Phumelela Gaming

Phumelela Gaming and Leisure Limited

INTEGRATED REPORT
2017

CONTENTS

Overview

Who we are

Where we do business

Our strategic business context

Our governance

Financial statements

Salient information

Other publications online

Notice of annual general meeting
Notice of annual general meeting can be found at www.irphumelela.com/financials/Phumelela_AGM_17.pdf

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

King IV report
Our King IV report can be found at www.irphumelela.com/financials/KingIV_Assessment_2017.pdf

www.phumelela.com

Directors' approval

The Phumelela Board and its sub-committees take ultimate responsibility for overseeing the integrity and completeness of this integrated report. We confirm that the 2017 Integrated Report addresses all material issues and fairly represents the Group's integrated performance.

The Audit and Risk Committee as delegated by the Board, approved this report.

On 6 October 2017, the Board approved the Integrated Report.

MP MALUNGANI
CHAIRMAN
6 October 2017

WA DU PLESSIS
GROUP CHIEF EXECUTIVE OFFICER

WELCOME TO PHUMELELA GAMING AND LEISURE LIMITED

We are one of South Africa's leading horseracing and betting groups. 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 wishes to take a bet.

KEY FEATURES OF THE TRADING YEAR

- Supabets and Interbet investments provide **EXCELLENT SYNERGISTIC BENEFITS**
- Fixed odds returned a **PLEASING RESULT**
- Supabets and Interbet are making a **HEALTHY CONTRIBUTION**
- **CONTINUING TO INVEST** in South African horseracing
- International division **INCREASED PROFITS** despite adverse currency movements
- Earnings per share up **3%** to **168,46 CENTS**
- Headline earnings per share up **2%** to **167,96 CENTS**
- Headline earnings per share in constant currency up **30%** to **214,34 CENTS**

SCOPE OF THE REPORT

We are pleased to present our stakeholders with the Integrated Report of Phumelela Gaming and Leisure Limited ("Phumelela") for the period 1 August 2016 to 31 July 2017. Our previous report was published in 2016. Phumelela is listed on the JSE under the share code PHM in the travel and leisure sector.

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

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

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

MISSION, VISION, PURPOSE AND VALUES

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

OUR MISSION

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

OUR VISION

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

OUR PURPOSE

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

BACKGROUND AND NATURE OF THE GROUP OPERATIONS

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

Phumelela's main shareholder, the Thoroughbred Horseracing Trust (26,72% shareholder), is a not-for-profit entity which was formed at the insistence of the Gauteng Government. The principal objective of the Trust is to "promote the interest of all persons interested in, and affected by, the sport of thoroughbred horseracing in South Africa with a view to the long-term viability of the sport". Additional objectives relate to the promotion of broad-based black economic empowerment ("B-BBEE") initiatives and affirmative action schemes with the intention of facilitating transformation within horseracing.

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

"Corporatisation" came about at the behest of the Gauteng provincial government in order for the sport to remain competitive within a burgeoning gambling market that was about to legalise casinos and a national lottery in South Africa. A critical element of the restructuring was a commitment to rationalise the horseracing infrastructure in order to, inter alia, "facilitate transformation, transparency, accountability and create a sustainable business model".

The three racing clubs that had run racing in the region until then transferred their assets to the new company (Phumelela) which took over the management of the sport in the province.

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

The Racing Association, with a membership comprising owners and former racing club members, was established to represent the interests of owners. The Racing Association is run by a board of directors elected from the ranks of its members. The directors appoint five of the seven trustees to the Thoroughbred Horseracing Trust, and together hold approximately 30% share in Phumelela. The remaining two trustees are appointed by SASCOC.

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

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

- sports totalisator betting on soccer and rugby;
- its international operations through the establishment of a totalisator on the Isle of Man and through the export of South African horseracing (televised coverage and racing data);
- fixed odds betting opportunities offered through the Group's wholly owned subsidiary company, Betting World Proprietary Limited, which was broadened by the acquisition of a 50% equity interest in Supabets SA Holdings Proprietary Limited (both licensed bookmaking concerns);
- increased investment in Interbet, an online bookmaking business and betting exchange concern; and
- limited payout machines.

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

PHUMELELA AT A GLANCE

HORSERACING AND DESTINATION MARKETING BUSINESS

BETTING AND INFORMATION BUSINESS

BUSINESS DRIVERS OF AN INTERDEPENDENT BUSINESS

SCOPE OF PRODUCTS AND SERVICES

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

ANCHORED IN SOUTH AFRICA

- Revenue
- Resources
- Intellectual property
- Assets

SCOPE OF GEOGRAPHICAL REACH

- Six continents
- 43 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

RACING. IT'S A RUSH

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

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

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

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

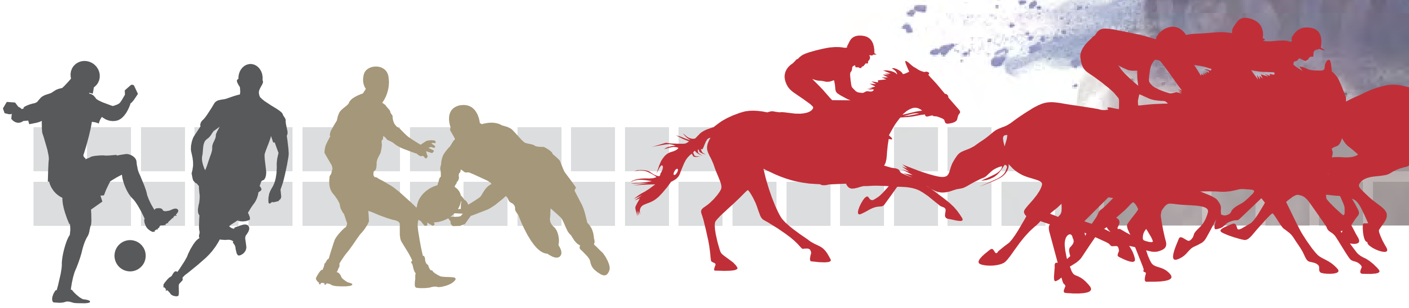
Racing. It's a Rush – is a brand that is relevant, fresh, locally inspired and exciting. We are discovering, engaging and attracting new enthusiasts to the sport – a younger demographic who are beginning to realise all that horseracing has to offer – the buzz, the fashion, the exhilaration and the fun.

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

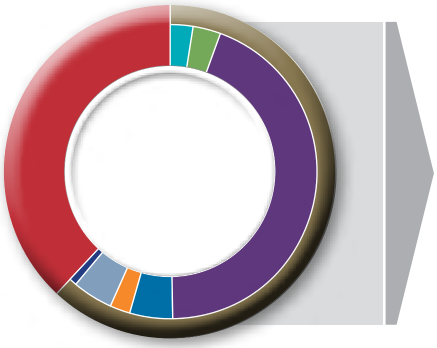
We have embarked on this journey, and have a long way to go, but we believe that we are on the right path, and have the necessary support to achieve our objectives.

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

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

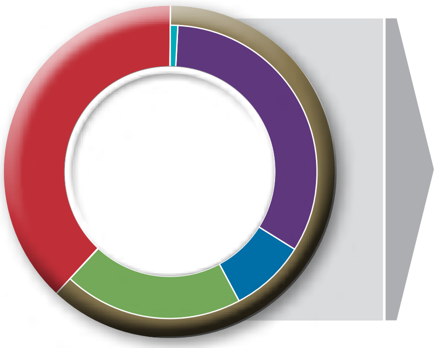


PHUMELELA BETTING DATA



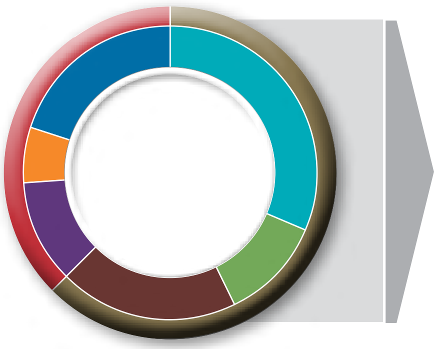
BETTING HANDLE BY OPERATIONAL GEOGRAPHY

	2017 R'million	2016 R'million	2017 %	2016 %
SA totalisator	**3 218**	3 442	**62,0**	65,3
Eastern Cape	**142**	158	**2,7**	3,0
Free State	**153**	166	**2,9**	3,1
Gauteng	**2 294**	2 428	**44,2**	46,1
Limpopo	**239**	251	**4,6**	4,8
Mpumalanga	**126**	143	**2,4**	2,7
North West	**221**	248	**4,3**	4,7
Northern Cape	**43**	48	**0,8**	0,9
Fixed odds	**1 974**	1 828	**38,0**	34,7
	5 192	5 270	**100,0**	100,0



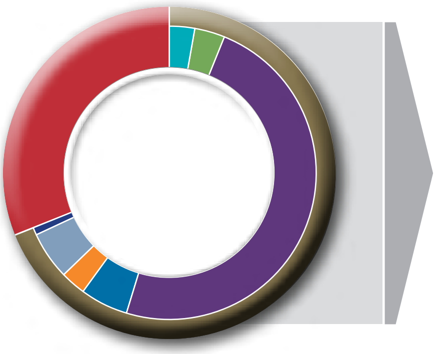
BETTING HANDLE BY BETTING MEDIUM

	2017 R'million	2016 R'million	2017 %	2016 %
SA totalisator	**3 218**	3 442	**62,0**	65,3
On course	**58**	62	**1,1**	1,2
Off course – branches	**1 711**	1 877	**33,0**	35,6
Off course – agents	**425**	454	**8,2**	8,6
Non-over-the-counter	**1 024**	1 049	**19,7**	19,9
Fixed odds	**1 974**	1 828	**38,0**	34,7
	5 192	5 270	**100,0**	100,0



BETTING HANDLE BY BETTING PRODUCT

	2017 R'million	2016 R'million	2017 %	2016 %
SA totalisator	**3 218**	3 442	**62,0**	65,3
South African horseracing	**1 586**	1 689	**32,1**	32,1
International horseracing	**595**	661	**11,5**	12,5
Other sports	**1 037**	1 092	**20,0**	20,7
Fixed odds	**1 974**	1 828	**38,0**	34,7
Horseracing	**610**	624	**11,7**	11,8
Other sports	**312**	316	**6,0**	6,0
Numbers	**1 052**	888	**20,3**	16,9
	5 192	5 270	**100,0**	100,0



NET BETTING INCOME BY OPERATIONAL GEOGRAPHY

	2017 R'million	2016 R'million	2017 %	2016 %
SA totalisator	**656**	702	**69,1**	72,7
Eastern Cape	**28**	31	**3,0**	3,2
Free State	**31**	33	**3,3**	3,4
Gauteng	**460**	489	**48,5**	50,7
Limpopo	**52**	54	**5,5**	5,6
Mpumalanga	**27**	30	**2,8**	3,1
North West	**49**	55	**5,2**	5,7
Northern Cape	**9**	10	**0,9**	1,0
Fixed odds	**293**	263	**30,9**	27,3
	949	965	**100,0**	100,0

OUR SOUTH AFRICAN OPERATIONS

Phumelela operates in South Africa and through its international division it has commercial relationships with 43 international jurisdictions across six continents.

PHUMELELA TOTALISATOR BETTING OUTLETS:

143 *branches.* **72** *agencies.* *Betting World fixed odds* **85** *outlets.*

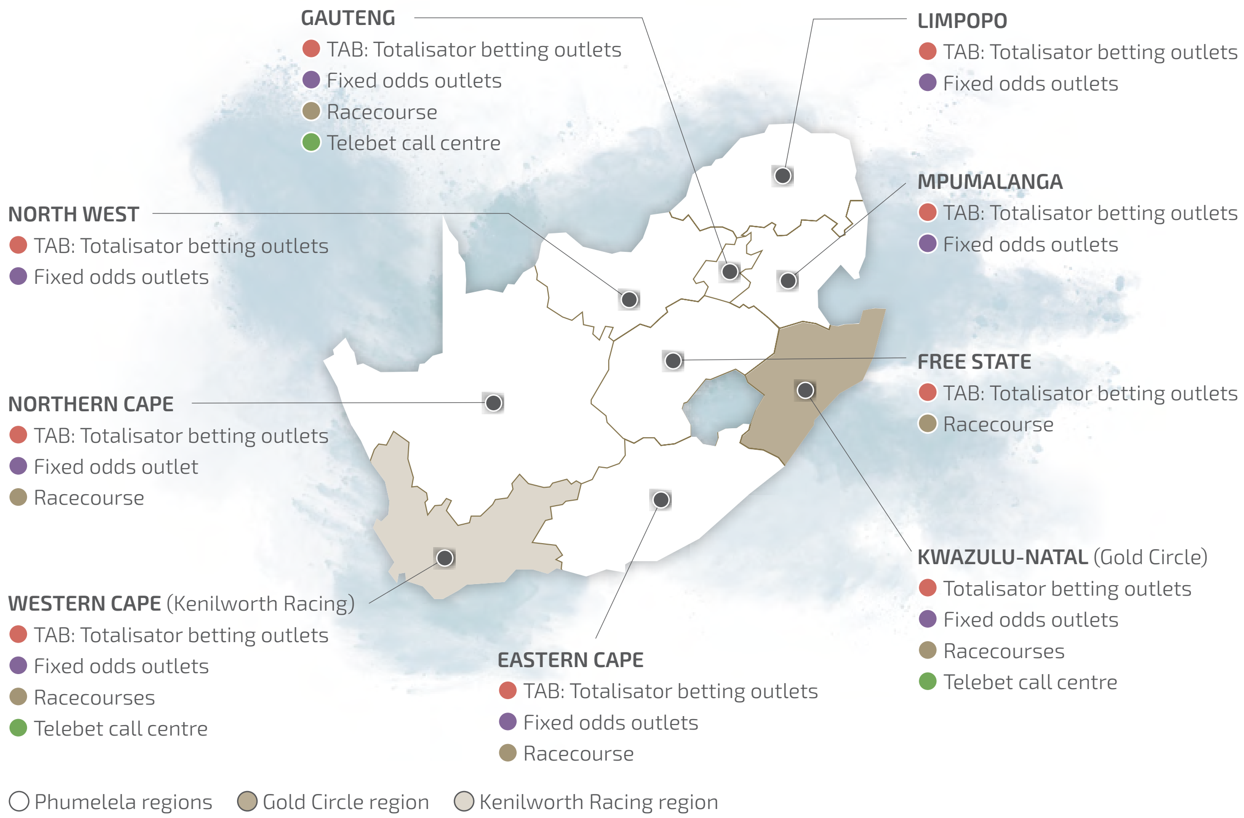
TAB: TOTALISATOR BETTING OUTLETS			
Phumelela regions	Branches	Agents	Total
Gauteng	77	32	109
Limpopo	14	9	23
Mpumalanga	13	11	24
Free State	15	2	17
Northern Cape	2	-	2
Eastern Cape	11	14	25
North West	11	4	15
Total	**143**	**72**	**215**

BETTING WORLD FIXED ODDS OUTLETS			
Gauteng	17	Eastern Cape	9
Limpopo	12	Northern Cape	1
Mpumalanga	5	North West	10
KwaZulu-Natal	2	North West Franchises	10
Western Cape	19		

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

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

OPERATIONAL GEOGRAPHY SOUTH AFRICA



OUR INTERNATIONAL REPRESENTATION

INTERNATIONAL

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

PI has commercial relationships with 43 international jurisdictions across six continents. These relations enable the export of live South African horseracing and international football globally, earning PGL foreign revenue on South African racing and football pools.

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

Outbound

Racing in South Africa occurs on 364 days a year, with approximately 440 race meetings scheduled and broadcast each year. The television picture of South African racing is exported to various countries PI has relations with as an encrypted, live audio-visual signal, using a combination of satellite, fibre-optic and web-streaming technologies. These distribution mechanisms permit the export of South African racing in the following formats:

- A "clean feed" television picture of South African racing, which excludes any South African-produced television graphics displaying betting patterns and tips on the races. This production enables the customer to integrate PI's racing picture into their own domestic television broadcast, and effectively distribute (simulcast) South African racing alongside their own racing, in a manner which suits their home markets;
- A South African-produced television channel branded, Tellytrack 2 (International) is sent to a number of international markets. This channel integrates other international racing which PI has the rights to distribute, with racing from South Africa. The channel includes a line-up of South African, Dubai, 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).

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

South Africa
Isle of Man tote

Inbound

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

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

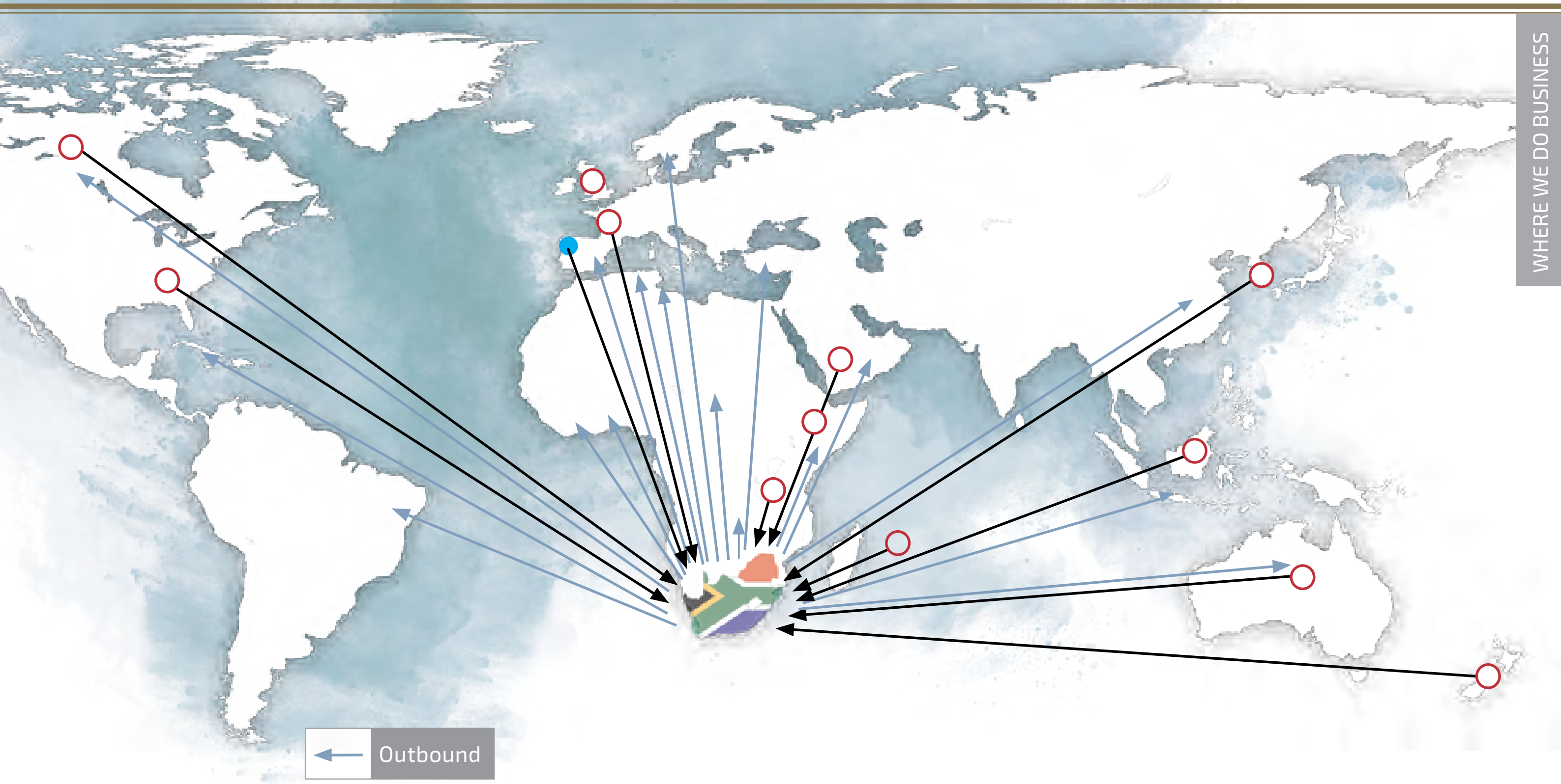
In certain territories, the most effective mechanism for reaching the fixed-odds bookmaker retail outlets is through the sale of distribution rights to local agents for a predetermined fixed monthly fee.

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

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

Inbound

Live horseracing from 12 other countries is currently imported to supplement South African product and expand the product offering made to punters in our local market. The importation of foreign product strengthens reciprocity with other jurisdictions, which generate revenue for PGL. This supplementary product is beamed via satellite from the various territories, down-linked in the Tellytrack studios in Rivonia (Johannesburg, South Africa) and simulcast with South African racing, as part of the domestic Tellytrack channel distributed by DStv to home viewers and through decoders at licensed betting shops.



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

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

ISLE OF MAN

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

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

GROUP REVIEW

	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
GROUP STATEMENTS OF COMPREHENSIVE INCOME							
Year ended 31 July							
Income	**1 520 515**	1 500 797	1 266 205	1 192 109	1 014 826	936 534	883 173
Profit from operations	**49 029**	43 098	79 301	61 833	85 304	82 546	98 367
Finance costs	**(20 323)**	(9 368)	(5 828)	(1 183)	(779)	(1 409)	(513)
Profit before share of profit of equity-accounted investees	**28 706**	33 730	73 473	60 650	84 525	81 137	97 854
Share of profit of equity-accounted investees	**122 591**	94 694	47 060	57 983	26 705	15 544	336
Profit before income tax expense	**151 297**	128 424	120 533	118 633	111 230	96 681	98 190
Fair value adjustments	**946**	5 578	(21 298)	11 135			
Profit before income tax expense	**152 243**	134 002	99 235	129 768	111 230	96 681	98 190
Income tax expense	**(9 641)**	(12 912)	(19 713)	(19 373)	(25 257)	(27 801)	(31 429)
Profit for the year	**142 602**	121 090	79 522	110 395	85 973	68 880	66 761
Attributable to non-controlling interest	**3 918**	854	(6)	14	(102)	(206)	(4 402)
Profit attributable to ordinary equity holders of the parent	**146 520**	121 944	79 516	110 409	85 871	68 674	62 359
GROUP STATEMENTS OF FINANCIAL POSITION							
At 31 July							
Assets							
Non-current assets	**1 280 609**	635 466	575 088	567 518	495 400	415 390	393 941
Current assets	**259 200**	308 484	200 751	220 537	149 028	176 567	210 548
Total assets	**1 539 809**	943 950	775 839	788 055	644 428	591 957	604 489
Equity and liabilities							
Capital and reserves	**1 029 993**	513 051	447 743	478 791	432 345	403 881	410 791
Non-current liabilities	**123 370**	64 489	54 735	9 397	3 734	5 809	7 165
Current liabilities	**386 446**	366 410	273 361	299 867	208 349	182 267	186 533
Total equity and liabilities	**1 539 809**	943 950	775 839	788 055	644 428	591 957	604 489
GROUP CASH FLOW STATEMENTS							
Year ended 31 July							
Net cash flow from operating activities	**(62 201)**	38 594	3 761	40 724	66 706	53 883	67 243
Net cash utilised in investing activities	**(250 879)**	(19 549)	(54 057)	(11 293)	(105 731)	(85 250)	(48 181)
Net cash flow from financing activities	**332 195**	12 743	1 073	8 586		(5 362)	(3 606)
Net increase/(decrease) in cash and cash equivalents	**19 115**	31 788	(49 223)	38 017	(39 025)	(36 729)	15 456

	2017 cents	2016 cents	2015 cents	2014 cents	2013 cents	2012 cents	2011 cents
Year ended 31 July							
Basic earnings per share	**168,46**	163,62	105,98	146,07	113,61	90,85	82,50
Diluted earnings per share	**160,84**	155,01	101,14	139,13	110,85	89,09	82,08
Headline earnings per share	**167,96**	164,51	117,06	132,10	114,46	90,99	83,19
Diluted headline earnings per share	**160,36**	155,85	111,72	125,83	111,69	89,23	82,76
Net asset value per share	**1 014,17**	688,33	600,79	633,04	571,58	534,05	513,01
Dividends/capital distributions per share	**104,00**	104,00	88,00	88,00	88,00	76,00	68,00

	2017 %	2016 %	2015 %	2014 %	2013 %	2012 %	2011 %
PROFITABILITY RATIOS							
Profit attributable/income	**9,64**	8,13	6,28	9,26	8,46	7,33	7,06
EBITDA[(1)] margin	**7,91**	6,97	10,2	8,49	12,34	12,85	14,88
Return on equity[(2)]	**18,48**	25,38	17,16	24,23	20,23	16,91	16,33
Return on total assets[(3)]	**11,15**	14,60	16,29	16,26	13,24	13,94	16,27
SOLVENCY AND LIQUIDITY RATIOS							
Solvency ratio[(4)]	**3,02**	2,19	2,36	2,55	3,04	3,15	3,12
Current ratio	**0,67**	0,84	0,73	0,74	0,72	0,97	1,13
Acid test ratio	**0,66**	0,84	0,73	0,73	0,69	0,94	1,10
EFFICIENCY RATIOS							
Asset turnover[(5)]	**0,99**	1,59	1,63	1,51	1,57	1,58	1,46
Property, plant and equipment turnover[(6)]	**3,25**	3,27	2,85	2,68	2,91	2,68	2,61

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

VALUE ADDED STATEMENT

	2017 % change	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
Value created								
Gross betting income	**(2)**	**1 176 913**	1 198 796	1 044 329	927 253	875 827	823 717	811 115
Other income	**12**	**588 498**	526 443	435 685	441 021	296 493	252 444	204 388
Income from investments	**197**	**15 846**	5 331	2 074	2 815	1 795	2 597	3 005
Income from equity-accounted investees	**29**	**122 591**	94 694	47 060	57 983	26 705	15 544	336
Income from operations	**4**	**1 903 848**	1 825 264	1 529 148	1 429 072	1 200 820	1 094 302	1 018 844
Other overhead costs	**7**	**(843 426)**	(789 212)	(731 314)	(615 668)	(457 944)	(436 638)	(398 068)
Total value created	**2**	**1 060 422**	1 036 052	797 834	813 404	742 876	657 664	620 776
Value distribution								
Stakes	**3**	**208 756**	202 871	189 772	186 299	175 689	165 149	153 863
Employees	**2**	**389 999**	380 809	293 532	274 432	245 115	202 418	189 548
Finance costs	**117**	**20 323**	9 369	5 828	1 183	779	1 409	513
Distribution to shareholders	**24**	**86 875**	70 057	66 389	66 517	59 713	51 399	51 399
Government	**(5)**	**241 752**	255 317	217 784	197 202	199 404	185 876	175 068
– Value added tax (paid on betting income)	**(2)**	**137 321**	139 473	120 806	107 058	100 994	95 075	86 922
– Betting tax	**(3)**	**90 989**	93 772	83 017	73 604	66 980	60 280	57 871
– Income tax	**(39)**	**13 442**	22 072	13 961	16 540	31 430	30 521	30 275
Total distributed	**3**	**947 705**	918 423	773 305	725 633	680 700	606 251	570 391
Reinvested in the Group to maintain and develop operations								
Depreciation and amortisation	**16**	**71 207**	61 471	49 825	39 374	39 885	38 018	33 122
Deferred tax	**59**	**(3 620)**	(9 160)	5 752	2 833	(6 173)	(2 720)	1 154
Retained profit	**(31)**	**45 130**	65 318	(31 048)	45 565	28 464	16 115	16 109
Total retained	**(4)**	**112 717**	117 629	24 529	87 772	62 176	51 413	50 385
Total value distributed/retained	**2**	**1 060 422**	1 036 052	797 834	813 405	742 876	657 664	620 776

ONE OF AFRICA'S RICHEST RACEDAYS

RACING
IT'S A RUSH

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

CHAMPIONS DAY

Champions Day was introduced by Phumelela in 1999.

