted headline earnings grew by 7% to R106 million. On an adjusted basis, we have grown earnings by 19% in two years.

The legal and other expenses incurred are for good reason and with the full support of the Board. I have provided appropriate context on this in my review of the tote betting and horseracing operations below but further detail is contained in the report of the directors.

Our Financial Director, Andreas Heide, addresses the financial features of the year and the accounting treatment in detail in his review.



> “A highlight of the year was the acquisition of a strategic 26% investment in Interbet.”
>
> **WA du Plessis**
> *Chief Executive Officer*

PHUMELELA AS EMPLOYER AND GOOD CORPORATE CITIZEN

I wish to record my sincere thanks to my executive colleagues and all our employees for their hard work in making Phumelela the resilient and growing business that it is.

From a people development perspective, we are proud to have Phumelela ranked by Empowerdex as the eighth most empowered JSE company with a score of 91,99. We were rated particularly high in all key categories, including employment equity, skills development, enterprise development and preferential procurement.

While the amended empowerment codes present a challenge for companies, Phumelela has nevertheless been at the forefront of business transformation, achieving AAA level 2 B-BBEE status two years ahead of our licence requirements, with an ethos that this is not simply one of compliance but also of business sustainability.

Phumelela's black economic empowerment credentials are an important component of its mandate to operate in South Africa and a cornerstone of its financial viability and social responsibility to the broader community.

The tote has a number of previously disadvantaged individuals in franchised betting outlets and this concept is being further rolled out in Betting World as previously disadvantaged individuals are being offered an opportunity to become successful entrepreneurs in fixed odds gambling, with Phumelela providing the systems, infrastructure and support in return for a franchise fee.

Phumelela contributes meaningfully to the South African fiscus. Value added tax paid on betting income grew by 13% to R121 million, betting tax also grew by 13% to R84 million and if income tax is included total tax paid grew by over 10% to R218 million.

Gambling on horseracing in isolation makes a large taxation contribution. According to the latest statistics from the National Gambling Board, gambling taxes and levies collected by provincial licensing authorities on bookmakers and totalisators for the year ended 31 March 2015 amounted to R250 million.

Of the value we distributed from that which we created, our employees gain the lion's share at 38%, with government's share at 28%, prize monies 24,5% and with our shareholders receiving 8,5% in the form of a dividend.

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

INTRODUCING INTERBET

Interbet was founded by Johnny Stark and Gary Piha in the year 2000 and today it is South Africa's only online business-to-business betting exchange and the leading online business-to-consumer fixed odds betting operator measured by volumes, stakes, pay-outs and clicks.

The business has developed its own proprietary betting software, an important advantage.

Interbet offers internet betting opportunities for South African customers across multiple sports, including thoroughbred horseracing.

The trading platform is unique, electronically unifying licensed bookmakers into one market. It provides a trading tool that gives bookmakers and customers access to the same market information.

Punters have single account access to numerous bookmakers, including a full tote betting service for placement of tote bets.

The settlement process is centralised, the platform is user friendly and one has a real-time view of betting markets.

In 2015, 3,5 million bets were placed at an average value of R285 per bet for a total value of R1 billion.

The Phumelela 26% strategic interest is beneficial for both parties – with the founders retaining a significant stake and management control and with Phumelela bringing complementary know-how and further investment capacity.

TOTE BETTING AND HORSERACING

Strong growth from soccer tote bets and other income together with substantially higher income from equity-accounted investees buoyed the local operations excluding fixed odds. This resulted in a materially reduced loss. Tote betting on sports other than horseracing, limited payout machines and fixed odds is going from strength to strength.

Recent trends in tote betting volumes, on-course attendances and yearling sale prices are encouraging for the sport of thoroughbred horseracing. Phumelela continues to invest in the competitive appeal of South African thoroughbred horseracing both locally and for an international audience. The sport is our traditional business and the basis for our licence to operate.

Racing had its fair share of highlights.

Phumelela and the Racing Association doubled the prize money of the President's Champions Challenge to R4 million and increased the Peermont Emperors Palace Charity Mile prize money by two thirds to R1 million.

The Sansui consumer goods brand reaffirmed its sponsorship of the popular Gauteng Sansui Summer Cup for the seventh year running.

Racing It's a Rush was officially launched in August 2014 as a unified brand representing, marketing and showcasing all aspects of the sport of horseracing as quality entertainment with a distinctive difference. This initiative is aimed at attracting a younger age profile, people who may not have been previously aware of what an enjoyable, accessible and relatively affordable experience thoroughbred horseracing is.

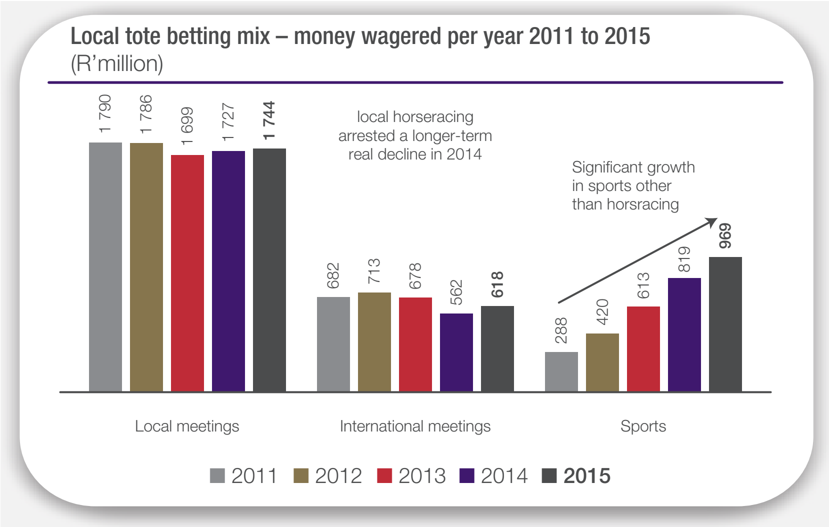
Phumelela recently unveiled a brand new infield display board at the Turffontein race track. This multi-million Rand investment in the latest data and visual technology brings spectacular images of the progress of a race and real-time information on tote betting odds.

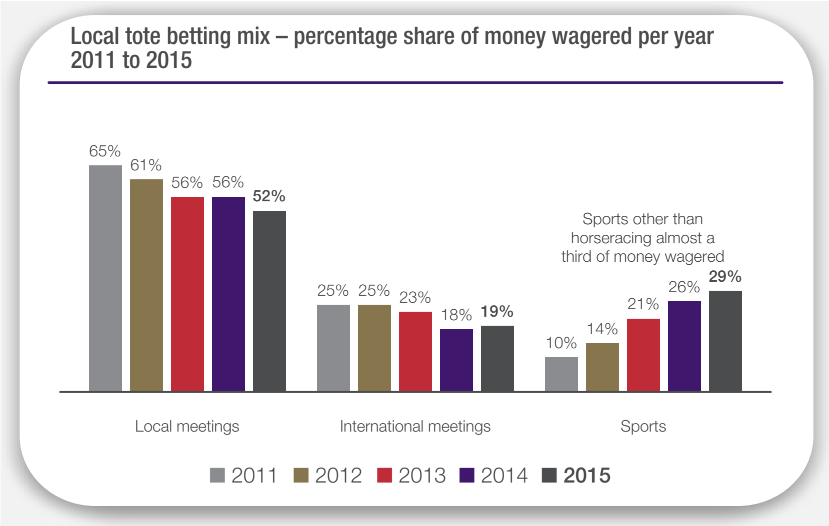
Prize monies paid out on horseracing, which are governed by our agreement with the Racing Association, increased to a record R190 million in the past year. This sum is further increased if the Western Cape is included as Phumelela manages racing and betting in that province on behalf of the Board of Kenilworth Racing.

Along with attractive race stakes, we also provide owners and trainers with free training facilities for their horses and we subsidise their stabling costs.

During 2015, tote betting on local horserace meetings was R1 744 million, the tote betting on international horserace meetings was R618 million and sports other than horseracing added another R969 million. Local and international horseracing have 71% of the total with sports other than horseracing 29%. Since 2011, the betting on sports other than horseracing has grown by 236%.

Not only has the decline in the tote betting at local race meetings been turned around in the past two years, but there has also been growth in local on-course attendances and hospitality shows encouraging growth.





For thoroughbred horseracing to achieve the aims of corporatisation we require cooperation, fair dealing and equitable contributions by all participants in this vital sport. The staging of horseracing and conducting tote betting thereon remained loss-making to the extent of R165 million for Phumelela in 2015, exacerbated by an imbalance in the funding of the sport.

Horseracing is subsidised by operators such as Phumelela, who stage meetings and invest in intellectual property, and the owners. Income is derived from the tote and taxes levied on punters' winnings on bets placed with fixed odds bookmakers, including Phumelela. But there is a big difference between what bookmakers put in to the sport compared with what they take out. The Open Bet practice further erodes tote revenues.

The National Gambling Board statistics for the year ended 31 March 2015 indicate that the Rand value of money wagered through bookmakers on horseracing was R6 280 million while that of totalisators was R4 159 million. The growth for bookmakers was 14% while totalisators declined by 8%. Money wagered through the tote is in fact 18% less than in 2012 whereas that of bookmakers has risen. The share of bookmakers in betting turnover has risen from 44% in 2009 to 60% in 2015 and their growth in turnover has been almost 70% whereas tote turnover has reduced.

Bookmakers' total turnover by value of money wagered on both horseracing and sports betting was R24 348 million in 2015 of which horseracing was 25%. The contribution by bookmakers to supporting the very sport that is a quarter of their business by turnover, and in which they have a 60% market share, does not come close to approximating the costs of putting up the show.

By way of example, the cost of staging 440 race meetings in fiscal 2014 was R742 million, including prize money. The net cost, after the contribution by Gambling Boards, which is half of the levy deducted by bookmakers from punters, winnings, was R636 million. This is a cost borne by the tote and racing operators.

Furthermore, international export of South African racing content and the role of televisual intellectual property is critical for the local industry – without it the entire value chain is in jeopardy.

The Tellytrack partnership, a joint operation between Phumelela, Gold Circle and Kenilworth Racing, operates a television studio that broadcasts live horseracing audio, visual and data from South Africa and other international racecourses to betting shops and private subscribers worldwide. The total direct cost of running Tellytrack in 2014, including the fees that the suppliers of international racing content demand, but excluding any charge for the intellectual property vested with the operators for "putting up the show", came to R146 million, also predominantly funded by the tote and horseracing operators.

A number of bookmakers, including Phumelela's Betting World, contribute to the sport of horseracing. Betting World contributes fairly and proportionally to the funding of the sport and lawfully subscribes for the right to display Tellytrack in all of its retail outlets. In terms of the agreement between Phumelela and the Racing Association, 30% of Betting World's annual profits from betting on horseracing are contributed directly to horseracing prize monies.

A sizeable number of bookmakers though free ride on the infrastructure and intellectual property of the sport or simply steal intellectual property. Phumelela has therefore incurred abnormally high legal and consulting costs this year that are associated with combating abuse of Tellytrack's intellectual property by certain bookmakers. Phumelela is resolute in vigorously defending challenges of whatsoever nature. While this is another unwelcome financial burden and distraction, there is simply no option other than to persevere as the alternative is indefensible and unsustainable.

Against this financial backdrop for our traditional business, it is our diversification initiatives over the last number of years that have allowed us to report Group profits and growth.

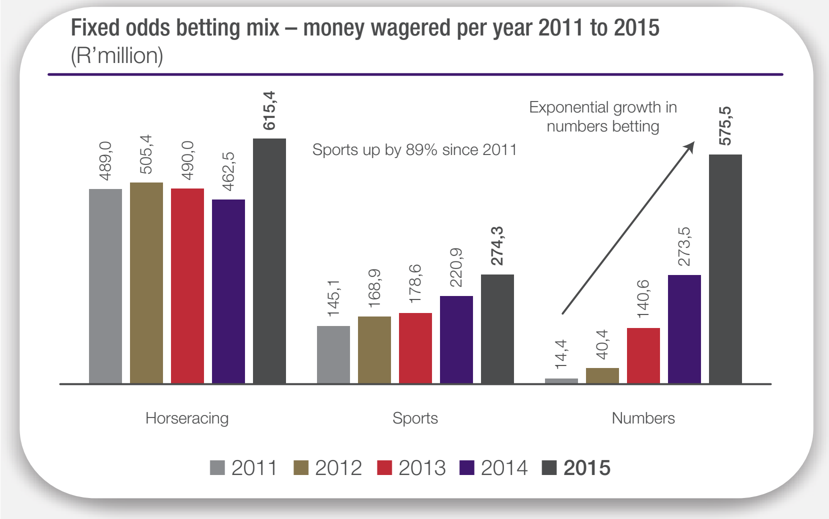
FIXED ODDS

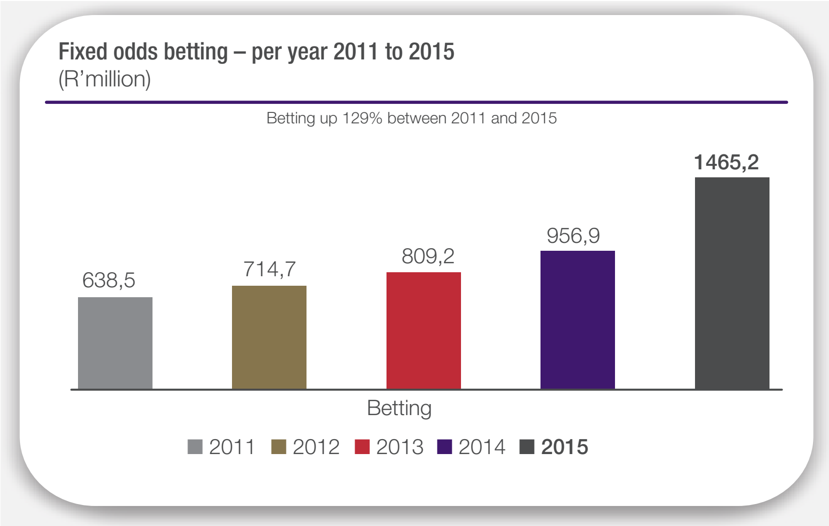
Phumelela's complementary soccer, numbers and other sports betting offerings are popular with customers. Betting World, Phumelela's licensed bookmaker, is firmly established as a leading bookmaker in South Africa with a valuable and growing retail footprint. Betting World ended the year with 67 retail outlets in business, an increase of 58% in less than two years.

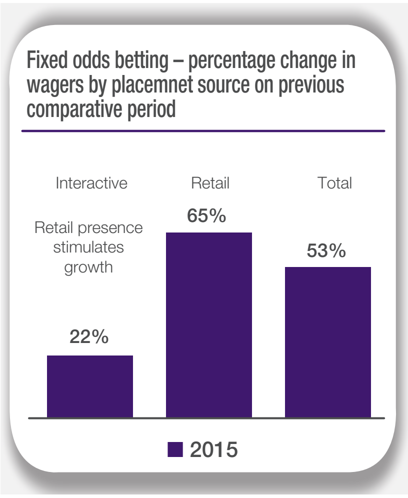
The fixed odds betting on horseracing increased by 33% to R615 million with betting on sports other than horseracing increasing by 24% to R274 million – a growth of 89% since 2011. The fixed odds betting on numbers has grown exponentially in the past four years and grew by 110% alone in 2015 to R576 million.

The total fixed odds betting has reached R1 465 million compared with R648 million as recently as 2011, growth of 129%. While the share of fixed odds betting on horseracing has declined to 42% in 2015 from 75% in 2011 this is in a larger market as horseracing betting has also grown in this period by 26%. Numbers betting now has a 39% share of money wagered.

Our retail presence stimulates growth with the percentage change in wagers at retail premises growing by 65% in 2015 with interactive growing by 22%.

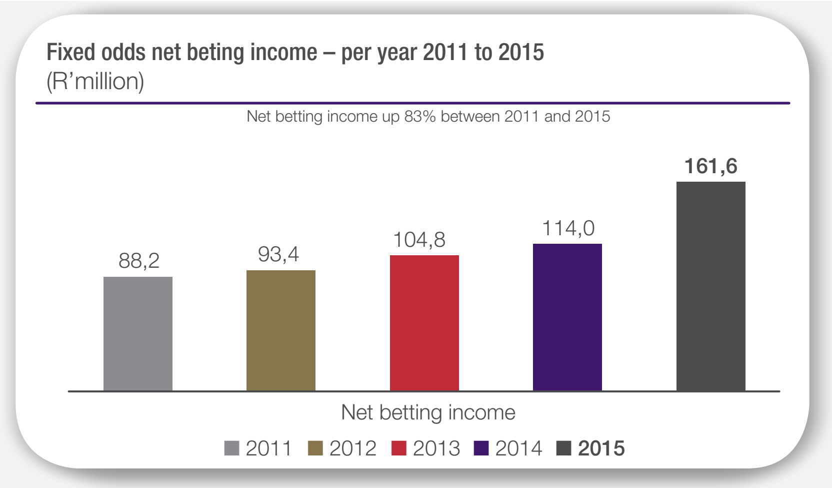


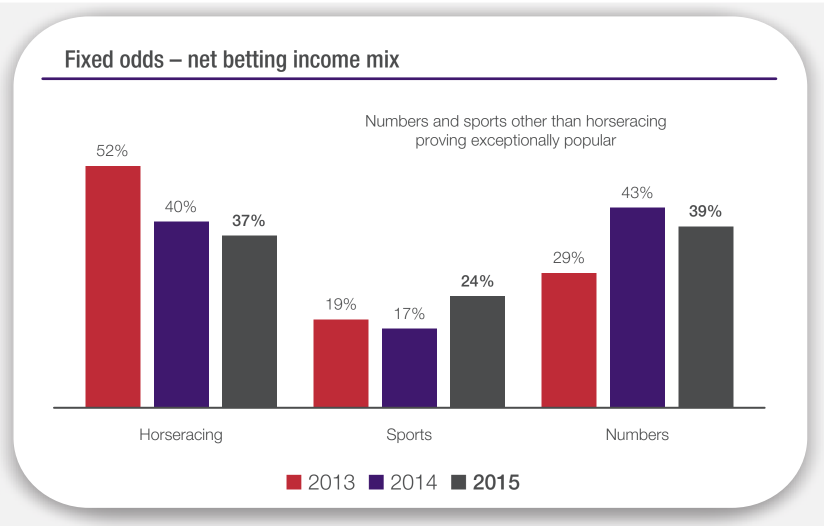




The fixed odds gross betting margin on horseracing has been relatively stable at 11% for the past two years and the margin on numbers has declined to 12,6% from 31% in 2011 to reflect a more normalised level as the business has grown.

Fixed odds betting on horseracing ended the year on a strong note with a 30% growth in net betting income while net fixed odds betting income on sports other than horseracing increased by a significant 96% with fixed odds net betting income on numbers also putting in a splendid performance by growing 31%. Net betting income from fixed odds overall grew by 42% to R162 million reflecting growth of 83% since 2011. Of our net betting income, horseracing accounts for 37%, numbers 39% and sports other than horseracing 24%.





Expense growth of 32% this past year reflects substantial business development expenses in line with these growth trajectories. Profit before income tax in our fixed odds business increased by a substantial 153% and we have the scope to further improve returns from our assets as a larger proportion of development costs is in the base, providing us with positive operating leverage going forward.

Initiatives such as online betting availability through Betting World are beneficial for customers with finite disposable income but who wish to have a flutter and maximise their value for money. With the average value of a bet placed in our outlets only R20, the ability to eliminate the cost of transport and put that to better use is very appealing.

INTERNATIONAL

Our international operations are strategically important and contribute meaningfully to the Group result. Although a more challenging international trading environment negatively affected overseas derived income, our international operations ended the year on a stronger note with Premier Gateway International Limited (PGI) in particular on a firmer base from which to grow.

Net income from international operations, through which Phumelela has rights to export live visuals of South African horseracing and import live horseracing from other countries, was lower than the previous year, mainly as a result of reduced betting on South African horseracing via PGI and by France, which delayed commingling into Phumelela tote pools.

New competitive dynamics affected PGI's margins and betting volumes. PGI had a much improved second half, earning a similar level of income to that of the corresponding period in 2014 as a result of improved contractual terms. This improving momentum we anticipate will be better reflected in the 2016 results.

Pleasing growth in income was achieved out of the UK, Australasia, Turkey, Cyprus, Macau and Malaysia. An exciting pipeline of new betting opportunities has opened abroad, including commingling into the Hong Kong tote pools, the third-largest tote in the world, and into Singapore.

Online streaming of South African racing has growth potential as does tote soccer betting in Africa and Latin America.

THE FUTURE

We expect that income and profitability will accelerate in retail fixed odds and tote betting shops.

Further investments will be made to expand the tote and fixed odds retail footprint. Forty LPM sites are coming on-stream in the new financial year.

Our investment in Interbet is both an exciting development and a profitable one too.

We are investing in online streaming of South African racing and in initiatives to "take the bet to the customer."

Development of the franchise model for previously disadvantaged individuals is being actively pursued.

Our international operations are on a firm footing for further growth – we have a world-class product in South African thoroughbred horseracing to export.

Phumelela has a history of positive engagement with all relevant public and private stakeholders and this healthy relationship will be maintained.

In closing, I extend my gratitude to a supportive and actively engaged Board of Directors.

WA Du Plessis
Chief Executive Officer

Phumelela retains a sound financial position and is invested in strategically well placed assets.

KEY FINANCIAL FEATURES OF THE TRADING YEAR

- Net income up by 8% to R1,3 billion
- EBITDA up by 28% to R129,1 million
- Profit before tax, fair value adjustment, impairment and profit on conversion up by 2% to R120,5 million
- International operations contributed R110,6 million or 92% of Group adjusted pre-tax profit
- Headline earnings, including impairment, down by 12% to R87,8 million
- Adjusted headline earnings increase by 7% to R106,2 million
- Net debt a minimal R5,5 million, equivalent to debt to equity ratio of 1,3%
- Dividend maintained at 88 cents per share for the year.

ANALYSIS OF THE GROUP FINANCIAL RESULT

Gross betting income from local operations, which includes bets struck net of betting dividends paid, refunds and rebates, exceeded R1 billion for the first time. Totalisator gross betting income grew by 7,5% to R850,8 million with fixed odds growing by 42,7% to R193,5 million.

The Group recorded an 8% increase in net income to R1 278,3 million for the year of which local net betting income was R840,5 million, an increase of 13%. Net betting income is recorded after deduction of value added tax of R120,8 million and betting taxes of R83,0 million from gross betting income. International income reflected a decline of 12% to R205,4 million while other income from local operations increased by 18% to R230,3 million. Investment income from both local and international sources was R2,1 million compared with R2,8 million.

Net betting income on horseracing increased by 6% to R517 million, driven by a 30% rise in fixed odds net betting income to R59,5 million. Net betting income on sports other than horseracing was up by 25% to R259,6 million with tote income rising by 17% to R221,5 million and fixed odds income rising by 96% to R38,2 million. Fixed odds net betting income on numbers increased by 31% to R63,9 million.

Other income in our local tote and horseracing business is a substantial R219,3 million, an increase of 19%. This includes gambling board levies, products fees and commingling levies, unclaimed dividends and breakages, limited payout machines,

Tellytrack subscriptions, hospitality, stable rentals, and foreign exchange gains or losses.

Operating expenses for the Group increased by 10% to R890,9 million, of which international expenses decreased by 11% to R71,1 million and local expenses increased by 12% to R819,8 million. International intellectual property rights fees were 17% lower at R68,5 million.

Local expenses were negatively affected by the R11 million in abnormally high legal and related consulting costs associated with combating theft of intellectual property and other matters. Costs to grow the retail footprint are expensed ahead of the future income that will flow, and so operating expenses in fixed odds grew by 32% to R138,4 million.

Normal operating expenses in the local operations remain tightly controlled.

Stakes paid out on horseracing increased by 2% to R189,8 million.

The Group depreciation and amortisation charge increased by 27% to R49,8 million and reflects the substantial investment being made in our asset base.

Profit from operations increased by 28% to R79,3 million. Strong growth from soccer tote bets and other income resulted in a 59% reduction in the loss from local tote betting and horseracing operations to R8,6 million from R20,9 million. Profit from operations in our fixed odds business increased by 146% to R22,0 million from R9,0 million as the benefits of positive operating leverage arising from the investment programme start to come through. Profit from international operations of R65,9 million was 11% lower.

Finance costs of R5,8 million, an increase from R1,2 million, reflect the higher level of investment activity. The EBITDA interest cover ratio on local operations alone is a comfortable 10,8 times and on a Group basis the cover ratio is 22,2 times.

The Group financial result features two items of a non-trading nature that negatively affected attributable income – a fair value adjustment of R12,8 million and an impairment of R8,6 million.

The R12,8 million fair value adjustment relates to the writing down of the Group's investment in Automatic Systems Limited (ASL) in Mauritius to market value as at year end. This is due to the share price of ASL declining. The investment is classified as held for sale. The mark-to-market loss on ASL is not adjusted for headline earnings calculation purposes.

The R8,6 million impairment of the Group's 26% interest in Betting World Nigeria Limited has negatively affected attributable income but is excluded from headline earnings.

> "Gross betting income from local operations exceeded R1 billion for the first time."
>
> **AW Heide**
> *Group Finance Director*

Share of profit of equity-accounted investees decreased by 19% to R47,1 million, which includes the R45,6 million from Premier Gateway International (PGI) on the Isle of Man. PGI had a 38% reduction in profit in the first half but earned a similar level of income in the second half of the financial year to that of the corresponding period as a result of improved contractual terms and thus closed the year down 21%.

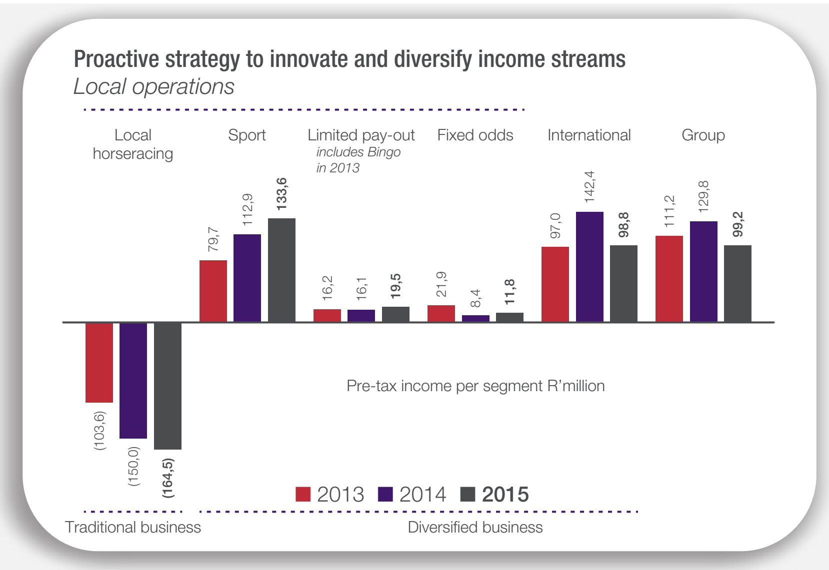
Pre-tax income of R99,2 million is 24% lower than the R129,8 million in 2014, which also included an R11,1 million non-cash benefit of the conversion of ASL to an investment.

Excluding the fair value adjustment of ASL and the impairment of the Betting World Nigeria investment, Group profit before income tax expense was R120,5 million. The prior year comparative is R118,6 million, which also excludes the non-cash conversion benefit. International operations contributed R110,6 million or 92% compared with R131,3 million or 110,7% in the prior year.

As the Group internationalises its income streams so too does the proportionate exposure to different currencies change. Foreign income is earned in the territories to which those currencies are applicable and translated at prevailing rates. While the British Pound is our major reference currency the Group in 2015 also had exposure to the Australian Dollar, the Euro, Singapore Dollar, Swedish Krona and the US Dollar. On balance, Rand weakness is a net benefit for the Group.

International income is derived from Phumelela International's rights to export live visuals of South African horseracing and import live horseracing from other countries. Equity-accounted international income is derived from the jointly owned PGI tote operator on the Isle of Man.

The Rand averaged R18,11 to the British Pound compared with R17,18 in the prior year and was thus 5,5% weaker on average over the year having been 22% weaker in 2014. At year end, the rate of exchange was R19,68 to the Pound compared with R18,09. The average rate against the US Dollar for the year was R11,65 compared with R10,44 in 2014 with the closing rate of R12,62 compared with R10,72. Compared with the Singapore Dollar, the Rand was 6% weaker on average and weaker by 7% at the closing rate.



Nevertheless, the Rand was stronger on average against the Australian Dollar and the Euro by 2% and 4% respectively and by 7% and 3% respectively at the closing rate.

The Group recorded a profit on foreign exchange in income of R18,5 million versus a profit of R11,7 million in 2014.

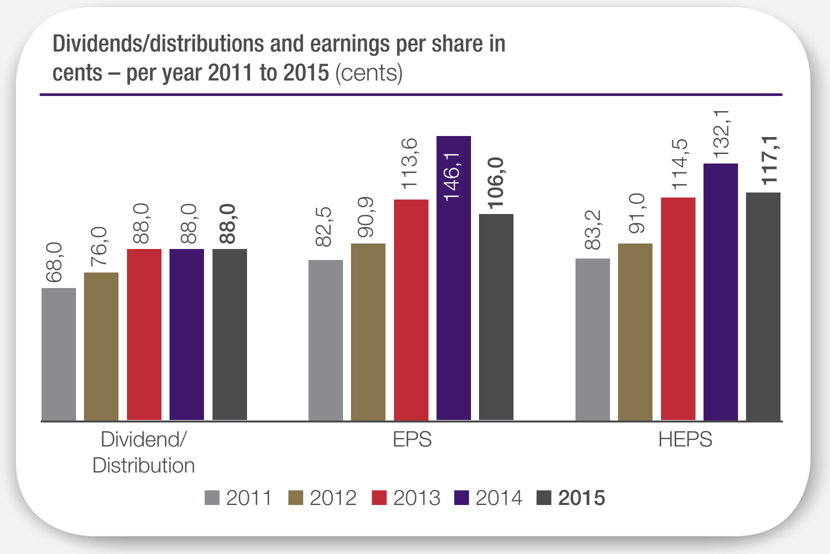
The Group tax charge of R19,7 million is similar to the previous year and reflects an average rate of 19,9% versus 14,9%. Foreign withholding taxes increased by 37%. Cash tax paid of R19,6 million, including a current year charge of R14,0 million, compares with R20,4 million in 2014.

Profit attributable to ordinary shareholders is 28% lower at R79,5 million with earnings per ordinary share 27% lower at 105,98 cents.

Headline earnings is 12% lower at R87,8 million with headline earnings per ordinary share 11% lower at 117,06 cents.

To assist shareholders with a better appreciation of the Group's underlying trading earnings, we have computed an adjusted headline earnings number that excludes the R12,8 million non-cash fair value adjustment, together with a R2,4 million (18,7%) tax effect thereon, and the R11,0 million in abnormally high legal and consulting fees, together with a R3,1 million (28%) tax effect thereon. On this basis, adjusted headline earnings are 7% higher at R106,2 million or the equivalent of 141,48 cents per share, also 7% higher.

Dividends totalling 88 cents per share were declared in respect of this year's earnings and represent a cover ratio on headline earnings of 1,3 times.



The Group generated cash, before working capital investment and equity-accounted profits, of R117,4 million, up 14%. Dividends received from equity-accounted investees amounted to R52,2 million, of which R50,1 million is dividends received from PGI in the Isle of Man.

Acquisition of property, plant and equipment, intangibles and equity-accounted investments amounted to a gross R114,8 million, including R78,5 million in property, plant and equipment and R30,8 million in associates.

R41,6 million was spent buying back shares to fulfil obligations in respect of shares that may become exercisable in terms of the executive option schemes, which resulted in the number of shares in issue at period close being 1,4% lower.

Commitments in respect of capital expenditure approved by directors is R122,7 million of which R41 million is set aside to expand operations.

Borrowings as at 31 July 2015 came to R63,5 million, of which R49,6 million is non-current. Cash balances of R58,0 million include R26,5 million in foreign currency, half of which is in British Pounds. Net borrowings are therefore a negligible R5,5 million or a debt to equity ratio of less than 1,3%.

Shareholders' equity of R447,7 million equates to net asset value per share of 600,79 cents. Returns remain relatively attractive and compare favourably with historical achievement. Return on average shareholders' equity based on reported headline earnings was 19% and on a net attributable basis it was 17%.

FINANCIAL AND OPERATIONAL DISCLOSURE

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

GOING FORWARD

After a year in which the Group had substantial demands on its cash resources, including capital expenditure, acquisition of Interbet, legal and consulting costs and buying back shares, the Group remains in a sound financial position with negligible net gearing and with ample funding headroom.

In 2016 we will continue to invest strategically in modernisation and growth, including expanding Betting World. These initiatives are increasingly yielding the returns we anticipated.

We shall retain our customary cautious and prudent approach to our financial affairs, particularly given the fact that the traditional horseracing business remains loss making. We anticipate further expenses will be incurred as we battle piracy of our intellectual property and pursue a fair funding dispensation for the sport of thoroughbred horseracing.

AW Heide
Group Finance Director

RACING
IT'S A RUSH

THE GOLDEN AGE
OF
RACING IS COMING


AFRICA'S RICHEST RACEDAY

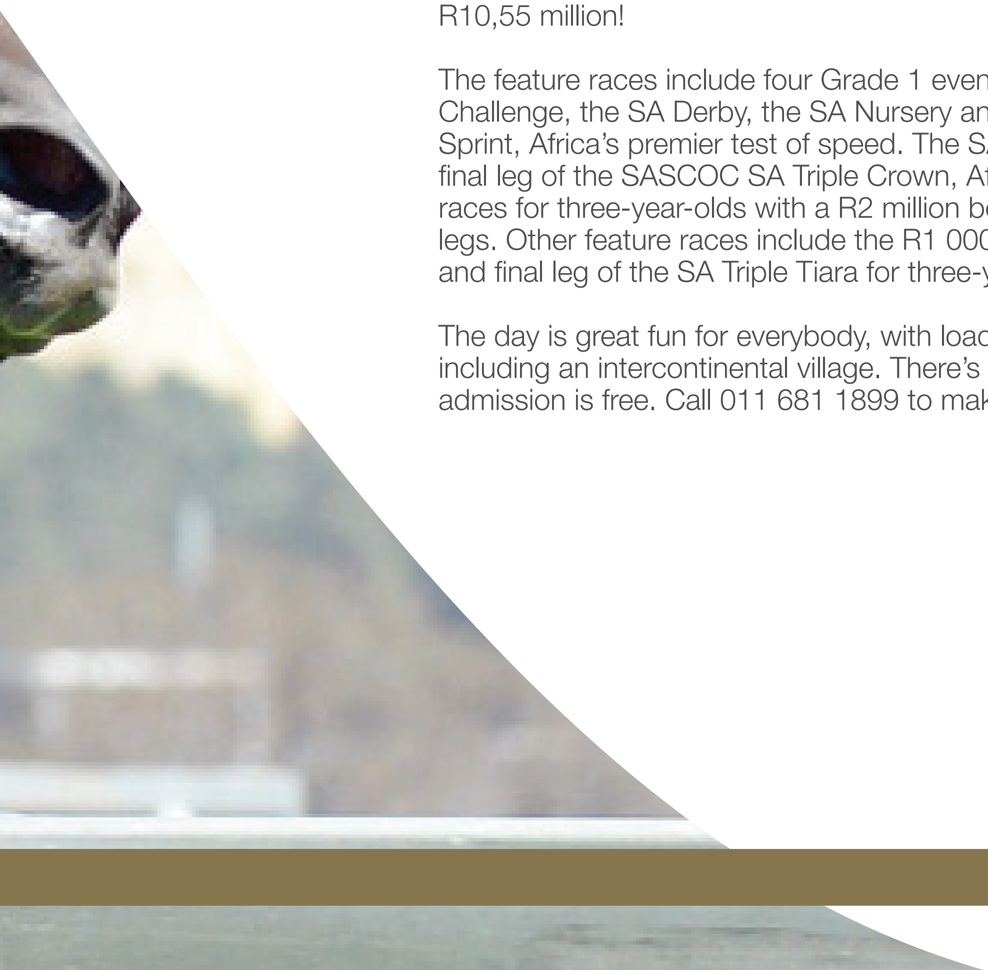
CHAMPIONS DAY

Champions Day was introduced by Phumelela in 1999.

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

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

The day is great fun for everybody, with loads to do between races including an intercontinental village. There's secure parking and admission is free. Call 011 681 1899 to make a restaurant booking.



CORPORATE GOVERNANCE

OUR BOARD

MP Malungani (57)[#*]

BCom, MAP, LDP

Chairman

Peter is chairman and founder of Peu Group (Pty) Limited. He is Chairman of Phumelela Gaming and Leisure Limited and also serves on the board of Pretoria Portland Cement Limited (chairman of the investment committee). Peter was previously a director on the boards of Investec Bank Limited and Investec Plc (member of the risk and capital committee). He holds directorships on a number of Peu subsidiaries.

JB Walters (71)[#*†]

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

SKC Khampepe (64)[#]

BA, MBA (UK)

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

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

[#] *Non-executive director*
* *Member of Remuneration Committee*
[†] *Member of Audit committee*
[§] *Member of Social and Ethics Committee*

B Kantor (66)#*

Bernard is a founding member of Investec, having joined in 1978 and is currently the Group managing director. Living between London and Johannesburg for a number of years, Bernard has a broad experience of international business, has sat on various boards and leads many management teams in different parts of the world. He brings invaluable experience to the Phumelela Board. Bernard has a keen interest in the sport of horseracing, not only is he a passionate owner of race horses, but also enjoys breeding in many countries around the world. In recognition for his involvement in British horseracing and his efforts in securing the sponsorship of the Investec Epsom Derby, Bernard has been recognised with an honorary membership of the Jockey Club in the United Kingdom.

NJ Mboweni (54)#†

BA Ed, MAP

Nolwandle holds a Senior Teachers Diploma from East Rand College, a BA Degree in Education and MAP from Wits Business School. Nolwandle sits on a number of boards namely: Afrisun Gauteng; Afrisun (Sun International); Allpay Pension Payouts (Absa subsidiary); Vela International; Mdumo Investments; Katekane Women's Investments; Total South Africa; and Tshahani Resources. She is involved with a number of community projects and is a trustee of the Khotso Trust.

MJ Jooste (54)#*

BAcc, CA(SA)

Markus is the chief executive officer of Steinhoff International Limited and he also acts as chairman of Steinhoff Africa Holdings (Pty) Limited. Markus serves on several boards within the Steinhoff group's operations in Europe, the United Kingdom, the Pacific rim and South Africa.

Markus serves on the boards of the following listed companies:
KAP International Holdings Limited (member of the remuneration committee), PSG Group Limited (member of the remuneration committee), Kenilworth Racing (Pty) Limited and Steinhoff International Holdings Limited.

OUR BOARD (continued)

Dr E Nkosi (54)[#]

MB ChB, MAP and MBA

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

CJH van Niekerk (67)[#*]

Chris is a director of Botswana Soda Ash (Pty) Limited, Chlor Alkali Holdings (Pty) Limited , Walvisbay Salt Holdings (Pty) Limited, Ekango Salt (Pty) Limited, KAP International, Cape Thoroughbred Sales (Pty) Limited, Klawervlei Stud (Pty) Limited and Rainbow Beach Trading (Pty) Limited. Chris is also the Chairman of Kenilworth Racing (Pty) Limited.

As a hobby, Chris has a keen interest in the sport of horseracing, and is a passionate owner of race horses.

R Cooper (72)[#§†]

CA(SA)

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

 # Non-executive director
^ Executive director
** Member of Remuneration Committee*
† Member of Audit committee
§ Member of Social and Ethics Committee

BP Finch (53)[#]

Brian serves as CEO of British American Tobacco South Africa and director of various BAT Group companies. He is passionate about the sport of horseracing and brings a wealth of knowledge as a horse owner and hobby breeder. Brian was appointed to the Board on 8 October 2015 and his appointment is subject to approval by shareholders at the AGM.

WA du Plessis (54)[^]

BAcc, CA(SA), Hdip Tax

Group Chief Executive Officer

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

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

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

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

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

AW Heide (50)[§^]

BCompt Hons, CTA, (SA)

Chief Operating Officer and Group Financial Director

Andreas served articles with PricewaterhouseCoopers in Johannesburg and qualified as a chartered accountant in 1996. Over the past 19 years he has held various senior financial positions within the horseracing industry and played key roles in the corporatisation and listing of Phumelela on the JSE in 2002. Andreas was appointed Group Finance Director in September 2009 and as Chief Operating Officer in April 2010.

OUR BOARD (continued)

JA Stuart (59)^

BComm

Executive Director: International Operations

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

John is a non-executive director of Automatic Systems Limited, one of the two totalisator operators in Mauritius, International Executive Director of Phumelela and was appointed executive director of Premier Gateway International in August 2011.

V Moodley (46)^

BComm

Executive Director: Sports Betting

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

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

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

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

ML Ramafalo (45)§^

BProc, LLB, IEDP

Director: Business Development and Risk Management

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

Non-executive director
^ *Executive director*
* *Member of Remuneration Committee*
† *Member of Audit Committee*
§ *Member of Social and Ethics Committee*

INTRODUCTION

The Phumelela Board 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.

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

ENGAGEMENT WITH STAKEHOLDERS

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

The manner in which we engage with these stakeholders is addressed in the stakeholder table set out in the sustainability report found on our website.