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

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

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

CHAIRMAN'S REVIEW

"2017 was a transformative year and the Group is very well positioned for a prosperous future."

Phumelela has grown to become a diversified international horseracing and gaming business with proudly South African roots.

In reflecting on the year past, I do so from the point of view of a person with remembrance of a twenty-year journey. I shall be voluntarily stepping down as Chairman at the 2017 annual general meeting after 20 years' service, having been appointed to the Board on 2 October 1997, the date Phumelela was incorporated.

It has been an enormous privilege for me to serve as Chairman and I look back on what has been achieved by this Company with great satisfaction. Phumelela has been blessed with outstanding executive leadership. During my tenure as Chairman, I have served on the Board with three Chief Executives, each individual making a unique contribution to driving Phumelela forward and rising to the challenges of the times.

As I depart, I leave with the knowledge that the Company is in highly capable hands and very well positioned for a prosperous future. Phumelela is the standard-bearer for the sport of thoroughbred horseracing in South Africa and offers an appealing array of betting offerings.

Thinking back to the beginning, it was a different world to the industry we have today. A period of restructuring laid the groundwork for horseracing to be viable as new forms of gambling, including casinos and the national lottery, were legislated to compete for punters. As I have observed previously, if Phumelela had stayed the business it was when first incorporated there would be no business today.

2002 was a seminal year. On 14 June, Phumelela listed on the Development Capital Market of the Johannesburg Stock Exchange. The listing price was 50 cents per share, which with 70 million shares in issue gave us a market capitalisation of R35 million. In the commentary to the 2002 results, I observed that "These results reflect the solid foundation built over the last three years of focussed business restructuring; the Group is poised for growth and will apply for its listing to move to the Main Board". And so, on 18 November 2002, Phumelela was listed on the Main Board of Johannesburg Stock Exchange.

In 2002, the Group operated in one business segment, horseracing, and in one geographic segment, South Africa. However, a need to diversify revenue sources resulted in a concerted focus on internationalising through the simulcast of local and overseas racing and a totalisator licence on the Isle of Man. International operations contributed their first profit in 2006 and have gone from strength to strength ever since. In March 2004, the Group moved in to fixed odds with the acquisition of 40% of Betting World.

In fifteen years, we have built a global audience for South African horseracing as a Proudly South African company. We do this through broadcasting live South African horseracing. On every day of the year, bar Christmas day, punters across the world are able to enjoy the wonderful spectacle of a South African race meeting fielding a healthy number of competing horses. South Africans too can avail themselves of international betting options through Phumelela.

These early, farsighted initiatives to diversify, internationalise, and to keep our betting offering up-to-date, appealing, accessible and affordable, remain a cornerstone of Group strategy. In building scale, we ensure our survival and prosperity.

As this past year has shown, the Group remains alert to competitive forces shaping our businesses and we are undergoing a fresh spurt of modernisation, repositioning, and growth through acquisition in South Africa.

Our joint venture partners Supabets and Interbet have brought new dynamism and exciting new perspectives that we embrace wholeheartedly. Our senior management structure has been unified so that we become more efficient in how we do things. Our skill set too should be fit for purpose as the competitive landscape shifts.

Our CEO, Mr Rian du Plessis, and our Group Finance Director, Mr Andreas Heide, each elaborate in their respective reviews on the commercial and financial developments of 2017 and the implications for the future.

REGULATION AND FAIR TAXATION

In my time as Chairman, I have consistently appealed for an improved regulatory environment. Our industry needs a level playing field and certainty. Regulation needs to be streamlined and we need provincial commonality. There needs to be consistency in the way regulation is practically implemented. There needs to be a co-ordinated taxation dispensation and predictable licensing processes. Administration needs to be stable and competent. Goal posts need to remain in place so we know what to aim for. In short, we need government that enables.

The country has little or none of these characteristics I refer to when it comes to gambling and the sport of thoroughbred horseracing. I have seen no progress and there is entrenchment of poor practices. Furthermore, this state of affairs is hardly conducive for the development and success in our industry of previously disadvantaged South Africans, who would welcome a helping hand upward rather than being set up for failure.

Horseracing is a large employer that has an unfair tax burden because there is no standardisation of tax rates and levies. In the twelve months ended March 2017, betting in isolation accounted for 12% of all gambling turnover but gambling taxes levied and collected by provincial licensing authorities on betting was 16% or R431 million, of which horseracing's contribution R261 million or a 60% contribution.

In my final Chairman's review, I can only urge that realism prevails in future and that sensible policies together with efficient and predictable administration is the order of the day.

BUSINESS IN SOCIETY

The unsettled economic and political backdrop I referred to last year has, sadly, worsened. This is our own doing as a country, it has little to do with external factors. Greedy self-interest, a retreat from ethical behaviour, and disregard of rule of law is evident in our daily lives. The poor in our society, a growing proportion of the population, are hurt most when there is economic stagnation and political instability.

I shall not dwell on the malaise. The remedy lies in each of us as South Africans applying our minds to doing what is right and proper for the country and its progress. Fortunately, we have plenty of examples of good South Africans doing exactly that.

I have previously mentioned that people need hope because confidence is a powerful catalyst for progress. Leadership is about hope. The greatest leaders give their people hope. Leadership is required in all organisations and institutions. Leadership is about standing up for what is right. Even a lone voice for what is right resonates.

As far as economic upliftment is concerned, I would urge reconsideration of the National Development Plan. It is a roadmap that can command wide societal buy-in. It needs to be put in place.

CHAIRMAN'S REVIEW CONTINUED

Phumelela continues to support and encourage black entrepreneurs to succeed and our franchise model is gaining traction. The Group is funding the roll-out of 10 Betting World and TAB franchises in the North West province through our association with Omphe Tshiamo and further franchises are on the drawing board.

In terms of the amended Code of Good Practice for B-BBEE, which have revised weightings, I am pleased to record that there has been an improvement this year. Phumelela and Betting World are both level 4 contributors.

As a Group, we strive to have positive engagement within the communities that we operate in. If we are commercially sustainable, society benefits from the added value we create. If we are environmentally sustainable, we contribute to a better quality of life for fellow citizens. The Group gives back in many ways. The sustainability report provides detail in this regard.

GOING FORWARD

It is the right time for me to hand over the baton to a new Chairman who can bring fresh thinking and insights to the Board. Phumelela has developed remarkably over the past twenty years and I have no doubt that it will continue to do so. Whilst I shall no longer be involved with Phumelela, I shall be cheering the team on. I wish my successor and the Phumelela family every success.

I have been very fortunate to have served alongside Board members of outstanding calibre during my time with Phumelela. Each person that has served has brought a particular skill and insight to our deliberations. All have cared passionately about our business. I greatly value the wise counsel that has assisted me in my task as Chairman of the Board. I have been rewarded with personal growth as a human being. Fellow Board members have become friends and I look forward to us continuing to enjoy the company of each other informally.

I wish Rian, his executive team, and the staff of Phumelela all of the best as you go forward. Your dedication and enthusiasm is what makes Phumelela a great South African company. The fact that the average length of employee service is equal to my own is a powerful statistic. Your efforts are appreciated, thanks to you all.

I extend thanks to our customers for entrusting your business to us; as the developments of this year attest, we are continually striving to provide you with an offering that is appealing.

I thank owners, breeders, trainers, jockeys, and our suppliers and business associates, locally and abroad. Together, we are a partnership that collectively sustains the sport of thoroughbred horseracing in South Africa and provides an exciting betting experience, across many bet types and across many geographies.

I am confident that 2018 will be another fruitful year for the Group.

MP MALUNGANI
CHAIRMAN
6 October 2017

CHIEF EXECUTIVE OFFICER'S REVIEW

"Our joint ventures with Interbet and Supabets are working very well and making a healthy contribution."

KEY OPERATIONAL FEATURES OF THE TRADING YEAR

- ***A transformational year that has strengthened the investment proposition***
- ***Excellent synergistic benefits from the joint ventures with Interbet and Supabets***
- ***Continued diversification of local and international income streams***
- ***Unequivocal commitment to supporting South African horseracing***
- ***Phumelela International performed well on growing appetite for South African racing***
- ***A solid underlying performance from Phumelela International***

STRENGTHENING THE FOUNDATION AND INVESTING FOR A SUSTAINABLE FUTURE

This has been a transformational year that has strengthened the investment proposition of Phumelela. The equity value of the Group doubled and total assets increased to over R1,5 billion. It was most encouraging to observe the growth in investor interest in Phumelela. The rights offer was significantly oversubscribed, which was an endorsement of our earnings per share accretive and return on equity enhancing investment objective. Our shareholder register has grown.

I am delighted to welcome our joint venture partners at Supabets. This partnership is unlocking synergistic benefits in footprint, technology, product, and customer experience. Similarly, I am delighted that we now have a 50% joint venture partnership with Interbet, where we are also unlocking excellent synergies. These innovative businesses are making a healthy contribution to the Group.

The partnership with Supabets allows us to exploit joint venture opportunities with Betting World whilst Interbet, which is an online bookmaking business and betting exchange, offers us exciting new software soon to be deployed as the new TAB website.

The long-term strategic vision of Phumelela to diversify, locally and internationally, means we have built considerable new earnings streams.

The diversification and internationalisation strategy is serving us well, underpinning the competitiveness of Phumelela and the commercial viability of our business model.

In 2017, we enjoyed continued good growth from international revenue sources, a pleasing performance from both the fixed odds business and Interbet, a first-

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

time contribution from Supabets, and a disappointing performance from the traditional tote operations.

Our attributable income increased by 20% to R146,5 million and headline earnings increased by 19% to R146,1 million. This strong result was achieved notwithstanding a firmer rand versus the major international currencies that influence our international operations. On a constant currency basis, headline earnings would have increased by 52% rather than 19%.

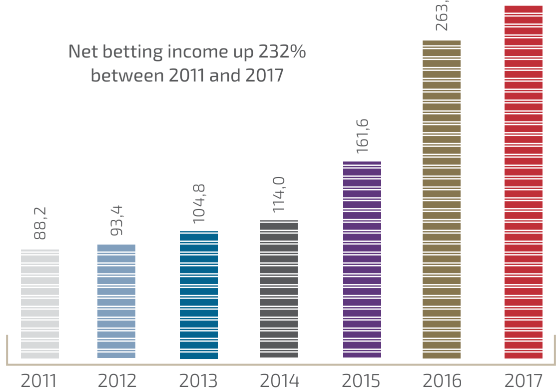
The effect of the rights offer in February, resulted in the weighted average number of shares in issue increasing; nevertheless, headline earnings per ordinary share increased by 2% whilst constant currency headline earnings per share increased by 30%.

Over five years, the Group has achieved a compound growth in attributable income and EPS of 16% and 13% respectively. The Group targets growth in earnings in real terms over the medium term and with a return on equity that exceeds its cost of capital.

The Group financial position was strengthened by the R288 million rights offer and the acquisition of good quality assets with solid earnings and cash flow fundamentals.

As a management team, we manage and measure the international operations in foreign currency recognising that currency is a factor beyond management control. The recent acquisitions in South Africa have improved the mix of both domestic and international income. A growing proportion of earnings is derived from new bet types, new business ventures, and from growth in fixed odds.

FIXED ODDS NET BETTING INCOME – PER YEAR 2011–2017
(R'million)



International scope is important for the Group and a vehicle for showcasing world class South African horseracing. Phumelela exports live visuals of South African horseracing and imports live horseracing from other countries. The Premier Gateway International totalisator on the Isle of Man, in partnership with Tabcorp in Australia, accesses large and liquid betting pools.

Phumelela has an unequivocal commitment to supporting South African horseracing as the foremost licensed totalisator and thoroughbred horseracing operator in South Africa. The televisual product we produce is widely sought after.

We are continuing to invest in our strategic growth initiatives and we are modernising and optimising operating models wherever feasible. The senior management structure has been streamlined, with clearly delineated key performance objectives. Our tote and fixed odds betting businesses now have a merged management team. A recently appointed national retail manager, with experience outside of the gaming industry, is applying fresh thinking to our technology, store design, and customer experience initiatives. Free Wi-Fi is being offered in all our stores and we are continually developing smartphone betting applications.

OPERATIONAL ASSESSMENT

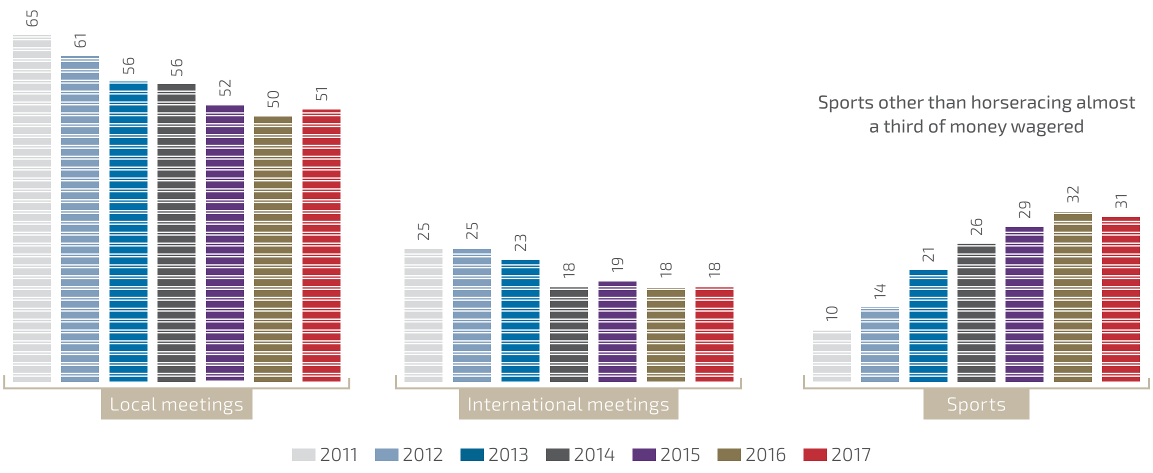
During 2017, local tote betting declined slightly to R3,2 billion, of which local horserace meetings accounted for R1,6 billion, international horserace meetings R600 million, and other sports R1,0 billion. Despite slipping in 2017, tote betting on sports other than horseracing has grown significantly since 2011.

Tote betting volumes on horseracing held up relatively well in a difficult economic climate. Tote betting on local horseracing increased slightly to 51% of the total betting turnover and tote betting on international racing maintained its share at 18%. Tote betting on sports other than horseracing comprises 31% of money wagered

As a percentage of tote bets placed, online betting continued to find favour. This technology, convenience, and cost saving trend underscores the correctness of the Group strategy, both in tote and fixed odds, to move with the times and anticipate change by taking the bet to the punter. However, there remains a place for a healthy mix of betting online and within physical stores, as the very popular Supabets hyper store offering in accessible locations demonstrates.

LOCAL TOTE BETTING MIX – PERCENTAGE SHARE OF MONEY WAGERED PER YEAR 2011–2017

(%)



A highlight of horseracing in the period was the first ever Sun Met at Kenilworth, sponsored by Sun International as the title sponsor and co-sponsored by G.H. Mumm. This prestigious race day carried record prize money with each race running an excellent field of horses. Events such as the Sun Met underscore the fact that horseracing holds appeal both as on-course entertainment for the family and for those viewing and betting locally and overseas.

Prize monies increased by 3% to R209 million, in accordance with the formula contained in the stakes agreement with the Racing Association.

Piracy of the Group's intellectual property remained a problem but over 300 bookmakers are now licensed to display Tellytrack legally. However, civil and criminal lawsuits were filed during the year and will continue to be filed against all bookmakers who are unlawfully displaying Tellytrack.

Fixed odds betting performed well, with money wagered up by 8% to R2 billion, driven mostly by numbers betting. Fixed odds betting on horseracing and on other sports decreased by 2% and 1% respectively, having both grown in previous years.

Net betting income grew by 11%, with soccer up by 26% and numbers up by 21%. Net margin improved to 14,8% and net income grew by 16%. Other income sources yielded a pleasing increase for the year, including an increasing level of franchise management fees.

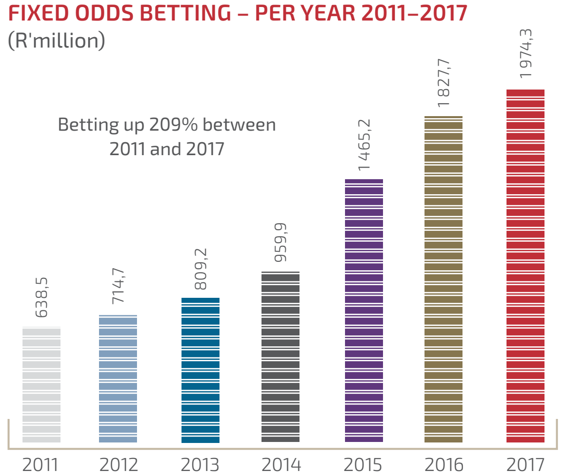
Afribet, in which the Group has a 51% interest, was renamed Betting World Eastern Cape and represents Phumelela's fixed odds retail presence in the Eastern Cape.

The partnership with Supabets is providing learnings for both Supabets and Betting World. We have identified opportunities to optimise and grow the retail footprint, taking advantage of the large-size betting shop format, typically 4 000m² to 5 000m², that Supabets has successfully implemented.

The investment made in fixed odds betting software allows Betting World to make this technology available through franchise or lease agreements.

FIXED ODDS BETTING – PER YEAR 2011–2017

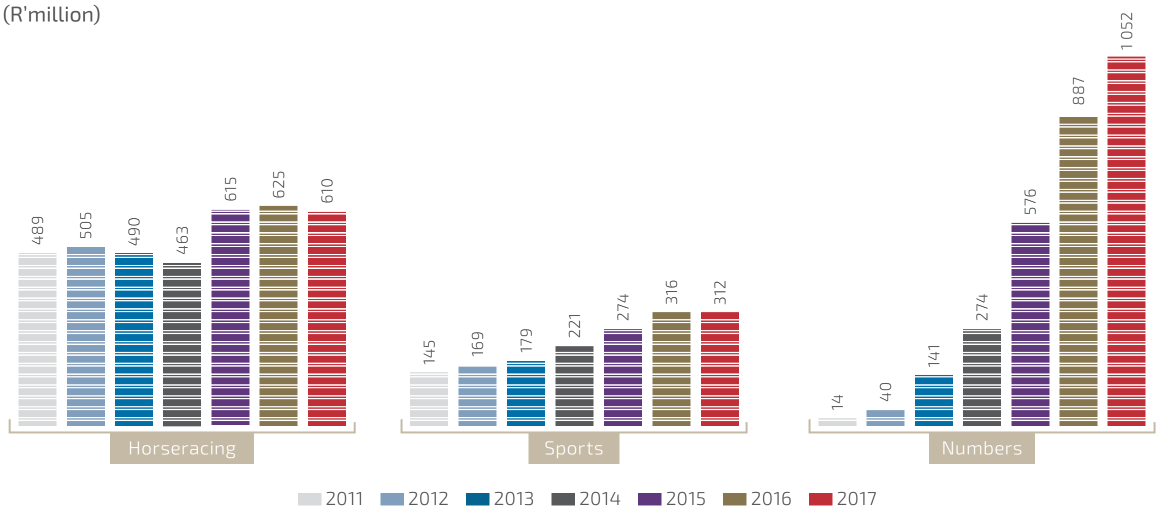
(R'million)



CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

FIXED ODDS BETTING MIX – MONEY WAGERED PER YEAR 2011–2017

(R'million)



There is continued demand for betting via the Group's totalisator located on the Isle of Man. Our international businesses collectively increased profits by 11% in rand and by 37% in constant currency. Phumelela International grew pre-tax profit by 24% in rand and 55% in constant currency whilst Premier Gateway International grew pre-tax profit by 1% in rand or 26% in constant currency.

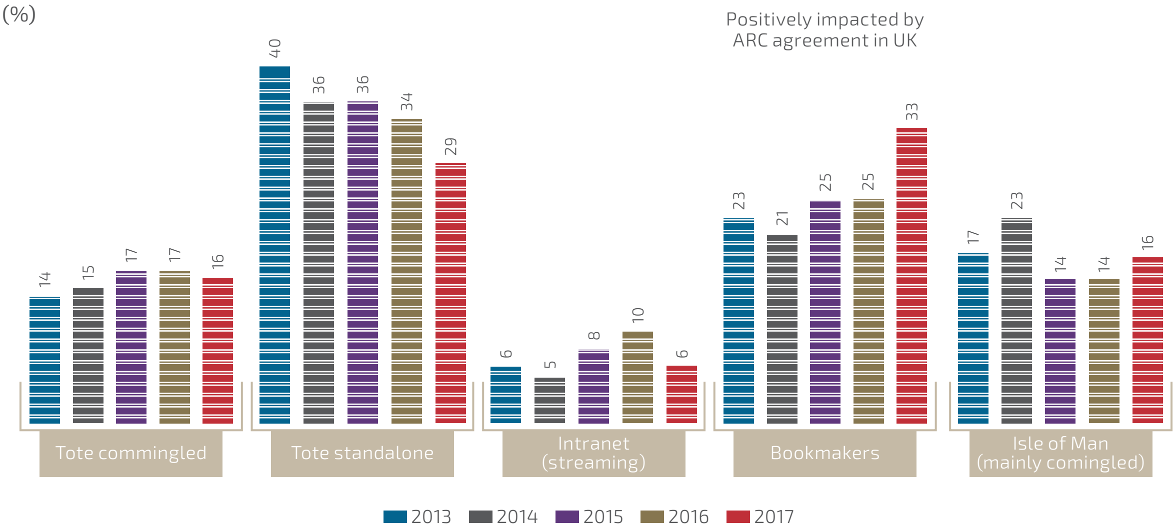
CORPORATE CITIZENSHIP

The Group recognises that it has a responsibility to the broader community to act in a socially responsible manner, for the benefit of all South Africans. Contributions to selected training, sports and community service-related projects continue. The Group has adopted appropriate B-BBEE and employment equity, training, and procurement policies. In terms of the amended Codes, Phumelela and Betting World are both level 4 contributors with scores respectively of 83,18 and 87,24.

In the furtherance of the Group's commitment to transformation, the Group has advanced a loan of R20 million to Omphe Tshiamo Investments Proprietary Limited to fund the roll-out of 10 Betting World and TAB franchises in the North West province. Omphe Tshiamo is 95% owned by

INTERNATIONAL INCOME BY PERCENTAGE MIX

(%)



previously disadvantaged individuals, resident in the North West province, with the Group owning the remaining 5%. Omphe Tshiamo is planning the roll-out of another 10 franchises and the Group is negotiating with the Company and its shareholders to agree the funding thereof. This roll-out and funding of the additional 10 franchises is subject to the approval of the North West Gambling Board.