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, press announcements of the interim and year-end results, the Company's website, its Integrated Report to shareholders, and the form of proxy shareholders use to exercise their voting rights. In addition, our interim and final results presentations are broadcast live on Business Day TV.

ENGAGEMENT WITH EMPLOYEES

All stakeholders, particularly employees, are encouraged to raise concerns and/or suggestions through the appropriate Phumelela official.

Departmental meetings are held where employee concerns are addressed and open dialogue with senior management is encouraged. Formal meetings are also held with trade union representatives.

COMPLIANCE WITH THE KING III CODE OF CORPORATE PRACTICES AND CONDUCT

Phumelela's directors endorse the Code of Corporate Practices and Conduct (the Code) as set out in the King Report on Corporate Governance (King III) and the Board took the necessary steps to ensure its recommendations were applied throughout the Company during the 2014/2015 financial year. The Board analysed the recommendations contained in the Code, noted where it already applies the Code and where there are opportunities to implement changes that will improve governance standards within Phumelela in the future. A full review of our King III compliance is available on our website.

ESTABLISHING MATERIALITY

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

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

GOVERNANCE

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

THE PHUMELELA BOARD

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

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

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

Board charter

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

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

Board structure

The Phumelela Board has a unitary Board structure consisting of eight independent non-executive directors*, one non-executive director and five executive directors. An additional independent non-executive director has been appointed, subject to approval by shareholders.

In accordance with the recommendations of the Code of Corporate Practices and Conduct, the majority of the members of the Phumelela Board, including the Chairman, are non-executive directors. To ensure a balance of power and authority there is a clear division of responsibilities among the Company's directors. One third of the non-executive directors retire annually by rotation in terms of our Memorandum of Incorporation.

** An independent non-executive director is a non-executive director who:*

1. *is not a representative of a shareholder who has the ability to control or significantly influence management or the Board;*
2. *does not have a direct or indirect interest in the Company (including any parent or subsidiary in a consolidated group with the Company) which exceeds 5% of the Group's total number of shares in issue;*
3. *does not have a direct or indirect interest in the Company which is less than 5% of the Group's total number of shares in issue, but is material to his personal wealth. 5% is considered to be material;*
4. *has not been employed by the Company or the Group of which it currently forms part in any executive capacity, or appointed as the designated auditor or partner in the Group's external audit firm, or senior legal adviser for the preceding three financial years;*
5. *is not a member of the immediate family of an individual who is, or has during the preceding three financial years been employed by the Company or the Group in an executive capacity;*
6. *is not a professional adviser to the Company or the Group, other than as a director;*
7. *is free from any business or other relationship (contractual or statutory) which could be seen by an objective outsider to interfere materially with the individual's capacity to act in an independent manner, such as being a director of a material customer of or supplier to the Company; and*
8. *does not receive remuneration contingent upon the performance of the Company.*

Membership

The procedures for appointing directors to the Board are formal and transparent. At 31 July 2015, six of the Board's members were black and one of its members was a black woman.

Non-executive directors	Executive directors
MP Malungani (57) – Chairman – independent	WA du Plessis (54) – Group Chief Executive
R Cooper (72) – independent	AW Heide (50) – Chief Operating Officer and Group Finance Director
MJ Jooste (54) – independent	VJ Moodley (47) – Sports Betting Executive
B Kantor (66)	ML Ramafalo (45) – Executive director: new business development and risk management
SKC Khampepe (64) – independent	JA Stuart (59) – International Executive
NJ Mboweni (54, female) – independent	
Dr E Nkosi (54) – independent	
CJH van Niekerk (67) – independent	
JB Walters (71) – independent	

CHAIRMAN

MP Malungani

Appointed 2 October 1997

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

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

GROUP CHIEF EXECUTIVE

WA du Plessis

Appointed 1 August 2008

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

DIRECTORS

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

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

The composition of the Board is regularly reviewed and the appointment of non-executive directors is determined after taking into account those attributes and qualifications that are required to supplement the Board's skills base, and ensure that the composition of the Board has a balance of authority and minimise 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 is currently being reviewed for effectiveness. The following areas are being assessed:

- Leadership of the chairman
- Directors level of skills and experience to meet the challenges of the future
- Quality and quantity of ongoing directors training
- The overall performance of the board, the Audit Committee and the Remuneration Committee.

COMPANY SECRETARY

Freda Moloi is the Company Secretary and was appointed on 16 February 2015. The Company Secretary operates on an arm's-length basis from the Board and is not a director of the Board. All directors have access to the advice and services of the Company Secretary.

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

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

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

BOARD MEETINGS

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

Four Board meetings were held during the financial year ended 31 July 2015:

Board member	2 October 2014	4 December 2014	9 April 2015	24 July 2015	Number of meetings attended
MP Malungani (Chairman) Independent non-executive	√	√	√	√	4
WA du Plessis (CEO)	√	√	√	√	4
R Cooper Independent non-executive	√	√	√	√	4
AW Heide (FD and COO)	√	√	√	√	4
MJ Jooste Independent non-executive	√	√	√	√	4
B Kantor Non-executive	√	√	√	√	4
SKC Khampepe Independent non-executive	√	√	√	*	3
NJ Mboweni Independent non-executive	√	√	√	√	4
V Moodley	√	√	√	√	4
E Nkosi Independent non-executive	√	√	√	√	4
ML Ramafalo	*	√	√	√	3
JA Stuart	*	√	√	√	3
CJH van Niekerk Independent non-executive	√	√	√	√	4
JB Walters Independent non-executive	√	√	*	√	3

** Indicates absence with apology.*

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 Committee

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

Role: The Remuneration Committee is responsible for designing and structuring the salary packages of executive directors and senior executives and agrees remuneration policy for the Group. This includes responsibility for:

- making recommendations to the Board regarding the Company's remuneration policy;
- making recommendations to the Board regarding the remuneration of non-executive directors;
- ensuring good governance and oversight of the remuneration policy; and
- succession planning and the evaluation of share incentive programmes to ensure they motivate sustainably high performance and retention of key executives. An economic value added incentive programme and share option scheme are in place for senior management.

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

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

Three Remuneration Committee meetings were held during the financial year ended 31 July 2015:

Member	23 September 2014	28 May 2015	16 July 2015	Number of meetings attended
CJH van Niekerk (Chairman)	√	*	√	2
B Kantor	√	√	√	3
MP Malungani	√	√	*	3
JB Walters	√	√	√	3
MJ Jooste	√	√	√	3

** Indicates absence with apology.*

Audit Committee

Members: R Cooper (Chairman), NJ Mboweni, JB Walters

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

- reviewing the scope of the audit and the accounting policies;
- identifying key risk areas and evaluating exposure to significant risks;
- evaluating the appropriateness of internal controls;
- meeting with external and internal auditors to discuss the scope of the external audit, internal audit and reliance on internal controls. The auditors have unrestricted access to the Audit Committee and its chairman;
- the Audit Committee, with the auditors 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; and
- considering environmental and social sustainability issues.

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

Three Audit Committee meetings were held during the financial year ended 31 July 2015:

Member	18 September 2014	1 April 2015	9 July 2015	Number of meetings attended
R Cooper (Chairman)	√	√	√	3
NJ Mboweni	√	√	√	3
JB Walters	√	√	√	3

The Audit Committee also identifies risk and compliance issues and makes appropriate recommendations regarding the responsibility of monitoring, developing and communicating the processes of managing risks across Phumelela. Phumelela defines risk as those material issues that have the potential to impact on shareholder value, regardless of whether their origin is financial, operational, environmental, social or to do with governance.

A risk register is maintained identifying significant risks and defining appropriate risk strategies to mitigate those risks that could impact significantly on the business.

Social and Ethics Committee
Members: R Cooper (Chairman), AW Heide, XL Kopolo, ML Ramafalo
Role: The Social and Ethics Committee is responsible for ensuring that the Company is, and remains, a socially responsible corporate citizen. The committee supplements, supports, advises and provides guidance on the effectiveness or otherwise of management's efforts in respect of sustainable development and social and ethics-related matters, which include the following:

- Ethics management
- Corporate social investment
- Environmental management including health and public safety
- Sustainability strategy and framework
- Consumer relationships
- Labour relationships
- Transformation.

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

Two Social and Ethics Committee meetings were held during the financial year ended 31 July 2015:

Member	20 August 2015	18 February 2015	Number of meetings attended
R Cooper (Chairman)	√	√	2
AW Heide	√	√	2
XL Kopolo	√	√	2
MR Ramafalo	*	√	1

** Indicates absence with apology.*

ETHICS

Phumelela does not tolerate any fraudulent or illegal activities in relation to the running of the Company. This is covered in the Code of Ethics and is managed by the Audit Committee. Employees are encouraged to make use of the confidential crime line (079 890 3002) to report any incidents.

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

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

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

DONATIONS TO POLITICAL PARTIES

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

CODE OF ETHICS

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

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

ACCOUNTABILITY AND INTERNAL AUDIT

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

LEGAL COMPLIANCE

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

INVESTOR PROTECTION – DEALING IN PHUMELELA SHARES

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

CONFLICTS OF INTEREST

Board members are required to disclose their shareholdings in Phumelela and other directorships so that any potential conflicts of interest can be identified.

Directors are required to declare any interests and a register of these interests is maintained to identify any potential conflict of interest.

INSURANCE

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

REMUNERATION REPORT

INTRODUCTION

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

The Group's vision, mission and purpose is:

- to be acknowledged as a worldwide leader in the betting market;
- to create exciting opportunities that enable betting on live events; and
- to grow the sport of thoroughbred horseracing in South Africa on a sustainable basis including making it globally respected and desirable.

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

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

OBJECTIVES OF THE POLICY

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

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

REMUNERATION PHILOSOPHY

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

COMPONENTS OF REMUNERATION

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

BASE 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 employees' individual performance and contribution to the Group
- Where applicable, team performance and contribution
- The employee's overall compensation package in relation to the market
- The Group's 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 and life, disability and personal accident insurance. Medical cover and other related benefits are discretionary as dictated by competitive local market practices.

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

COLLECTIVE BARGAINING

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

NON-EXECUTIVE DIRECTORS

Non-executive directors received fees for services on the Board and Board committees. The non-executive directors do not receive incentive bonus payments nor do they participate in any of the executive share plans.

An increase of 6% to the non-executive directors' fees and committee fees will be proposed for 2016 and the proposals are set out in the notice of Annual General Meeting. The proposed fees are considered as sufficient to attract and retain appropriate skills and expertise and recognise that increased time investment is required by non-executive directors.

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

	Directors' fees R'000	Other benefits R'000	2015 total R'000	Directors' fees R'000	Other benefits R'000	2014 total R'000
MP Malungani	370	–	370	431	–	431
R Cooper	378	–	378	385	–	385
MJ Jooste*	180	–	180	184	–	184
B Kantor	200	–	200	202	–	202
SKC Khampepe	105	–	105	132	–	132
NJ Mboweni	230	–	230	198	–	198
E Nkosi	140	–	140	132	–	132
C van Niekerk	240	–	240	231	–	231
JB Walters	255	–	255	235	–	235
Total	2 098	–	2 098	2 161	–	2 161

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

EXECUTIVE DIRECTORS AND CHIEF EXECUTIVE

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

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

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

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

SHARE INCENTIVE SCHEMES

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

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

2008 executive share option scheme

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

To date 12 182 000 share options have been granted under this scheme to senior employees as follows:

Effective grant date	Number of options	Number of options lapsed/ forfeited	Number of options exercised	Net shares allocated on options exercised	Number of options active	Strike rate (Rand)
1 August 2008	1 912 000	1 912 000				14,00
24 April 2009	200 000	200 000				9,25
8 April 2010	1 820 000	1 820 000				9,00
1 July 2010	300 000	300 000				9,93
17 January 2011	200 000	200 000				11,00
1 August 2011	1 820 000	265 000	1 555 000	1 082 263		11,60
7 November 2011	60 000		60 000	57 001		10,88
5 December 2012	2 250 000	215 000			2 035 000	8,38
1 October 2013	3 420 000	100 000			3 320 000	15,00
12 January 2015	200 000				200 000	18,58
Total	12 182 000	5 012 000	1 615 000	1 139 264	5 555 000	

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

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

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

2014 executive share option scheme

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

To date 2 700 000 share options have been granted under this scheme to senior employees as follows:

Effective grant date	Number of options	Number of options lapsed/ forfeited	Number of options exercised	Net shares allocated on options exercised	Number of options active	Strike rate (Rand)
16 July 2015	2 700 000				2 700 000	17,34

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

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

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

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

The options vest after three years have elapsed.

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

EXECUTIVE DIRECTORS' FEES

Fees for management services

	2015 R'000	2014 R'000
WA du Plessis* **	7 667	7 150
Basic salary	4 283	3983
Retirement, medical, accident and health benefits	799	825
Bonuses and performance-related payments	2 585	2 342
AW Heide	2 766	2 655
Basic salary	1 748	1 650
Retirement, medical, accident and health benefits	218	205
Bonuses and performance-related payments	800	800
V Moodley	2 606	2 504
Basic salary	1 627	1 536
Retirement, medical, accident and health benefits	179	168
Bonuses and performance-related payments	800	800
ML Ramafalo	2 090	1 940
Basic salary	1 462	1 379
Retirement, medical, accident and health benefits	128	121
Bonuses and performance-related payments	500	440
JA Stuart	2 677	2 553
Basic salary	1 600	1 509
Retirement, medical, accident and health benefits	227	194
Bonuses and performance-related payments	850	850
Total executive emoluments paid	17 806	16 802
Current year share-based payment expense allocated as follows:		
WA du Plessis	436	150
AW Heide	(370)	590
V Moodley	(349)	520
ML Ramafalo	(308)	410
JA Stuart	(349)	520
Total executive remuneration	16 866	18 992

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

	2015 R'000	2014 R'000
Prescribed officers		
Basic salary	7 331	6 280
Retirement, medical, accident and health benefits	740	676
Bonuses and performance-related payments	1 750	2 160
Total paid	9 821	9 116
Current year share-based payment expense	(1 325)	1800
Total remuneration	8 496	10 916
Summary:		
Non-executive directors' emoluments	2 098	2 161
Executive directors' emoluments	16 866	18 992
Prescribed officers	8 496	10 916
Total director's and prescribed officers' remuneration	27 460	32 069

Prescribed officers

C Basel	Sales and Marketing Executive
P Davis	Racing Executive
M Weare	Managing Director (Betting World International)
B McLoughlin	Chief Financial Officer
F Moloi	Company Secretary
M Govender	Group Chief Information Officer

Annual performance bonus

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

The Group's bonus schemes comprise:

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

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

Mechanism for determining bonus awards

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

These are devolved down to business unit levels, allowing:

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

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

Long-term share incentive plan

The Group believes that all senior management and executive directors should hold shares in Phumelela. Accordingly, the Group operates a share incentive scheme for senior management and executive directors to establish a motivational and performance-orientated structure that focuses on the creation of shareholder value. The scheme was approved by shareholders at the Annual General Meeting held in December 2008.

CHECKS AND BALANCES

Job grading and pay structures

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

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

Competitive pay levels

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

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

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

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DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 31 July 2015

The Company's directors are responsible for the preparation and fair presentation of the Group annual financial statements and annual financial statements of Phumelela Gaming and Leisure Limited, comprising the statements of financial position as at 31 July 2015, 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. In addition, the directors are responsible for preparing the directors' report.

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

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

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

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

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

for the year ended 31 July 2015

The Group annual financial statements and annual financial statements of Phumelela Gaming and Leisure Limited were approved by the Board of Directors on 2 October 2015 and signed.

MP Malungani	**WA du Plessis**
Chairman	Group Chief Executive Officer

REPORT OF THE COMPANY SECRETARY

for the year ended 31 July 2015

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
ACIS
Company Secretary
2 October 2015

REPORT OF THE AUDIT COMMITTEE

for the year ended 31 July 2015

The Audit Committee presents its report for the financial year ended 31 July 2015. The committee has discharged all its responsibilities and carried out all the functions assigned to it in terms of section 94(7) of the Companies Act 71 of 2008, and as contained in the committee's terms of reference.

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

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

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

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

COMMITTEE MEMBERS

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

In line with the Companies Act and King III the composition of the Audit Committee will be presented to the shareholders for approval at the Annual General Meeting.

MEETINGS

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

APPROPRIATENESS AND EXPERIENCE OF THE FINANCIAL DIRECTOR

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

EXTERNAL AUDIT

KPMG Inc. is the external auditor of the Group.

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

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

The committee has recommended, for approval at the Annual General Meeting, the re-appointment of KPMG Inc. as external auditor for the 2016 financial year. Due to audit partner rotation required in terms of the Companies Act, Mr D Thompson will be replaced by Mr G Parker.

TERMS OF REFERENCE

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

DISCHARGE OF RESPONSIBILITIES

During the year under review the committee:

- reviewed the interim and annual financial statements and recommended them for approval by the Board;
- reviewed the Integrated Report for 2015 and recommended it for approval by the Board;
- reviewed and satisfied itself that the Company's finance function was adequately resourced by people with appropriate expertise and experience;
- resolved to continue to outsource the internal audit function to PricewaterhouseCoopers;
- approved the internal audit charter and audit plans;
- developed and implemented a policy setting out categories of non-audit services that the external auditors may, and may not provide, split between permitted, permissible and prohibited services;
- received and reviewed reports from both the internal and external auditors, which included commentary on effectiveness of the internal control environment, systems and processes, and, where appropriate, made recommendations to the Board;
- ensured that the appointment of the external auditors complied with the provisions of the Companies Act 71 of 2008, and other legislation relating to the appointment of auditors;
- determined the fees to be paid to the external and internal auditors and their terms of engagement;
- noted that it had not received any complaints, from within or outside the Company, relating to the accounting practices and internal audit of the Company, to the content or auditing of its financial statements, or any related matter;
- was responsible for the oversight of financial reporting risks, internal financial controls, fraud risks as it relates to financial reporting and information technology risks as it relates to financial reporting; and
- reviewed legal and regulatory matters that could have a material impact on the Group.

ANNUAL FINANCIAL STATEMENTS

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

On behalf of the Audit Committee

R Cooper
Audit Committee chairman
2 October 2015

REPORT OF THE DIRECTORS
for the year ended 31 July 2015

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

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

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

The Group jointly owns Premier Gateway International Limited (Tabcorp Holdings Limited (Australia) took up joint ownership effective 1 August 2011), a company incorporated in the Isle of Man (IOM). The company owns a totalisator license in the IOM and provides betting/commingling opportunities via its online totalisator operation to a worldwide customer base.

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

REVIEW OF RESULTS AND FINANCIAL POSITION
The financial performance of the Group is set out in the statement of comprehensive income.

Two sizeable non-trading items negatively impacted net attributable income – neither of which has a cash effect on the Group result. Furthermore, abnormally high legal and consulting costs were incurred by the Group. These three items collectively exceed R32 million or the equivalent of 32% of the Group's pre-tax income of R99 million.

The first of the non-trading items is a fair value adjustment of R13 million on the writing down of the Group's investment in Automatic Systems Limited (ASL) in Mauritius to market value as at year end. This is due to the share price of ASL declining. The investment is classified as held for sale. The mark to market loss on ASL is not adjusted for headline earnings per share (HEPS) calculation purposes and is therefore included in HEPS.

The second non-trading item is a R9 million impairment of the Group's 26% interest in Betting World Nigeria Limited (BWN). This negatively affects attributable income but is adjusted for HEPS calculation purposes and is therefore excluded from HEPS. The Group indicated at the interim stage that BWN was incurring losses and that the company had approached controlling shareholders for additional funding. Shareholders in BWN were not prepared to agree to provide their proportionate share of the funding and accordingly BWN ceased trading on 13 March 2015. Our investment in BWN and all monies owed to us have accordingly been written off in the R9 million impairment.

The third and final item is the R11 million in abnormally high legal and consulting fees expended in combating abuse of intellectual property by certain bookmakers and related legal matters. This is a cost to the Group that would ordinarily not occur to anywhere near the degree that it has.

The 28% decline in attributable profit to R80 million and the 27% decline in earnings per share (EPS) to 105,98 cents includes the negative impact of the two non-trading and non-cash flow items, namely ASL and BWN, and the costs of abnormally high legal and related expenses.

The 12% decline in headline earnings to R88 million and the 11% decline in HEPS to 117,06 cents includes the mark to market loss on ASL but excludes the BWN impairment.

The 7% increase in adjusted headline earnings to R106 million and the 7% increase in adjusted HEPS to 141,48 cents excludes the mark to market loss on ASL together with the tax effect thereon, it excludes the BWN impairment and it also excludes the legal and related costs together with the tax effect thereon.

The growth of 7% in adjusted headline earnings to R106 million was achieved notwithstanding a more challenging international trading environment, particularly in the first half, that negatively affected overseas derived income.

The group's total net betting income from local operations grew by 13% to R841 million.

Net betting income from local tote operations increased by 7% to R679 million. Net tote betting income from sports other than horseracing, grew by a pleasing 17% to R221 million and net tote betting income on horseracing increased by 3% to R457 million.