Total taxes paid to government in 2017 amounted to R242 million, including VAT, betting tax, and income tax.

The Group created total value of R1 billion, of which we distributed the largest proportion to our employees, followed by government, prize monies and finally our shareholders.

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

OUTLOOK

Because of the losses incurred in its local tote and horseracing operations, the Group has embarked upon an initiative to modernise and reposition its business, which includes a significant cost saving initiative. The management structure has been rationalised and changed. Significant new betting products and technologies are being introduced. The Group has made offers of early retirement and voluntary retrenchment to all staff. These offers may be followed by a formal retrenchment process if need be. The Board has approved a lump-sum spend of up to R30 million on the cost reduction initiative. The aforementioned lump sum will be charged to and form part of the costs in determining the Group's earnings per share for the year ending 31 July 2018. A separate and detailed account will be given of the amounts spent and the payback period thereof.

The Tabonline website is being replaced with a new website using the best of Interbet's technology and we will soon be able to offer a loyalty scheme, together with an in-play and fixed odds offering. We have identified eight Betting World fixed odds licences for joint ventures with Supabets. Supabets software is being introduced into Betting World outlets and the Betting World website is being replaced by Supabets' technology. Supabets is reintroducing betting on racing, supported and managed by Betting World. Supabets will contribute for a full twelve months and we shall also have the full-year benefit of 50% of Interbet's earnings.

The Group's international operations, namely the export of live televisual South African horseracing and pari-mutuel betting through PGI, are anticipated to have another good year.

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

Group earnings will be impacted by the aforementioned cost reduction initiatives. Excluding these costs, the Group continues to target growth in normalised earnings per share/headline earnings per share.

Our Group owes a sincere debt of gratitude to Peter Malungani, who is stepping down as Chairman of the Board at the 2017 annual general meeting. Peter was appointed to the Board on 2 October 1997. Over twenty years, Peter has been a steadfast leader as the Group navigated challenging times and successfully evolved. Peter has been a rock in his support of me personally as CEO and I shall miss his valuable wisdom. Thank you, Peter, for all that you have contributed and on behalf of all of us I wish you well.

A word of thanks to my colleagues for your contributions to our Group. This has been a challenging but exciting year and your hard work is appreciated.

My thanks to the many external stakeholders who collectively contribute to making Phumelela a great and growing South African business.

In closing, I extend my thanks to our Board of Directors for their dedicated service, invaluable insights, and support of me.

WA DU PLESSIS
CHIEF EXECUTIVE OFFICER
6 October 2017

GROUP FINANCE DIRECTOR'S REVIEW

"A year of significant investment with a materially increased asset base."

KEY OPERATIONAL FEATURES OF THE TRADING YEAR

- ***Earnings per share up 3% to 168,46 cents***
- ***Headline earnings per share up 2% to 167,96 cents***
- ***Headline earnings up 19% to R146,1 million***
- ***Headline earnings per share in constant currency up 30% to 214,34 cents***
- ***Annual dividend maintained at 104 cents***
- ***R288 million in share capital raised***
- ***Acquisitions to the value of R516 million***
- ***Attributable equity doubles to R1 033,9 million***

PERSPECTIVE TO THE GROUP FINANCIAL RESULT

The year in review featured a R288 million rights issue and significant investment in earnings diversification through acquisition of additional cash generating assets in South Africa to the value of R516 million. Consequently, total assets and equity attributable to ordinary shareholders increased materially. This new investment is in line with a proven strategy to diversify earnings streams and spread risk.

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

Group financial highlights

	% Change	2017 R'000	2016 R'000
Equity-accounted profits	29	**122 591**	94 694
Attributable profit	20	**146 520**	121 944
Headline earnings	19	**146 084**	122 604
Local pre-tax loss	12	**(30 990)**	(35 171)
International pre-tax profit	11	**182 287**	163 595
Non-trading items	(83)	**946**	5 578
Total pre-tax profit	14	**152 243**	134 002
Earnings per share – cents	3	**168,46**	163,62
Earnings per share – cents*	31	**214,84**	163,62
Headline earnings per share – cents	2	**167,96**	164,51
Headline earnings per share – cents*	30	**214,34**	164,51
Ordinary dividend per share – cents		**104,00**	104,00
Equity	101	**1 029 993**	513 051
Net asset value per share – cents	47	**1 014,17**	688,33
Total assets	63	**1 539 809**	943 950
Number of shares in issue (actual)	36	**101 559 769**	74 535 485
Weighted number of shares (actual)	17	**86 974 276**	74 528 006
Net (debt)/cash		**(129 177)**	11 849
Return on average equity (ROE)		**18%**	25%

** restated at constant currency*

Due to the timing of the rights issue proceeds, with effect from February, and take-on of assets, with effect from March, the second half of the financial year was affected to a greater degree, in terms of both the income statement and the statement of financial position.

The most significant investment was the acquisition of 50% of Supabets, which contributed to earnings with effect from 1 March 2017. Also with effect from 1 March 2017, a further 24% equity interest in Interbet was acquired increasing Phumelela's shareholding to 50%. Both assets are jointly controlled.

The rights offer consisted of an offer of 16,6 million Phumelela shares in the ratio of 21,91067 rights offer shares for every 100 ordinary shares held at a subscription price of R17,39 per rights offer share. Total applications for 48,1 million shares were received, representing a significant over subscription in relation to rights offer shares available.

Shares in issue increased by 36%. On a net basis, there are 101,6 million shares in issue compared with 74,5 million shares, which excludes 940 789 and 2,6 million treasury shares respectively. The net movement of 27 million shares is accounted for by the issue of 16,6 million rights offer shares, 8,8 million shares issued to the vendors of Supabets in respect of 35% of the total consideration, 2,1 million in treasury shares issued to fulfil obligations in respect of shares exercisable per the executive option schemes, and 500 000 shares, in respect of shares exercisable per the executive option schemes, that were bought back on the open market.

There was a 17% increase in the weighted average number of shares in issue, being 87 million compared with 74,5 million. On a fully diluted basis, there was a 16% increase in weighted average shares to 91,1 million compared with 78,7 million.

The purchase consideration for Supabets per agreement was R437 million, settled by way of the rights offer in the amount of R284 million, 8,8 million in shares issued to the sellers, and the remainder in cash. In this regard, share premium reflects acquisition shares marked to market. As at 31 July 2017, there is a contingent liability in respect of Supabets of R101,1 million. The carrying value of this asset is R491 million.

An additional 24% shareholding in Interbet was purchased for R79 million and the asset has a carrying value of R111 million.

The Group's 33% shareholding in SW Security Solutions is unchanged.

The Group ended the year with a strong statement of financial position. There is flexibility to deliver on the expansion strategy and ongoing operational needs. Return on average equity has been temporarily affected by the substantially changed capital structure, decreasing to 18% from 25% but remaining comfortably above Group cost of capital. As the new investments contribute fully the return is anticipated to increase.

Offshore income streams and local fixed odds betting operations are the principal drivers of the income statement, contributing to a 20% growth in attributable income and a 19% growth in headline earnings. Over the past five years, the Group has delivered 16% compound growth in headline earnings.

The significance of the changes in the Group financial position and the impact of the acquisitions during the second half of the financial year is reflected in performance in the two halves. Headline earnings grew by 4% in the first six months and by 36% in the second six months, resulting in 19% growth for the year to R146,1 million.

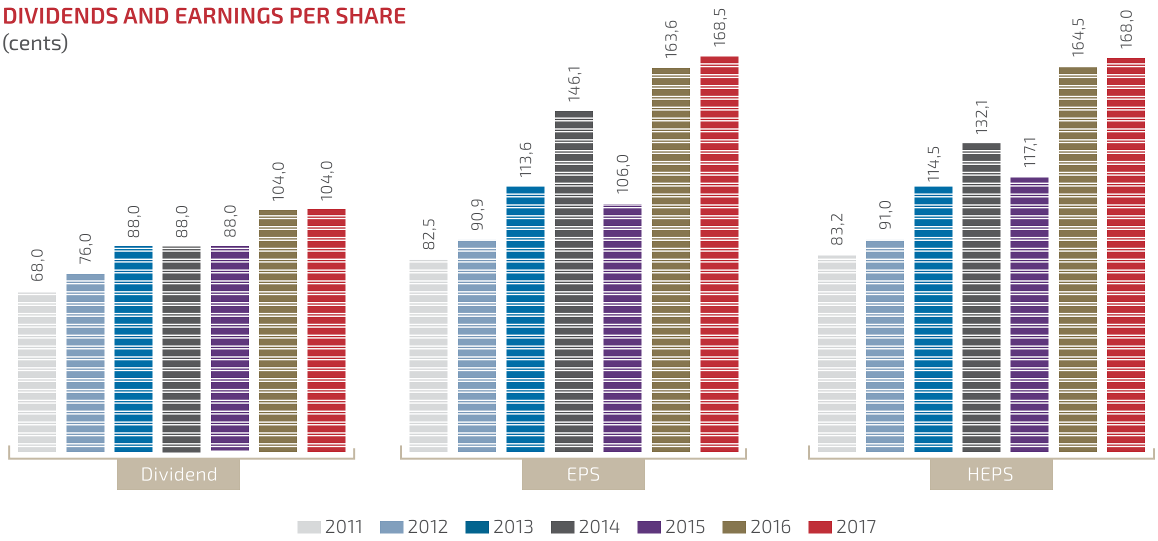
Profit before tax from international operations was up by 18% in the first half and increased by a more modest 6% in the second half as the effect of a much stronger exchange rate dampened offshore earnings on translation. Nevertheless, despite currency effects offshore earnings grew by a respectable 11% to R182,3 million for the year, which is 120% of Group pre-tax profit.

International profits are earned in various currencies with the British pound, the Australian dollar, the American dollar, and the euro the most important. On average, the rand strengthened by 20%, 4%, 7%, and 8% respectively versus these currencies. Whilst the rand is the reporting currency, the Group manages and measures international operations in foreign currency.

For illustrative purposes, Group earnings this year are presented with pro forma supplementary information in constant currency. This gives a better reflection of the underlying performance as foreign income is proportionately so important. The constant currency impact from the stronger rand was a material R40,3 million, meaning that on a constant currency basis headline

GROUP FINANCE DIRECTOR'S REVIEW CONTINUED

DIVIDENDS AND EARNINGS PER SHARE
(cents)



earnings would have been R186,4 million rather than R146,1 million with the increase being 52% rather than 19%.

The Group's traditional local business of horseracing and tote betting thereon continued to sustain losses. Very pleasing results from the Betting World fixed odds business, Supabets, Interbet, and SW Security Solutions were insufficient to prevent the local operations in aggregate from being loss making although the pre-tax loss did reduce by 12% to R31,0 million.

The growing importance of joint ventures, in which Group management plays an active role, is such that the face of the income statement does not reflect the scale of the revenue and operating profit of these activities nor the combined scale of the Group's total operations. Equity-accounted profits from local and international sources was the largest single contributor at 81% of Group pre-tax profit, up from 74%. The annualised effect of both Supabets and Interbet would have an even more meaningful impact on this ratio.

A detailed analysis of the result follows.

FINANCIAL ANALYSIS

Income from local operations, which includes bets struck net of betting dividends paid, refunds and rebates, decreased marginally to R1 213 million. Fixed odds put in a particularly strong performance, growing by 35% to R357 million with the rate of growth accelerating in the second half of the year. Together with a 12% growth in international gross income to R307,5 million, Group income grew by 1% to R1 520,5 million.

Group net betting and other income grew by 4% to R1 553 million with local tote and fixed odds net income growing by 2% to R1 245,5 million and international net income growing by 12% to R307,5 million. Fixed odds continued to perform well, growing net betting and other income by 16% to R336,7 million, on top of growth of 68% in the prior year. Tote and fixed odds net betting income from horseracing declined.

Local expenses, excluding depreciative and amortisation but including stakes and levies increased by 2% to R1 218,8 million. Operating expenses in the horseracing and tote betting operations was flat at R790,6 million with expenses in the fixed odds business growing by 9% to R219,5 million, which is a relatively contained increase given the rapid growth and development of this business. Local prize monies grew by 3% to R208,8 million, increasing in line with the formula set out in the stakes agreement with the Racing Association and calculated retrospectively on prior year results.

Overall, local operations expenses were tightly controlled. Expenses will reduce in 2018 due to the modernisation programme underway. Executives have also been tasked to reduce expenditure wherever feasible. Early retirement and voluntary retrenchment offers, budgeted to cost R30 million, will be expensed but payback is calculated to be a maximum of two years.

International operating expenses increased by 8% to R102,8 million with intellectual property rights fees increasing by 7% to R111,1 million. This reflects the growth of the international betting and media rights activities, which grew income by 12% and profits by 24%, a very good achievement given rand strength.

The 16% increase in the Group depreciation and amortisation charge to R71,2 million reflects the ongoing investment in buildings, plant and machinery, information technology, and other assets.

Local operations recorded a pre-tax loss of R64,8 million, up from R41,6 million. This loss making situation stems in part from the inequitable funding dispensation for the sport of horseracing, which includes piracy of Group intellectual property.

Local equity-accounted profits increased to R33,8 million from R6,4 million. Phumelela shared in 26% of Interbet profits for seven months and 50% for five months. Effective from 1 March 2017, Supabets contributed R20,4 million. SW Security Solutions contributed R1,7 million.

International income continued to increase at a satisfactory pace. Performance benefited too from the media rights deal with Arena Racing Company in Britain, in effect from 1 June 2016 and increasing the share of total international income derived from bookmakers to 33%.

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 Premier Gateway International ("PGI") tote operator on the Isle of Man. Phumelela International recorded a profit from operations of R93,5 million, up from R75,3 million, which is an increase of 24% as reported and an increase of 55% in constant currency. PGI contributed equity-accounted income of R88,8 million, which was 1% up in rand but up 26% in constant currency.

Phumelela International undertakes transactions in foreign currencies and growing internationalisation means that the proportionate exposure to different currencies changes too. There is a natural cash flow hedge, limiting impact of currency fluctuations. Foreign income is earned in the territories to which those currencies are applicable and translated in the Group accounts at prevailing rates.

The Group recorded a profit on foreign exchange in income of R4,4 million, down from R8,2 million.

There is a positive R1 million non-cash fair value adjustment relating to the Group's investment in Automatic Systems Limited ("ASL") in Mauritius. Whilst the shares in ASL are no longer considered strategic, there is no prospect of a short-term sale and so the shares have been reclassified to investments rather than being held for sale. ASL is carried at market value.

Group pre-tax profit before the fair value adjustment is R151,3 million, a rise of 18%, with international profits of R182,3 million 120% of that.

The Group income tax charge of R9,6 million is 25% lower than the previous year and is net of an adjustment for previous years tax of R2,5 million and a further R3,6 million deferred tax credit. Cash tax paid out was R15 million. Share-based payment expenses are not deductible for tax. Equity-accounted investees are all profitable and those operating locally pay tax at the normal South African corporate tax rate of 28%.

The Group paid VAT on betting income of R137,3 million and betting tax of R91,0 million. Total taxes paid to government totalled R241,8 million.

Net attributable income increased by 20% to R146,5 million. Earnings adjustments for headline purposes are minimal and so headline earnings increased by 19% to R146,1 million.

The net effect of the higher number of shares in issue for five months of the financial year has resulted in temporary EPS dilution. Earnings per ordinary share increased by 3% to 168,46 cents and headline earnings per ordinary share increased by 2% to 167,96 cents. Constant currency headline earnings per share grew by 30% to 214,34 cents.

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

The Group generated cash, before working capital and equity-accounted profits, of R88,8 million and after absorption of cash from working capital of R43 million, cash generated by operating activities decreased to R45,7 million from R143 million. This is not reflective of a fundamental deterioration in cash flow, rather the one-off effect of working capital associated with franchisees, with Phumelela as master franchisor, and staff cost accruals and pre-paid expenses released to income.

Dividends received from equity-accounted investees increased by 54% to R109,4 million, of which R98,4 million is dividends received from PGI in the Isle of Man.

Acquisition of fixed assets and intangibles amounted to a gross R82,2 million, up from R76,4 million. Investments included a water-saving catchment dam at the Vaal and electricity-saving LED lighting at Turffontein. Commitments in respect of capital expenditure approved by directors is R125,7 million.

GROUP FINANCE DIRECTOR'S REVIEW CONTINUED

Dividends paid to shareholders amounted to R86,9 million.

Borrowings as at 31 July 2017 came to R126,2 million, of which R120,0 million is a revolving credit facility. However, there is a contingent liability in respect of Supabets of R101,1 million. Gross debt is therefore R227,6 million. Cash balances of R98,5 million include R49,8 million in foreign currencies. Net debt is therefore R129,1 million, which equates to a debt to equity ratio of 12,5%.

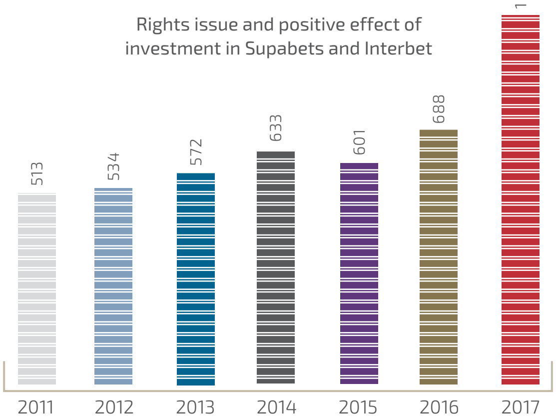
The unsecured revolving credit facility in the amount of R220 million is redeemable in full in June 2020 at an interest rate of JIBAR plus 260 basis points. An additional demand facility in the amount of R55 million is available at the rate of prime minus 1%.

The Group retains ample funding headroom should it be needed.

Total assets of R1 539,8 million includes property, plant, and equipment at a carrying value of R468,4 million, goodwill and intangibles valued at R67,1 million, and equity-accounted investees valued at R638,1 million. Arlington Racecourse in Port Elizabeth, valued at R18,7 million, has been reclassified from assets held for sale to investment property.

Shareholders' equity of R1 033,9 million has doubled from the R513,1 million in 2016. The largest contributors to this increase are the rights offer, the issue of shares to sellers in terms of the Supabets deal, and comprehensive income for the year. On a higher number of shares in issue, net asset value per share increases by 47% to 1 014,17 cents.

NET ASSET VALUE PER SHARE
(cents)



FINANCIAL AND OPERATIONAL DISCLOSURE

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

GOING FORWARD

The early retirement and voluntary retrenchment cost reduction programme, budgeted to cost up to R30 million, will be expensed in 2018. Supabets will contribute for a full financial year and Interbet will contribute for a full financial year as a 50% equity investee.

The Group remains in a sound financial position, bolstered this past year by a successful rights issue and the addition of materially cash generating trading assets.

There is a reasonable mix of recurring income, transactional income, and incremental income from investment in growth and development. However, unless there is a fundamental change in the funding and taxation dispensation affecting the sport of horseracing, the traditional business will remain loss making. The streamlining and cost-cutting initiatives put in place and continued pursuit of new sources of revenue, locally and internationally, mitigate this loss making situation for the Group.

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

AW HEIDE
GROUP FINANCE DIRECTOR
6 October 2017


Bidvest Bidvest Bidvest

MATERIAL MATTERS

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

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

In 2017, we identified the following material matters:

SOUTH AFRICAN ECONOMIC ENVIRONMENT

The volatile macro-economic environment requires us to maintain our cost savings initiatives, while effectively allocating capital for growth projects and improving our competitive position. South African trading conditions remain challenging but we continue to be proactive in managing those challenges and identifying new opportunities. The Group has contained expenses well and is striving to do better despite the macro economic challenges we face. Phumelela continues to invest to support a quality racing experience for both local and international consumers of our product.

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

OPERATING COSTS

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

HUMAN CAPITAL MANAGEMENT

The Company continuously seeks to recruit, develop and retain the right employees to maintain and improve its high-performance culture and deliver on the Company's strategy while ensuring a reliable pipeline of appropriate talent.
We have a dedicated training and development budget to benefit our employees. We promote safety, diversity and transformation as well as attract, develop and retain high-performing people, while engaging all employees and respecting human rights.

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

LEGAL, REGULATORY CHANGE AND COMPLIANCE

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

Phumelela continues to fight for a fairer funding dispensation for the sport of thoroughbred horseracing. Civil and criminal lawsuits filed against non-compliant bookmakers for unlawfully displaying Tellytrack are ongoing.

CUSTOMER VALUE CREATION

Phumelela is exploring new methods of improving customer experience and ensuring customer satisfaction. The Company intends to improve satisfaction levels through a focus on providing positive outcomes through a highly driven customer-centric performance culture and complete product solutions to meet customers' needs. Opportunities exist to improve customer interaction through technology. A national retail manager has been appointed with experience outside of our industry to apply fresh thinking to our technology, store design, and customer experience initiatives. We have embarked upon a strategy to use technology more effectively and as our first initiative, free Wi-Fi is now being offered in all our stores. We are continually developing new betting applications, especially for smartphones.

TRANSFORMATION

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

SAFETY

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

COMPETITION CHALLENGES

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

ENVIRONMENTAL SUSTAINABILITY

Infrastructure constraints such as periodic lack of water and/or electricity have the potential to negatively impact our race days capabilities, leading to reduced productivity and reliability in product supply. Water, energy, electricity, and waste are key focal points for optimal use and financial savings. We have invested in a water-saving catchment dam at the Vaal and an electricity-saving LED lighting installation at Turffontein, on which a three-year payback is anticipated.

COMMITMENT TO OUR COMMUNITIES

Consistently delivering on our commitments to community stakeholders and optimising the impact of our social investment programmes by increasing local content and collaborating more broadly to address social and economic development challenges.

CYBER, IT AND INFORMATION MANAGEMENT

Cyber-crime has increased in recent years. The sophistication of attacks on business operations requires an understanding of data protection, storage and sharing requirements. Key cybersecurity initiatives are implemented and continuously monitored.

RISK MANAGEMENT

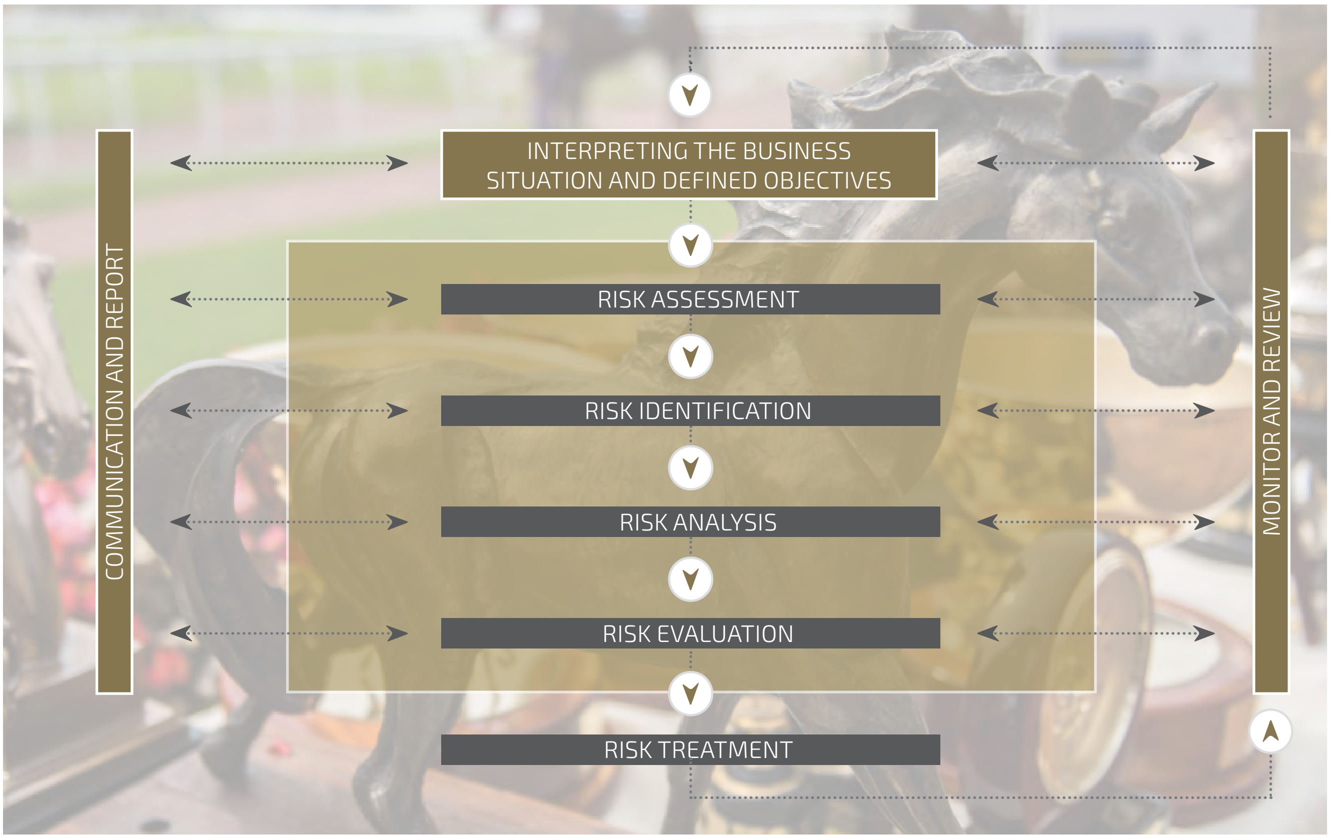
Management is guided by the risk management policy, the enterprise-wide risk management framework and the risk management plan, which are reviewed regularly.