Other operating income from our local operations grew by 19% to R219 million. Among some of the more noteworthy items, share of profits from limited payout machines installed in retail outlets grew by 16% to R20 million, Gambling Board levies increased by 15% to R61 million and royalties and commingling fees increased by 6% to R39 million. Tellytrack subscriptions were flat at R21 million. Stable rentals were up by 4% to R8 million. A weaker Rand exchange rate resulted in a foreign exchange gain of R12 million.

The 9% increase in expenses in the local operations excluding fixed odds to R681 million includes the impact of the abnormally high legal and consulting fees associated with combating abuse of intellectual property by bookmakers and related legal matters. Other than these expenses, we have kept a tight rein on our normal running costs.

Prize monies increased by 2% to R190 million in accordance with the agreement with the Racing Association.

Strong growth from soccer tote bets and other income resulted in a 59% reduction in the loss from local operations excluding fixed odds to R9 million. Including equity accounted investees, the loss before tax reduced by 46% to R11 million from R21 million.

Profit from tote betting on sports other than horseracing, limited payout machines and fixed odds continued with a very good performance through the second half and is going from strength to strength as we invest in the development of an attractive offering for our customers.

Substantial business development expenses in a licensed and regulated industry results in a time lag between up front costs incurred, such as establishment and shop fitting of premises, employment and training of personnel and day to day running expenses, incurred prior to trade commencing, and then the income that subsequently flows.

Fixed odds betting on horseracing ended the year on a strong note with a 30% growth in net betting income to R60 million. Net fixed odds betting income on sports other than horseracing, increased by a significant 96% to R38 million with fixed odds net betting income on numbers also putting in a splendid performance by growing 31% to R64 million. Net betting income from fixed odds overall grew by 42% to R162 million.

Operating expenses in our fixed odds operations increased by 32% to R138 million, mainly as a result of the increase in the number of retail outlets off which revenue will flow in due course.

Phumelela's complementary soccer, numbers and other sport betting offerings are popular with customers. We facilitate this through the provision of increased weekly betting opportunities off an expanding retail footprint. Betting World ended the year with 67 retail outlets in business, up 58% in less than two years.

Profit before income tax expense in our fixed odds business increased by a substantial 153% to R21 million. We have the scope to further improve returns from our assets as a larger proportion of development costs is in the base, providing us with positive operating leverage.

Net income from international operations, through which Phumelela has rights to export live visuals of South African horseracing and import live horseracing from other countries, decreased by 13% to R206 million. This decline is mainly as a result of reduced betting on South African horseracing via IOM based associate Premier Gateway International Limited (PGI) and by France, which delayed commingling into Phumelela tote pools. Operating expenses, including intellectual property rights fees and day to day running costs, decreased by 14% to R140 million. Profit from international operations was down by 11% to R66 million.

New competitive dynamics affected PGI's margins and betting volumes. PGI, which suffered a 38% reduction in profit in the first half, earned a similar level of income in the second half of the financial year to that of the corresponding period in 2014 as a result of improved contractual terms and thus closed the year down 22%. Phumelela's share of PGI's profit of R45 million compares with R57 million in the prior year.

The second half performance from PGI exhibited an improving momentum during the period which we anticipate will be better reflected in the 2016 results. An exciting pipeline of new betting opportunities has opened abroad, including commingling into Hong Kong's tote pools.

Profit before tax for the international operations decreased by 16% to R111 million.

International operations contributed R111 million or 92% of Group profit before income tax expense of R121 million, excluding the fair value adjustment of ASL and the impairment of the BWN investment. On a comparative basis, profit before tax for the international operations was R131 million in the prior year which equated to 111% of the Group profit before income tax expense of R119 million, excluding the profit of R11 million on conversion of the equity accounted investment in ASL to an investment.

Group profit before finance costs, tax, share of profit from equity accounted investees and the mark to market loss on ASL increased by 28% to R79 million. If abnormally high legal costs incurred in relation to the ongoing Tellytrack/bookmaker litigation are excluded the like for like improvement in Group profit is 43%.

Phumelela continues to invest in growth and development and in creating job opportunities, spending a considerable R115 million on capital expenditure and acquisition of assets during the financial year.

Phumelela's initiatives to bring more variety of betting opportunities to customers in South Africa and expand the provision of South African horseracing content and betting thereon to international markets is proving successful.

With effect from 1 November 2014, a strategic shareholding was acquired in Interbet, an online horseracing and sports betting business based in the Western Cape. Interbet began as a betting exchange platform for bookmakers and in the past decade has opened up web-based betting opportunities to the South African public. This is an exciting new development that dovetails very well with our income diversification strategy.

Phumelela's black economic empowerment credentials are an important component of its mandate to operate in South Africa and a cornerstone of its financial viability and social responsibility to the broader community. We are therefore proud of the fact the Company moved up to eighth place from 20th place on the Johannesburg Stock Exchange in the most recent top 100 Most Empowered Companies for 2015 ranked by Empowerdex. Whilst the amended codes present a challenge for companies, Phumelela has nevertheless been at the forefront of business transformation, achieving AAA level 2 B-BBEE status two years ahead of schedule, with an ethos that this is not simply one of compliance but also of business sustainability

FINANCIAL POSITION
Phumelela retains a sound financial position, with a substantial reserve borrowing capacity, and the Group is invested in strategically well placed assets.

Property, plant and equipment has a carrying value of R445 million, goodwill and intangibles are valued at R64 million and equity accounted investees are valued at R52 million. Total assets amount to R776 million and the Group ended the year with shareholders' equity of R448 million, which equates to a net asset value per share of 600,79 cents.

Against this strong equity base there is minimal net borrowings of R6 million, representing a debt to equity ratio of only 1,3%.

Cash generated before movement in working capital was R117 million compared with R103 million in the previous year. R23 million was applied to working capital versus a similar amount being retained from working capital in the prior year.

As previously indicated to shareholders, the Group invested substantially during the year under review, which resulted in a draw down on cash and banking facilities. Acquisition of fixed assets, intangibles and equity accounted investments amounted to a gross R118 million. Including dividends received from equity accounted investees in the amount of R52 million, of which R50 million in dividends received from PGI in the IOM is the largest, the net cash outflow on investing activities was R54 million compared with R11 million in the prior year.

Bridging finance in the amount of R20 million has been committed to the Mashonaland Turf Club.

During the year, R42 million was spent buying back shares to fulfil obligations in respect of shares that may become exercisable in terms of the executive option schemes.

The weighted average number of shares in issue was 0,73% lower and the number of shares in issue at period close was 1,4% lower as a result of share repurchases in fulfilment of option scheme obligations.

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

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

In order to fulfil obligations in respect of shares exercisable per the executive option schemes, the Company repurchased 2 200 617 shares and 1 139 264 shares were issued in terms of the executive share option scheme.

Details of shareholders who directly own more than 3% of the issued share capital of the Company are disclosed on page 124 "Shareholder Information".

INVESTMENT
Effective from 1 November 2014, the Group concluded an agreement to acquire a strategic stake in Uptonvale Services (Pty) Limited, a company that owns a bookmaking concern named Interbet.

SUBSEQUENT EVENTS
There are no significant subsequent events that have a material impact on the financial statements at 31 July 2015.

CORPORATE INTERESTS
Phumelela is a respondent in three consolidated complaints lodged by the Gauteng Off-Course Bookmakers' Association (GOBA), the KwaZulu-Natal Bookmakers' Society (the KZNBS), the Western Cape Bookmakers' Association (WCBA) and various individual bookmakers with the Competition Commission during 2014 and 2015 regarding, inter alia, alleged excessive pricing and abuse of a dominant position. The complaints are being investigated by the Competition Commission and Phumelela has submitted extensive information and documents to the Competition Commission to assist it with its investigation.

Phumelela has lodged a counter complaint with the Competition Commission in relation to certain bookmakers having engaged in a concerted practice by cooperating with one another regarding the determination of a uniform price at which they will agree to receive the Tellytrack service. The conduct of these bookmakers constitutes the fixing of a purchase price in contravention of the Competition Act. The complaint has been referred to the Cartels Division of the Competition Commission and is under investigation.

On 4 March 2015 the KZNBS lodged a complaint with the Independent Communications Authority of South Africa (ICASA). The complaint consists of two parts, the first against the joint parties of Tellytrack, Phumelela, Gold Circle and Kenilworth Racing and the second against Telemedia (Pty) Limited, for alleged contraventions of the Electronic Communications Act pertaining to the provision of commercial broadcast services without the correct licences. The complaints are being investigated by ICASA and the parties are assisting with its investigation

LITIGATION
On 9 October 2014 the Gauteng Gambling Board handed down an interim order directing Phumelela to ensure that the status quo ante, regarding the provision of the entire Tellytrack channel to bookmakers, is immediately restored at the price at which the Tellytrack channel was provided in 2013 together with inflation. Any excess costs incurred by Tellytrack's clients are to be credited to such clients. Phumelela instituted an application in the Gauteng High Court to review and set aside the order made by the Gauteng Gambling Board. In the interim a number of bookmakers have reverted to paying the previous fee which is being held in a trust account by the Group's attorneys.

Phumelela is a respondent in an application in the Gauteng High Court instituted by, inter alia, the KZNBS to enforce the order made by the Gauteng Gambling Board on 9 October 2014 and secure access to the Tellytrack service pending the outcome of the proceedings before the Gauteng Gambling Board and Phumelela's review application.

Phumelela is a defendant in an action instituted by the KZNBS in the High Court of South Africa, Gauteng Division, Pretoria claiming damages from Phumelela pursuant to the alleged infringement by Phumelela of the copyright vesting in the fixed betting odds supplied by the KZNBS distributed by the Bookmaking Odds and Distribution System (BODDS). Phumelela took exception to the particulars of claim lodged by the KZNBS on, inter alia, the ground that it was vague and embarrassing. On 25 August 2015 Judge Potterill handed down judgment and ordered that the exception be upheld with costs, including the costs of two counsel.

Phumelela is a respondent in an application instituted by the KZNBS, GOBA and the WCBA in the High Court of South Africa, Gauteng Division, Pretoria. The applicants seek an order interdicting Phumelela from offering totalisator betting on sports other than horseracing. Phumelela has filed its answering affidavit and is the applicants are required to file their replying affidavit. The WCBA has advised that it has withdrawn from the matter.

The outcome of the relevant actions noted above, and under "Corporate Interests", remains uncertain and may have an undeterminable impact on future earnings.

RELATED PARTIES

Other than for the strategic investment in Interbet, there have been no significant changes in related party relationships since the previous year.

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 60 cents per share (51 cents per share net of dividend withholding tax at a rate of 15%) for the year ended 31 July 2014 was declared to shareholders recorded in the register on 31 October 2014 and paid on 3 November 2014.

An interim gross cash dividend of 28 cents per share (23,80 cents per share net of dividend withholding tax at a rate of 15%) was declared to shareholders recorded in the register on 22 May 2015 and paid on 25 May 2015.

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

SHARE INCENTIVE SCHEMES

Details pertaining to share option schemes approved by shareholders is set out in the "Remuneration Report" on pages 44 to 49.

AUDITORS

At the Annual General Meeting held on 4 December 2014, KPMG Inc. were reappointed as auditors to the Group.

DIRECTORS AND SECRETARY

The following directors were re-elected to office at the Annual General Meeting held on 4 December 2014:
Mr MJ Jooste
Dr E Nkosi
Mr JB Walters

The following directors were elected to serve on the Audit Committee at the Annual General Meeting held on 4 December 2014:
Mr R Cooper
Mrs NJ Mboweni
Mr JB Walters

Mr Brian Finch was appointed as director of the Company effective from 8 October 2015.

Ms Freda Moloi was appointed Company Secretary effective from 16 February 2015.

In terms of the Company's Memorandum of Incorporation, Messrs B Kantor, MP Malungani and CJH van Niekerk retire at the Annual General Meeting and being eligible, offer themselves for re-election.

Particulars of the present directors and Company Secretary are given under "Company information".

SUBSIDIARY COMPANIES

Details of subsidiary companies are disclosed on page 123.

INDEPENDENT AUDITORS' REPORT
for the year ended 31 July 2015

TO THE SHAREHOLDERS OF PHUMELELA GAMING AND LEISURE LIMITED
We have audited the Group financial statements and financial statements of Phumelela Gaming and Leisure Limited, which comprise the statements of financial position as at 31 July 2015, 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, as set out on pages 60 to 124.

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

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

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

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

Opinion
In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Phumelela Gaming and Leisure Limited as at 31 July 2015, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act
As part of our audit of the financial statements for the year ended 31 July 2015, we have read the Report of the Directors, the report of the Audit Committee and report of the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc
Registered Auditor

Per DD Thompson
Chartered Accountant (SA)
Registered Auditor Director

2 October 2015

KPMG Crescent 85
Empire Road
Parktown, Johannesburg

STATEMENTS OF FINANCIAL POSITION

as at 31 July

	Note	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
ASSETS					
Non-current assets		**575 088**	567 518	**450 636**	433 830
Property, plant and equipment	4	**444 682**	426 712	**306 163**	291 869
Goodwill	5	**12 362**	12 362		
Intangible assets	6	**52 104**	48 733	**1 930**	690
Investment in subsidiaries	7			**96 613**	96 613
Interest in equity-accounted investees	8	**51 732**	34 954	**32 056**	1 056
Investments	9	**695**	18 263	**695**	18 263
Long-term secured loans	10	**10 603**	19 929	**10 603**	19 929
Deferred taxation asset	11	**2 910**	6 565		2 834
Amounts owing by Group companies	12.1			**2 576**	2 576
Current assets		**200 751**	220 537	**175 973**	205 636
Inventories	13	**879**	5 849	**752**	722
Trade and other receivables	14	**100 812**	114 705	**99 352**	90 861
Amounts owing by Group companies	12.2			**26 728**	31 343
Pension fund surplus	18	**7 075**	973	**7 075**	973
Income tax receivable		**10 941**	4 106	**7 709**	
Assets held for sale	15	**23 046**		**4 346**	
Cash and cash equivalents	16	**57 998**	94 904	**30 011**	81 737
Total assets		**775 839**	788 055	**626 609**	639 466
EQUITY AND LIABILITIES					
Total equity		**447 743**	478 791	**261 496**	279 101
Equity attributable to ordinary shareholders		**447 743**	478 497	**261 496**	279 101
Share capital and premium	17.1	**1 863**	1 890	**2 221**	2 221
Retained earnings		**445 743**	477 250	**259 275**	276 880
Non-distributable reserves	17.2	**137**	(643)		
Non-controlling interest			294		
Non-current liabilities		**54 735**	9 397	**47 623**	525
Deferred taxation liability	11	**4 652**	2 555	**2 135**	
Borrowings	20	**49 595**	6 317	**45 000**	
Finance lease liability	19	**488**	525	**488**	525
Current liabilities		**273 361**	299 867	**317 490**	359 840
Trade and other payables	21	**249 707**	285 999	**219 564**	249 433
Short-term borrowings	20	**2 400**	2 400		
Bank overdraft	20	**11 537**		**11 537**	
Amounts owing to Group companies	22			**78 830**	99 686
Contingent consideration liability	23	**707**	4 056	**707**	4 056
Income tax payable		**1 625**	408		248
Betting dividends payable		**7 385**	7 004	**6 852**	6 417
Total equity and liabilities		**775 839**	788 055	**626 609**	639 466
		cents	cents		
Net asset value per share		**600,79**	633,04		

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 July 2015

	Note	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
Income	24	**1 266 205**	1 192 109	**1 058 865**	1 042 792
Gross betting income	25	**1 044 329**	927 253	**784 612**	733 040
Value added tax		**(120 806)**	(107 058)	**(89 440)**	(83 674)
Betting taxes		**(83 017)**	(73 604)	**(70 551)**	(64 836)
Net betting income	26	**840 506**	746 591	**624 621**	584 530
Other operating income					
– Local operations		**230 269**	195 421	**262 554**	220 307
– International operations		**205 416**	234 466	**198 761**	233 801
Investment income					
– Local operations		**1 692**	1 228	**48 573**	2 079
– International operations		**382**	1 587	**357**	45 632
Net income		**1 278 265**	1 179 293	**1 134 866**	1 086 349
Stakes		**(189 772)**	(186 299)	**(189 772)**	(186 299)
National Horseracing Authority levies		**(29 274)**	(24 696)	**(29 274)**	(24 696)
Operating expenses and overheads					
– Local operations		**(840 024)**	(744 182)	**(670 083)**	(617 005)
– International operations		**(139 894)**	(162 283)	**(139 672)**	(162 109)
Profit from operations	27	**79 301**	61 833	**106 065**	96 240
Finance costs					
– Local operations	28	**(5 828)**	(1 183)	**(5 214)**	(812)
Profit before share of profit of equity-accounted investees and fair value adjustment to investment		**73 473**	60 650	**100 851**	95 428
Profit on conversion of equity-accounted investee to investment			11 135		14 594
Impairment of equity-accounted investee	8	**(8 545)**			
Share of profit of equity-accounted investees	8	**47 060**	57 983		
Profit before fair value adjustment		**111 988**	129 768	**100 851**	110 022
Fair value adjustment to investment	15	**(12 753)**		**(12 753)**	
Profit before income tax expense		**99 235**	129 768	**88 098**	110 022
Income tax expense	29	**(19 713)**	(19 373)	**(12 835)**	(15 661)
Profit for the year		**79 522**	110 395	**75 263**	94 361
Other comprehensive income for the year					
Items that may subsequently be reclassified to profit or loss					
– Exchange differences on translation of foreign subsidiaries		**780**	(3 313)		
Items that will never be reclassified to profit or loss					
– Remeasurement of defined benefit obligation			1 223		1 223
– Tax effect			(342)		(342)
Total comprehensive income for the year		**80 302**	107 963	**75 263**	95 242
Profit attributable to					
– Ordinary equity holders of the parent		**79 516**	110 409		
– Non-controlling interest		**6**	(14)		
		79 522	110 395		
Total comprehensive income attributable to:					
– Ordinary equity holders of the parent		**80 296**	107 977		
– Non-controlling interest		**6**	(14)		
		80 302	107 963		
Earnings per ordinary share	31	**cents**	cents		
Basic earnings per share		**105,98**	146,07		
Diluted earnings per share		**101,14**	139,13		

STATEMENTS OF CASH FLOW

for the year ended 31 July 2015

	Note	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
Net cash inflow/(outflow) from operating activities		**3 761**	40 724	**(14 381)**	64 722
Cash generated by operations	36.1	**117 405**	103 360	**80 667**	76 693
Movements in working capital	36.2	**(23 446)**	22 685	**(54 266)**	22 361
Cash generated by operating activities		**93 959**	126 045	**26 401**	99 054
Income tax paid	36.3	**(19 579)**	(20 436)	**(15 823)**	(13 381)
Dividends paid to shareholders		**(66 389)**	(66 517)	**(67 850)**	(67 850)
Interest received		**1 241**	2 815	**2 168**	2 079
Dividends received		**357**		**45 937**	45 632
Finance costs paid		**(5 828)**	(1 183)	**(5 214)**	(812)
Net cash (outflow) from investing activities		**(54 057)**	(11 293)	**(71 620)**	(21 152)
Acquisition of intangible assets		**(5 520)**	(5 281)	**(1 415)**	(687)
Acquisition of property, plant and equipment		**(78 517)**	(61 284)	**(47 776)**	(40 751)
Proceeds on disposal of property, plant and equipment		**1 322**	1 744	**1 300**	1 687
Proceeds on disposal of intangible assets			500		
Restructuring of Phumelela Gold Enterprise	36.4		24 031		31 097
Investments			(3)		(3)
Contingent liability paid		**(3 000)**		**(3 000)**	
Investment in equity-accounted investees		**(30 801)**	(9 647)	**(31 000)**	
Loans advanced		**(10 127)**	(12 495)	**(10 127)**	(12 495)
Loans repaid		**20 398**		**20 398**	
Dividends received from equity-accounted investees		**52 188**	51 142		
Net cash inflow/(outflow) from financing activities		**1 073**	8 586	**22 738**	(131)
Repayment of finance leases		**(474)**	(131)	**(474)**	(131)
Shares repurchased and option shares issued		**(41 601)**		**(21 788)**	
Purchase of non-controlling interest		**(130)**			
Borrowings raised		**45 000**	8 717	**45 000**	
Borrowings paid		**(1 722)**			
Net (decrease)/increase in cash and cash equivalents for the year		**(49 223)**	38 017	**(63 263)**	43 439
Effect of conversion of foreign operations on cash and cash equivalents		**780**	(3 313)		
Cash and cash equivalents at beginning of year		**94 904**	60 200	**81 737**	38 298
Cash and cash equivalents at end of year		**46 461**	94 904	**18 474**	81 737
Make up of balance of cash and cash equivalents					
Cash and cash equivalents	16	**57 998**	94 904	**30 011**	81 737
Bank overdraft	20	**(11 537)**		**(11 537)**	
		46 461	94 904	**18 474**	81 737

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 July 2015

	Share capital R'000	Share premium R'000	Non-distri-butable reserves R'000	Retained earnings R'000	Share-holders' equity R'000	Non-controlling interest R'000	Total equity R'000
GROUP							
Balance at 31 July 2013	1 890		2 670	427 477	432 037	308	432 345
Total recognised income and expenses for the year			(3 313)	111 290	107 977	(14)	107 963
– Profit for the year				110 409	110 409	(14)	110 395
– Remeasurement of defined benefit obligation				881	881		881
– Foreign currency translation reserve			(3 313)		(3 313)		(3 313)
Transactions with owners recorded directly in equity							
– Share-based payments				5 000	5 000		5 000
– Dividends paid to ordinary equity holders				(66 517)	(66 517)		(66 517)
Balance at 31 July 2014	**1 890**		**(643)**	**477 250**	**478 497**	**294**	**478 791**
Total recognised income and expenses for the year			**780**	**79 516**	**80 296**	**6**	**80 302**
– Profit for the year				**79 516**	**79 516**	**6**	**79 522**
– Foreign currency translation reserve			**780**		**780**		**780**
Transactions with owners recorded directly in equity							
– Loss on purchase of non-controlling interest				**(130)**	**(130)**		**(130)**
– Share-based payment				**(3 230)**	**(3 230)**		**(3 230)**
– Shares repurchased	**(55)**			**(19 791)**	**(19 846)**		**(19 846)**
– Shares issued in terms of the share option scheme	**28**			**(21 783)**	**(21 755)**		**(21 755)**
– Dividends paid to equity holders				**(66 089)**	**(66 089)**	**(300)**	**(66 389)**
Balance at 31 July 2015	**1 863**		**137**	**445 743**	**447 743**		**447 743**
COMPANY							
Balance at 31 July 2013	1 928	293		244 488	246 709		
Total recognised income and expenses for the year				95 242	95 242		
– Profit for the year				94 361	94 361		
– Remeasurement of defined benefit obligation				881	881		
Transactions with owners recorded directly in equity							
– Share-based payments				5 000	5 000		
– Dividends paid to ordinary equity holders				(67 850)	(67 850)		
Balance at 31 July 2014	**1 928**	**293**		**276 880**	**279 101**		
Total recognised income and expenses for the year				**75 263**	**75 263**		
– Profit for the year				**75 263**	**75 263**		
Transactions with owners recorded directly in equity							
– Share-based payments				**(3 230)**	**(3 230)**		
– Shares issued in terms of share option scheme				**(21 788)**	**(21 788)**		
– Dividends paid to ordinary equity holders				**(67 850)**	**(67 850)**		
Balance at 31 July 2015	**1 928**	**293**		**259 275**	**261 496**		

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

1.1 Reporting entity

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

1.2 Basis of preparation

The Group and Company financial statements set out on pages 51 to 123 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, except for certain new standards and interpretations which became effective on or after 1 August 2014 and are applicable to the Group for the year ended 31 July 2015. These were: IAS 32 *Offsetting Financial Assets and financial liabilities* (amendments), IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* (amendments) and IFRIC 21 *Levies*. The adoption of these amendments has had no impact on the results for the year nor has it required the restatement of prior year numbers.

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 ceases.

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

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

Joint operations

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

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

1. **SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION** continued

1.3 **Basis of consolidation** continued

Equity-accounted investees

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

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

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

1.4 **Business combinations**

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

Acquisitions on or after 1 January 2010

- For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as: the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

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

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

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

1.4 Business combinations continued

Acquisitions prior to 1 January 2004 (date of transition to IFRS)

As part of its transition to IFRS, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework.

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either: (i) at fair value; or (ii) at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

1.5 Goodwill

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

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

Goodwill is measured at cost less any impairment in value.

1.6 Intangible assets

Indefinite useful life intangible assets

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

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

Finite useful life intangible assets

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

Software costs

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

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.

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

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

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

1. **SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION** continued

1.6 Intangible assets continued

Research and development

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

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.

1.7 Property, plant and equipment

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

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

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

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

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

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

Useful lives and residual values

Property, plant and equipment are depreciated over their useful lives taking into account any residual values where appropriate. The actual useful life and method of depreciation of these assets is 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.

1.8 Impairment of non-financial assets

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

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

1. **SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION** continued

1.8 Impairment of non-financial assets continued

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

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

1.9 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

1.10 Assets for sale

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

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

1.11 Taxation

Current tax assets and liabilities

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

Income tax

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

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

Deferred tax

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

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

Dividend withholding tax

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

Indirect taxes

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

1.12 Provisions

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

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

1.13 Revenue recognition

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

1.14 Betting dividends

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

1.15 Borrowing costs

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

For qualifying assets the borrowing costs will be capitalised to the asset to the extent that funds are borrowed specifically for the purpose of the asset. The amount of borrowing costs eligible for capitalisation are 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. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

1.16 Employee benefits

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

Short-term employee benefits

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

Defined contribution plans

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

Equity participation plan

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

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

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

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

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

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

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

1.17 Financial instruments

Financial instruments recognised at the reporting date include investments, long-term secured loans 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, borrowings, financial lease liability 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.

1. **SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION** continued

1.17 Financial instruments continued

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

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

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

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

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

Investments

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

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

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

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

Cash and cash equivalents

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

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

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

Financial liabilities

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

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

Financial liabilities include trade and other payables, amounts owing to Group companies, borrowings, financial lease liability and betting dividends payable.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

1.17 Financial instruments continued

Derivative instruments

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

The Group does not apply hedge accounting.

Impairment of financial assets

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

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

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

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

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

Fair value determination

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

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

1.18 Leases

Finance leases

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

Operating leases

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

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

1. **SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION** continued

1.19 Foreign currency transactions and balances

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

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

1.20 Foreign currency translations

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

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

1.21 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues or incur expenses. All operating segments' operating results are reviewed regularly by the Group's 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 impairment losses relating to trade and other receivables, residual values, useful lives and depreciation methods, employee obligations, estimating the fair value of share options granted and asset impairment tests. The nature and carrying amounts of the items affected by these estimates, where applicable, are indicated in the notes relating to these items. Other judgements made relate to classifying financial assets and liabilities into categories.

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

Significant judgements include:

Trade receivables, loans or other receivables

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

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

Impairment testing

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

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

Taxation

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

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

Share-based incentives

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

Property, plant and equipment

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

1. **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.

1.26 Net asset value per share

The group presents net asset value per share which is calculated by dividing the equity attributable to ordinary shareholders by the number of shares in issue.

1.27 Related parties

A party is related to the Company if any of the following are met:

- The party has control, joint control or significant influence over the Company
- The party is a member of key management personnel of the entity or its parent
- The party is a close family member of the family or individual referred to above.

Close family member of an individual includes:

- the individual's spouse, domestic partner and children;
- children of the individual's spouse, domestic partner; and
- dependants of the individual or the individual's spouse or domestic partner.

2. FINANCIAL RISK MANAGEMENT

Capital management

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

The Board monitors the level of dividends to ordinary shareholders.

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

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

Credit risk management

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

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

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

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

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

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

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

Management determines the concentration of credit risk relating to amounts owing from Group companies with reference to the level of trading activity of the Group company. The exposure of the entity to credit risk according to these concentrations for dormant Group companies is R2 576 000 (2014: R2 576 000) and active trading Group companies R26 728 000 (2014: R31 343 000).

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 hold 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	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
The maximum exposure to credit risk at the reporting date was as follows:				
Investments	695	18 263	695	18 263
Long-term secured loans	10 603	19 929	10 603	19 929
Amounts owing by Group companies			29 304	33 919
Trade and other receivables	100 812	114 705	99 352	90 861
Assets held for sale – Investment	4 346		4 346	
Cash and cash equivalents	57 998	94 904	30 011	81 737
	174 454	247 801	174 311	244 709

Liquidity risk management

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

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

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

There have been no significant changes during the year to the Group's exposures to liquidity risk other than the receipt of interest-bearing advances (refer note 20). There has been no change to the Group's policies to manage the risk.

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

Management determines its concentration of liquidity risk for amounts owing to Group companies by reference to the level of trading activity of the Group company. The entity's exposure to such liquidity risk regarding dormant Group companies is R9 098 000 (2014: R8 799 000) and regarding active companies is R69 732 000 (2014: R90 887 000).

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

2. **FINANCIAL RISK MANAGEMENT** continued

Financial liabilities maturity analysis

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

	On demand R'000	Less than one year R'000	Two to five years R'000	>Five years R'000	Total R'000
Group 2015					
Trade and other payables	64 565	184 586			249 151
Finance lease		618	508		1 126
Borrowings		3 047	50 052		53 099
Contingent consideration liability		707			707
Operating leases		48 787	65 515	2 187	116 489
Betting dividends payable	7 385				7 385
Bank overdraft	11 537				11 537
Total	83 487	237 745	116 075	2 187	439 494
Group 2014					
Trade and other payables	42 874	242 636			285 510
Finance lease		555	564		1 119
Borrowings		3 047	7 046		10 093
Contingent consideration liability		4 056			4 056
Operating leases		40 427	66 864	2 775	110 066
Betting dividends payable	7 004				7 004
Total	49 878	290 721	74 474	2 775	417 848
Company 2015					
Trade and other payables	48 394	170 614			219 008
Finance lease		618	508		1 126
Borrowings			45 000		45 000
Contingent consideration liability		707			707
Operating leases		29 715	30 477		60 192
Betting dividends payable	6 852				6 852
Bank overdraft	11 537				11 537
Owing to subsidiaries	78 830				78 830
Total	145 613	201 654	75 985		423 252
Company 2014					
Trade and other payables	43 299	205 645			248 944
Finance lease		555	564		1 119
Contingent consideration liability		4 056			4 056
Operating leases		27 279	36 808		64 087
Betting dividends payable	6 417				6 417
Owing to subsidiaries	99 686				99 686
Total	149 402	237 535	37 372		424 309

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

2. **FINANCIAL RISK MANAGEMENT** continued

Interest rate risk management

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

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

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

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

Foreign currency risk management

Phumelela's international division undertakes transactions denominated in foreign currencies (refer notes 14,16 and 21) and is therefore exposed to foreign currency risk.

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

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

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

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

The sensitivity analysis is based on the net foreign currency balance of a particular foreign currency which existed at 31 July. This net foreign currency balance is calculated as the sum of the foreign currency trade and other receivables balance and the foreign currency cash and cash equivalents balance, less the foreign currency trade and other payables balance. The foreign currency balances used in the calculation can be found in notes 14, 16 and 21 respectively.
The translation of the net foreign currency balance is adjusted at the reporting date for a change in foreign currency rates. A positive number indicates an increase in profit or loss and 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: Net foreign currency balance	Group profit or loss impact: Profit or loss and equity impact R'000	Company profit or loss impact: Net foreign currency balance	Company profit or loss impact: Profit or loss and equity impact R'000	Increase or decrease in currency rate %
2. FINANCIAL RISK MANAGEMENT continued					
Foreign currency exchange risk 2015					
Australian Dollar	**729 589**	**338**	**737 400**	**342**	**5**
British Pound	**1 021 766**	**1 006**	**378 015**	**372**	**5**
Euro	**520 869**	**363**	**520 869**	**363**	**5**
Singapore Dollar	**734 635**	**339**	**734 635**	**339**	**5**
Swedish Krona	**(763 847)**	**(56)**	**(763 847)**	**(56)**	**5**
United States Dollar	**(251 340)**	**(159)**	**(214 996)**	**(136)**	**5**
Foreign currency exchange risk 2014					
Australian Dollar	909 135	453	909 135	453	5
British Pound	1 420 486	1 285	1 270 597	1 149	5
Euro	1 157 380	830	1 157 380	830	5
Mauritian Rupee	(12 200)	(0.2)	(12 200)	(0.2)	5
Singapore Dollar	312 595	134	312 595	134	5
Swedish Krona	755 963	59	755 963	59	5
United States Dollar	200 407	107	200 407	107	5

The following significant exchange rates were applied during the year:

	Year end GROUP AND COMPANY 2015 R	Year end GROUP AND COMPANY 2014 R	Average GROUP AND COMPANY 2015 R	Average GROUP AND COMPANY 2014 R
Australian Dollar	**9,27**	9,96	**9,42**	9,61
British Pound	**19,68**	18,09	**18,11**	17,18
Euro	**13,93**	14,34	**13,60**	14,20
Mauritian Rupee	**0,36**	0,35	**0,35**	0,36
Singapore Dollar	**9,22**	8,59	**8,78**	8,31
Swedish Krona	**1,47**	1,55	**1,46**	1,59
United States Dollar	**12,62**	10,72	**11,65**	10,44

2. **FINANCIAL RISK MANAGEMENT** continued

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

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

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

The Group and Company have no forward exchange cover in this respect at 31 July 2015 (2014 – none)

Fair value of financial instruments

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

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

Regarding amounts owing to or from Group companies, where there are no fixed terms of repayment, many of the balances have been outstanding for more than one financial period and as a result, the effect of discounting is immaterial. The amortised cost carrying value disclosed for these accounts does therefore approximate the fair value of the financial instruments. The fair value of the amount owed by Group companies is R29 304 000 (2014: R33 919 000). The fair value of the amount owed to Group companies is R78 830 000 (2014: R99 686 000).

Class of financial instrument	At fair value R'000	Loans and receivables R'000	Financial liabilities sub-sequently measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS					
Group 2015					
Financial assets					
Investments		695			695
Long-term secured loan		10 603			10 603
Trade and other receivables		91 614		9 198	100 812
Assets for sale	4 346			18 700	23 046
Cash and cash equivalents		57 998			57 998
Total	4 346	160 910		27 898	193 154
Financial liabilities					
Finance lease			1 045		1 045
Borrowings			51 995		51 995
Trade and other payables			217 211	31 940	249 151
Contingent consideration liabilities			707		707
Betting dividends payable			7 385		7 385
Bank overdraft			11 537		11 537
Total			289 880	31 940	321 820
Group 2014					
Financial assets					
Investments	17 102	1 161			18 263
Long-term secured loan		19 929			19 929
Trade and other receivables		105 697		9 008	114 705
Cash and cash equivalents		94 904			94 904
Total	17 102	221 691		9 008	247 801
Financial liabilities					
Finance lease			1 014		1 014
Borrowings			8 717		8 717
Trade and other payables			238 816	46 694	285 510
Contingent consideration liabilities			4 056		4 056
Betting dividends payable			7 004		7 004
Total			259 607	46 694	306 301

Class of financial instrument	At fair value R'000	Loans and receivables R'000	Financial liabilities subsequently measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS continued					
Company 2015					
Financial assets					
Investments		695			695
Long-term secured loan		10 603			10 603
Amounts owing by Group companies		29 304			29 304
Trade and other receivables		91 600		7 775	99 375
Assets held for sale	4 346				4 346
Cash and cash equivalents		30 011			30 011
Total	4 346	162 213		7 775	174 334
Financial liabilities					
Finance lease			1 045		1 045
Borrowings			45 000		45 000
Trade and other payables			190 233	28 775	219 008
Amounts owing to Group companies			78 830		78 830
Contingent consideration liabilities			707		707
Betting dividends payable			6 852		6 852
Bank overdraft			11 537		11 537
Total			334 204	28 775	362 979
Company 2014					
Financial assets					
Investments	17 102	1 161			18 263
Long-term secured loan		19 929			19 929
Amounts owing by Group companies		33 919			33 919
Trade and other receivables		86 712		4 149	90 861
Cash and cash equivalents		81 737			81 737
Total	17 102	223 458		4 149	244 709
Financial liabilities					
Finance lease			1 014		1 014
Trade and other payables			202 243	46 701	248 944
Amounts owing to Group companies			99 686		99 686
Contingent consideration liabilities			4 056		4 056
Betting dividends payable			6 417		6 417
Total			313 416	46 701	360 117

	Land and buildings Freehold R'000	Leasehold 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								
Group								
2015								
Balance at beginning of year	236 461	37 597	80 336	33 887	12 341	24 634	1 456	426 712
Current year movements								
– Additions	11 488	27 957	8 772	16 556	5 455	8 183	608	79 019
– Disposals		(98)	(47)	(314)	(39)	(507)		(1 005)
– Transfer to assets for sale	(12 368)							(12 368)
– Depreciation	(8 403)	(12 531)	(10 914)	(9 263)	(2 490)	(3 438)	(637)	(47 676)
Balance at end of year	227 178	52 925	78 147	40 866	15 267	28 872	1 427	444 682
Made up as follows:								
Assets at cost	268 874	107 964	157 125	85 258	32 020	52 990	4 444	708 675
Accumulated depreciation and impairment	(41 696)	(55 039)	(78 978)	(44 392)	(16 753)	(24 118)	(3 017)	(263 993)
Carrying value	227 178	52 925	78 147	40 866	15 267	28 872	1 427	444 682
2014								
Balance at beginning of year	235 093	34 854	73 975	27 397	8 833	22 579	1 736	404 467
Current year movements								
– Additions	7 455	16 244	12 658	13 324	6 405	6 213	293	62 592
– Disposals		(12)	(273)	(1 821)	(210)	(234)		(2 550)
– Depreciation	(6 087)	(13 489)	(6 024)	(5 013)	(2 687)	(3 924)	(573)	(37 797)
Balance at end of year	236 461	37 597	80 336	33 887	12 341	24 634	1 456	426 712
Made up as follows:								
Assets at cost	269 825	80 198	148 814	69 811	27 069	46 004	3 834	645 555
Accumulated depreciation and impairment	(33 364)	(42 601)	(68 478)	(35 924)	(14 728)	(21 370)	(2 378)	(218 843)
Carrying value	236 461	37 597	80 336	33 887	12 341	24 634	1 456	426 712

	Land and buildings: Freehold R'000	Leasehold 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								
Company								
2015								
Balance at beginning of year	147 744	19 915	78 872	22 758	11 034	10 128	1 418	291 869
Current year movements								
– Additions	9 992	12 816	8 388	9 522	4 843	2 152	571	48 284
– Disposals			(50)	(246)	(38)			(334)
– Depreciation	(5 525)	(7 104)	(10 610)	(5 785)	(2 402)	(1 616)	(614)	(33 656)
Balance at end of year	152 211	25 627	76 600	26 249	13 437	10 664	1 375	306 163
Made up as follows:								
Assets at cost	182 976	64 163	152 594	59 134	28 376	25 153	4 229	516 625
Accumulated depreciation and impairment	(30 765)	(38 536)	(75 994)	(32 885)	(14 939)	(14 489)	(2 854)	(210 462)
Carrying value	152 211	25 627	76 600	26 249	13 437	10 664	1 375	306 163
2014								
Balance at beginning of year	145 285	23 358	72 284	16 872	7 770	10 099	1 692	277 360
Current year movements								
– Additions	6 305	6 575	12 474	8 677	5 833	1 936	257	42 057
– Disposals			(267)	(1 753)	(221)			(2 241)
– Depreciation	(3 846)	(10 018)	(5 619)	(1 038)	(2 348)	(1 907)	(531)	(25 307)
Balance at end of year	147 744	19 915	78 872	22 758	11 034	10 128	1 418	291 869
Made up as follows:								
Assets at cost	172 983	51 347	144 442	49 992	24 036	23 001	3 657	469 458
Accumulated depreciation and impairment	(25 239)	(31 432)	(65 570)	(27 234)	(13 002)	(12 873)	(2 239)	(177 589)
Carrying value	147 744	19 915	78 872	22 758	11 034	10 128	1 418	291 869

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

The Company and the Group lease information technology equipment with a carrying value of R1 316 000 (2014: R1 076 000). The leased equipment secures the lease liability reflected in note 19.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
5. GOODWILL				
Acquired on acquisition of TAB North West (Pty) Limited	3 126	3 126		
Acquired on acquisition of the minority shareholders interest in Phumelela Gold International Limited	186	186		
Acquired on restructure of Phumelela Gold Enterprises International	135	135		
Acquired on acquisition of Betting World (Pty) Limited	8 915	8 915		
Balance at the end of the year	12 362	12 362		
The impairment review process for goodwill is set out in note 6.1				
6. INTANGIBLE ASSETS				
Intangible assets				
Indefinite useful life intangible assets (note 6.1)	28 716	25 340		
Finite useful life intangible assets (note 6.2)		60		
Computer software (note 6.3)	23 388	23 333	1 930	690
	52 104	48 733	1 930	690
6.1 Indefinite useful life intangible assets				
Made up of:				
Betting licences	28 716	25 340		
Cost				
Balance at beginning of year	25 340	25 840		
Acquisition	3 376			
Disposals		(500)		
Balance at end of year	28 716	25 340		

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
- 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.