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

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

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

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



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

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

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

INTERNAL AUDIT

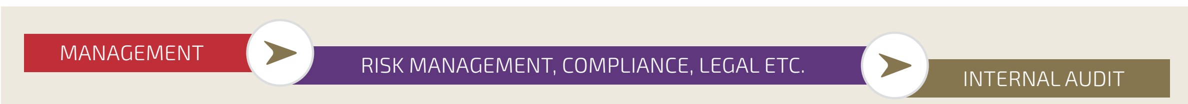
Internal Audit utilises the business unit and group risk registers for the development of risk-based internal audit plans. They review the adequacy and effectiveness of the ERM processes and are responsible for coordination of the combined assurance activities. The internal audit function operates in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

COMBINED ASSURANCE

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

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

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



STAKEHOLDER ENGAGEMENT

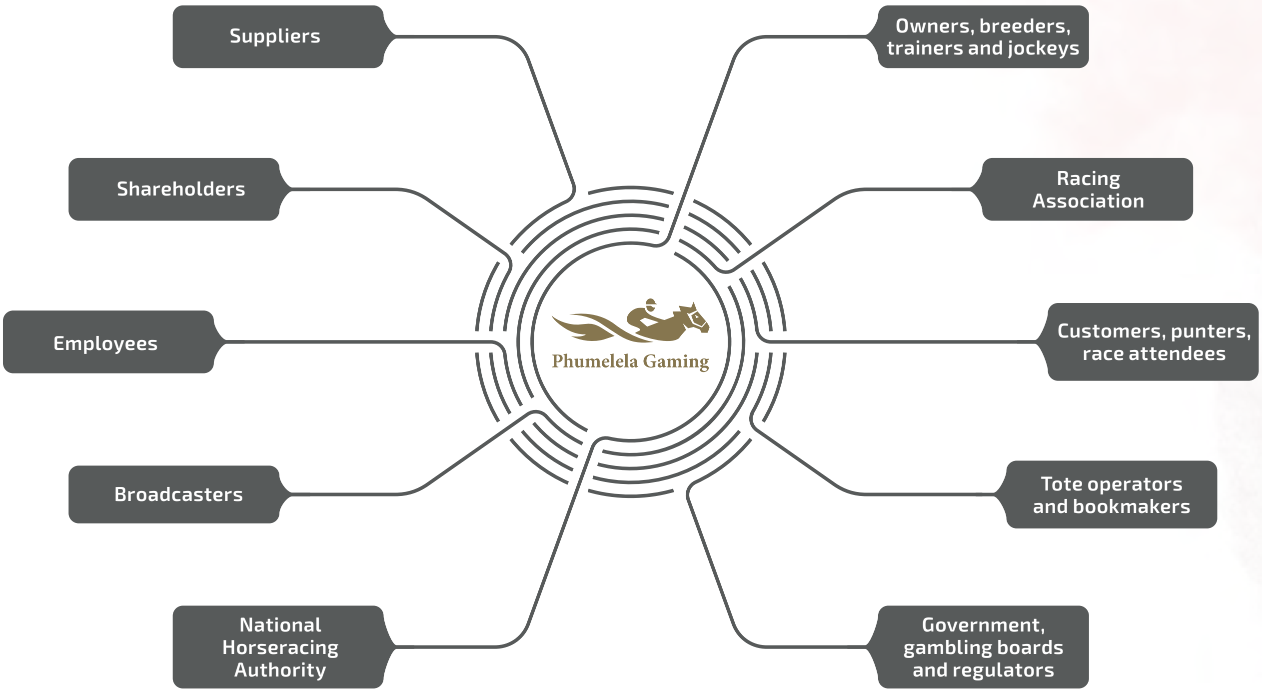
Phumelela operates in an environment that is inextricably linked to our stakeholders. We strive to be cognisant of these relationships in all our activities, acting with integrity, honesty and equality at all times.

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

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

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

Our key stakeholders are depicted in the diagram below:



OUR BOARD

EXECUTIVE DIRECTORS

WA DU PLESSIS (56)[~]
Group Chief Executive Officer
BAcc, CA(SA), Hdip Tax

Appointed 14 January 2009

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

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

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

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

Rian was appointed Group CEO of Phumelela on 1 August 2008 and his appointment to the Board was effective from 14 January 2009.

AW HEIDE (52)[~†]
Chief Operating Officer and Group Finance Director
BCompt Hons, CTA, CA(SA)

Appointed 9 September 2009

Andreas served articles with PricewaterhouseCoopers in Johannesburg and qualified as a chartered accountant in 1996. He has held various senior financial positions over the past 21 years within the horseracing industry and played key roles in the corporatisation and listing of Phumelela on the JSE in 2002. Andreas was appointed Group Finance Director in September 2009 and as Chief Operating Officer in April 2010.

Appointed 1 October 2010

Vee studied for a BComm Accounting degree at the University of Natal and worked as Group Accountant for the PMC Group of Companies in KwaZulu-Natal.

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

His thorough knowledge and understanding of horseracing stood him in good stead and in 2007 he was promoted to Racing Control Manager and Chief Executive Officer designate of the National Horseracing Authority.

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

VJ MOODLEY (48)~

Executive Director: Sports Betting

BComm

Appointed 1 October 2010

John served his articles with KPMG before joining TAB KwaZulu-Natal in 1979 as Internal Auditor and occupied various positions there before leaving in 1996 as Assistant General Manager. He then joined TAB Transvaal (transferred to Phumelela as part of the corporatisation process) in 1997 and served in various positions before heading up the International division in 2006. John also heads up the Publishing division as well as Tellytrack operation on behalf of the Tellytrack partnership.

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

JA STUART (61)~

Executive Director: International Operations

BComm

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

OUR BOARD CONTINUED

NON-EXECUTIVE DIRECTORS

MP MALUNGANI (59)[#*]
Chairman
BCom, MAP, LDP

Appointed 2 October 1997

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

P ANASTASSOPOULOS (48)[#]

Appointed 8 March 2017

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

R COOPER (74)[#^†]
CA(SA)

Appointed 14 January 2009

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

Appointed 21 December 2005

Markus is group chief executive officer for Steinhoff International Holdings N.V, a Dutch company with its primary listing on the Frankfurt Stock Exchange. He completed a Bachelor of Accountancy at University of Stellenbosch in 1982 and a certificate in the Theory of Accounting at the University of Cape Town in 1983 before qualifying as a chartered accountant in 1986. In 1988, Markus joined the group today known as the Steinhoff Africa group, as financial director. With the listing on the JSE in 1998 he was appointed as an executive director. In 2000, Markus was appointed chief executive officer of Steinhoff International Holdings Limited. Markus serves on the boards of various unlisted Steinhoff group companies and the following listed companies: PSG Group Limited (member of the remuneration committee), Steinhoff Africa Retail Holdings Limited (member of the remuneration committee) and KAP Industrial Holdings Limited (recently resigned as director). Markus was appointed as a non-executive director to the Phumelela Gaming and Leisure Limited Board in 2005 and serves on the Remuneration Committee.

MJ JOOSTE (56)#*

BAcc, CA(SA)

Appointed 24 February 1999

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

B KANTOR (68)#*

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

OUR BOARD CONTINUED

NON-EXECUTIVE DIRECTORS CONTINUED

SKC KHAMPEPE (66)#
BA, MBA (UK)

Appointed 21 July 2000

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

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

NJ MBOWENI (56)#^
BA Ed, MAP

Appointed 11 October 2004

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

DR E NKOSI (56)# †
MB ChB, MAP and MBA

Appointed 25 November 2005

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

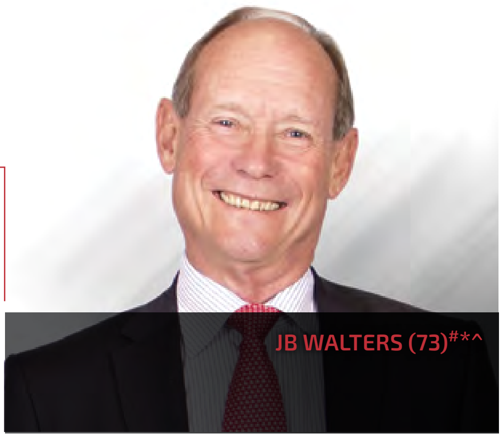
Elijah is an executive director of PPI A Investments A. He is also an executive director in the IPA Foundation of SA, a national network of General Practitioners; and is also the Chief Executive Officer of a GP network called SP NET.

Appointed 21 December 2005

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

Appointed 24 February 1999

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



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

OUR APPROACH TO GOVERNANCE

INTRODUCTION

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

Integrated reporting not only allows us to apply the recommendations in the King Report, but also to use reporting to inform strategy within the business, to provide stakeholders with a meaningful account of the Company's performance and to build a reputation of transparency and trust within the investment community. Our code of conduct outlines behaviours which govern our way of working across the business.

ENGAGEMENT WITH STAKEHOLDERS

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

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

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

ENGAGEMENT WITH SHAREHOLDERS AND INVESTORS

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

COMPLIANCE WITH KING IV CODE OF CORPORATE PRACTICES AND CONDUCT

Phumelela's directors endorse the Code of Corporate Practices and Conduct ("the Code") as set out in the King Report on Corporate Governance ("King IV") and the Board took the necessary steps to ensure its recommendations were applied during the 2017 financial year. The Board analysed the recommendations contained in the Code, and noted where it already applies the Code and where there are opportunities to implement changes that will improve governance standards within Phumelela in the future. Full details of our King IV compliance are available on our website.

ESTABLISHING MATERIALITY

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

- Results of our business risk assessment process;
- Code of corporate practice and conduct set out in the king iv report;
- Phumelela code of ethics;
- Topics and challenges reported by our peers or raised by industry associations; and
- External initiatives and best practice guidelines, including the gri g3 guidelines.

GOVERNANCE

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

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

The Board meets on a quarterly basis in line with the financial and strategic processes of the Group. The Board also annually reviews the Group's ability to continue trading as a going concern in the foreseeable future.

RISK GOVERNANCE

The Group aims to ensure business-specific risks are adequately and timeously identified and mitigated, whether they are operational and strategic risks, emerging risks, or risks posed by the external environment. The Board confirms that the Group's risk management, mitigation and monitoring processes have been effective in limiting the impact of risks on the business during the period. The overall risk profile of the Group has not changed materially in the period under review. For detail on the material issues and related risks facing the Group, and how that informs the Group's strategy, please refer to page 30 of the 2017 integrated annual report.

INFORMATION TECHNOLOGY (IT) GOVERNANCE

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

THE PHUMELELA BOARD

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

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

In the interests of transparency the Board ensures that stakeholders and investors are provided with timeous, accurate and relevant information. The Board is satisfied that it fulfilled all its duties and obligations in the 2017 financial year.

Board Charter

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

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

Annual assessment of independence

The Board, assisted by the Nominations Committee, reviewed the independence status of all the non-executive directors during the year under review and considered all directors to be independent. King IV recommends that any term beyond nine years, for an independent non-executive director, should be subject to a particularly rigorous review by the Board, of not only the performance of the director, but also the factors that may impair his independence at that time. The Nominations Committee took into account the guiding principles outlined in the King Report to determine the independence of directors.

CORPORATE GOVERNANCE CONTINUED

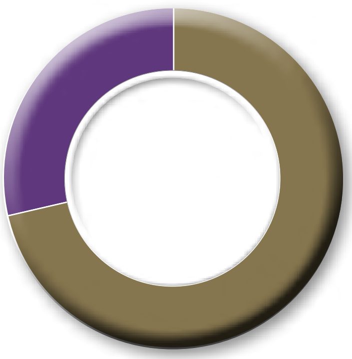
Although the majority of directors have served in excess of 10 years, the Board concluded that directors' independence of character and judgement were not in any way affected or impaired by their length of service and that their service was of considerable benefit to the Company. The longer serving non-executive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

Board composition

In accordance with the recommendations of the Code of Corporate Practices and Conduct, the majority of the members of the Phumelela Board, including the Chairman, are non-executive directors.

To ensure a balance of power and authority there is a clear division of responsibilities among the Company's directors. One-third of the non-executive directors retire annually by rotation in terms of our Memorandum of Incorporation. The roles of the Chairman and Chief Executive are separate and the Chairman has no executive responsibilities. The non-executive directors are diverse in their academic qualifications and business experience, resulting in a balanced Board.

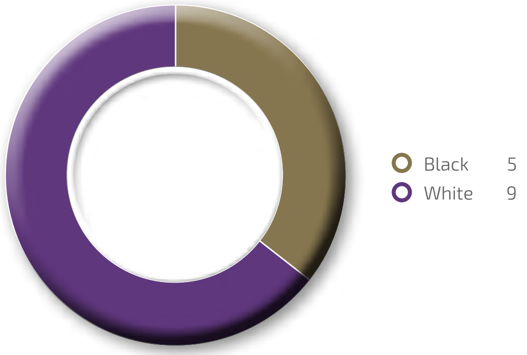
Board composition



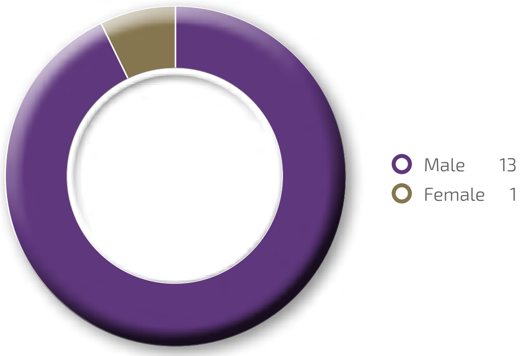
Membership

The procedures for appointing directors to the Board are formal and transparent. At 31 July 2017, five of the Board's members were black and one of its members was a black woman.

Board diversity representation



Board gender representation



The Board adopted a gender diversity policy to guide its future appointments of directors in accordance with the amended JSE Listings Requirements on the promotion of gender diversity (paragraph 3.84(k)). The Board voluntarily set a target of at least 20% of Board membership should comprise women at least by 31 July 2018. The Nominations Committee is tasked to assist the Board in this regard. The committee has commenced the search for suitable female candidate/s to serve on the Board based on merit against objective criteria and with due regard to the benefits of diversity on the Board. At the time of this report, the search was still ongoing. The Board is committed to proactively monitoring the Group's performance in meeting the requirements outlined in the policy.

Changes to the Board

Mr P Anastassopoulos was appointed to the Board in March 2017. Being eligible, he will offer himself for election to shareholders at the AGM to be held on 12 December 2017.

Both Messrs ML Ramafalo and BP Finch resigned from the Board effective 30 June 2017 and 25 August 2017 respectively. The Board extends its appreciation for their contribution and wishes them well in their future endeavours. There was no other change to the composition of the Board.

Mr MP Malungani has notified the Board of his intention to voluntarily retire at the December 2017 AGM. Peter has served the Company and its Board with distinction over the past 20 years. His invaluable contribution as Board member and Chairman will be sorely missed. The Nominations Committee is tasked with finding a suitable candidate to replace the Chairman.

CHAIRMAN

MP Malungani
Appointed 2 October 1997

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

He is responsible for the effectiveness of the Board and its committees and for ensuring that the Board provides effective leadership, upholds ethical standards, is responsible, accountable, fair, and 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, advising the Board on strategy and policy matters, and developing, recommending and implementing the annual business plans and budgets that support the Company's short and long-term strategies.

DIRECTORS

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

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

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

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

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

EFFECTIVENESS OF THE BOARD

The effectiveness review of the Board was conducted in 2016. In terms of the Board Charter, the evaluation of the Board shall be performed at least every two years.

COMPANY SECRETARY

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

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

The Company Secretary acts as a secretary to all Board-appointed committees. During the year under review the Board declared itself satisfied with the competence, qualifications and experience of the Company Secretary.

Back to contents

CORPORATE GOVERNANCE CONTINUED

GOVERNANCE STRUCTURE

The diagram below is a summary of the governance structure of the Group:

THE BOARD

COMPANY SECRETARY

AUDIT AND RISK COMMITTEE

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

INTERNAL AUDIT

REMUNERATION AND NOMINATIONS COMMITTEE

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

SOCIAL AND ETHICS COMMITTEE

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

BOARD MEETINGS

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

Four Board meetings were held during the financial year ended 31 July 2017:

BOARD MEMBER	NUMBER OF MEETINGS ATTENDED
MP Malungani (Chairman) *Independent non-executive*	4
WA du Plessis (CEO)	4
AW Heide (FD and COO)	4
P Anastassopoulos* *Independent non-executive*	1
R Cooper *Independent non-executive*	4
BP Finch** *Independent non-executive*	4
MJ Jooste *Independent non-executive*	3
B Kantor *Independent non-executive*	4
SKC Khampepe *Independent non-executive*	4
NJ Mboweni *Independent non-executive*	3
VJ Moodley	4
E Nkosi *Independent non-executive*	4
ML Ramafalo***	3
JA Stuart	4
CJH van Niekerk *Independent non-executive*	4
JB Walters *Independent non-executive*	4

* *Appointed 8 March 2017.*
** *Resigned 25 August 2017.*
*** *Resigned 30 June 2017.*

KEY AREAS OF FOCUS DURING THE REPORTING PERIOD

- Reviewed and approved the Group strategy;
- Reviewed and approved the 2018 budget;
- Considered the cost-saving initiatives in the Group;
- Approved the half-year and year-end financial results, and the JSE announcements;
- Recommended the approval of the rights offer transaction to shareholders;
- Reviewed and approved the integrated annual report;
- Discussed and considered material issues relating to execution of strategy;
- Reviewed and approved the cash flow reports;
- Reviewed and approved the capital expenditure budget;
- Adopted the gender diversity policy;
- Approved the extension of tenure for current non-executive directors;
- Approved the non-executive directors' fees for tabling at the annual general meeting;
- Considered the declaration of directors' personal financial interests at each meeting;
- Reviewed the overall management structure;
- Considered the implications of the King IV report; and
- Reviewed material risks and compliance matters in the Group.

BOARD-APPOINTED COMMITTEES

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

REMUNERATION AND NOMINATIONS COMMITTEE

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

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

- The board has the appropriate composition for it to execute its duties effectively;
- Directors are appointed through a formal process;
- Induction and ongoing training and development of directors;
- Formal succession plans for the board, chief executive officer and senior management appointments are in place;
- The company remunerates directors, executives, and prescribed officers fairly and responsibly; and
- The disclosure of director and prescribed officer remuneration is accurate, complete and transparent.

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

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

Two meetings were held during the financial year ended 31 July 2017:

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

Strategic focus for the year under review:

- Considered board and executive succession planning;
- Considered non-executive director independence and rotation as well as members to serve on the audit and risk committee;
- Monitored implementation of action plans from the board evaluation process;
- Reviewed the remuneration policy;
- Approved the proposed changes to a long-term incentive scheme;
- Reviewed non-executive directors' fees;
- Considered the voluntary early retirement/voluntary retrenchment programme; and
- Considered the executive and staff bonuses/increase.

CORPORATE GOVERNANCE CONTINUED

AUDIT AND RISK COMMITTEE

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

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

- Reviewing the scope of the audit and the accounting policies;
- Identifying key risk areas and evaluating exposure to significant risks;
- Evaluating the appropriateness of internal controls;
- Meeting with external and internal auditors to discuss the scope of the external audit, internal audit and reliance on internal controls. The auditors have unrestricted access to the audit and risk committee and its chairman;
- The audit and risk committee, with the auditors presents, examines, reviews and discusses the audited annual financial statements and reports issued to the public before being submitted to the board for approval;
- Providing the board with regular reports on the committee's activities;
- Recommending the appointment of external auditors, the level of fees payable and the level of non-audit services; and
- Considering environmental and social sustainability issues.

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

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

Three meetings were held during the financial year ended 31 July 2017:

MEMBER	NUMBER OF MEETINGS ATTENDED
R Cooper *(Chairman)*	3
NJ Mboweni	2
JB Walters	3
BP Finch*	2

* *Resigned 25 August 2017.*

SOCIAL AND ETHICS COMMITTEE

Members: R Cooper *(Chairman)*, E Nkosi, AW Heide and I Shirindi

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

The committee is chaired by an independent non-executive director. Having considered the recommendations of King IV as it relates to the composition of the committee, the Board undertook to appoint Dr E Nkosi as member of the committee.

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

Discharge of responsibilities

Key areas of focus during the reporting period

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

In performing its duties, the committee maintains effective working relationships with the Board of Directors and management. To perform their roles effectively, each committee member obtains an understanding of the Company's business, operations and risks.

Two meetings were held during the financial year ended 31 July 2017:

MEMBER	NUMBER OF MEETINGS ATTENDED
R Cooper *(Chairman)*	2
AW Heide	2
E Nkosi*	1
ML Ramafalo**	1
I Shirindi	1

* *Appointed to the committee with effect from 20 April 2017.*
** *Resigned with effect from 30 June 2017.*

ETHICS MANAGEMENT

Phumelela does not tolerate any fraudulent or illegal activities in relation to the running of the Company and this is covered in the Code of Ethics. Employees are encouraged to make use of the confidential crime line to report any incidents. All incidents of fraud and robbery are reported to the Social and Ethics Committee, which interacts with management in implementing action whenever corrective action is required.

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

CODE OF ETHICS

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

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

ACCOUNTABILITY AND INTERNAL AUDIT

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

INVESTOR PROTECTION – DEALING IN SECURITIES

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

INTEREST OF DIRECTORS IN CONTRACTS

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

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

INSURANCE

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

REMUNERATION POLICY AND IMPLEMENTATION REPORT

BACKGROUND STATEMENT

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

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

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

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

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

Last year our remuneration policy as set out in the remuneration report received a 96% favourable vote at the annual general meeting. We believe that this is a positive indication that we are transparently reporting on, and effectively disclosing information relating to both policy and implementation of director and prescribed officer pay. Consequently, for this remuneration report, we have followed a similar approach to last year.

OVERVIEW OF THE POLICY

Objectives of the policy

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

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

Remuneration philosophy

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

Responsibility for governing remuneration and developing relevant policy

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

The responsibilities of the committee include:

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

REMUNERATION FOR SENIOR MANAGEMENT AND EMPLOYEES

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

Competitive guaranteed component (including benefits)

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

Short-term incentives (annual bonus)

Short-term incentives are paid annually and are used to encourage achievement of annual business growth targets that are set at operational level, annually in advance. Operational and financial targets are primarily driven by annual budgets approved by the Board. This ensures that this significant variable portion of pay is linked to performance. Short-term incentives are based on both Company (budget) and individual performance ("KPIs"). Short-term incentives typically equate to a thirteenth cheque. When the Company exceeds its annual financial targets, top-up bonuses may be awarded to top achievers, senior management and executives at the discretion of the Remuneration Committee and subject to approval of the Board.

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

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

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

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

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

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

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

According to the rules of the executive share option scheme, no one individual may acquire in excess of 760 000 aggregate number of shares. Adjustments may be effected in the event of variations in share capital. During the year, the Company issued shares under a rights offer that resulted in an upward adjustment to shares awarded under the scheme.

REMUNERATION POLICY AND IMPLEMENTATION REPORT CONTINUED

Fixed salary and benefits

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

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

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

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

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

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

Managers of high performers and employees with scarce skills that are critical to the business are encouraged continually to review their packages in relation to the market to improve retention.

While attracting and retaining scarce skills and rewarding high levels of performance, the remuneration policy must remunerate staff members in a manner that supports the achievement of Phumelela's mission, vision and strategic objectives. The policy does not permit and should not result in any special conditions, privileges or exemptions from normal job performance requirements. There are however circumstances where employees are paid at the upper quartile based on their skill and experience.

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

Job grading and pay structures

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

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

Collective bargaining

Annual increases for employees belonging to recognised trade unions are negotiated and agreed in collective bargaining forums. In total, 48% of Phumelela's work force is unionised, the majority with SACCAWU. The relationship with the unions remains good and we are pleased to advise that SACCAWU is supportive of the cost reduction initiatives set out hereunder.

More than two thirds of the work force is rostered (primarily in the retail park) and paid an hourly rate.

Cost reduction initiatives

The Group has embarked on a cost reduction programme that will impact employees. First and foremost, the Company is not paying bonuses for the 2017 financial year and no increases in salaries/wages will be granted for the 2018 financial year. In addition, an early retirement/voluntary severance package ("VSP") has been offered to all employees. The offer has been well received with over 260 applications received to date. The cost associated thereto is in the order of R30 million with a payback period of approximately two years.

In order to drive down costs in the retail park, rostered employees have been offered full time positions requiring 194 hours of work a month (previously averaging 117) at a reduced average rate of pay per hour. The increase in working hours should reduce the need to replace employees taking up the VSP offer whilst simultaneously providing retail stores the opportunity to extend operating hours.

IMPLEMENTATION REPORT

Remuneration for executive directors and Chief Executive

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

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

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

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

Long-term share incentive schemes

The following share option schemes have been approved by the shareholders and are disclosed on page 126 (Note 36) of the Financial Statements).

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 shown below. Resulting from the rights issue the options granted on 12 January 2015 have been increased by 36 547, giving a total of 12 218 547.

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.

2008 Executive share option scheme

EFFECTIVE GRANT DATE	NUMBER OF OPTIONS	NUMBER OF OPTIONS LAPSED/ FORFEITED	NUMBER OF OPTIONS EXERCISED	NET SHARES ALLOCATED ON OPTIONS EXERCISED	NUMBER OF OPTIONS ACTIVE	STRIKE RATE (RAND)
1 August 2008	1 912 000	1 912 000				14,00
24 April 2009	200 000	200 000				9,25
8 April 2010	1 820 000	1 820 000				9,00
1 July 2010	300 000	300 000				9,93
17 January 2011	200 000	200 000				11,00
1 August 2011	1 820 000	265 000	1 555 000	1 082 263		11,60
7 November 2011	60 000		60 000	57 001		10,88
5 December 2012	2 250 000	2 250 000				8,38
1 October 2013	3 420 000	450 000	2 970 000	2 125 613		15,00
12 January 2015	200 000				200 000	18,58
12 January 2015 – rights offer effect	36 547				36 547	18,58
TOTAL	**12 218 547**	**7 397 000**	**4 585 000**	**3 264 877**	**236 547**	

REMUNERATION POLICY AND IMPLEMENTATION REPORT CONTINUED

2014 Executive share option scheme

EFFECTIVE GRANT DATE	NUMBER OF OPTIONS	NUMBER OF OPTIONS LAPSED/ FORFEITED	NUMBER OF OPTIONS EXERCISED	NET SHARES ALLOCATED ON OPTIONS EXERCISED	NUMBER OF OPTIONS ACTIVE	STRIKE RATE (RAND)
16 July 2015	2 700 000	50 000			2 650 000	17,34
16 July 2015 – rights offer effect	338 123				338 123	17,34
17 July 2017	2 957 188				2 957 188	20,70
TOTAL	**5 995 311**	**50 000**			**5 945 311**	

A maximum of 10% of the issued share capital at 4 December 2014 may be reserved for the executive scheme. According to the rules of the scheme, the aggregate number of shares which any participant may acquire shall not exceed 760 000 shares.

To date 5 95 311 share options have been granted under this scheme to senior employees as shown above. Resulting from the rights issue the options granted on 16 January 2015 have been increased by 338 123, giving a total of 5 995 311.

The above options vest after three years have elapsed.

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

2011 Group CEO share option scheme

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

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

2014 Group CEO share option scheme

Effective 2 March 2015, 1 655 029 share options were granted to the Group CEO (initial allocation 1 500 000 plus 155 029 for rights offer effect).

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' Remuneration

Total remuneration outcomes for 2017

Total emoluments paid during the year ending 31 July 2017 and for 31 July 2016 are contained in the table below.

	2017 R'000	2016 R'000
FEES FOR MANAGEMENT SERVICES		
WA du Plessis	**6 580**	4 320
Basic salary	**4 454**	4 217
Retirement, medical, accident and health benefits	**126**	103
Bonuses and performance-related payments*	**2 000**	
AW Heide	**3 485**	2 411
Basic salary	**2 203**	2 007
Retirement, medical, accident and health benefits	**272**	247
Bonuses and performance-related payments*	**1 010**	157
VJ Moodley	**3 573**	2 644
Basic salary	**2 318**	2 265
Retirement, medical, accident and health benefits	**254**	235
Bonuses and performance-related payments*	**1 001**	144
ML Ramafalo	**2 029**	1 686
Basic salary	**1 611**	1 550
Retirement, medical, accident and health benefits	**137**	136
Bonuses and performance-related payments*	**281**	
JA Stuart	**3 402**	2 247
Basic salary	**2 050**	1 866
Retirement, medical, accident and health benefits	**214**	237
Bonuses and performance-related payments*	**1 138**	144
Total executive emoluments paid	**19 069**	13 308
Current year share-based payment expense allocated as follows:		
WA du Plessis	**2 870**	2 033
AW Heide	**64**	1 626
VJ Moodley	**57**	1 703
ML Ramafalo	**44**	1 218
JA Stuart	**57**	1 544
Total executive director share-based payment costs	**3 092**	8 124
Total executive remuneration	**22 161**	21 432
PRESCRIBED OFFICERS		
CC Basel (Racing executive (formerly Sales and Marketing Executive))	**2 930**	2 064
Basic salary	**1 801**	1 700
Retirement, medical, accident and health benefits	**228**	220
Bonuses and performance-related payments	**901**	144
BK McLoughlin (Chief Financial Officer)	**2 183**	1 612
Basic salary	**1 424**	1 333
Retirement, medical, accident and health benefits	**181**	167
Bonuses and performance-related payments	**578**	112
Total prescribed officers' emoluments paid	**5 113**	3 676
Current year share-based payment expense	**100**	2 329
Total prescribed officers' remuneration	**5 213**	6 005
Total directors and prescribed officers' remuneration	**27 374**	27 437

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

REMUNERATION POLICY AND IMPLEMENTATION REPORT CONTINUED

Remuneration for non-executive directors

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

Given the tough economic conditions, no increase to the non-executive directors' fees and committee fees will be proposed for the year ending 31 July 2018 and the proposals are set out in the notice of annual general meeting.

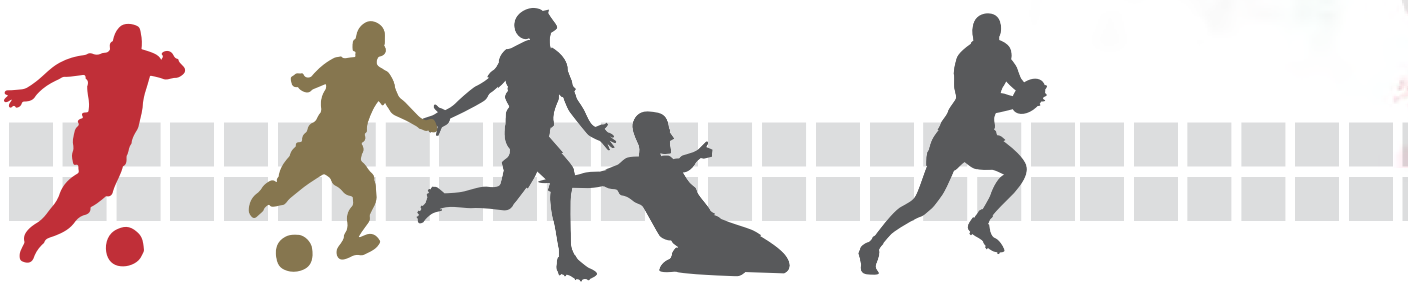
Non-executive directors' remuneration for the year ended 31 July

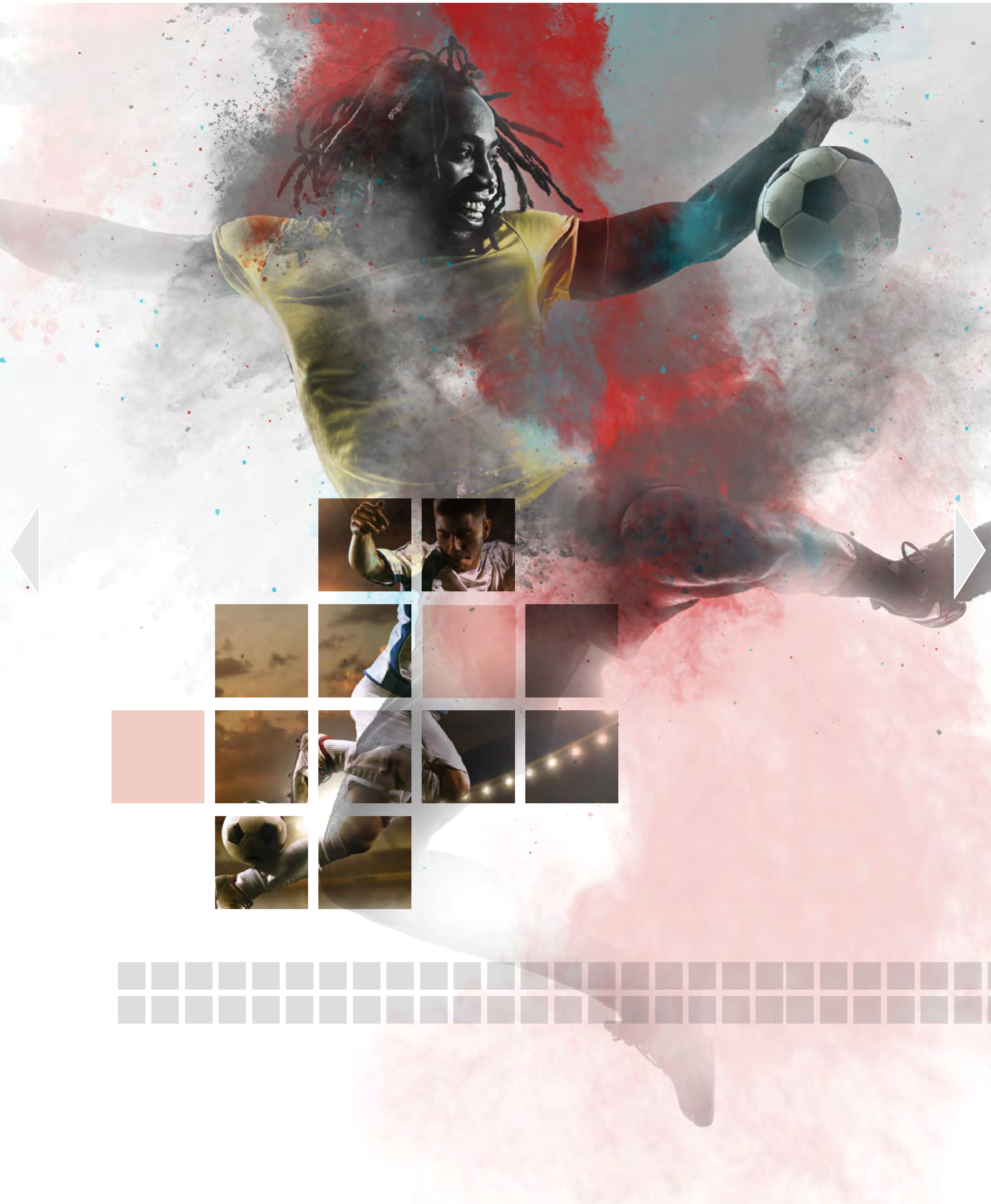
BOARD MEMBER	DIRECTORS' FEES 2017 R'000	OTHER BENEFITS 2017 R'000	TOTAL 2017 R'000	DIRECTORS' FEES 2016 R'000	OTHER BENEFITS 2016 R'000	TOTAL 2016 R'000
MP Malungani	**438**	–	**438**	412	–	412
R Cooper	**425**	–	**425**	401	–	401
BP Finch	**224**	–	**224**	143	–	143
MJ Jooste*	**124**	–	**124**	169	–	169
B Kantor	**202**	–	**202**	190	–	190
SKC Khampepe	**157**	–	**157**	148	–	148
NJ Mboweni	**185**	–	**185**	206	–	206
E Nkosi	**157**	–	**157**	148	–	148
C van Niekerk	**269**	–	**269**	254	–	254
JB Walters	**303**	–	**303**	286	–	286

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

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

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





FINANCIAL STATEMENTS

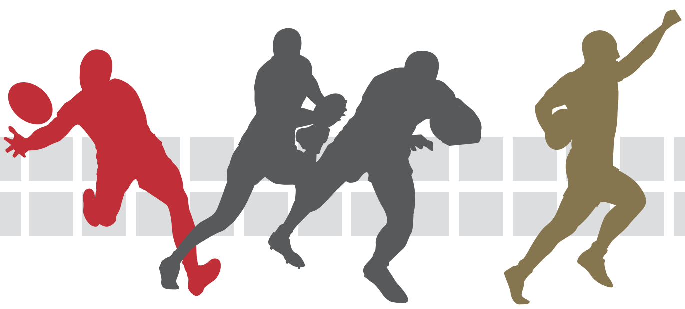
PHUMELELA GAMING AND LEISURE LIMITED

Group annual financial statements and annual financial statements
for the year ended 31 July 2017

Audited

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

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



DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 31 July 2017

The Company's directors are responsible for the preparation and fair presentation of the Group annual financial statements and separate annual financial statements of Phumelela Gaming and Leisure Limited, comprising the statements of financial position as at 31 July 2017, 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 separate financial statements of Phumelela Gaming and Leisure Limited are fairly presented in accordance with the applicable financial reporting framework.

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

for the year ended 31 July 2017

The Group annual financial statements and annual financial statements of Phumelela Gaming and Leisure Limited were approved by the Board of Directors on 6 October 2017 and signed.

MP MALUNGANI
CHAIRMAN
6 October 2017

WA DU PLESSIS
GROUP CHIEF EXECUTIVE OFFICER

REPORT OF THE COMPANY SECRETARY

for the year ended 31 July 2017

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

F MOLOI
COMPANY SECRETARY
6 October 2017

REPORT OF THE AUDIT COMMITTEE

for the year ended 31 July 2017

The Audit Committee presents its report for the financial year ended 31 July 2017. The committee is satisfied that it has performed both the statutory requirements for an audit committee as set out in the Companies Act as well as the functions set out in the terms of reference, and that it has therefore complied with its legal, regulatory and other responsibilities.

The Board places strong emphasis on achieving the highest level of financial management, accounting and reporting to shareholders. The Audit Committee terms of reference, which supports these principles, 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
BP Finch (Resigned effective 25 August 2017)

In line with the Companies Act 71 of 2008, the composition of the Audit Committee will be presented to the shareholders for approval at the annual general meeting.

MEETINGS

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

EXPERTISE AND EXPERIENCE OF THE FINANCE DIRECTOR AND THE FINANCE FUNCTION

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

EXTERNAL AUDIT

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

The external 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.

AUDITOR INDEPENDENCE

The committee considered to its satisfaction the independence, objectivity and effectiveness of the external auditors. This conclusion is, inter alia, based on the following:

- The Group's policy that prohibits or otherwise restricts the non-audit services that may be provided by the external auditor;

REPORT OF THE AUDIT COMMITTEE CONTINUED

for the year ended 31 July 2017

AUDITOR INDEPENDENCE CONTINUED

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

The committee has recommended for approval at the annual general meeting, the re-appointment of KPMG Inc. as external auditor for the 2018 financial year. Mr G Parker as the registered auditor responsible for the audit.

TERMS OF REFERENCE

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

DISCHARGE OF RESPONSIBILITIES

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

During the reporting period the committee undertook the following:

- Reviewed the interim and annual financial statements and recommended them for approval by the Board;
- Reviewed the integrated annual report for 2017 and recommended it for approval by the Board;
- Reviewed and satisfied itself that the Company's finance function was adequately resourced by people with appropriate expertise and experience;
- Resolved to continue to outsource the internal audit function to PricewaterhouseCoopers during the financial year;
- Reviewed and approved the internal and external audit plans;
- Received and reviewed risk management reports as well as reports from both the internal and external auditors, which included commentary on effectiveness of the internal control environment, systems and processes; and, where appropriate, made recommendations to the Board;
- Ensured that the appointment of the external auditors complied with the provisions of the Companies Act 71 of 2008, and other legislation relating to the appointment of auditors;
- Noted that non-audit services were not rendered during the financial year;
- Reviewed the new style audit report including the new accounting standards;
- Considered the JSE's latest report on the proactive monitoring process of financial statements for compliance with IFRS (the 2016 Report);
- Determined the fees to be paid to the external and internal auditors and their terms of engagement;
- Noted that it had not received any complaints, from within or outside the Company, relating to the accounting practices and internal audit of the Company, to the content or auditing of its financial statements, or any related matter;
- Was responsible for the oversight of financial reporting risks, internal financial controls, fraud risks as it relates to financial reporting and IT risks as it relates to financial reporting; and
- Reviewed legal, compliance and regulatory matters that could have a material impact on the Group.

ANNUAL FINANCIAL STATEMENTS

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

On behalf of the Audit Committee

R COOPER
AUDIT COMMITTEE CHAIRMAN
6 October 2017

REPORT OF THE DIRECTORS
for the year ended 31 July 2017

NATURE OF BUSINESS

South Africa

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

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

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

International

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

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

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

REVIEW OF RESULTS AND FINANCIAL POSITION

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

The Group result for 2017 is characterised by continued good growth from international revenue sources and a pleasing performance from our wholly owned fixed odds business as well as our investments in Supabets and Interbet, and a disappointing performance from our traditional Tote operations.

Phumelela has continued to deliver on its strategy of diversifying revenue sources through the introduction of new betting products, the addition of international territories and by investing in businesses that are complementary and value-adding.

Our diversification and internationalisation strategy is serving us well, underpinning the competitiveness of Phumelela and the commercial viability of our business model.

Equity-accounted profits from local and international sources contributed 81% of Group pre-tax profit. Although accounted for by the equity method, there is active executive management involvement in our strategic Premier Gateway International ("PGI"), Interbet and Supabets joint ventures.

The acquisition of a 50% shareholding in Supabets and the increase in our shareholding in Interbet from 26% to 50% both became effective on 1 March 2017. The Supabets investment was funded through the rights offer and issue of shares to the seller.

International operations are the single largest source of pre-tax profit for Phumelela, which reflects our strategy over many years to internationalise our business. These profits are earned in various currencies with the British pound the most significant.

Horseracing is an integral part of our total product offering and inseparable from the success we have achieved internationally. We continue to invest in supporting a high-quality South African racing experience.

On average, the rand strengthened by 20% versus the British pound. International profits, comprising consolidated profit from our international division and equity-accounted profits generated by PGI, increased in rand by a pleasing 11%. In constant currency these profits increased by 37%.

REPORT OF THE DIRECTORS CONTINUED

for the year ended 31 July 2017

REVIEW OF RESULTS AND FINANCIAL POSITION CONTINUED

There was welcome shareholder support for the Supabets rights offer, which was an endorsement of our earnings per share accretive and return on equity-enhancing investment objective.

In the past five years, Group attributable profit has increased by 113% and earnings per share by 85%, a compound growth of 16% and 13% respectively. This has been achieved because of our diversification and internationalisation initiatives and by ensuring the betting offering is relevant, accessible through bricks and mortar or online, and affordable.

The Group has contained expenses well and is striving to do better in the face of the macroeconomic challenges we face.

The Group has needed to modernise and reposition its traditional business of administering horseracing and conducting Tote betting thereon. Accordingly, the senior management structure has been streamlined, with clearly delineated key performance objectives that align with the evolving nature of the Group. A national retail manager has been appointed with experience outside of our industry to apply fresh thinking to our technology, store design, and customer experience initiatives. Our Tote and fixed odds management teams have been merged so as to minimise duplication and streamline costs and we have made early retirement and voluntary retrenchment offers as part of the process of modernisation and repositioning our traditional business. We have embarked upon a strategy to use technology more effectively and as our first initiative, free Wi-Fi is now being offered in all our stores. We are continually developing new betting applications, especially for smartphones.

Group financial analysis

Total income was up by 1% overall to R1,5 billion, with local income down marginally at R1,2 billion and international income up by 12% to R307,5 million. Income in fixed odds accelerated in the second half of the year, ending 35% higher. Disappointingly Tote betting recorded a decline in income.

Combined local and international operating expenses, prize monies and levies increased by 3% to R1,4 billion.

Depreciation and amortisation increased by 16% to R71,2 million, reflecting continued reinvestment in local Tote and fixed odds operations. Capital expenditure of R82,2 million was 8% higher, of which R42,1 million was spent on horseracing infrastructure and Tote betting and R40,1 million in fixed odds. Investments include a water-saving catchment dam at the Vaal and an electricity-saving LED lighting installation at Turffontein, on which a three-year payback is anticipated.

Expenses in the local Tote and horseracing operations were flat on the prior year and fixed odds expenses increased by 9%, a relatively contained increase given the rapid growth and development of this business.

Operating profit increased by 14% to R49,0 million, which comprises a local operating loss of R44,5 million, an increase of 38%, and an international operating profit of R93,5 million, an increase of 24%.

Local finance costs of R20,3 million, up from R9,4 million, is a consequence of higher borrowings.

The Group's profits from equity-accounted investees increased by a pleasing 29%, mainly as a result of the profits from Supabets and Interbet and the additional profits from PGI.

Net attributable income increased by 18% to R142,6 million, assisted by a lower effective tax rate. Profit attributable to ordinary shareholders increased by 20% to R146,5 million.

Headline earnings increased by 19% to R146,1 million. On a constant currency basis headline earnings increased by 52% to R186,4 million.

The weighted average number of shares in issue increased by 17% to 87,0 million and on a fully diluted basis there was a 16% increase in weighted average shares to 91,1 million, with 2,1 million in treasury shares issued in respect of share option obligations. In all, 500 000 shares, at a cost of R10,6 million, were bought back on the open market.

Earnings per share grew by 3% to 168,46 cents and headline earnings per share grew by 2% to 167,96 cents. Constant currency headline earnings per share grew by 30% to 214,34 cents.

FINANCIAL POSITION

Total assets increased by 63% to R1 539,8 million, which includes property, plant and equipment at a carrying value of R468,4 million, goodwill and intangibles at R67,1 million, and equity-accounted investees carried at R638,1 million.

The statement of financial position reflects gross debt of R126,2 million and cash of R98,5 million, resulting in a net debt position of R27,8 million or a debt to equity ratio of only 2,7%. However, there is a contingent consideration payable in respect of Supabets of R101 million that will be paid in due course. The effective net debt as at 31 July 2017 is therefore R129 million or a debt to equity ratio of 12,5%.

Cash generated from operations declined to R88,8 million from R113,0 million and cash generated by operating activities declined to R45,7 million from R143 million due to working capital absorption of R43,0 million.

Dividends paid to shareholders amounted to R86,9 million. Net asset value per share is 1 014,17 cents, an increase of 47%.

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

Return on average equity has been temporarily affected by the substantially changed capital structure, decreasing to 18% from 25% but remaining above our cost of capital.

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 share capital of the Company during the year.

Issued share capital increased by 27 024 284 shares as follows:

- 2 125 611 issued from treasury stock to fulfil obligations in respect of shares exercisable per the executive option schemes;
- 16 602 230 rights offer shares were issued in part to fund the purchase of Supabets SA Holdings Proprietary Limited ("Supabets");
- 8 796 443 shares were issued to the seller in terms of the Supabets purchase consideration; and
- 500 000 shares repurchased by the Company to fulfil obligations in respect of shares exercisable per the executive option schemes.

At 31 July 2017 issued share capital amounted to 101 559 769 shares, net of 940 789 treasury shares.

Details of shareholders who directly own more than 3% of the issued share capital of the Company are disclosed on page 138 'Shareholder Information'.

INVESTMENTS

50% ownership of Supabets SA Holdings Proprietary Limited was transferred to Phumelela with effect from 1 March 2017. The purchase consideration of R437 million was settled by way of a rights offer in the amount of R284 million and shares issued to the sellers.

With effect from 1 March 2017, a further 24% equity interest in Interbet was acquired, increasing Phumelela's shareholding to 50%.

REPORT OF THE DIRECTORS CONTINUED
for the year ended 31 July 2017

SUBSEQUENT EVENTS
There are no significant subsequent events that have a material impact on the financial statements at 31 July 2017.

MATTERS OF CORPORATE INTEREST AND LITIGATION
As a result of the losses incurred in its local Tote and horseracing operations, the Group has embarked upon an initiative to modernise and reposition its business, which includes a significant cost-saving initiative. The management structure has been rationalised and changed. Significant new betting products and technologies are being introduced. The Group has made offers of early retirement and voluntary retrenchment to all staff. These offers may be followed by a formal retrenchment process if need be. The Board has approved a lump-sum spend of up to R30 million on the cost reduction initiative with a maximum payback period of two years. The aforementioned lump sum will be charged to and form part of the costs in determining the Group's earnings per share for the year ending 31 July 2018. A separate and detailed account will be given of the amounts spent and the payback period thereof.

South African trading conditions remain challenging but we continue to be proactive in managing those challenges and identifying new opportunities. We have earmarked eight under-performing fixed odds outlets for joint ventures with Supabets and are in the process of submitting the relevant applications for regulatory approval. The first three of these are expected to commence trading during the course of October. Further joint ventures with Supabets will be considered. We are in the process of implementing the best of Supabets' software into our betting outlets and Supabets will be re-introducing betting on racing, supported and managed by our fixed odds business. The Tabonline website will be replaced with a new website using the best of Interbet's technology. Exciting new bets will be offered in the Group's fixed odds as well as Tote betting businesses. The Group's international operations, namely the export of live televisual South African horseracing and pari-mutuel betting through PGI, are anticipated to have another good year.

Group earnings will be impacted by the aforementioned cost-reduction initiatives. Excluding these costs, the Group continues to target growth in normalised earnings per share.