Our impairment review process is as follows:

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

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

6. INTANGIBLE ASSETS continued

6.1 Indefinite useful life intangible assets continued

Key assumptions used in the value-in-use calculations

Growth in earnings before interest and tax	Determined from financial budgets for the ensuing year approved by management and forecasts increasing by 5% per annum for five years.
Taxation	Taxation has been forecast at 28% for the current period which is consistent with current income tax rates applicable to companies in South Africa. The nature of operations does not result in significant permanent or temporary differences, which would not cause the effective taxation rate to differ significantly from the statutory rate.
Capital expenditure	Capital expenditure on financial budgets and management forecasts.
Working capital movements	Working capital movements have been forecast on the ratio of working capital employed to revenue.
Weighted average cost of capital	17,5% (2014: 17,5%)
Cost of equity	
– Risk-free rate	8,25% – R186 at 31 July 2015 (8,28% – R186 at 31 July 2014)
– 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	8%
– Tax rate	28% – per current tax legislation
Target debt:equity	25:75

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
6.2 Finite useful life intangible assets				
Exclusivity fee				
Cost				
Balance at beginning and end of year	**360**	360		
Accumulated amortisation				
Balance at beginning of year	**(300)**	(240)		
Amortisation charge	**(60)**	(60)		
Balance at end of year	**(360)**	(300)		
Carrying amount				
Balance at end of year		60		

This intangible asset related to the Group obtaining exclusive rights to operate their fixed odds licence at a specific location.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
6. INTANGIBLE ASSETS continued				
6.3 Computer software				
Cost				
Balance at beginning of year	**24 850**	19 628	**783**	96
Transfer from development costs		1 600		
Expended during the year	**2 144**	3 622	**1 415**	687
Balance at end of year	**26 994**	24 850	**2 198**	783
Accumulated amortisation				
Balance at beginning of year	**(1 517)**		**(93)**	
Amortisation charge	**(2 089)**	(1 517)	**(175)**	(93)
Balance at end of year	**(3 606)**	(1 517)	**(268)**	(93)
Carrying amount 2014	**23 333**	19 628	**690**	96
Carrying amount 2015	**23 388**	23 333	**1 930**	690

	COMPANY 2015 R'000	COMPANY 2014 R'000
7. INVESTMENT IN SUBSIDIARIES		
Shares at cost	**96 613**	96 613

Details of investments in subsidiaries are disclosed on page 123.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES				
Premier Gateway International Limited (note 8.1)	**17 188**	22 512		
Premier Gateway Services Limited (note 8.2)	**2 119**	1 266		
SW Security Solutions SA (Pty) Limited (note 8.3)	**1 914**	1 530	**1 056**	1 056
Betting World Nigeria Limited (note 8.4)		9 646		
Uptonvale Services (Pty) Limited (note 8.5)	**30 511**		**31 000**	
	51 732	34 954	**32 056**	1 056
Movement:				
Balance at beginning of year	**34 954**	15 765	**1 056**	
Acquisitions	**30 800**	9 646	**31 000**	1 056
Conversion to investment		(3 667)		
Profit for the year	**47 060**	57 983		
Dividends received	**(52 537)**	(44 773)		
Impairment	**(8 545)**			
Balance at end of year	**51 732**	34 954	**32 056**	1 056

	GROUP 2015 R'000	GROUP 2014 R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES continued		
8.1 Premier Gateway International Limited		
Shareholding 50% (2014: 50%)		
Company licensed to conduct pari-mutual betting on the Isle of Man and is jointly owned with Tabcorp Holdings Limited (Australia).		
PGI operates as a worldwide Totalisator hub.		
Balance at beginning of the year		
– At cost	1	1
Share of post-acquisition reserves	17 187	22 511
– Balance at beginning of year	22 511	10 549
– Share of current year's income after taxation	44 784	56 735
– *Less:* dividend received	(50 108)	(44 773)
Balance at end of the year	17 188	22 512
Summarised financial information of Premier Gateway International Limited for the year ended 31 July		
Assets		
Non-current assets		
Property, plant and equipment	7	33
Current assets	413 074	500 182
Trade and other receivables	49 740	46 387
Owing by Group companies	97 526	114 245
Prepayments	1 006	790
Cash on hand	264 802	338 760
Total assets	413 081	500 215
Equity and liabilities		
Equity and liabilities		
Capital and reserves	115 229	141 841
Liabilities		
Non-current liabilities		
Shareholders' loan	4 724	4 342
Current liabilities		
Trade and other payables	293 128	354 032
Total equity and liabilities	413 081	500 215
Income	5 896 877	1 599 036
Expenditure	(5 534 765)	(1 164 856)
Profit for the year before finance income	362 112	434 180
Finance income	1 013	1 083
Profit for the year	363 125	435 263

The share of profits of the shareholders are determined as follows:

- 100% of profit originating from the shareholders home market
- 50% of profit from international markets.

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

	GROUP 2015 R'000	2014 R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES continued		
8.2 Premier Gateway Services Limited		
Shareholding 50% (2014: 50%)		
Company provides logistical support for Premier Gateway International Limited on the Isle of Man and is jointly owned with Tabcorp Holdings Limited (Australia).		
Balance at beginning of the year		
– At cost including goodwill	1	1
Share of post-acquisition reserves	2 118	1 265
– Balance at beginning of year	1 265	491
– Share of current year's income after taxation	853	774
Balance at end of the year	2 119	1 266
Summarised financial information of Premier Gateway International Limited for the year ended 31 July		
Assets		
Non-current assets		
Property, plant and equipment	3 789	4 746
Current assets	3 904	707
Trade and other receivables	371	319
Cash on hand	3 533	388
Total assets	7 693	5 453
Equity and liabilities		
Capital and reserves	5 199	3 075
Liabilities		
Current liabilities	2 494	2 378
Trade and other payables	2 093	2 175
Amounts owed by Group companies	401	203
Total equity and liabilities	7 693	5 453
Income	34 663	32 284
Expenditure	(32 957)	(30 735)
Profit for the year	1 706	1 549

The carrying value reflects the Group share of profits.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES continued				
8.3 SW Security Solutions SA (Pty) Limited				
Shareholding 33% (2014: 33%)				
Company provides security solutions.				
Balance at beginning of the year				
– At cost including goodwill	**1 056**	1 056	**1 056**	1 056
Share of post-acquisition reserves	**858**	474		
– Balance at beginning of year	**474**			
– Share of current years income after taxation	**733**	474		
– *Less*: dividend received	**(349)**			
Balance at end of the year	**1 914**	1 530	**1 056**	1 056
Summarised financial information of SW Security Solutions SA (Pty) Limited for the year ended 31 July				
Assets				
Non-current assets	**1 299**	593		
Property, plant and equipment	**1 168**	444		
Goodwill	**131**	149		
Current assets	**5 249**	3 138		
Trade and other receivables	**1 825**	1 912		
Cash on hand	**3 424**	1 226		
Total assets	**6 548**	3 731		
Equity and liabilities				
Capital and reserves	**2 377**	1 435		
Liabilities				
Current liabilities	**4 171**	2 296		
Trade and other payables	**3 605**	1 687		
Loans from related parties	**566**	609		
Total equity and liabilities	**6 548**	3 731		
Income	**10 918**	3 540		
Expenditure	**(8 426)**	(1 742)		
Profit before income tax expense	**2 492**	1 798		
Income tax expense	**(271)**	(362)		
Profit for the year	**2 221**	1 436		
The carrying value of the associate can be reconciled to the share capital as follows:				
Share of capital and reserves	**858**	474		
Goodwill	**1 056**	1 056		
Carrying value	**1 914**	1 530		

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES continued				
8.4 Betting World Nigeria Limited				
Shareholding 26% (2014: 26%)				
Company provides bookmaking services in Nigeria.				
Balance at beginning of year	**9 646**	9 646		
Refund of purchase price	**(200)**			
Share of current year loss	**(901)**			
Impairment	**(8 545)**			
Balance at end of year		9 646		

The Group's 26% interest in Betting World Nigeria was incurring losses and the company approached the controlling shareholders for additional funding. The controlling shareholders were not prepared to provide their proportionate share of the funding and accordingly the company ceased trading on 13 March 2015. Therefore, the Group's exposure to the company has been impaired.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
8. INTEREST IN EQUITY-ACCOUNTED INVESTEES continued				
8.5 Uptonvale Services (Pty) Limited				
Shareholding (effective from 1 November 2014)	26%		26%	
The company trading as Interbet provides a secure on line betting exchange.				
Acquisition	31 000		31 000	
Share of post-acquisition reserves	(489)			
– Share of current years income after taxation	1 591			
– *Less* dividend received	(2 080)			
Balance at end of year	30 511		31 000	
Summarised financial information of Uptonvale Services (Pty) Limited for the nine months ended and as at 31 July				
Assets				
Non-current assets	10 984			
Property, plant and equipment	3 184			
Goodwill	4 870			
Intangible assets	2 930			
Current assets	18 595			
Trade and other receivables	5 750			
Income tax receivable	1 494			
Cash on hand	11 351			
Total assets	29 579			
Equity and liabilities				
Capital and reserves	21 303			
Liabilities				
Current liabilities	8 276			
Trade and other payables	5 880			
Loans from related parties	2 396			
Total equity and liabilities	29 579			
Income	27 470			
Expenditure	(18 089)			
Profit before income tax expense	9 381			
Income tax expense	(3 261)			
Profit for the nine-month period	6 120			
The carrying value is reconciled as follows:				
Share capital and reserves	5 539			
Intangible assets	2 450			
Deferred tax	(686)			
Goodwill	23 208			
	30 511			

The purchase price apportionment is incomplete at the year end. A provisional assessment of goodwill and intangible assets comprising customer relationships and the relevant deferred tax has been accounted for. The final valuation is being completed.

		GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
9.	**INVESTMENTS**				
	Listed investments (9.1)		17 099		17 099
	Unlisted investments (9.2)	695	1 164	695	1 164
		695	18 263	695	18 263
9.1	**Listed investments**				
	Automatic Systems Limited				
	Balance at beginning of year	17 099		17 099	
	Arising on conversion of associate to investment		17 099		17 099
	Fair value adjustment	(12 753)		(12 753)	
	Transfer to assets held for sale	(4 346)		(4 346)	
	Balance at end of year		17 099		17 099
	This investment has been reclassified as assets held for sale refer note 15.				
9.2	**Unlisted investments**				
	Investment in Horseracing South Africa (Pty) Limited				
	At cost (less than R50)				
	Loan to company				
	Balance at beginning of year	1 161	718	1 161	718
	Amount provided reversed		443		443
	Amount repaid	(469)		(469)	
	Total unlisted investments at end of year	692	1 161	692	1 161
	2PU France				
	At cost	3	3	3	3
	Directors' valuation	3	3	3	3
10.	**LONG-TERM SECURED LOANS**				
	Balance at beginning of year	19 929	7 434	19 929	7 434
	Amounts advanced during the year	10 127	66 518	10 127	66 518
	Amounts repaid during the year	(20 454)		(20 454)	
	Interest charged	1 001		1 001	
	Less: Set-off applied to amounts owing		(54 023)		(54 023)
		10 603	19 929	10 603	19 929
	Kenilworth Racing (Pty) Limited				
	Balance at beginning of year	19 929	7 434	19 929	7 434
	Amounts advanced during the year		66 518		66 518
	Amounts repaid during the year	(20 454)		(20 454)	
	Interest charged	525		525	
	Less: Set-off applied to amounts owing		(54 023)		(54 023)
	Balance at end of year		19 929		19 929
	The loan bears interest at the rate of prime minus 1% (2014: 2%) and is secured by means of a first mortgage bond registered over Kenilworth Racing (Pty) Limited Milnerton property in the amount of R60 million.				
	Mashonaland Turf Club				
	Amounts advanced during the year	10 127		10 127	
	Interest charged	476		476	
	Balance at end of the year	10 603		10 603	

The loan has no fixed repayment terms and is for an initial period of 48 months and bears interest at the rate of prime minus 1% and is secured by means of a first mortgage bond registered over Stand 19206, Harare Township and a bank guarantee in the amount of R20 million.

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
11. DEFERRED TAXATION				
Deferred tax asset	**2 910**	6 565		2 834
Deferred tax liability	**(4 652)**	(2 555)	**(2 135)**	
Balance at end of year	**(1 742)**	4 010	**(2 135)**	2 834
Deferred tax				
The deferred tax asset/(liability) arises as a result of:				
Property, plant and equipment	**(5 531)**	(5 358)	**(2 966)**	(5 429)
Intangible assets		(826)		
Provisions and accruals	**1 165**	8 521	**628**	7 993
Lease straight lining	**1 730**	1 247	**866**	677
Deferred revenue		48		48
Tax losses	**1 557**	842		
Prepayments	**(663)**	(122)	**(663)**	(113)
Other		(342)		(342)
	(1 742)	4 010	**(2 135)**	2 834
Deferred tax asset/(liability) raised				
Balance at beginning of year	**4 010**	7 186	**2 834**	4 979
Charge to other comprehensive income		(342)		(342)
Charge to profit or loss	**(5 752)**	(2 834)	**(4 969)**	(1 803)
Balance at end of year	**(1 742)**	4 010	**(2 135)**	2 834

Deferred tax has been provided at a rate of 28% other than for capital temporary differences where a rate of 18,6% has been applied.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
12. AMOUNTS OWING BY GROUP COMPANIES				
12.1 Non-current assets				
Glenfiddich Investments (Pty) Limited			24	24
Hadrian Investments (Pty) Limited			24	24
Injector Investments (Pty) Limited			24	24
Shelanu Investments (Pty) Limited			24	24
Transvaal Racing Holdings (Pty) Limited			2 480	2 480
			2 576	2 576
Amounts owing by Group companies bear no interest, have no fixed terms of repayment and are not expected to be settled within 12 months of the reporting date.				
12.2 Current assets				
Betting World (Pty) Limited			14 799	14 799
East Cape Racing (Pty) Limited			11 080	15 695
Glenfiddich Investments (Pty) Limited			244	244
Highveld Training Centre (Pty) Limited			605	605
			26 728	31 343
Amounts owing by Group companies			29 304	33 919
The amounts owing by Group companies bear no interest other than the loan to Betting World which attracts interest at the rate of 8%. The amounts receivable have no fixed terms of repayment.				
13. INVENTORIES				
Consumable stores at cost[1]	512	346	385	305
Digital satellite decoders	367	417	367	417
East Cape property development – construction work-in-progress		5 086		
– Balance at beginning of year	5 086	5 071		
– Development costs incurred	1 246	15		
– Transfer to assets for sale (note 15.1)	(6 332)			
	879	5 849	752	722

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

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
14. TRADE AND OTHER RECEIVABLES				
Trade receivables	**71 767**	72 660	**79 987**	71 242
Allowance for impairment	**(7 180)**	(7 669)	**(7 166)**	(7 655)
Trade receivables after impairment	**64 587**	64 991	**72 821**	63 587
Prepayments	**9 198**	9 008	**7 775**	4 149
Other receivables	**27 027**	40 706	**18 756**	23 125
	100 812	114 705	**99 352**	90 861
Trade receivables consist of non-interest-bearing receivables and are generally on 30 – 60 day terms.				
Where the service agreement includes a set-off arrangement the set-off has been applied as follows:				
Gross amount receivable	**11 983**	22 558	**11 813**	22 558
Gross amount payable	**(64 190)**	(78 694)	**(64 190)**	(77 320)
Net amount payable	**(52 207)**	(56 136)	**(52 377)**	(54 762)
Included in:				
Trade and other receivables	**2 544**	2 957	**2 544**	2 957
Trade and other payable (note 21)	**(54 751)**	(59 093)	**(54 921)**	(57 719)
Net amount payable	**(52 207)**	(56 136)	**(52 377)**	(54 762)
Trade and other receivables include the following foreign currency denominated monetary assets:				
South African Rand thousands				
Australian Dollar	**4 464**	3 608	**4 464**	3 608
British Pound	**9 842**	9 052	**9 842**	8 730
Euro	**6 174**	25 982	**6 174**	25 982
Singapore Dollar	**2 929**	2 751	**2 929**	2 751
United States Dollar	**3 573**	3 066	**3 573**	3 066
	26 982	44 459	**26 982**	44 137
Foreign currency				
Australian Dollar	**481 826**	362 112	**481 826**	362 112
British Pound	**500 005**	500 373	**500 005**	482 580
Euro	**443 071**	1 811 622	**443 071**	1 811 622
Singapore Dollar	**317 601**	320 275	**317 601**	320 275
United States Dollar	**283 140**	286 104	**283 140**	286 104
Movements in the allowance for the impairment of trade and other receivables were as follows:				
Trade and other receivables individually impaired				
Allowance at beginning of year	**7 669**	5 817	**7 655**	5 803
New and increased impairment charges	**643**	2 614	**643**	2 614
Written back	**(1 065)**	(967)	**(1 065)**	(967)
Arising on restructure of Phumelela Gold Enterprises		1 198		1 198
Utilised impairment charges	**(67)**	(993)	**(67)**	(993)
Allowance at end of year	**7 180**	7 669	**7 166**	7 655

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

	Total R'000	Neither past due nor impaired Current R'000	30 – 60 days R'000	Past due but not impaired 60 – 90 days past due R'000	>90 days past due R'000
14. TRADE AND OTHER RECEIVABLES continued					
As at 31 July, the ageing of trade receivables is as follows:					
Group					
2015	**64 587**	**36 342**	**5 242**	**3 853**	**19 150**
2014	64 991	40 246	8 210	4 351	12 184
Company					
2015	**72 821**	**36 258**	**7 062**	**3 866**	**25 635**
2014	63 587	38 828	8 210	4 351	12 198

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 to secure an amount of R11 451 000 (2014: R2 760 000) included in 90 days past due.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
15. ASSETS HELD FOR SALE				
Property, plant and equipment	**18 700**			
Investments	**4 346**		**4 346**	
	23 046		**4 346**	
15.1 Property, plant and equipment				
Amount transferred from property, plant and equipment (note 4)	**12 368**			
Amount transferred from inventories (note 13)	**6 332**			
	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 intention was to unlock the potential value of the property and further enhance the horseracing venue. Following the change of intention in use of the portion of property to be developed, the value of the property and related costs was transferred from non-current assets (property, plant and equipment) to current assets (inventories construction work-in-progress). All subsequent expenditure related to progressing the development has been allocated to the cost of construction as work-in-progress. An independent valuation of the property was carried out in January 2008 with the valuator valuing the property at R38 million in its current state of development. The property is currently on the market for sale and current indications are that the property will realise approximately R50 million (net of costs to sell the property).

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

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
15. ASSETS HELD FOR SALE				
15.2 Investments				
Transferred from investment	4 346		4 346	

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

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
16. CASH AND CASH EQUIVALENTS				
Cash on cash management at bank and on hand	31 027	60 636	15 815	51 734
Short-term bank deposits	26 971	34 268	14 196	30 003
	57 998	94 904	30 011	81 737
Included in cash and cash equivalents are the following foreign currency denominated monetary assets:				
South African Rand thousands				
Australian Dollar	3 817	7 349	3 817	7 349
British Pound	13 592	20 130	831	17 692
Euro	4 361	24 767	4 361	24 767
Singapore Dollar	3 554		3 554	
Swedish Kroner	42		42	
United States Dollar	1 149	57	1 149	57
	26 515	52 303	13 754	49 865
Foreign currency				
Australian Dollar	411 919	737 579	411 919	737 579
British Pound	690 522	1 112 735	42 205	977 968
Euro	312 954	1 726 927	312 954	1 726 927
Singapore Dollar	774 253		774 253	
Swedish Kroner	28 672		28 672	
United States Dollar	91 058	5 289	91 058	5 289

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

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
17. SHARE CAPITAL AND PREMIUM				
17.1 Share capital				
Authorised				
480 000 000 ordinary shares of 2,5 cents each	12 000	12 000	12 000	12 000
Issued				
77 101 885 ordinary shares of 2,5 cents each	1 928	1 928	1 928	1 928
2 576 400 (2014: 1 515 047) ordinary shares of 2,5 cents each repurchased	(65)	(38)		
Opening balance 1 515 047 ordinary shares of 2,5 cents each repurchased	(38)	(38)		
2 200 617 ordinary shares of 2,5 cents each repurchased	(55)			
1 139 264 ordinary shares of 2,5 cents each issued in terms of the share option schemes	28			
	1 863	1 890	1 928	1 928
Share premium				
Balance at beginning of year			293	293
Total share capital and premium	1 863	1 890	2 221	2 221

The Group purchased 2 200 617 in the market and issued 1 139 264 shares in terms of the share option scheme. Rand Sporting Club (Pty) Limited holds 2 576 400 (2014: 1 515 047) shares (accumulated as follows 2008: 1 007 014; 2009: 500 000; 2010: 8 033; 2015:1 061 353). The shares are currently held as treasury shares and are primarily intended to be used for issuing shares under the Groups share option programme as set out in note 35.