On 22 September 2017, the Johannesburg High Court granted Phumelela's appeal, with costs, in the matter relating to the interim directive issued by the Gauteng Gambling Board in October 2014, which had an effect on Tellytrack's ability to leverage its intellectual property. The parties to the appeal have until 16 October 2017 to apply for leave to appeal the judgment.

Phumelela continues to fight for a fairer funding dispensation for the sport of thoroughbred horseracing. Civil and criminal lawsuits filed against bookmakers for unlawfully displaying Tellytrack are ongoing.

Other than the above ruling, there are no further developments on the matters disclosed in the annual financial statements for the year ended 31 July 2016.

The outcome of the relevant actions remains uncertain and may have an impact on future earnings.

RELATED PARTIES
Other than the investments in Supabets and Interbet, there have been no significant transactions during the year with equity- accounted investees, joint operations, and other related parties.

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

DIVIDENDS TO ORDINARY EQUITY HOLDERS
A final gross cash dividend of 70 cents per share (59,50 cents per share net of dividend withholding tax at a rate of 15%) for the year ended 31 July 2016 was declared to shareholders recorded in the register on 4 November 2016 and paid on 7 November 2016.

An interim gross cash dividend of 34 cents per share (27,20 cents per share net of dividend withholding tax at a rate of 20%) was declared to shareholders recorded in the register on 26 May 2017 and paid on 29 May 2017.

The Board has declared a final gross cash dividend of 70,00 cents per share (56,00 cents per share net of dividend withholding tax at a rate of 20%) for the year ended 31 July 2017 to shareholders recorded in the register on 3 November 2017 and payable on 6 November 2017.

SHARE INCENTIVE SCHEMES

Details pertaining to share option schemes approved by shareholders are set out in the remuneration policy and implementation report on pages 50 to 56.

AUDITORS

At the annual general meeting held on 1 December 2016, KPMG Inc. were re-appointed as auditors to the Group.

DIRECTORS AND SECRETARY

The following directors were re-elected to office at the annual general meeting held on 1 December 2016:
Mr R Cooper
Mr SKC Khampepe
Mrs NJ Mboweni

The following directors were elected to serve on the Audit Committee at the annual general meeting held on 1 December 2016:
Mr R Cooper
Mrs NJ Mboweni
Mr JB Walters
Mr BP Finch

Mr P Anastassopoulos was appointed to the Board effective from 8 March 2017. Messrs ML Ramafalo and BP Finch resigned from the Board effective 30 June 2017 and 25 August 2017 respectively. The Board extends its appreciation for their contribution and wishes them well in their future endeavours. There was no other change to the composition of the Board.

Mr MP Malungani has notified the Board of his intention to step down at the December 2017 annual general meeting. Peter has served the Company and its Board with distinction over the past 20 years. His invaluable contribution as Board member and Chairman will be sorely missed.

In terms of the Company's Memorandum of Incorporation, Mr MJ Jooste, Dr E Nkosi and Mr JB Walters retire at the annual general meeting and being eligible, offer themselves for re-election.

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

SUBSIDIARY COMPANIES

Details of subsidiary companies are disclosed on page 137.

INDEPENDENT AUDITOR'S REPORT
for the year ended 31 July 2017

TO THE SHAREHOLDERS OF PHUMELELA GAMING AND LEISURE LIMITED

Report on the Group financial statements and financial statements

Opinion

We have audited the consolidated and separate financial statements of Phumelela Gaming and Leisure Limited (the Group and Company), which comprise the statements of financial position as at 31 July 2017, and the statements of comprehensive income, the statements of cash flow and the statements of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 72 to 136.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Phumelela Gaming and Leisure Limited as at 31 July 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Key audit matters

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

Gross betting income recognition (applicable to the consolidated and separate financial statements)
Refer to accounting policies note 1.14 and note 26 to the financial statements

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Included in the consolidated and separate financial statements is gross betting income amounting to R1 177 million and R763 million respectively. Gross betting income is typically derived from high volume, low value transactions and is dependent on the outcome of events wagered on. The completeness and accuracy of the gross betting income recognised is dependent on the configuration of underlying IT systems, how these interface with the financial system, and the effectiveness of the systematic and manual financial controls. Due to the complexity of the processes related to the recognition of revenue, a risk exists that revenue may not be accurately recorded and that the identification of processing anomalies may go undetected or are not detected on a timely basis. Given the volume of transactions and the significant work effort by the audit team, the recognition of gross betting income was considered a key audit matter in our audit of the consolidated and separate financial statements.	Our audit work included the following procedures: • Testing the automated controls over the revenue process with the assistance of our information technology specialists where the integration of the revenue system with the financial system was tested, as well as the automatic postings of month-end revenue journals into the financial system; • Testing the manual controls over the reconciliations of bets placed to cash collected and recorded in the financial statements; • Assessing the reasonableness of gross betting revenue recognised by analysing betting revenue against betting dividends paid to customers on a monthly basis and corroborating explanations for monthly movements that did not meet the expectation; and • Identifying whether any journals are processed outside of the standard system-driven month-end journals by comparing the journals processed in the financial system to the monthly revenue journals extracted from the revenue system.

Valuation of the equity-accounted investment's intangible assets and goodwill as a result of the acquisition of Supabets SA Holdings Proprietary Limited ("Supabets") and Uptonvale Services Proprietary Limited ("Interbets") (applicable to the consolidated financial statements)
Refer to accounting policies note 1.3, 1.5 and 1.24 and notes 9.2 and 9.4 to the financial statements

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Effective 1 March 2017, the Group acquired interests in Supabets and Uptonvale for R470 million and R79 million respectively. The Group has joint control and therefore the entities have been equity-accounted. As part of the acquisitions, goodwill of R440 million and intangible assets of R77 million were identified. In accounting for the acquisitions, management engaged an external expert to prepare a fair value purchase price allocation to assess the assets and liabilities acquired, including valuing any separately identifiable intangible assets with the remaining premium allocated to goodwill. Identification and valuation of the separately identifiable intangibles involved significant judgement, including key assumptions about revenue growth, theoretical royalty rates used to value brands and licences and the application of a discount rate that is reflective of the risks of the business. Due to significant estimates and judgements applied by management and the work effort required by the audit team, this was considered a key audit matter in our audit of the consolidated financial statements.	With the assistance of valuation specialists that formed part of our audit team, our audit work included the following: • Assessing the independence and competence of the external expert used in preparing the purchase price allocation; • Evaluating the appropriateness of the purchase price allocation in relation to the requirements of the purchase agreement; • Assessing management's use of the long-term growth rate and discount rate assumptions through comparison to externally derived data, such as projected economic growth rates, discount rate inputs and inflation rates; • Assessing the source of the royalty rates used and performing a benchmarking analysis to assess the affordability of the royalty rate; • Independently recalculating the fair values of the intangible assets based on assumptions that we have deemed to be appropriate; and • Considering the adequacy of the Group's disclosure in relation to the requirements of IFRS 12 Disclosures of interests in other entities.

Other information

The directors are responsible for the other information. The other information comprises the report of the Company Secretary, report of the Audit Committee and report of the directors as required by the Companies Act of South Africa, and the directors' responsibility statement, shareholder Information and corporate information, which we obtained prior to the date of this report. Other information also includes the rest of the information included in the Integrated Report, which is expected to be made available to us after the date of this report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

for the year ended 31 July 2017

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Phumelela Gaming and Leisure Limited for 11 years.

KPMG INC
REGISTERED AUDITOR

PER G PARKER

Chartered Accountant (SA)
Registered Auditor
Director
6 October 2017

85 Empire Road
Parktown
Johannesburg 2122

Back to contents

STATEMENTS OF FINANCIAL POSITION
as at 31 July

		GROUP		COMPANY	
		2017	2016	**2017**	2016
	Note	**R'000**	R'000	**R'000**	R'000
ASSETS					
Non-current assets		**1 280 609**	635 466	**1 051 691**	479 329
Property, plant and equipment	4	**468 388**	458 914	**310 881**	316 855
Goodwill	5	**15 206**	15 206		
Intangible assets	6	**51 939**	51 455	**1 547**	1 820
Investment in subsidiaries	7			**96 336**	96 613
Investments	8	**11 562**	692	**11 562**	692
Interest in equity-accounted investees	9	**638 074**	75 460	**581 531**	32 056
Long-term loans	10	**64 309**	24 790	**40 967**	24 790
Investment property	11	**18 700**			
Deferred taxation asset	12	**12 431**	8 949	**6 046**	3 682
Amounts owing by subsidiary companies	13.1			**2 821**	2 821
Current assets		**259 200**	308 484	**313 768**	308 918
Inventories	14	**2 466**	1 920	**1 024**	1 029
Trade and other receivables	15	**129 855**	137 849	**125 299**	106 306
Amounts owing by subsidiary companies	13.2			**99 231**	81 566
Assets held for sale	16		28 624		9 924
Income tax receivable		**19 395**	19 233	**13 842**	15 695
Defined benefit funds	19.1	**9 029**	8 183	**9 029**	8 183
Cash and cash equivalents	17	**98 455**	112 675	**65 343**	86 215
Total assets		**1 539 809**	943 950	**1 365 459**	788 247
EQUITY AND LIABILITIES					
Total equity		**1 029 993**	513 051	**863 912**	414 538
Equity attributable to ordinary shareholders		**1 033 911**	513 051	**863 912**	414 538
Share capital and premium	18.1	**473 826**	1 863	**474 143**	2 221
Retained earnings		**560 678**	511 630	**389 769**	412 317
Translation reserve	18.2	**(593)**	(442)		
Non-controlling interest	18.3	**(3 918)**			
Non-current liabilities		**123 370**	64 489	**120 000**	60 063
Deferred taxation liability	12	**1 393**	1 531		
Financial lease liability	20		63		63
Borrowings	21	**121 977**	62 895	**120 000**	60 000
Current liabilities		**386 446**	366 410	**381 547**	313 646
Trade and other payables	22	**267 146**	310 095	**230 957**	260 064
Short-term borrowings	21	**2 400**	2 926		
Amounts owing to subsidiary companies	23			**41 081**	9 250
Contingent consideration liability	24	**101 434**	707	**101 434**	707
Income tax payable		**24**	1 683		
Betting dividends payable		**13 621**	15 994	**6 254**	8 620
Bank overdraft	21	**1 821**	35 005	**1 821**	35 005
Total equity and liabilities		**1 539 809**	943 950	**1 365 459**	788 247
		cents	cents		
Net asset value per share		**1 014,17**	688,33		

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 July 2017

		GROUP		COMPANY	
	Note	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Income	25	**1 520 515**	1 500 797	**1 245 775**	1 358 006
Gross betting income	26	**1 176 913**	1 198 796	**763 273**	815 850
Value added tax		**(137 321)**	(139 473)	**(87 004)**	(92 980)
Betting taxes		**(90 989)**	(93 772)	**(69 861)**	(75 358)
Net betting income	27	**948 603**	965 551	**606 408**	647 512
Other operating income					
– Local operations		**281 654**	252 603	**281 029**	270 758
– International operations		**306 844**	273 840	**306 844**	273 275
Investment income					
– Local operations		**15 200**	4 756	**139 682**	238 919
– International operations		**646**	575	**646**	540
Net income		**1 552 947**	1 497 325	**1 334 609**	1 431 004
Stakes		**(208 756)**	(202 871)	**(208 756)**	(202 871)
National Horseracing Authority levies		**(34 134)**	(26 383)	**(34 134)**	(26 383)
Operating expenses and overheads					
– Local operations		**(1 047 039)**	(1 025 906)	**(759 453)**	(791 428)
– International operations		**(213 989)**	(199 067)	**(201 364)**	(198 831)
Profit from operations	28	**49 029**	43 098	**129 138**	211 491
Finance costs					
– Local operations	29	**(20 323)**	(9 368)	**(19 233)**	(9 237)
Profit before share of profit of equity-accounted investees		**28 706**	33 730	**109 905**	202 254
Share of profit of equity-accounted investee after tax	9	**122 591**	94 694		
Profit before assets held for sale fair value adjustment		**151 297**	128 424	**109 905**	202 254
Fair value adjustment in respect of investments (previously assets held for sale)	8.2	**946**	5 578	**946**	5 578
Profit before income tax expense		**152 243**	134 002	**110 851**	207 832
Income tax expense	30	**(9 641)**	(12 912)	**4 730**	3 686
Profit for the year		**142 602**	121 090	**115 581**	211 518
Other comprehensive income for the year					
Other comprehensive income		**(151)**	(579)		
Items that may subsequently be reclassified to profit or loss					
– Exchange differences on translation of foreign subsidiaries		**(151)**	(579)		
Total comprehensive income for the year		**142 451**	120 511	**115 581**	211 518
Profit attributable to					
– Ordinary equity holders of the parent		**146 520**	121 944		
– Non-controlling interest		**(3 918)**	(854)		
		142 602	121 090		
Total comprehensive income attributable to:					
– Ordinary equity holders of the parent		**146 369**	121 365		
– Non-controlling interest		**(3 918)**	(854)		
		142 451	120 511		
Earnings per ordinary share	32	**cents**	cents		
Basic earnings per share		**168,46**	163,62		
Diluted earnings per share		**160,84**	155,01		

STATEMENTS OF CASH FLOW

for the year ended 31 July 2017

		GROUP		COMPANY	
		2017	2016	2017	2016
	Note	R'000	R'000	R'000	R'000
Net cash (outflow)/inflow from operating activities		**(62 201)**	38 594	**(27 805)**	81 466
Cash generated by operations	37.1	**88 771**	113 046	**21 983**	23 334
Movements in working capital	37.2	**(43 022)**	29 949	**(87 277)**	(89 497)
Cash generated/(utilised) by operating activities		**45 749**	142 995	**(65 294)**	(66 163)
Income tax (paid)/refunded	37.3	**(15 082)**	(30 306)	**4 220**	(10 117)
Dividends paid to shareholders		**(86 875)**	(70 057)	**(88 822)**	(72 476)
Interest received		**11 320**	4 790	**11 132**	4 637
Dividends received		**637**	540	**127 819**	234 822
Finance costs paid		**(17 950)**	(9 368)	**(16 860)**	(9 237)
Net cash outflow from investing activities		**(250 879)**	(19 549)	**(307 798)**	(63 173)
Acquisition of intangible assets		**(3 611)**	(2 214)	**(241)**	(403)
Acquisition of property, plant and equipment		**(78 612)**	(74 229)	**(37 757)**	(50 520)
Acquisition of subsidiary			(1 710)		
Proceeds on disposal of property, plant and equipment		**1 664**	2 083	**863**	1 934
Proceeds on sale of investments			3		3
Contingent liability paid		**(330)**		**(330)**	
Investment in equity-accounted investees		**(255 010)**		**(255 010)**	
Loans advanced		**(99 904)**	(80 718)	**(90 795)**	(80 457)
Loans repaid		**75 472**	66 270	**75 472**	66 270
Dividends received from equity-accounted investees		**109 452**	70 966		
Net cash outflow from financing activities		**332 195**	12 743	**347 915**	14 443
Repayment of finance leases		**(425)**	(557)	**(425)**	(557)
Share repurchased and options issued		**(14 276)**			
Borrowings raised		**60 000**	13 300	**60 000**	15 000
Borrowings repaid		**(1 444)**			
Share capital raised		**288 340**		**288 340**	
Net increase in cash and cash equivalents for the year		**19 115**	31 788	**12 312**	32 736
Effect of conversion of foreign operations on cash and cash equivalents		**(151)**	(579)		
Cash and cash equivalents at beginning of year		**77 670**	46 461	**51 210**	18 474
Cash and cash equivalents at end of year		**96 634**	77 670	**63 522**	51 210
Make up of balance of cash and cash equivalents					
Cash and cash equivalents	17	**98 455**	112 675	**65 343**	86 215
Bank overdraft	21	**(1 821)**	(35 005)	**(1 821)**	(35 005)
Cash and cash equivalents at end of year		**96 634**	77 670	**63 522**	51 210

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 July 2017

	Share capital R'000	Share premium R'000	Translation reserves R'000	Retained earnings R'000	Shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
GROUP							
Balance at 31 July 2015	1 863		137	445 743	447 743		447 743
Total comprehensive income for the year			(579)	121 944	121 365	(854)	120 511
– Profit for the year				121 944	121 944	(854)	121 090
– Other comprehensive income			(579)		(579)		(579)
Transactions with owners recorded directly in equity							0
– Arising on purchase of subsidiary						854	854
– Share-based payment				14 000	14 000		14 000
– Dividends paid to equity holders				(70 057)	(70 057)		(70 057)
Balance at 31 July 2016	1 863		(442)	511 630	513 051		513 051
Total comprehensive income for the year			**(151)**	**146 520**	**146 369**	**(3 918)**	**142 451**
– Profit for the year				**146 520**	**146 520**	**(3 918)**	**142 602**
– Other comprehensive income			**(151)**		**(151)**		**(151)**
Transactions with owners recorded directly in equity							
– Share issue - Rights offer	**415**	**288 298**			**288 713**		**288 713**
– Direct listing costs		**(373)**			**(373)**		**(373)**
– Share issue – Acquisition shares	**220**	**183 362**			**183 582**		**183 582**
– Share repurchase	**(12)**			**(10 588)**	**(10 600)**		**(10 600)**
– Shares issued in terms of the share option scheme	**53**			**(3 729)**	**(3 676)**		**(3 676)**
– Share-based payment				**3 720**	**3 720**		**3 720**
– Dividends paid to equity holders				**(86 875)**	**(86 875)**		**(86 875)**
Balance at 31 July 2017	**2 539**	**471 287**	**(593)**	**560 678**	**1 033 911**	**(3 918)**	**1 029 993**
COMPANY							
Balance at 31 July 2015	1 928	293		259 275	261 496		
Total comprehensive income for the year				211 518	211 518		
– Profit for the year				211 518	211 518		
Transactions with owners recorded directly in equity							
– Share-based payments				14 000	14 000		
– Dividends paid to equity holders				(72 476)	(72 476)		
Balance at 31 July 2016	1 928	293		412 317	414 538		
Total comprehensive income for the year				**115 581**	**115 581**		
– Profit for the year				**115 581**	**115 581**		
Transactions with owners recorded directly in equity							
– Share issue – Rights offer	**415**	**287 925**			**288 340**		
– Share issue – Acquisition shares	**220**	**183 362**			**183 582**		
– Shares issued in terms of the share option scheme				**(53 027)**	**(53 027)**		
– Share-based payment				**3 720**	**3 720**		
– Dividends paid to equity holders				**(88 822)**	**(88 822)**		
Balance at 31 July 2017	**2 563**	**471 580**		**389 769**	**863 912**		

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

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 72 to 136 are prepared on the historical cost basis except where stated otherwise, in accordance with International Financial Reporting Standards ("IFRS"), interpretations of those standards as adopted by the International Accounting Standards Board and the requirements of the Companies Act of South Africa.

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

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

The financial statements were approved by the Board of Directors for issue on 6 October 2017.

1.3 Basis of consolidation

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

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

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

Subsidiaries

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

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

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

Non-controlling interests

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

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

Joint operations

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

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

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures. Associates are those companies in which the Group has significant influence but not control or joint control over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control and is equity-accounted. Investments in equity-accounted investees are accounted for on the equity method, based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period different to that of the Group, then the most recently available management accounting results for the same period as the Group are brought to account.

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

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

1.4 Business combinations

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

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

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

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

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

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

1.5 Goodwill

Goodwill represents the excess of the cost of acquisition of the Group's interests in subsidiaries, equity-accounted investees or joint 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.6 Intangible assets

Indefinite useful life intangible assets

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

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

Finite useful life intangible assets

The Group's finite useful life intangible assets comprise software development costs.

Software costs

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

Software development costs

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

Subsequent expenditure

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

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

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

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

Research costs

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

1.7 Property, plant and equipment

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

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

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.7 Property, plant and equipment continued

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

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

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

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

Useful lives and residual values

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

Subsequent expenditure

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

1.8 Investment property

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

1.9 Impairment of non-financial assets

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 July 2017

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.9 Impairment of non-financial assets continued

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

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

1.10 Inventories

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

1.11 Assets held for sale

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

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

1.12 Taxation

Current tax assets and liabilities

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

Income tax

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

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

Deferred tax

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.12 Taxation continued

Deferred tax continued

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

Dividend withholding tax

Dividend withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012. Dividend tax is withheld on behalf of shareholders at a rate of 20% (2016: 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.

1.13 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.

1.14 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. Other income includes commingling fees charged for hosting the pools and supplying betting content, subscription fees for provision of content for betting both locally and internationally, stable rental, unclaimed dividends, gambling boards levies received and commision received on limited payout machines. Dividends from investments are recognised when the right to receive payment has been established. Interest is recognised on a time proportion basis which takes into account the effective yield on the asset over the period it is expected to be held.

1.15 Betting dividends

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

1.16 Borrowing costs

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.17 Employee benefits

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

Short-term employee benefits

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

Defined contribution plans

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

Defined benefit plans

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

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

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

Equity participation plan

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

The cost of equity-settled transactions is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a 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. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.18 Financial instruments

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

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

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

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

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

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The subsequent measurement of financial instruments is as follows:

Investments

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

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

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

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

Cash and cash equivalents

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.18 Financial instruments continued

Financial liabilities

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

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

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

Derivative instruments

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

The Group does not apply hedge accounting.

Impairment of financial assets

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

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

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

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

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

Fair value determination

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

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

1.19 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.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.19 Leases continued

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

1.20 Foreign currency transactions and balances

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

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

1.21 Foreign currency translations

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

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

1.22 Segment reporting

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

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

1.23 Dividends

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

1.24 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

1.24 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 – goodwill and indefinite useful life intangible assets

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

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

Taxation

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

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

Share-based incentives

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

Property, plant and equipment and Intangible assets

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

Franchise loans and receivables

In the current year the group entered into a new franchising model whereby the group takes a minority interest with interested parties to develop and promote gaming throughout South Africa. This has resulted in the group providing financial assistance to the franchisee during the start-up phase. The assessment of the recoverability of these loans requires management's judgement and estimation as recorded in note 10.2.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

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

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

Management made use of external experts to perform the purchase price allocation for the purchase of its shares in Supabets SA Holdings Proprietary Limited and Uptonvale Services Proprietary Limited effective 1 March 2017. The purchase price allocation valued separately identifiable intangible assets and goodwill arising on acquisition. The key assumptions used in the valuations included long-term revenue growth rates, royalty rates and discount rates. The resulting values are disclosed in notes 9.2 and 9.4.

Tellytrack revenue recognition

Customers are using the Tellytrack channel for revenue-generating purposes. Customers are required to pay for the use of this channel when generating revenue. As the revenue recognition is subject to numerous legal procedures that are on-going, the recognition of the revenue requires management's estimation and judgements, as disclosed in note 33.

Water accrual

The Company has made accruals of R13,3 million on estimated water usage at two premises whereby the local municipality has not submitted billings for a number of years for water used. Management has attempted to resolve these issues with the municipalities without success. The accrual is based on estimated water usage at current rates. This accrual has been recorded in trade and other payables (note 22).

1.25 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.

1.26 Share capital and equity

Ordinary shares are classified as equity.

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

Repurchase and reissue of shares (treasury shares)

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

2. FINANCIAL RISK MANAGEMENT

Capital management

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

The Board monitors the level of dividends to ordinary shareholders.

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

Financial risk management

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

Credit risk management

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

Credit risk on trade and other receivables arises from the risk of default of the debtor on repayment of debts owed to the entity. The maximum exposure thereon is the carrying amount as disclosed in note 15. Such credit risk is managed by the entity only trading with recognised, creditworthy third parties. It is the Group and Company policy that customers who wish to trade on credit terms are subject to credit verification procedures. Trade receivables balances are monitored on an ongoing basis.

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

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

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

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

Management determines the concentration of credit risk of trade and other receivables with reference to the currency in which the financial asset is denominated. The entity's exposure to credit risk, split according to concentrations of risk relating to trade and other receivables, has been disclosed under note 15.

Management determines the concentration of credit risk relating to amounts owing from Group companies with reference to the level of trading activity of the Group company. The exposure of the entity to credit risk according to these concentrations for dormant Group companies is R2 821 000 (2016: R2 821 000) and active trading Group companies R99 835 000 (2016: R81 566 000).

2. FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk management continued

Management determines the concentration of credit risk relating to cash and cash equivalents with reference to the geographical location of the bank at which the entity holds its cash and cash equivalents as well as the currency in which the cash and cash equivalents are denominated. The entity holds most of its cash and cash equivalents within South Africa, but does hold, on a short-term basis and per South African Reserve Bank approval, some foreign-denominated cash and cash equivalents. The entity's exposure to these concentrations is disclosed in note 17.

	GROUP		COMPANY	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
The maximum exposure to credit risk at the reporting date was as follows:				
Investments	**11 562**	692	**11 562**	692
Long-term secured loans	**38 639**	24 790	**38 639**	24 790
Long-term unsecured loans	**25 669**		**2 328**	
Amounts owing by Group companies			**99 836**	84 387
Trade and other receivables	**129 855**	137 839	**125 299**	106 306
Assets held for sale		9 924		9 924
Cash and cash equivalents	**98 455**	112 675	**65 343**	86 215
	304 180	285 920	**343 007**	312 314

Liquidity risk management

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

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

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

There have been no significant changes during the year to the Group's exposures to liquidity risk other than the receipt of short-term interest-bearing advances (refer note 21), and the entering into certain finance leases in respect of information technology equipment (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 gross exposure to such liquidity risk is disclosed in note 22.

Management determines its concentration of liquidity risk for amounts owing to Group companies by reference to the level of trading activity of the Group company. The entity's exposure to such liquidity risk regarding dormant Group companies is R9 085 000 (2016: R9 085 000) and regarding active companies is R31 996 000 (2016: R165 000).

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

The Group and Company's current liabilities exceed their current assets. The Group and Company have an unused revolving credit facility of R100 million (2016: R60 million) and dividend inflows from offshore associates in the event that funds are required to fund this exposure and to fund short- to medium-term working capital requirements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

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	More than five years R'000	Total R'000
GROUP					
2017					
Trade and other payables	**45 008**	**222 075**			**267 083**
Finance lease		**63**			**63**
Borrowing			**121 977**		**121 977**
Contingent consideration liability		**101 434**			**101 434**
Operating leases		**57 677**	**48 072**		**105 749**
Betting dividends payable	**13 621**				**13 621**
Bank overdraft	**1 821**				**1 821**
Total	**60 450**	**381 249**	**170 049**		**611 748**
2016					
Trade and other payables	59 493	250 171			309 664
Finance lease		444	64		508
Borrowing		2 926	62 895		65 821
Contingent consideration liability		707			707
Operating leases		50 537	46 943	4 556	102 036
Betting dividends payable	15 994				15 994
Bank overdraft	35 005				35 005
Total	110 492	304 785	109 902	4 556	529 735
COMPANY					
2017					
Trade and other payables	**42 689**	**188 205**			**230 894**
Finance lease		**63**			**63**
Borrowing			**120 000**		**120 000**
Contingent consideration liability		**101 434**			**101 434**
Operating leases		**35 563**	**19 605**		**55 169**
Betting dividends payable	**6 254**				**6 254**
Bank overdraft	**1 821**				**1 821**
Owing to subsidiaries	**41 081**				**41 081**
Total	**91 845**	**325 265**	**139 605**		**556 715**
2016					
Trade and other payables	52 029	207 605			259 634
Finance lease		444	64		508
Borrowing			60 000		60 000
Contingent consideration liability		707			707
Operating leases		28 791	21 049		49 840
Betting dividends payable	8 620				8 620
Bank overdraft	35 005				35 005
Owing to subsidiaries	9 250				9 250
Total	104 904	237 547	81 113		423 564

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

2. FINANCIAL RISK MANAGEMENT CONTINUED

Interest rate risk management

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

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

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

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

Foreign currency risk management

Phumelela International Division undertakes transactions denominated in foreign currencies (refer notes 15, 17 and 22) and is therefore exposed to foreign currency risk.

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

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

Concentration of foreign currency risk is determined by reference to the currency denomination of foreign trade and other receivables, foreign cash and cash equivalents balances held and foreign trade and other payables. The entity's exposure to such foreign currency risk is disclosed under notes 15, 17 and 22 respectively.

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

The sensitivity analysis is based on the net foreign currency balance of a particular foreign currency which existed at 31 July. This net foreign currency balance is calculated as the sum of the foreign currency trade and other receivables balance and the foreign currency cash and cash equivalents balance, less the foreign currency trade and other payables balance. The foreign currency balances used in the calculation can be found in notes 15, 17 and 22 respectively.

The translation of the net foreign currency balance is adjusted at the reporting date for a change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the ZAR weakens against the relevant currency. A strengthening of the ZAR would have an equal but opposite effect.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	Increase or decrease in currency rate %	GROUP PROFIT OR LOSS IMPACT Net foreign currency balance	GROUP PROFIT OR LOSS IMPACT Profit or loss impact R'000	COMPANY PROFIT OR LOSS IMPACT Net foreign currency balance	COMPANY PROFIT OR LOSS IMPACT Profit or loss impact R'000
2. FINANCIAL RISK MANAGEMENT CONTINUED					
***Foreign currency risk management** continued*					
Foreign currency exchange risk 2017					
Australian dollar	**5**	**1 125 610**	**594**	**1 125 610**	**594**
British pound	**5**	**678 076**	**591**	**667 621**	**582**
Euro	**5**	**1 709 888**	**1 334**	**1 709 888**	**1 334**
Singapore dollar	**5**	**(97 600)**	**(2)**	**(97 600)**	**(2)**
Swedish krona	**5**	**471 338**	**229**	**471 338**	**229**
United States dollar	**5**	**(1 155 240)**	**(94)**	**(1 155 240)**	**(94)**
Foreign currency exchange risk 2016					
Australian dollar	5	667 252	352	667 252	352
British pound	5	1 736 642	1 596	1 705 417	1 567
Euro	5	960 372	744	960 372	744
Singapore dollar	5	1 049 427	543	1 049 427	543
Swedish krona	5	(372 625)	(30)	(372 625)	(30)
United States dollar	5	(408 585)	(284)	(408 585)	(284)

The following significant exchange rates were applied during the year:

	Year end		Average	
	GROUP AND COMPANY		GROUP AND COMPANY	
	2017	2016	**2017**	2016
	R	R	**R**	R
Australian dollar	**10,55**	10,54	**10,22**	10,69
British pound	**17,42**	18,38	**17,10**	21,43
Euro	**15,60**	15,5	**14,92**	16,2
Singapore dollar	**9,73**	10,35	**9,74**	10,57
Swedish krona	**1,63**	1,62	**1,56**	1,74
United States dollar	**13,18**	13,89	**13,57**	14,65

2. FINANCIAL RISK MANAGEMENT CONTINUED

Foreign currency risk management *continued*

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

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

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

The Group and Company had taken out no forward exchange cover as at 31 July 2017 (2016: none).

Fair value of financial instruments

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

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

Regarding amounts owing to or from Group companies, where there are no fixed terms of repayment, many of the balances have been outstanding for more than one financial period and as a result, the effect of discounting is immaterial. The amortised cost carrying value disclosed for these accounts does therefore approximate the fair value of the financial instruments. The fair value of the amount owed by Group companies is R102 656 000 (2016: R84 387 000). The fair value of the amount owed to Group companies is R41 081 000 (2016: R9 250 000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

Class of financial instrument	At fair value R'000	Loans and receivables R'000	GROUP Financial liabilities measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS					
2017					
Financial assets					
Investments	10 870	692			11 562
Long-term secured loans		38 639			38 639
Long-term unsecured loans		25 669			25 669
Trade and other receivables		117 555		12 300	129 855
Cash and cash equivalents		98 455			98 455
Total	10 870	281 010		12 300	304 180
Financial liabilities					
Finance lease			64		64
Borrowing			123 584		123 584
Trade and other payables			213 030	54 053	267 083
Contingent consideration liabilities			101 434		101 434
Betting dividends payable			13 621		13 621
Bank overdraft			1 821		1 821
Total			453 554	54 053	507 607
2016					
Financial assets					
Investments		692			692
Long-term secured loan		24 790			24 790
Trade and other receivables		123 931		13 918	137 849
Assets held for sale	9 924			18 700	28 624
Cash and cash equivalents		112 675			112 675
Total	9 924	262 088		32 618	304 630
Financial liabilities					
Finance lease			508		508
Borrowing			65 821		65 821
Trade and other payables			242 557	67 108	309 665
Contingent consideration liabilities			707		707
Betting dividends payable			15 994		15 994
Bank overdraft			35 005		35 005
Total			360 592	67 108	427 700

Class of financial instrument	At fair value R'000	Loans and receivables R'000	COMPANY Financial liabilities measured at amortised cost R'000	Non-financial instruments R'000	Total R'000
3. CLASSIFICATION OF FINANCIAL INSTRUMENTS CONTINUED					
2017					
Financial assets					
Investments	10 870	692			11 562
Long-term secured loan		38 639			38 639
Long-term unsecured loans		2 329			2 329
Amounts owing by subsidiary companies		102 656			102 656
Trade and other receivables		120 721		4 578	125 299
Cash and cash equivalents		65 343			65 343
Total	10 870	330 380		4 578	345 828
Financial liabilities					
Finance lease			64		64
Borrowings			120 000		120 000
Trade and other payables			198 698	32 173	230 871
Amounts owing to subsidiary companies			41 081		41 081
Contingent consideration liabilities			101 434		101 434
Betting dividends payable			6 254		6 254
Bank overdraft			1 821		1 821
Total			469 352	32 173	501 525
2016					
Financial assets					
Investments		692			692
Long-term secured loan		24 790			24 790
Amounts owing by subsidiary companies		84 387			84 387
Trade and other receivables		93 810		12 496	106 306
Assets for sale	9 924				9 924
Cash and cash equivalents		86 215			86 215
Total	9 924	289 894		12 496	312 314
Financial liabilities					
Finance lease			508		508
Borrowings			60 000		60 000
Trade and other payables			210 781	48 854	259 634
Amounts owing to subsidiary companies			9 250		9 250
Contingent consideration liabilities			707		707
Betting dividends payable			8 620		8 620
Bank overdraft			35 005		35 005
Total			324 871	48 854	373 724

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

GROUP

	Land and buildings: Freehold R'000	Land and buildings: Leasehold improvements R'000	Plant and machinery R'000	Information technology equipment R'000	Motor vehicles, heavy duty trucks and trailers R'000	Furniture and fittings R'000	Marks, names and signage R'000	Total R'000
4. PROPERTY, PLANT AND EQUIPMENT								
2017								
Balance at beginning of year	235 488	53 712	76 226	44 019	18 462	29 947	1 060	458 914
Current year movements								
– Additions	10 180	24 684	13 790	19 523	4 076	5 942	417	78 612
– Disposals		(75)	(84)	(47)	(391)	(447)	(15)	(1 059)
– Depreciation	(10 256)	(21 086)	(12 939)	(14 047)	(4 328)	(4 877)	(546)	(68 079)
Balance at end of year	235 412	57 235	76 993	49 448	17 819	30 565	916	468 388
Made up as follows:								
Assets at cost	292 788	136 921	177 908	109 442	40 237	62 410	3 075	822 780
Accumulated depreciation	(57 376)	(79 686)	(100 915)	(59 994)	(22 418)	(31 845)	(2 159)	(354 392)
Carrying value	235 412	57 235	76 993	49 448	17 819	30 565	916	468 388
2016								
Balance at beginning of year	227 178	52 925	78 147	40 866	15 267	28 872	1 427	444 682
Current year movements								
– Additions	17 570	18 748	9 639	15 722	6 298	5 943	309	74 229
– Disposals*	(391)	(499)	(902)	(875)	(112)	(795)	(2)	(3 576)
– Acquisition of subsidiary		678	188	416	167	563		2 012
– Depreciation	(8 869)	(18 140)	(10 846)	(12 110)	(3 158)	(4 636)	(674)	(58 433)
Balance at end of year	235 488	53 712	76 226	44 019	18 462	29 947	1 060	458 914
Made up as follows:								
Assets at cost	282 608	121 553	164 532	96 332	37 710	57 499	3 180	763 414
Accumulated depreciation	(47 120)	(67 841)	(88 306)	(52 313)	(19 248)	(27 552)	(2 120)	(304 500)
Carrying value	235 488	53 712	76 226	44 019	18 462	29 947	1 060	458 914

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

	COMPANY							
	Land and buildings							
	Freehold R'000	Leasehold improvements R'000	Plant and machinery R'000	Information technology equipment R'000	Motor vehicles, heavy duty trucks and trailers R'000	Furniture and fittings R'000	Marks, names and signage R'000	Total R'000
4. PROPERTY, PLANT AND EQUIPMENT CONTINUED								
2017								
Balance at beginning of year	**162 715**	**24 830**	**74 972**	**25 362**	**15 546**	**12 391**	**1 039**	**316 855**
Current year movements								
– Additions	**10 180**	**4 885**	**13 467**	**5 502**	**2 291**	**1 039**	**393**	**37 757**
– Disposals			**(74)**	**(2)**	**(152)**	**(17)**	**(13)**	**(258)**
– Depreciation	**(6 797)**	**(11 048)**	**(12 627)**	**(6 818)**	**(3 479)**	**(2 180)**	**(524)**	**(43 473)**
Balance at end of year	**166 098**	**18 667**	**75 738**	**24 044**	**14 206**	**11 233**	**895**	**310 881**
Made up as follows:								
Assets at cost	**206 208**	**64 437**	**173 942**	**66 159**	**34 279**	**29 283**	**2 831**	**577 139**
Accumulated depreciation	**(40 110)**	**(45 770)**	**(98 204)**	**(42 115)**	**(20 073)**	**(18 050)**	**(1 936)**	**(266 258)**
Carrying value	**166 098**	**18 667**	**75 738**	**24 044**	**14 206**	**11 233**	**895**	**310 881**
2016								
Balance at beginning of year	152 211	25 627	76 600	26 249	13 437	10 664	1 375	306 163
Current year movements								
– Additions	16 888	9 415	9 525	5 725	5 058	3 605	304	50 520
– Disposals	(391)		(788)	(531)	(112)	(146)	(2)	(1 970)
– Depreciation	(5 993)	(10 212)	(10 365)	(6 081)	(2 837)	(1 732)	(638)	(37 858)
Balance at end of year	162 715	24 830	74 972	25 362	15 546	12 391	1 039	316 855
Made up as follows:								
Assets at cost	196 028	68 267	160 703	64 225	32 601	28 312	2 960	553 096
Accumulated depreciation	(33 313)	(43 437)	(85 731)	(38 863)	(17 055)	(15 921)	(1 920)	(236 240)
Carrying value	162 715	24 830	74 972	25 362	15 546	12 391	1 039	316 855

A register containing the information required by 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 R737 000 (2016: R1 050 000).

The leased equipment secures the lease liability reflected in note 20.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

		GROUP		COMPANY	
		2017	2016	**2017**	2016
		R'000	R'000	**R'000**	R'000
5.	**GOODWILL**				
	Acquired on acquisition of:				
	– Betting World Eastern Cape Proprietary Limited (formerly Afribet Proprietary Limited)	**2 844**	2 844		
	– Betting World Proprietary Limited	**8 915**	8 915		
	– TAB North West Proprietary Limited	**3 126**	3 126		
	– Phumelela Gold International Limited	**186**	186		
	Arising on restructure of				
	– Phumelela Gold Enterprises international	**135**	135		
	Balance at end of year	**15 206**	15 206		
	The impairment review process for goodwill is set out in note 6.1.				
6.	**INTANGIBLE ASSETS**				
	Intangible assets				
	Indefinite useful life intangible assets (note 6.1)	**32 107**	29 343		
	Computer software (note 6.2)	**19 832**	22 112	**1 547**	1 820
		51 939	51 455	**1 547**	1 820
6.1	**Indefinite useful life intangible assets**				
	Betting licences	**32 106**	29 343		
	Cost				
	Balance at beginning of year	**29 343**	28 716		
	Acquisitions	**2 764**			
	Settlement on acquisition of subsidiary		(474)		
	Business combination		1 101		
	Balance at end of year	**32 107**	29 343		

Betting licences

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

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

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

Impairment tests for intangible assets with indefinite useful lives and goodwill

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

The impairment review process is as follows:

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

The discount rate used to present value these cash flows takes 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	13,55% (2016: 17,5%)
Cost of equity	
– Risk-free rate	8,62% – R186 at 31 July 2017 (8,65% – R186 at 31 July 2016)
– Beta of peer company	0,82 – average beta of a company exposed to normal systemic risk is 1
– South African market premium	6% – generally accepted in South Africa
Cost of debt	
– Lending rate specific to the Company	9,9% (2016: 9%)
– Tax rate	28% – per current tax legislation
Target debt: equity	25:75

	GROUP		COMPANY	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
6.2 Computer software				
Cost				
Balance at beginning of year	**28 756**	26 994	**2 601**	2 198
Settlement on acquisition of subsidiary		(451)		
Capitalised during the year	**848**	2 213	**241**	403
Balance at end of year	**29 604**	28 756	**2 842**	2 601
Accumulated amortisation				
Balance at beginning of year	**(6 644)**	(3 606)	**(781)**	(268)
Amortisation charge	**(3 128)**	(3 038)	**(514)**	(513)
Balance at end of year	**(9 772)**	(6 644)	**(1 295)**	(781)
Carrying amount	**19 832**	22 112	**1 547**	1 820

	COMPANY	
	2017 R'000	2016 R'000
7. INVESTMENT IN SUBSIDIARIES		
Subsidiaries	**96 336**	96 613

Details of investments in subsidiaries are disclosed on page 137.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

		GROUP		COMPANY	
		2017 R'000	2016 R'000	2017 R'000	2016 R'000
8.	**INVESTMENTS**				
	Unlisted investments (note 8.1)	**692**	692	**692**	692
	Listed investments (note 8.2)	**10 870**		**10 870**	
		11 562	692	**11 562**	692
8.1	**Unlisted investments**				
	Investment in:				
	Kenilworth Racing Quarantine Centre (formerly Horseracing South Africa Proprietary Limited ("Company")				
	– At cost*				
	– Loan to Company (measured at amortised cost)	**692**	692	**692**	692
	Omphe Tshiamo Investment Proprietary Limited				
	– At cost*				
	Directors' valuation	**692**	692	**692**	692
	** Below R1 000*				
8.2	**Listed Investments**				
	Transfer from assets held for sale (note 16)	**9 924**		**9 924**	
	Revaluation to market value	**946**		**946**	
	Balance at end of year	**10 870**		**10 870**	

The shares in Automatic Systems Limited are no longer considered strategic and the investment was classified as assets held for sale. However, as there is no prospect of a short-term sale, the shares have been reclassified to investments.

The investment is carried at the current market value.

The Company owns 421 323 ordinary shares in Automatic Systems Limited, a company registered on the Mauritian Stock Exchange. The investment is categorised at level 1 in the fair value hierarchy as there is a market price readily available.

		GROUP		COMPANY	
		2017 R'000	2016 R'000	2017 R'000	2016 R'000
9.	**INTEREST IN EQUITY-ACCOUNTED INVESTEES**				
	Premier Gateway International Limited (note 9.1)	**31 627**	41 242		
	Supabets SA Holdings Proprietary Limited (note 9.2)	**490 826**		**470 475**	
	SW Security Solutions (note 9.3)	**4 400**	3 316	**1 056**	1 056
	Uptonvale Services Proprietary Limited (note 9.4)	**111 221**	30 902	**110 000**	31 000
		638 074	75 460	**581 531**	32 056
	Movement				
	Balance at beginning of year	**75 460**	51 732	**32 056**	32 056
	Acquisitions	**549 475**		**549 475**	
	Profit for the year	**122 591**	94 694		
	Dividends	**(109 452)**	(70 966)		
	Balance at end of year	**638 074**	75 460	**581 531**	32 056

	GROUP	
	2017	2016
	R'000	R'000
9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED		
9.1 Premier Gateway International Limited		
– Comprising Premier Gateway International Limited and Premier Gateway Services Limited		
Shareholding 50% (2016: 50%)		
Company licensed to conduct pari-mutuel betting on the Isle of Man and a service company providing logistical support, both of which are jointly owned with Tabcorp Holdings Limited (Australia). Premier Gateway is a replica of the tote betting facilities in South Africa and operates as a worldwide totalisator hub.		
Balance at beginning of year		
– at cost	**2**	2
Share of post-acquisition reserves	**31 625**	41 240
– Balance at beginning of year	**41 240**	19 305
– Share of current year's income after taxation	**88 786**	88 247
– *Less:* dividend received	**(98 400)**	(66 312)
Balance at end of year	**31 627**	41 242
Summarised financial information of Premier Gateway International Limited for the year ended 31 July		
ASSETS		
Non-current assets		
Property, plant and equipment	**4 609**	2 233
Current assets	**660 117**	589 640
Trade and other receivables	**21 429**	53 672
Owing by Group companies	**105 061**	88 595
Prepayments	**1 060**	1 022
Cash on hand	**532 567**	446 351
Total assets	**664 726**	591 873
EQUITY AND LIABILITIES		
Capital and reserves	**171 518**	159 928
Liabilities		
Non-current liabilities		
Shareholders' loan	**4 181**	4 411
Current liabilities		
Trade and other payables	**489 027**	427 534
Total equity and liabilities	**664 726**	591 873
Income	**11 643 124**	11 129 500
Expenditure	**(11 078 597)**	(10 560 461)
Profit for the year before finance income	**564 527**	569 039
Depreciation	**(1 208)**	(2 360)
Finance income	**2 025**	1 403
Profit for the year	**565 344**	568 082

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED				
9.2 Supabets SA Holdings Proprietary Limited				
Shareholding 50% effective 1 March 2017 and is jointly controlled.				
Supabets is a sports and gaming group operating in South Africa offering primarily fixed odds on sports betting and numbers				
Cost per agreement*	437 058		437 058	
Transactional costs capitalised	19 625		19 625	
Post-acquisition dividend paid from pre-acquisition reserves	(16 820)		(16 820)	
Price adjustment on acquisition shares marked to market at effective date	30 612		30 612	
Cost including goodwill	470 475		470 475	
Share of post-acquisition reserves	20 351			
Retained income movement				
– Share of current year's income after taxation	21 368			
Intangible asset amortisation	(1 412)			
Tax effect	395			
Balance at end of year	**490 826**		**470 475**	
Summarised financial information of Supabets SA Holdings Proprietary Limited for the year ended 31 July				
ASSETS				
Non-current assets	50 655			
Property, plant and equipment	29 349			
Intangible assets	15 383			
Long-term receivables	2 474			
Deferred tax	3 449			
Current assets	246 826			
Trade and other receivables	87 724			
Loans to related parties	132 759			
Cash on hand	26 343			
Total assets	**297 481**			
EQUITY AND LIABILITIES				
Capital and reserves	192 248			
Liabilities				
Non-current liabilities	11 666			
Interest-bearing borrowings	8 083			
Finance lease liability	3 583			
Current liabilities	93 567			
Trade and other payables	47 285			
Interest-bearing borrowings	3 000			
Finance lease liabilities	5 738			
Current tax payable	34 544			
Loans from related parties	3 000			
Total equity and liabilities	**297 481**			

** R98 604 000 of the purchase consideration was unpaid at the year end (Refer note 24.2)*

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED				
9.2 Supabets SA Holdings Proprietary Limited continued				
Gambling revenue	**139 517**			
Other income	**22 690**			
Interest received	**4 387**			
Income	**166 594**			
Expenditure	**(100 877)**			
Depreciation	**(5 442)**			
Profit before finance charges	**60 275**			
Finance charges	**(1 113)**			
Profit before income tax expense	**59 162**			
Income tax expense	**(16 427)**			
Profit for the year	**42 735**			
The carrying value is reconciled as follows:				
Share capital and reserves	**112 944**			
Post-acquisition dividend paid from pre-acquisition reserves	**(16 820)**			
Purchase price allocation:				
– Licences (Indefinite use for life)	**36 086**			
– Brand (Amortised over 10 years)	**31 578**			
– Deferred tax	**(18 946)**			
– Goodwill	**345 984**			
Carrying value	**490 826**			
9.3 SW Security Solutions – Comprising SW Security Solutions SA Proprietary Limited and SW Security Solutions Africa Limited				
Shareholding 33% (2016: 33%)				
Company provides security solutions in South Africa and Africa.				
Balance at beginning of year				
– at cost including goodwill	**1 056**	1 056	**1 056**	1 056
Share of post-acquisition reserves	**3 344**	2 260		
– Balance at beginning of year	**2 260**	858		
– Share of current year's income after taxation	**1 667**	1 402		
– *Less:* dividend received	**(583)**			
Balance at end of year	**4 400**	3 316	**1 056**	1 056

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED				
9.3 SW Security Solutions continued				
Summarised financial information of SW Security Solutions for the year ended 31 July				
ASSETS				
Non-current assets	**728**	918		
Property, plant and equipment	**563**	483		
Long-term loan	**27**	50		
Deferred tax asset	**39**	269		
Goodwill	**99**	116		
Current assets	**15 692**	10 073		
Trade and other receivables	**9 306**	4 588		
Cash on hand	**6 386**	5 485		
Total assets	**16 420**	10 991		
EQUITY AND LIABILITIES				
Capital and reserves	**9 909**	6 624		
Liabilities				
Non-current liabilities				
Long-term loan from holding company		566		
Current liabilities	**6 511**	3 801		
Trade and other payables	**5 291**	2 579		
Finance lease liability	**510**	375		
Income tax payable	**551**	642		
Loans from related parties	**159**	205		
Total equity and liabilities	**16 420**	10 991		
Revenue	**51 200**	38 338		
Interest received	**77**	40		
Total income	**51 277**	38 378		
Expenditure	**(43 866)**	(30 593)		
Depreciation	**(273)**	(251)		
Profit before income interest expense	**7 138**	7 534		
Finance cost	**(95)**	(46)		
Profit before income tax expense	**7 043**	7 488		
Income tax expense	**(1 992)**	(3 241)		
Profit for the year	**5 051**	4 247		
The carrying value of the associate can be reconciled to the share capital as follows:				
Share of capital and reserves	**3 344**	2 260		
Goodwill	**1 056**	1 056		
Carrying value	**4 400**	3 316		