	Direct beneficial	Indirect beneficial	Total	Percentage
Directors' interests in share capital at 31 July 2015				
Non-executive directors				
B Kantor		5 254 000	5 254 000	6,81
MJ Jooste		2 476 792	2 476 792	3,21
CJH van Niekerk	47 200		47 200	0,06
JB Walters		31 850	31 850	0,04
Executive directors				
WA du Plessis		2 805 658	2 805 658	3,65
AW Heide	172 238		172 238	0,22
JA Stuart	267 158		267 158	0,35
	486 596	10 568 300	11 054 896	14,67
There has been no movement in the disclosed interests during the period 31 July 2015 to the date of signature of this report.				
Directors' interests in share capital at 31 July 2014				
Non-executive directors				
B Kantor		6 451 777	6 451 777	8,37
MJ Jooste		1 839 892	1 839 892	2,39
CJH van Niekerk	47 200		47 200	0,06
JB Walters		31 850	31 850	0,04
Executive directors				
WA du Plessis		2 100 000	2 100 000	2,72
AW Heide	200 000		200 000	0,26
JA Stuart	155 800		155 800	0,20
	403 000	10 423 519	10 826 519	14,04

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
17. SHARE CAPITAL AND PREMIUM continued				
17.2 Non-distributable reserves				
Foreign currency translation reserve arising on consolidation of the interests held in Phumelela Gold International Limited	**137**	(643)		

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 to Phumelela on 1 April 1999. These funds have been closed funds for the past 15 years.

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

The most recent actuarial valuations performed at 31 July 2015 on the above funds showed that these funds are adequately funded.

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
Pension fund surplus				
Balance at beginning of year	**973**	1 568	**973**	1 568
Payment made to Newmarket Pension Fund including interest		(595)		(595)
Recognition of employers surplus in benefit funds	**6 102**		**6 102**	
Balance at end of year	**7 075**	973	**7 075**	973

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

18. RETIREMENT BENEFIT INFORMATION continued

18.1 Defined benefit funds continued

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

	GROUP AND COMPANY		
	Central Management Company (Sporting Clubs) Cusada Pension Plan	Totalisator Agency Board (Transvaal) Pension Plan	Newmarket Pension Fund
2015			
Fair value of assets	**14 975**	**29 209**	**2 049**
Benefit obligations	**(9 742)**	**(26 457)**	**(3 932)**
Funded benefit plan assets	**5 233**	**2 752**	**(1 883)**
2014			
Fair value of assets	26 565	41 054	2 347
Benefit obligations	(22 349)	(37 746)	(3 933)
Funded benefit plan assets	4 216	3 308	(1 586)

	Central Management Company (Sporting Clubs) Cusada Pension Plan		Totalisator Agency Board (Transvaal) Pension Plan		Newmarket Pension Fund	
	2015	2014	**2015**	2014	**2015**	2014
The funds are actuarially valued on an annual basis and were last valued on 31 July 2015. The following main assumptions were made by the actuary:						
Investment returns (per annum compound)	**8,8%***	9%	**8,8%***	9%	**8,8%***	9%
Discount rate (per annum compound)	**8,8%***	9%	**8,8%***	9%	**8,8%***	9%
Price inflation (per annum compound)	**4,1%***	4,8%	**1,8%***	7,2%	**6,5%***	2,4%
Pensioner mortality	**PA90***	PA90	**PA90***	PA90	**PA90***	PA90
Membership at date of valuation						
Pensioners	**21**	21	**35**	36	**11**	11

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

	Members	Employer contributions R'000
2015		
Phumelela Pension Fund	132	889
Phumelela Provident Fund	1 384	9 987
TAB Provident Fund	34	199
Saccawu National Provident Fund	5	69
T&G Provident Fund	3	20
		11 164
2014		
Phumelela Pension Fund	138	879
Phumelela Provident Fund	1 369	9 268
TAB Provident Fund	35	216
Saccawu National Provident Fund	7	75
T&G Provident Fund	3	15
		10 454

	GROUP		COMPANY	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
19. FINANCE LEASE LIABILITY				
Balance at beginning of year	1 014		1 014	
Leases taken out during the year	505	1 145	505	1 145
Payments made	(474)	(131)	(474)	(131)
Balance at end of year	1 045	1 014	1 045	1 014
Non-current liability	488	525	488	525
Current liability included in trade and other payables	557	489	557	489
	1 045	1 014	1 045	1 014

The liabilities are secured through information technology equipment with a net book value of R1 316 000 (2014: R1 076 000). The liability is repayable over 36 months at the rate of R51 560 (2014: R35 730) per month with interest rates varying between 7,9% and 8,5% .

	Future minimum lease payment R'000	Interest R'000	Present value of lease payments R'000
19. FINANCE LEASE LIABILITY continued			
Company and Group			
2015			
Less than one year	618	61	557
Two to five years	508	20	488
	1 126	81	1 045
2014			
Less than one year	555	66	489
Two to five years	564	39	525
	1 119	105	1 014

	GROUP		COMPANY	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
20. BORROWINGS				
Unsecured borrowings				
Non-current				
Term loan	4 595	6 317		
Revolving credit facility	45 000		45 000	
	49 595	6 317	45 000	
Current				
Bank overdraft	11 537		11 537	
Term loan	2 400	2 400		
	13 937	2 400	11 537	

The Company has an unsecured revolving credit facility from a local bank in the amount of R60 million which is redeemable in full in January 2018 at an interest rate of JIBAR plus 260 basis points and has utilised R45 million of the facility. In addition, the Company has a R55 million demand facility from a local bank at the rate of prime minus 1%. A subsidiary has a borrowing facility which is unsecured, bears interest at 0,75% below prime and is repayable in monthly instalments of R200 000.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
21. TRADE AND OTHER PAYABLES				
Trade payables	137 200	129 030	132 469	126 921
Accruals – staff costs	20 622	37 652	17 861	36 750
Accruals – other	26 389	48 250	22 953	28 143
Betting taxes	3 149	2 958	2 959	2 786
Finance leases current liability	557	489	557	489
Other payables	61 790	67 620	42 765	54 344
	249 707	285 999	219 564	249 433
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	11 983	22 558	11 813	22 558
Gross amount payable	(64 190)	(78 694)	(64 190)	(77 320)
Net amount payable	(52 207)	(56 136)	(52 377)	(54 762)
Included in:				
Trade and other receivables (note 14)	2 544	2 957	2 544	2 957
Trade and other payable	(54 751)	(59 093)	(54 921)	(57 719)
Net amount payable	(52 207)	(56 136)	(52 377)	(54 762)
Trade and other payables include the following foreign currency denominated liabilities:				
South African Rand thousand				
Australian Dollar	1 521	1 899	1 449	1 899
British Pound	3 322	3 485	3 232	3 436
Euro	3 277	34 150	3 277	34 150
Mauritian Rupee	9	4		4
Singapore Dollar	3 295	66	3 295	66
Swedish Krona	1 165	1 174	1 165	1 174
United States Dollar	7 894	975	7 435	975
	20 483	41 753	19 853	41 705
Foreign currency				
Australian Dollar	164 156	190 556	156 345	190 556
British Pound	168 761	192 621	164 195	189 951
Euro	235 157	2 381 169	235 157	2 381 169
Mauritian Rupee	24 400	12 200		12 200
Singapore Dollar	357 218	7 680	357 218	7 680
Swedish Krona	792 519	755 963	792 519	755 963
United States Dollar	625 538	90 987	589 195	90 987

	COMPANY 2015 R'000	COMPANY 2014 R'000
22. AMOUNTS OWING TO GROUP COMPANIES		
Highveld Racing Authority Technical Services (Pty) Limited	**8 799**	8 799
Rand Sporting Club (Pty) Limited	**19 832**	37 874
TAB North West (Pty) Limited	**45 562**	45 526
Tote Property Investments (Pty) Limited	**4 338**	4 549
Highveld Training Centre (Pty) Limited	**277**	277
Silks Gaming and Leisure (Pty) Limited	**22**	2 635
Phumelela Gaming and Leisure Limited Share Incentive Trust		26
	78 830	99 686

Other than the amount owing to Silks Gaming and Leisure (Pty) Limited which bore interest at prime in 2014, the amounts owing to Group companies bear no interest and have no fixed terms of repayment.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
23. CONTINGENT CONSIDERATION LIABILITY				
Contingent consideration	**707**	4 056	**707**	4 056

Following the transfer of the KwaZulu-Natal bookmaker licences to Betting World the R3 million contingent consideration was paid.

The contingent consideration in respect of SW Security Solutions SA of R1 056 000 is payable in terms of a cession to future dividends to the seller to the amount of the purchase consideration. During the current year a dividend of R349 000 was declared and paid leaving the balance owing.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
24. INCOME				
Income comprises:				
Gross betting income (note 25)	**1 044 329**	927 253	**784 612**	733 040
International division				
– Derived from international ventures	**198 761**	223 115	**198 761**	223 115
Proportionate share of Tellytrack partnership				
– Derived from local operations	**21 021**	38 926	**26 562**	38 926
Interest received	**1 717**	1 266	**2 644**	2 079
Dividends received	**357**	1 549	**46 286**	45 632
	1 266 205	1 192 109	**1 058 865**	1 042 792
25. GROSS BETTING INCOME				
Bets struck net of betting dividends paid, refunds and rebates				
– South Africa – totalisator	**850 819**	791 641	**784 612**	733 040
– South Africa – fixed odds	**193 510**	135 612		
	1 044 329	927 253	**784 612**	733 040
26. NET BETTING INCOME				
Net betting income derived from bets struck:				
– South Africa – totalisator	**678 922**	632 592	**624 621**	584 530
– South Africa – fixed odds	**161 584**	113 999		
	840 506	746 591	**624 621**	584 530

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
27. PROFIT FROM OPERATIONS				
The operating profit is stated after:				
27.1 Income				
Dividends received				
– Unlisted investments			45 928	44 083
– Listed investments	357	1 549	357	1 549
Fair value adjustment – Investments		2 023		2 023
Interest received	2 754	1 266	2 645	2 079
Share-based payment reversed	3 230		3 230	
Gambling board levies received	60 678	52 836	60 678	52 836
Unclaimed dividends and breakages	31 404	29 669	28 647	27 407
Profit on disposal of property, plant and equipment	315		967	
Profit on foreign exchange	18 540	11 728	11 885	11 728
27.2 Expenses				
Auditors' remuneration	2 596	3 070	1 120	2 223
– Audit fee	2 596	3 009	1 120	2 223
– Other services		61		
Depreciation	47 676	37 797	33 656	25 307
On owned assets				
– Buildings	8 403	6 087	5 525	3 846
– Plant and machinery	10 914	6 024	10 610	5 619
– Information technology equipment and software	9 263	5 013	5 785	1 038
– Motor vehicles, heavy-duty trucks and trailers	2 490	2 687	2 402	2 348
– Furniture and fittings	3 438	3 924	1 616	1 907
– Marks and signs	637	573	614	531
On leasehold				
– Fittings and improvements	12 531	13 489	7 104	10 018
Amortisation on intangible assets	2 149	1 577	175	93
Agents commission	22 943	25 011	20 934	22 965
– Horseracing	13 656	15 515	13 156	15 084
– Other sports	9 287	9 496	7 778	7 881
Operating lease expenses	58 775	58 709	41 108	38 180
– Office equipment	4 142	3 636	2 321	2 289
– Premises	54 633	55 073	38 787	35 891
Employee costs (permanent and part time)	293 532	274 432	222 540	222 952
– Salaries and wages	273 173	257 146	206 485	207 029
– Retirement benefits	16 282	12 927	12 063	9 767
– Social security	4 077	4 359	3 992	4 158
Share-based payment expense		5 000		5 000
Loss on disposal of property, plant and equipment		804		554

		GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
28.	**FINANCE COSTS**				
	Interest paid on overdraft	**986**	812	**985**	626
	Interest paid to Silks Gaming and Leisure (Pty) Limited			**150**	186
	Interest paid on borrowing	**2 629**	371	**1 879**	
	Interest paid other	**2 213**		**2 200**	
	Interest paid	**5 828**	1 183	**5 214**	812
29.	**INCOME TAX EXPENSE**				
	Current year	**13 961**	16 540	**7 866**	13 858
	South African tax	**17 757**	19 309	**11 662**	16 627
	Less: Foreign withholding taxes paid	**(3 796)**	(2 769)	**(3 796)**	(2 769)
	Deferred	**5 752**	2 833	**4 969**	1 803
	Current year	**5 752**	2 833	**4 969**	1 803
	Total tax charge	**19 713**	19 373	**12 835**	15 661
	Taxation reconciliation				
	South African normal taxation at standard rate 28%	**27 786**	36 335	**24 667**	30 806
	Adjusted for:				
	Share of profit of equity-accounted investee	**(13 177)**	(16 235)		
	Tax rate difference	**1 053**	(789)	**1 199**	
	Non-deductible expenses	**5 031**		**809**	
	Exempt income	**(980)**	62	**(13 840)**	(15 145)
	Taxation in the current year	**19 713**	19 373	**12 835**	15 661

	COMPANY 2015 R'000	2014 R'000
30. DIRECTORS' EMOLUMENTS		
Non-executive directors:		
Fees as directors		
MP Malungani	350	330
R Cooper	140	132
MJ Jooste*	140	132
B Kantor	140	132
SKC Khampepe	105	132
NJ Mboweni	140	132
E Nkosi	140	132
C van Niekerk	140	132
JB Walters	105	132
Other services**		
MP Malungani	20	101
R Cooper	238	253
MJ Jooste	40	52
B Kantor	60	70
NJ Mboweni	90	66
C van Niekerk	100	99
E Nkosi		33
JB Walters	150	103
	2 098	2 161
Executive directors		
Fees for management services		
*WA du Plessis****	7 667	7 150
Basic salary	4 283	3 983
Retirement, medical, accident and health benefits	799	825
Bonuses and performance-related payments	2 585	2 342
AW Heide	2 766	2 655
Basic salary	1 748	1 650
Retirement, medical, accident and health benefits	218	205
Bonuses and performance-related payments	800	800
V Moodley	2 606	2 504
Basic salary	1 627	1 536
Retirement, medical, accident and health benefits	179	168
Bonuses and performance-related payments	800	800
ML Ramafalo	2 090	1 940
Basic salary	1 462	1 379
Retirement, medical, accident and health benefits	128	121
Bonuses and performance-related payments	500	440

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

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

**** Payments to WA du Plessis amounting to £327 940 (R5 866 564) were paid by Phumelela Gold International Limited*

	COMPANY 2015 R'000	2014 R'000
30. DIRECTORS EMOLUMENTS continued		
Executive directors continued		
JA Stuart	2 677	2 553
Basic salary	1 600	1 509
Retirement, medical, accident and health benefits	227	194
Bonuses and performance-related payments	850	850
Total executive emoluments paid	17 806	16 802
Current year share-based payment expense allocated as follows:		
WA du Plessis	436	150
AW Heide	(370)	590
V Moodley	(349)	520
ML Ramafalo	(308)	410
JA Stuart	(349)	520
Total executive share-based payment costs	(940)	2 190
Total directors' emoluments	18 964	21 153
Prescribed officers' emoluments		
Prescribed officer 1	2 456	2 254
Basic salary	1 588	1 500
Retirement, medical, accident and health benefits	218	204
Bonuses and performance-related payments	650	550
Prescribed officer 2	2 239	1 950
Basic salary	1 414	1 245
Retirement, medical, accident and health benefits	175	155
Bonuses and performance-related payments	650	550
Prescribed officer 3	1 909	2 302
Basic salary	1 882	1 715
Retirement, medical, accident and health benefits	27	87
Bonuses and performance-related payments		500
Prescribed officer 4	1 850	1 740
Basic salary	1 224	1 137
Retirement, medical, accident and health benefits	176	163
Bonuses and performance-related payments	450	440
Prescribed officer 5	780	
Basic salary	701	
Retirement, medical, accident and health benefits	79	
Prescribed officer 6	440	
Basic salary	388	
Retirement, medical, accident and health benefits	52	
Prescribed officer 7	147	870
Basic salary	134	683
Retirement, medical, accident and health benefits	13	67
Bonuses and performance-related payments		120
Remuneration	9 821	9 116

	COMPANY 2015 R'000	2014 R'000
30. DIRECTORS EMOLUMENTS continued		
Prescribed officers' emoluments continued		
Share-based payment expense		
Prescribed officer 1	(349)	474
Prescribed officer 2	(349)	474
Prescribed officer 3	(349)	474
Prescribed officer 4	(278)	378
	(1 325)	1 800
Total prescribed officers	8 496	10 916
Total directors' and prescribed officers' emoluments	27 460	32 069
Paid by:		
The Company	27 816	26 502
A subsidiary	1 909	1 577
Share-based payment expense	(2 265)	3 990
Total directors' and prescribed officers' emoluments	27 460	32 069

Prescribed officers

C Basel	Sales and Marketing Executive
P Davis	Racing Executive
M Weare	Managing Director (Betting World International)
B McLoughlin	Chief Financial Officer
F Moloi (16 February 2015 – to date)	Company Secretary
R Gopaul (1 August 2014 – 29 September 2014)	
M Govender	Group Chief Information Officer

	GROUP 2015 cents	GROUP 2014 cents
31. EARNINGS PER ORDINARY SHARE		
Basic earnings per share	**105,98**	146,07
Diluted earnings per share	**101,14**	139,13
Headline earnings per share	**117,06**	132,10
Diluted headline earnings per share	**111,72**	125,83
	R'000	R'000
31.1 Reconciliation of basic/diluted earnings to headline earnings		
Earnings attributable to ordinary shareholders for basic and diluted earnings per share	**79 516**	110 409
Adjusted for:		
Profit on conversion of equity-accounted investee to investment		(11 135)
Impairment of equity-accounted investee	**8 545**	
Net (profit)/loss on disposal of property, plant and equipment	**(315)**	804
Tax effect	**88**	(225)
Headline earnings attributable to ordinary shareholders	**87 834**	99 853
	Number 2015	Number 2014
Number of shares in issue (Refer note 17)	**74 525 485**	75 586 838
Weighted average number of ordinary shares in issue for basic and headline earnings per share	**75 032 549**	75 586 838
Weighted average number of ordinary shares in issue for diluted earnings per share	**78 616 685**	79 356 413
Weighted average number of ordinary shares in issue for basic and headline earnings per share	**75 032 549**	75 586 838
Potential dilutive impact of outstanding share options	**3 584 136**	3 769 575
Number of outstanding options	**11 255 000**	8 635 000
Number of options deemed to be issued at fair value or not vesting	**(7 670 864)**	(4 865 425)
Weighted average number of ordinary shares in issue for diluted basic and headline earnings per share	**78 616 685**	79 356 413
31.2 Dividends per ordinary share	**cents**	cents
Final dividend declared to shareholders recorded in the register on 31 October 2014 (2014: 25 October 2013) and paid on 3 November 2014 (2014: 28 October 2013)*	**60,00**	60,00
Interim dividend declared to shareholders recorded in the register on 22 May 2015 (2014: 23 May 2014) and paid on 25 May 2015 (2014: 26 May 2014)*	**28,00**	28,00
	88,00	88,00

** The final and interim dividend were 51,00 and 23,80 cents per share respectively net of the dividend withholding tax at a rate of 15%.*

32. **SHARE OF JOINTLY CONTROLLED OPERATION**

Tellytrack Partnership (Tellytrack)

The Tellytrack Partnership is a joint operation between the Company, Gold Circle (Pty) Limited and Kenilworth Racing (Pty) 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.

In terms of the joint control agreement, the Company's share of the partnership income and expenditure for the year is 61% (2014: 61%).

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
ASSETS				
Non-current assets				
Property, plant and equipment	**2 051**	2 005	**2 051**	2 005
Current assets	**14 790**	8 299	**14 790**	12 399
Inventories	**367**	417	**367**	417
Amounts owing by Group companies				4 100
Trade and other receivables	**10 557**	3 781	**10 557**	3 781
Cash and cash equivalents	**3 866**	4 101	**3 866**	4 101
	16 841	10 304	**16 841**	14 404
Capital and reserves				
Partners accounts	**9 898**	1 831	**9 898**	5 931
LIABILITIES				
Current liabilities				
Trade and other payables	**6 943**	8 473	**6 943**	8 473
	16 841	10 304	**16 841**	14 404
Cash flow				
Cash flows from operating activities	**(6 465)**	8 058	**(6 465)**	8 058
Cash flows from investing activities	**(335)**	345	**(335)**	345
Cash flows from financing activities	**6 564**	(16 104)	**6 564**	(16 104)
Net decrease in cash and cash equivalents	**(236)**	(7 701)	**(236)**	(7 701)
Income	**20 021**	20 087	**26 579**	24 498
Expenditure	**46 816**	38 802	**46 816**	38 802
Loss for the year	**(26 795)**	(18 715)	**(20 237)**	(14 304)

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
33. COMMITMENTS AND CONTINGENCIES				
33.1 Capital expenditure				
Commitments in respect of capital expenditure approved by directors				
– Contracted for	2 709	4 939	2 709	4 939
– Not contracted for	120 004	97 856	88 417	78 696
The above capital expenditure will be financed out of cash and cash equivalents generated by operations or borrowing facilities as and when required.				
33.2 Operating leases				
Commitments in respect of operating leases				
Office equipment	7 181	9 424	6 450	8 310
– Within one year	3 638	5 918	3 225	5 536
– Between two and five years	3 543	3 506	3 225	2 774
Leasehold properties	109 308	100 642	53 742	55 777
– Within one year	45 149	34 509	26 490	21 743
– Between two and five years	61 972	63 358	27 252	34 034
– More than five years	2 187	2 775		
	116 489	110 066	60 192	64 087

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

33.3 Guarantees and surety issued

Guarantees in lieu of operating lease deposits amount to R1 225 525 (2014: R1 262 699) and are held by insurers and banks.

Phumelela has issued a surety in favour of a local bank in order for the bank to issue guarantees in favour of the Gambling Regulators in respect of Betting World (Pty) Limited and Silks Gaming and Leisure (Pty) Limited in the amount of R6 329 806 (2014: R15 090 600).

The Company has stood surety in respect of banking facilities for Kenilworth Racing (Pty) Limited in the amount of R30 million which is secured by means of a first mortgage bond over the Milnerton property owned by Kenilworth Racing (Pty) Limited in the amount of R60 million. At year end the utilisation of the facility amounted to R24 234 901(2014: R23 700 000).

34. RELATED PARTIES

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

Shareholders

Details of the shareholders are set out on page 124.

Details of the directors' shareholding and options are set out in notes 17 and 35 respectively.

Treasury shares are set out in note 17.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 7 and on page 123.

Intergroup balances are disclosed in notes 12 and 22.

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

	COMPANY	
	2015 R'000	2014 R'000
Turnover levies received from Tab North West (Pty) Limited	35 866	31 953
Marketing sponsorship from Betting World (Pty) Limited	4 272	5 268
Sub-lease rental income received from Betting World (Pty) Limited	6 003	4 140
Interest received from Betting World (Pty) Limited	1 184	1 122
Tellytrack licence fees paid by Betting World (Pty) Limited	6 479	1 963
Leasehold property rentals paid to Tote Property Investments (Pty) Limited	(359)	(359)
Leasehold property rentals paid to East Cape Racing (Pty) Limited	(10 664)	(9 943)
Commission paid to Betting World (Pty) Limited	(2 449)	(2 278)
Leasehold property rentals paid to Betting World (Pty) Limited	(785)	
Security payments made to SW Security Solutions SA (Pty) Limited	(17 328)	

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 (Pty) Limited, TAB North West (Pty) Limited, East Cape Racing (Pty) Limited, and Tote Properties (Pty) Limited.

Directors

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

Jointly controlled operation

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

Equity-accounted investees

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

35. SHARE OPTION SCHEMES

Summary of share options granted

Executive option scheme 2008

Shareholders' approval for reserving 10% of the issued share capital of Phumelela Gaming and Leisure Limited for the executive share option scheme was obtained at the Company's Annual General Meeting held on 5 December 2008. The exercise of the options is conditional upon a minimum compound annual growth rate in headline earnings per share of 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 Payment*, the share option scheme was valued by an independent valuer using a modified binomial valuation model.

Executive share option scheme 2008

Date of option	5 December 2012	Tuesday, 1 October 2013	**Monday, 12 January 2015**
Number of shares	2 035 000	3 320 000	**200 000**
Dividend yield	7,26%	4,76%	**5,45%**
Interest rate	6,15%	6,93%	**6,55%**
Volatility	29,69%	32,00%	**32,00%**
Option take-up	100,00%	100,00%	**100,00%**
Equity price	R8,38	R15,00	**R18,58**
Maturity date	5 December 2015	1 October 2016	**1 October 2018**

Executive option scheme 2014

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

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

Executive share option scheme 2014

Date of option	**16 July 2015**
Number of shares	**2 700 000**
Dividend yield	**5,12%**
Interest rate	**7,04%**
Volatility	**33,00%**
Option take-up	**100,00%**
Equity price	**R17,34**
Maturity date	**5 December 2018**

	2015 Number of shares	2015 Weighted average exercise R price	2014 Number of shares	2014 Weighted average exercise R price
35. SHARE OPTION SCHEMES continued				
Summary of share options granted continued				
Balance at beginning of year	7 135 000	12,28	3 715 000	9,77
Granted 1 October 2013			3 420 000	15,00
Granted 12 January 2015	200 000	18,58		
Granted 16 July 2015	2 700 000	17,34		
Exercised	(1 555 000)	11,60		
Exercised	(60 000)	10,88		
Forfeited	(65 000)	8,38		
Forfeited	(100 000)	15,00		
	8 255 000	16,74	7 135 000	12,28
Made up as follows:				
Granted to directors				
WA Du Plessis – 5 December 2012	250 000	8,38	250 000	8,38
AW Heide – 1 August 2011			190 000	11,60
AW Heide – 5 December 2012	180 000	8,38	180 000	8,38
AW Heide – 1 October 2013	390 000	15,00	390 000	15,00
AW Heide – 16 July 2015	407 530	17,34		
ML Ramafalo – 1 August 2011			120 000	11,60
ML Ramafalo – 5 December 2012	150 000	8,38	150 000	8,38
ML Ramafalo – 1 October 2013	270 000	15,00	270 000	15,00
ML Ramafalo – 16 July 2015	327 188	17,34		
J Stuart – 1 August 2011			160 000	11,60
J Stuart – 5 December 2012	170 000	8,38	170 000	8,38
J Stuart – 1 October 2013	350 000	15,00	350 000	15,00
J Stuart – 16 July 2015	407 530	17,34		
V Moodley – 1 August 2011			160 000	11,60
V Moodley – 5 December 2012	170 000	8,38	170 000	8,38
V Moodley – 1 October 2013	350 000	15,00	350 000	15,00
V Moodley – 16 July 2015	485 154	17,34		
Granted to staff				
Effective grant date – 1 August 2011			925 000	11,60
Effective grant date – 7 November 2011			60 000	10,88
Effective grant date – 5 December 2012	1 115 000	8,38	1 180 000	8,38
Effective grant date – 1 October 2013	1 960 000	15,00	2 060 000	15,00
Effective grant date – 12 January 2015	200 000	18,58		
Effective grant date – 16 July 2015	1 072 598	17,34		
Balance at end of year	8 255 000	16,74	7 135 000	12,28
The above options may be exercised between the following dates:				
1 August 2014 to 31 January 2015			1 555 000	11,60
21 January 2015 to 20 July 2015			60 000	10,88
6 December 2015 to 5 June 2016	2 035 000	8,38	2 100 000	8,38
2 October 2016 to 1 March 2017	3 320 000	15,00	3 420 000	15,00
13 January 2018 to 12 July 2018	200 000	18,58		
17 July 2018 to 16 January 2019	2 700 000	17,34		
	8 255 000	16,74	7 135 000	12,28

35. SHARE OPTION SCHEMES continued

Summary of share options granted continued

Group Chief Executive option scheme

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

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

Group Chief Executive option scheme

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

	2015 Number of shares	2015 Exercise price Cents	2014 Number of shares	2014 Exercise price Cents
Summary of share options granted				
Effective grant date – 20 January 2012*	**1 500 000**	**2,50**	1 500 000	2,50
Effective grant date – 2 March 2015	**1 500 000**	**2,50**		
	3 000 000	**2,50**	1 500 000	2,50
Granted to director				
WA du Plessis	**3 000 000**	**2,50**	1 500 000	2,50
The above options may be exercised between the following dates:				
21 January 2015 to 20 January 2018*	**1 500 000**	**2,50**	1 500 000	2,50
3 March 2018 to 2 March 2021	**1 500 000**	**2,50**		
	3 000 000	**2,50**	1 500 000	2,50

** Options have vested.*

	GROUP		COMPANY	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
36. NOTES TO THE CASH FLOW STATEMENTS				
36.1 Cash generated by operations				
Profit before income tax expense	99 235	129 768	88 098	110 022
Adjustments for:				
Share of profit of equity-accounted investees	(47 060)	(57 983)		
Investment income	(2 074)	(2 815)	(48 930)	(47 711)
Finance costs	5 828	1 183	5 214	812
Depreciation	47 676	37 797	33 656	25 307
Amortisation of intangible assets	2 149	1 577	175	93
(Profit)/loss on disposal of property, plant and equipment	(315)	804	(967)	554
Surplus on conversion of equity-accounted investee to subsidiary		(11 135)		(14 594)
Impairment of equity-accounted investee	8 545			
Fair value adjustment to investments	12 753	(551)	12 753	(2 505)
Post-retirement curtailments	(6 102)	158	(6 102)	158
Provision for investments		(443)		(443)
Share-based payment	(3 230)	5 000	(3 230)	5 000
	117 405	103 360	80 667	76 693
36.2 Movements in working capital				
Increase in inventories	(1 361)	(220)	(30)	(407)
Decrease/(increase) in trade and other receivables	13 893	(10 789)	(8 491)	(6 278)
Decrease in amounts owing from Group companies			4 615	8 549
Increase in amounts owing to Group companies			(20 856)	(1 573)
(Decrease)/increase in trade and other payables	(35 978)	33 694	(29 504)	22 070
	(23 446)	22 685	(54 266)	22 361
36.3 Taxation paid				
Balance at beginning of year	3 698	(199)	(248)	229
Current year charge (note 29)	(13 961)	(16 539)	(7 866)	(13 858)
Balance at end of year	(9 316)	(3 698)	(7 709)	248
	(19 579)	(20 436)	(15 823)	(13 381)
36.4 Restructure of Phumelela Gold Enterprises into Tellytrack partnership				
Property, plant and equipment		(161)		(161)
Trade and other receivables		(22 825)		(22 825)
Goodwill		(136)		
Investment				(129)
Equity-accounted investee		(7 059)		
Cash and cash equivalents		(24 031)		(24 031)
Trade and other payables		54 212		54 212
Proceeds on disposal				7 066
Less: Cash and cash equivalents		24 031		24 031
Disposal of operation net of cash and cash equivalents		24 031		31 097

37. SEGMENTAL ANALYSIS

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

The secondary reporting format is by geographic analysis and the directors consider there to be two geographic segments being South Africa and international.

Both primary and secondary segments are disclosed in the statements of comprehensive income.

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

	% Change	12 months 31 July 2015 R'000	12 months 31 July 2014 R'000
Local			
Excluding fixed odds			
Income	5	873 469	831 567
Net betting income			
– Horseracing	3	457 454	443 746
– Other sports	17	221 469	188 846
Net betting income	7	678 923	632 592
Other income	19	219 325	184 849
Investment income	61	1 609	999
Net income	10	899 857	818 440
Stakes	2	(189 772)	(186 299)
Operating expenses	9	(681 335)	(625 009)
Profit before depreciation and amortisation	303	28 750	7 132
Depreciation and amortisation	33	(37 385)	(28 039)
Profit before finance costs and income tax expense	(59)	(8 635)	(20 907)
Finance costs	710	(5 065)	(626)
Profit before share of equity-accounted investee	(36)	(13 700)	(21 533)
Share of profit of equity-accounted investee	390	2 324	474
Profit before income tax expense	(46)	(11 376)	(21 059)
Fixed odds			
Income	43	193 593	135 840
Net betting income			
– Horseracing	30	59 521	45 720
– Other sports	96	38 158	19 503
– Other	31	63 904	48 776
Net betting income	42	161 583	113 999
Other income	4	10 944	10 572
Investment income	(64)	83	229
Net income	38	172 610	124 800
Operating expenses	32	(138 428)	(104 632)
Profit before depreciation and amortisation	69	34 182	20 168
Depreciation and amortisation	9	(12 150)	(11 198)
Profit before finance costs and income tax expense	146	22 032	8 970
Finance costs	37	(763)	(557)
Profit before income tax expense	153	21 269	8 413

	% Change	12 months 31 July 2015 R'000	12 months 31 July 2014 R'000
37. SEGMENTAL ANALYSIS continued			
International			
Income	(11)	**199 143**	224 702
Other income	(12)	**205 416**	234 466
Investment income	(76)	**382**	1 587
Net income	(13)	**205 798**	236 053
Licence fee payable for South African product	(17)	**(68 453)**	(82 504)
Operating expenses	(11)	**(71 151)**	(79 643)
Profit before depreciation and amortisation	(10)	**66 194**	73 906
Depreciation and amortisation	114	**(290)**	(136)
Profit from operations	(11)	**65 904**	73 770
Share of profit of equity-accounted investees	(22)	**44 736**	57 509
Profit before fair value adjustment on assets for sale	(16)	**110 640**	131 279
Total for the group			
Income	6	**1 266 205**	1 192 109
Net betting income			
– Horseracing	6	**516 975**	489 466
– Other sports	25	**259 627**	208 349
– Other	31	**63 904**	48 776
Net betting income	13	**840 506**	746 591
Other income	1	**435 685**	429 887
Investment income	(26)	**2 074**	2 815
Net income	8	**1 278 265**	1 179 293
Stakes	2	**(189 772)**	(186 299)
Licence fee payable for South African product	(17)	**(68 453)**	(82 504)
Operating expenses	10	**(890 914)**	(809 284)
Profit before depreciation and amortisation	28	**129 126**	101 206
Depreciation and amortisation	27	**(49 825)**	(39 373)
Profit before finance costs and income tax expense	28	**79 301**	61 833
Finance costs	393	**(5 828)**	(1 183)
Profit before share of equity-accounted investee	21	**73 473**	60 650
Share of profit of equity-accounted investees	(19)	**47 060**	57 983
Profit before profit on conversion to investment, fair value adjustment and impairment of equity accounted investee	(2)	**120 533**	118 633
Profit on conversion of equity accounted investee to investment			11 135
Fair value adjustment on investment		**(12 753)**	
Equity accounted investee impairment		**(8 545)**	
Profit before income tax expense		**99 235**	129 768

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Financial statements

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38. STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial statements for the year ended 31 July 2015, there are a number of standards and interpretations in issue but not yet effected.

Those that are relevant to the Group are set out below.

Effective for the financial year commencing 1 August 2016

▷ IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (amendments)

▷ IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Effective for the financial year commencing 1 August 2017

▷ IFRS 15 *Revenue from Contracts with Customers*

Effective for the financial year commencing 1 August 2018

▷ IFRS 9 *Financial Instruments*

All standards and interpretations will be adopted at their effective date.

The directors are of the opinion that the impact of the application of the standards and interpretations will be as follows:

IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (amendments)

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

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured. As a consequence of these amendments, the Group will amend its accounting policy with effect from 1 August 2016 for acquisitions of interests in a joint operation.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

IFRS 15 *Revenue from Contracts with Customers*

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 T*ransfer of Assets from Customers* and SIC 31 *Revenue – Barter of Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have an impact on the Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ending 31 July 2016 financial statements.

The standard is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

38. STANDARDS AND INTERPRETATIONS continued

IFRS 9 *Financial Instruments*

On 24 July 2014 the IASB issued the final IFRS 9 *Financial Instruments* standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

This standard will have an impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Group.

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

DETAILS OF SUBSIDIARY COMPANIES

at 31 July 2015

Name and nature of business	2015 Investment R'000	2015 Issued capital R	2015 % held	2014 Investment R'000	2014 Issued capital R	2014 % held
Direct subsidiaries incorporated in South Africa						
Highveld Racing Authority Technical Services (Pty) Limited – Dormant	4 253	8	100	4 253	8	100
HRA Racehorse Transport (Pty) Limited – Dormant		3 600	100		3 600	100
Highveld Training Centre (Pty) Limited – Dormant	277	3	100	277	3	100
Rand Sporting Club (Pty) Limited – Property holding	22 960	200	100	22 960	200	100
Hadrian Investments (Pty) Limited – Property holding		200	100		200	100
Shelanu Investments (Pty) Limited – Property holding		200	100		200	100
Injector Investments (Pty) Limited – Property holding		200	100		200	100
Glenfiddich Investments (Pty) Limited – Property holding		200	100		200	100
Transvaal Racing Holdings (Pty) Limited – Property holding		37 500	100		37 500	100
Tote Property Investments (Pty) Limited – Property holding	1 967	50 000	100	1 967	50 000	100
Vaal Racecourse (Pty) Limited – Property holding		1 070	100		1 070	100
East Cape Racing (Pty) Limited – Property holding	11 227	100	100	11 227	100	100
TAB North West (Pty) Limited – Betting outlets	8 100	4 000	100	8 100	4 000	100
Betting World (Pty) Limited – Entertainment and wagering industry	47 500	1 000	100	47 500	1 000	100
Silks Gaming and Leisure (Pty) Limited – Dormant		100	100		100	90
Phumelela Gold International Limited – Licensed sports bookmaker and worldwide internet pari-mutuel service provider	329	100	100	329	100	100
	96 613			96 613		

Indirectly held subsidiaries held through Betting World (Pty) Limited

All subsidiaries are 100% (2014: 100%) owned by Betting World (Pty) Limited

Cerino Trading 13 (Pty) Limited
Betting World Eastern Cape (Pty) Limited
Betting World KZN (Pty) Limited
Betting World Limpopo (Pty) Limited
Betting World North West (Pty) Limited

New subsidiaries

Betting World Mpumalanga (Pty) Limited
Betting World Northern Cape (Pty) Limited

SHAREHOLDER ANALYSIS

for the year ended 31 July 2015

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	318	36,05	153 586	0,20
1 001 – 10 000 shares	379	42,97	1 468 373	1,90
10 001 – 100 000 shares	142	16,10	4 522 141	5,87
100 001 – 1 000 000 shares	27	3,06	7 994 503	10,37
1 000 001 shares and over	16	1,82	62 963 282	81,66
Total	**882**	**100,00**	**77 101 885**	**100,00**

Distribution of shareholders	Number of shareholders	%	Number of shares	%
Banks	6	0,68	5 220 309	6,77
Close corporations	12	1,36	140 743	0,18
Empowerment	3	0,34	11 133 800	14,44
Endowment funds	5	0,57	41 484	0,06
Individuals	702	79,59	6 461 698	8,38
Insurance companies	6	0,68	1 596 714	2,07
Investment companies	7	0,80	102 964	0,13
Mutual funds	15	1,70	8 767 675	11,37
Other corporations	11	1,25	2 873 642	3,73
Private companies	28	3,17	3 631 995	4,71
Public companies	4	0,45	4 820 153	6,25
Retirement funds	7	0,80	950 833	1,23
Share trust	1	0,11	482 475	0,63
Treasury stock	1	0,11	2 576 400	3,34
Trusts	74	8,39	28 301 000	36,71
Total	**882**	**100,00**	**77 101 885**	**100,00**

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	15	1,70	52 400 884	67,96
Directors of the company	8	0,91	11 023 045	14,30
Strategic holdings more than 10%	2	0,23	27 185 164	35,26
Own holdings/treasury stock	1	0,11	2 576 400	3,34
Share trust	1	0,11	482 475	0,62
Empowerment	3	0,34	11 133 800	14,44
Public shareholders	867	98,30	24 701 001	32,04
Total	**882**	**100,00**	**77 101 885**	**100,00**

Beneficial shareholders holding 3% or more	Number of shares	%
The Thoroughbred Horse Racing Trust	27 185 164	35,26
Kantor, B	5 254 000	6,81
Sanlam	4 925 415	6,39
Gride Investments (Pty) Limited	3 880 887	5,03
Dihla Investment Holdings (Pty) Limited	3 752 913	4,87
Yerranzano Property Investments Limited	3 689 596	4,79
Vela Phumelela Investments	3 500 000	4,54
Du Plessis, WA	2 805 657	3,64
Rand Sporting Club (Pty) Limited	2 576 400	3,34
Jooste, MA	2 476 792	3,21
Truffle	2 468 534	3,20
Total	**62 515 358**	**81,08**

Institutional shareholders holding 3% or more	Number of shares	%
Truffle Asset Management	4 016 431	5,21
Sanlam Investment Management	3 640 037	4,72
Total	**7 656 495**	**9,93**

COMPANY INFORMATION

DIRECTORS

MP Malungani	(*Chairman*)
WA du Plessis	(*Group Chief Executive Officer*)
AW Heide	(*Chief Operating Officer and Group Finance Director*)
ML Ramafalo	(*Executive Director, Business Development and Risk Management*)
JA Stuart	(*International Executive Director*)
V Moodley	(*Executive Director, Sports Betting*)
R Cooper	
MJ Jooste	
B Kantor	
SKC Khampepe	
NJ Mboweni	
E Nkosi	
CJH van Niekerk	
JB Walters	
BP Finch	

COMPANY SECRETARY
F Moloi

REGISTERED OFFICE
Turffontein Racecourse
14 Turf Club Street
Turffontein
Johannesburg

AUDITORS
KPMG Inc.

PRINCIPAL BANKER
First National Bank – a division of FirstRand Bank Limited

ATTORNEYS
Roodt Inc.

MERCHANT BANK
Investec Bank Limited

SPONSOR
Investec Securities Limited

TRANSFER SECRETARIES
Computershare Investor Services (Pty) 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)

BASTION GRAPHICS

www.phumelela.com