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED				
9.4 Uptonvale Services Proprietary Limited				
Uptonvale Services Proprietary Limited trading as Interbet provides a secure online betting exchange.				
Shareholding 50% (2016: 26%) and is jointly controlled.				
Balance at beginning of year				
– at cost including goodwill	**31 000**	31 000	**31 000**	31 000
Additional 24% acquired effective 1 March 2017				
– at cost including goodwill*	**79 000**		**79 000**	
Share of post-acquisition reserves	**1 221**	(98)		
Retained income brought forward	**(98)**	(489)		
– Share of current year's income after taxation	**12 193**	5 045		
Intangible asset amortisation	**(564)**			
Tax effect	**158**			
– *Less:* dividend received	**(10 469)**	(4 654)		
Balance at end of year	**111 221**	30 902	**110 000**	31 000
Summarised financial information of Uptonvale Proprietary Limited for the year ended 31 July				
ASSETS				
Non-current assets	**9 083**	8 637		
Property, plant and equipment	**783**	837		
Goodwill	**4 870**	4 870		
Intangible assets	**2 930**	2 930		
Loan receivable	**500**			
Current assets	**23 311**	22 404		
Trade and other receivables	**6 425**	4 678		
Cash on hand	**16 886**	17 726		
Total assets	**32 394**	31 041		
EQUITY AND LIABILITIES				
Capital and reserves	**20 166**	22 806		
Liabilities				
Current liabilities	**12 228**	8 235		
Trade and other payables	**10 513**	7 015		
Income tax liability	**1 715**	783		
Loans from related parties		437		
Total equity and liabilities	**32 394**	31 041		
Revenue for services	**62 631**	51 134		
Interest received	**1 511**	1 020		
Income	**64 141**	52 154		
Expenditure	**(20 192)**	(21 294)		
Depreciation	**(785)**	(3 087)		

** R8 million of the purchase consideration has not been paid at the year end and is included in trade and other payables.*

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
9. INTEREST IN EQUITY-ACCOUNTED INVESTEES CONTINUED				
9.4 Uptonvale Services Proprietary Limited continued				
Profit before income tax expense	**43 164**	27 773		
Income tax expense	**(12 003)**	(8 370)		
Profit for the year	**31 161**	19 403		
The carrying value is reconciled as follows:				
Share capital and reserves	**10 083**	5 930		
Purchase price allocation:				
– Intangible assets customer base (Amortised over five years)	**2 910**	2 450		
– Intangible assets brand (Amortised over 10 years)	**1 051**			
– Intangible assets - Internally generated software (Amortised over 10 years)	**5 441**			
– Deferred tax	**(2 640)**	(686)		
– Goodwill	**94 376**	23 208		
Carrying value	**111 221**	30 902		
10. LONG-TERM LOANS				
Long-term secured loans (refer 10.1)	**38 639**	24 790	**38 639**	24 790
Long-term unsecured loans (refer 10.2)	**25 670**		**2 328**	
Total long-term loans	**64 309**	24 790	**40 967**	24 790
10.1 Long-term secured loans				
Balance at beginning of year	**24 790**	10 603	**24 790**	10 603
Amounts advanced during the year	**84 083**	77 515	**84 083**	77 515
Amounts repaid during the year	**(75 472)**	(66 270)	**(75 472)**	(66 270)
Fair value adjustment				
Interest charged	**5 238**	2 942	**5 238**	2 942
	38 639	24 790	**38 639**	24 790
Kenilworth Racing Proprietary Limited				
Balance at beginning of year	**13 071**		**13 071**	
Amounts advanced during the year	**83 583**	77 515	**83 583**	77 515
Amounts repaid during the year	**(75 472)**	(66 270)	**(75 472)**	(66 270)
Interest charged	**3 911**	1 826	**3 911**	1 826
Balance at end of year	**25 093**	13 071	**25 093**	13 071
The advance bears interest at the rate of prime minus 1% and is secured by means of a first mortgage bond registered over Kenilworth Racing Proprietary Limited Milnerton property in the amount of R60 million.				
Mashonaland Turf Club				
Balance at beginning of year	**11 719**	10 603	**11 719**	10 603
Amounts advanced during the year	**500**		**500**	
Interest charged	**1 327**	1 116	**1 327**	1 116
Balance at end of year	**13 546**	11 719	**13 546**	11 719

The advance bears interest at the rate of prime minus 1% and is secured by means of a second mortgage bond registered over Stand 19206, Harare Township and a bank guarantee in the amount of US$2 million (R27 780 000).

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
10. LONG-TERM LOANS				
10.2 Long-term unsecured loans				
Amounts advanced during the year	**11 907**		**2 800**	
Transfer from account receivable	**11 723**			
Fair value adjustment on initial recognition	**(522)**		**(522)**	
Interest charged	**2 562**		**50**	
Balance at end of year	**25 670**		**2 328**	

The loans are enterprise development loans that bear interest at variable rates between interest free and prime plus 3%, are unsecured and are repayable between September 2019 and September 2022. The balance includes amount due from the franchisee of R23 million.

In support of the franchise loans, management has prepared a discounted cash flow based on future expected earnings. This takes into account the start-up operations of the businesses, anticipated new stores and introduction of other gaming operations into existing stores, the result of which indicates that the loans advanced are recoverable. The franchisee has also obtained a valuation from a reputable valuer, whose draft report indicates that the business has value. The franchise gaming licenses are owned by a Group subsidiary company, and coupled with the licences over leasehold improvements and fixture and fittings, management is of the view that the loan and related receivable are recoverable and no impairment is required.

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
11. INVESTMENT PROPERTY				
Reclassified from assets held for sale (refer note 16)	**18 700**			
	18 700			

Approval to establish a residential housing estate consisting of 183 erven and business premises on a portion of the land held at Arlington Racecourse in Port Elizabeth was received from the local council on 22 November 2007.

The Group's original intention was to unlock the potential value of the property and further enhance the horseracing venue.

Following the change of intention in use of the portion of property to be developed, the book value of the property and related costs was transferred from non-current assets (property, plant and equipment) to current assets (inventories construction work-in-progress).

All subsequent expenditure related to progressing the development has been allocated to the cost of construction as work-in-progress. An independent valuation of the property was carried out in January 2008 with the valuator valuing the property at R38 million in its current state of development.

Following the installation of a polytrack at Fairview, the Arlington racecourse was mothballed and put up for sale and the assets comprising this disposal group have been classified as assets held for sale. However this asset has been reclassified to Investment property as there are no compelling indicators that the property will be sold in the short term.

The property is currently on the market for sale and was independently valued at R51 million by Haacke and Associates in October 2016. The sale of the property is being actively pursued.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
12. DEFERRED TAXATION				
Deferred tax asset	**12 431**	8 949	**6 046**	3 682
Deferred tax liability	**(1 393)**	(1 531)		
Balance at end of year	**11 038**	7 418	**6 046**	3 682
Deferred tax				
The deferred tax asset/(liability) arises as a result of:				
Property, plant and equipment	**(3 214)**	(4 985)	**(3 678)**	(3 989)
Provisions and accruals	**1 049**	8 865	**530**	7 316
Lease straight-lining	**1 259**	1 670	**494**	796
Deferred revenue	**2**	97	**2**	97
Estimated tax losses	**12 486**	2 309	**9 242**	
Prepayments	**(544)**	(538)	**(544)**	(538)
	11 038	7 418	**6 046**	3 682
Deferred tax asset/(liability) raised				
Balance at beginning of year	**7 418**	(1 742)	**3 682**	(2 135)
Credit to income statement	**3 620**	9 160	**2 364**	5 817
Balance at end of year	**11 038**	7 418	**6 046**	3 682

Deferred tax has been provided at a rate of 28% (2016: 28%) other than for capital temporary differences where a rate of 22,4% (2016: 22,4%) has been applied.

	COMPANY	
	2017	2016
	R'000	R'000
13. AMOUNTS OWING BY SUBSIDIARY COMPANIES		
13.1 Non-current assets		
Glenfiddich Investments Proprietary Limited	**269**	269
Hadrian Investments Proprietary Limited	**24**	24
Injector Investments Proprietary Limited	**24**	24
Shelanu Investments Proprietary Limited	**24**	24
Transvaal Racing Holdings Proprietary Limited	**2 480**	2 480
	2 821	2 821
Amounts owing by subsidiary companies bear no interest, have no fixed terms of repayment and are not expected to be settled within 12 months of the reporting date.		
13.2 Current assets		
Betting World Proprietary Limited	**31 802**	
East Cape Racing Proprietary Limited	**61 111**	68 364
Rand Sporting Club Proprietary Limited		8 167
TAB North West Proprietary Limited	**6 318**	4 430
Highveldt Training Centre Proprietary Limited		
– Amount owing	**605**	605
– Impaired	**(605)**	
	99 231	81 566
Balance owing by subsidiary companies	**102 052**	84 387

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

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
14. INVENTORIES				
Consumable stores at cost	**2 007**	1 260	**565**	369
Digital satellite decoders	**459**	660	**459**	660
	2 466	1 920	**1 024**	1 029
Consumable stores are made up of fuel, betting vouchers, food and beverages stock on hand.				
15. TRADE AND OTHER RECEIVABLES				
Trade receivables	**101 750**	113 831	**88 499**	83 794
Allowance for impairment	**(7 416)**	(9 192)	**(7 265)**	(9 139)
Trade receivables after impairment	**94 334**	104 639	**81 234**	74 655
Subsidiary company current account			**22 714**	5 742
Prepayments	**12 300**	13 918	**4 578**	12 496
Other receivables	**23 221**	19 292	**16 773**	13 413
	129 855	137 849	**125 299**	106 306
Trade receivables consist of non-interest-bearing receivables and are generally on 30 to 60-day terms. Where the service agreement includes a set-off arrangement, the set-off has been applied as follows:				
Gross amount receivable	**9 560**	14 078	**9 560**	14 078
Gross amount payable	**(44 025)**	(59 324)	**(44 025)**	(59 324)
Net amount payable	**(34 465)**	(45 246)	**(34 465)**	(45 246)
Included in:				
Trade and other payables (note 22)	**(34 465)**	(45 244)	**(34 465)**	(45 244)
Trade and other receivables include the following foreign currency-denominated monetary assets:				
South African rand thousands				
Australian dollar	**4 726**	3 970	**4 726**	3 970
British pound	**306**	2 244	**306**	2 244
Euro	**17 517**	10 822	**17 517**	10 822
Singapore dollar	**5 112**	4 570	**5 112**	4 570
United States dollar	**5 981**	6 356	**5 981**	6 356
	33 642	27 962	**33 642**	27 962

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
15. TRADE AND OTHER RECEIVABLES CONTINUED				
Foreign currency				
Australian dollar	**448 151**	376 553	**448 151**	376 553
British pound	**17 573**	122 096	**17 573**	122 096
Euro	**1 122 617**	698 162	**1 122 617**	698 162
Singapore dollar	**525 616**	441 653	**525 616**	441 653
United States dollar	**453 780**	457 383	**453 780**	457 383
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	**9 192**	7 180	**9 138**	7 166
Charged to profit and loss	**2 019**	2 681	**1 905**	2 627
Written back to profit and loss	**(1 024)**	(394)	**(1 024)**	(394)
Utilised during the year	**(2 771)**	(275)	**(2 754)**	(261)
Allowance at end of year	**7 416**	9 192	**7 265**	9 138

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

The foreign currency amounts reflect the geographical make-up.

		Neither past due nor impaired		Past due but not impaired	
	Total	**Current**	**30 to 60 days**	**30 to 60 days past due**	**>90 days past due**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
As at 31 July, the ageing of trade receivables is as follows:					
GROUP					
2017	**94 334**	**26 668**	**25 276**	**7 421**	**34 970**
2016	104 638	28 814	13 920	11 986	49 918
COMPANY					
2017	**81 234**	**26 643**	**22 751**	**6 036**	**25 804**
2016	74 656	25 039	10 858	6 510	32 249

The impairment allowance at 31 July relates to receivables more than 60 days past due. The Group and the Company hold a bond over the Mashonaland Turf Club (Zimbabwe) to secure an amount of R15 759 000 (2016: R13 896 000) included in >90 days past due and not impaired (refer note 10). The Ministero Delle Politiche Agricole Alimentari E Forestali owes R10 million, which is effectively the Italian government, where experience shows there is no history of default. The advances to the franchisee of R7 million, which are being monitored and currently as a start up, do not warrant a provision.

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
Net balances owing by Mashonaland Turf Club:				
Trade and other receivables	**17 724**	15 384	**15 759**	13 896
Commission payable included in trade payable	**(3 097)**	(2 649)	**(3 097)**	(2 649)
Long-term secured loan (refer note 10.1)	**13 546**	11 719	**13 546**	11 719
Net amount receivable	**28 172**	24 454	**26 207**	22 966

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
16. ASSETS HELD FOR SALE				
Property, plant and equipment (note 16.1)		18 700		
Investments (note 16.2)		9 924		9 924
		28 624		9 924
16.1 Property, plant and equipment				
Balance at beginning of year	**18 700**	18 700		
Reclassified as investment property (note 11)	**(18 700)**			
		18 700		
16.2 Investments				
Balance at beginning of year	**9 924**	4 346	**9 924**	4 346
Reclassified as investments (note 8)	**(9 924)**	5 578	**(9 924)**	5 578
Balance at end of year		9 924		9 924
17. CASH AND CASH EQUIVALENTS				
Cash on cash management at bank and on hand	**46 885**	51 828	**13 940**	27 735
Short-term bank deposits	**51 570**	60 847	**51 403**	58 480
	98 455	112 675	**65 343**	86 215
Included in cash and cash equivalents are the following foreign currency-denominated monetary assets:				
South African rand				
Australian dollar	**8 103**	4 910	**8 103**	4 910
British pound	**17 205**	34 074	**16 976**	33 449
Euro	**10 779**	6 206	**10 779**	6 206
Singapore dollar	**8 092**	9 851	**8 092**	9 851
Swedish krona	**970**	753	**970**	753
United States dollar	**4 623**	1 382	**4 623**	1 382
	49 772	57 176	**49 542**	56 551
Foreign currency				
Australian dollar	**768 365**	465 738	**768 365**	465 738
British pound	**987 533**	1 853 890	**974 352**	1 819 905
Euro	**690 790**	400 400	**690 790**	400 400
Singapore dollar	**831 976**	951 811	**831 976**	951 811
Swedish krona	**593 899**	464 782	**593 899**	464 782
United States dollar	**350 715**	99 522	**350 715**	99 522

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
18. SHARE CAPITAL AND PREMIUM				
18.1 Share capital				
Authorised				
480 000 000 ordinary shares of 2,5 cents each	**12 000**	12 000	**12 000**	12 000
Issued				
Balance at beginning of year – 77 101 885 ordinary shares of 2,5 cents each	**1 928**	1 928	**1 928**	1 928
Issued in terms of rights offer – 16 602 230 ordinary shares of 2,5 cents each	**415**		**415**	
Issued in terms of acquisition of Supabets Holding SA Proprietary Limited – 8 796 443 ordinary shares of 2,5 cents each ("acquisition shares")	**220**		**220**	
Balance at end of year – 102 500 558 ordinary shares of 2,5 cents each	**2 563**	1 928	**2 563**	1 928
Treasury shares				
940 789 (2016: 2 566 400) ordinary shares of 2,5 cents each repurchased	**(24)**	(65)		
Opening balance 2 566 400 (2016: 2 576 400) ordinary shares of 2,5 cents each repurchased	**(65)**	(65)		
Repurchased 500 000 (2016: nil) ordinary shares of 2,5 cents each	**(13)**			
Issued in terms of option scheme 2 125 611 (2016: 10 000) ordinary shares of 2,5 cents	**53**	*		
Net share capital	**2 539**	1 863	**2 563**	1 928
Share premium	**471 287**		**471 580**	293
Balance at beginning of year			**293**	
Proceeds from rights issue	**288 298**		**288 298**	
Attributed on acquisition shares	**152 750**		**152 750**	
Acquisition shares marked to market at effective date	**30 612**		**30 612**	
Less: direct costs	**(373)**		**(373)**	
Total share capital and premium after deducting treasury shares 101 559 769 (2016: 74 525 485) ordinary shares of 2,5 cents	**473 826**	1 863	**474 143**	2 221

** Less than R1 000.*

Rand Sporting Club Proprietary Limited, a 100% subsidiary of the Company, holds 940 789 (2016: 2 566 400) ordinary shares at year end.

18. SHARE CAPITAL AND PREMIUM CONTINUED

18.1 Share capital continued

	Direct beneficial R'000	Indirect beneficial R'000	Total R'000	Percentage %
Directors' interests in share capital at 31 July 2017				
Non-executive directors				
B Kantor		5 019 252	5 019 252	4,90
MJ Jooste	2 051	4 709 599	4 711 650	4,60
E Nkosi	14 465		14 465	0,01
CJH van Niekerk	57 742		57 742	0,06
JB Walters	4 551	54 677	59 228	0,06
Executive directors				
WA du Plessis	4 500	3 732 228	3 736 728	3,65
AW Heide	340 000		340 000	0,33
VJ Moodley	145 854	3 000	148 854	0,15
JA Stuart	436 000	5 295	441 295	0,43
	1 005 163	12 524 051	14 529 214	14,17

There has been no movement in the disclosed interests during the period 31 July 2017 to the date of signature of this report.

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

	GROUP 2017 R'000	2016 R'000
18.2 Translation reserves		
Foreign currency translation reserve arising on consolidation of the interests held in Phumelela Gold International Limited	**(593)**	(442)
18.3 Non-controlling intersest	%	%
Betting World Eastern Cape Proprietary Limited (Formerly Afribet)		
Non-controlling interest (%)	**48,79**	48,79
	R'000	R'000
Non-current assets	**7 564**	5 826
Current assets	**2 380**	993
Non-current liabilities	**(547)**	(659)
Current liabilities	**(17 427)**	(6 418)
	(8 030)	(258)
Carrying value	**(3 918)**	
Current year losses allocated	**(2 500)**	(980)
Net movement in cash and cash equivalents	**540**	(249)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

19. 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.

19.1 Defined benefit funds

Central Management Company (Sporting Clubs) Cusada Pension Plan

Totalisator Agency Board (Transvaal) Pension Plan

Newmarket Pension Fund

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

The most recent actuarial valuations performed at 31 July 2017 on the above funds showed that these funds are adequately funded.

	GROUP		COMPANY	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
Pension fund surplus				
Balance at beginning of year	**8 183**	7 075	**8 183**	7 075
Recognition of employers surplus in benefit funds				
– Past service costs included in profit and loss	**846**	1 108	**846**	1 108
Balance at end of year	**9 029**	8 183	**9 029**	8 183

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

	GROUP AND COMPANY			
	Central Management Company (Sporting Clubs) Cusada Pension Plan	**Totalisator Agency Board (Transvaal) Pension Plan**	**Newmarket Pension Fund**	**Total**
2017				
Fair value of assets	**16 857**	**24 609**	**1 587**	**43 053**
Benefit obligations	**(7 565)**	**(23 811)**	**(2 648)**	**(34 024)**
Funded benefit plan assets	**9 292**	**798**	**(1 061)**	**9 029**
2016				
Fair value of assets	14 301	28 543	1 828	44 672
Benefit obligations	(9 120)	(24 741)	(2 628)	(36 489)
Funded benefit plan assets	5 181	3 802	(800)	8 183

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

19. RETIREMENT BENEFIT INFORMATION CONTINUED

19.1 Defined benefit funds continued

	Central Management Company (Sporting Clubs) Cusada Pension Plan		Totalisator Agency Board (Transvaal) Pension Plan		Newmarket Pension Fund	
	2017	2016	**2017**	2016	**2017**	2016
The funds are actuarially valued on an annual basis and were last valued on 31 July 2017.						
The following main assumptions were made by the actuary:						
Discount rate (per annum compound)	**8,40%**	9,20%	**8,80%**	9,20%	**8,10%**	9,20%
Price inflation (per annum compound)	**4,80%**	4,80%	**2,50%**	1,90%	**5,50%**	6,70%
Pensioner mortality	**PA(90)**	PA(90)	**PA(90)**	PA(90)	**PA(90)**	PA(90)
Membership at date of valuation						
Pensioners	**17**	19	**32**	34	**10**	10

19.2 Defined contribution funds

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

	GROUP		COMPANY	
	Members at 31 July	Employer contributions R'000	Members at 31 July	Employer contributions R'000
2017				
Phumelela Pension Fund	**121**	**1 381**	**121**	**1 381**
Phumelela Provident Fund	**2 183**	**20 056**	**1 309**	**11 364**
TAB Provident Fund	**27**	**166**	**27**	**166**
Saccawu National Provident Fund	**5**	**58**	**5**	**58**
	2 336	**21 661**	**1 462**	**12 969**
2016				
Phumelela Pension Fund	132	1 254	132	1 254
Phumelela Provident Fund	1 370	10 715	1 370	10 715
TAB Provident Fund	31	191	31	191
Saccawu National Provident Fund	5	57	5	57
T&G Provident Fund		9		9
	1 538	12 226	1 538	12 226

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
20. FINANCIAL LEASE LIABILITY				
Opening balance	**488**	1 045	**488**	1 045
Payment made	**(425)**	(557)	**(425)**	(557)
Balance at end of year	**63**	488	**63**	488
Non-current liability		63		63
Current liability included in trade and other payables.	**63**	425	**63**	425
	63	488	**63**	488

The liabilities are secured through information technology equipment with a net book value of R737 000 (2016: R1 050 000). The liability is repayable at the rate of R51 560 per month with interest rates varying between 7,9% and 8,5%.

	GROUP AND COMPANY		
	Future minimum lease payment R'000	**Interest R'000**	**Present value of lease payments R'000**
2017			
Less than one year	**64**	**1**	**63**
2016			
Less than one year	444	19	426
Two to five years	64	1	63
	508	20	488

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
21. BORROWINGS				
Unsecured borrowings				
Non-current				
Term loan	**1 977**	2 895		
Revolving credit facility	**120 000**	60 000	**120 000**	60 000
	121 977	62 895	**120 000**	60 000
Current liability				
Non-controlling shareholders' loans	**793**	526		
Term loan	**1 607**	2 400		
Short-term borrowing	**2 400**	2 926		
Bank overdraft	**1 821**	35 005	**1 821**	35 005
	4 221	37 931	**1 821**	35 005

The Company has received an unsecured revolving credit facility from a local bank in the amount of R220 million (2016: R120 million) which is redeemable in full in June 2020 at an interest rate of JIBAR plus 260 basis points and has utilised R120 million (2016: R60 million) of the facility. The bank has imposed certain covenants which have all been complied with. The Company has also received facilities from a local bank in the amount of R55 million which is a demand facility at the rate of prime minus 1%. A subsidiary has a term loan which is unsecured, bears interest at 0,75% below prime and is repayable in monthly instalments of R200 000.

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
22. TRADE AND OTHER PAYABLES				
Trade payables	**148 048**	130 246	**130 898**	106 828
Accruals – staff costs	**20 277**	48 450	**19 795**	40 680
Accruals – other	**60 410**	68 510	**50 929**	57 100
Betting taxes	**4 371**	3 932	**3 422**	3 081
Financial leases current liability	**63**	426	**63**	426
Purchase consideration (refer note 9.4)	**8 000**		**8 000**	
Other payables	**25 977**	58 531	**17 850**	51 949
	267 146	310 095	**230 957**	260 064
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	**9 560**	14 078	**9 560**	14 078
Gross amount payable	**(44 025)**	(59 324)	**(44 025)**	(59 324)
Net amount included in trade payables	**(34 465)**	(45 244)	**(34 465)**	(45 244)
Trade and other payables include the following geographical and foreign currency-denominated liabilities:				
South African rand				
Australian dollar	**959**	1 845	**959**	1 845
British pound	**5 698**	4 399	**5 650**	4 348
Euro	**1 615**	2 142	**1 615**	2 142
Singapore dollar	**8 620**	3 561	**8 620**	3 561
Swedish krona	**2 857**	1 357	**2 857**	1 357
United States dollar	**12 641**	13 411	**12 641**	13 411
	32 390	26 715	**32 342**	26 664
Foreign currency				
Australian dollar	**90 906**	175 039	**90 906**	175 039
British pound	**327 031**	239 344	**324 304**	236 584
Euro	**103 520**	138 190	**103 520**	138 190
Singapore dollar	**886 253**	344 036	**886 253**	344 036
Swedish krona	**1 749 138**	837 407	**1 749 138**	837 407
United States dollar	**959 106**	965 490	**959 106**	965 490

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	COMPANY	
	2017	2016
	R'000	R'000
23. AMOUNTS OWING TO SUBSIDIARY COMPANIES		
Highveld Racing Authority Technical Services Proprietary Limited	**8 799**	8 799
Rand Sporting Club Proprietary Limited	**31 987**	
Tote Property Investments Proprietary Limited	**9**	165
Highveldt Training Centre Proprietary Limited	**277**	277
Silks Gaming and Leisure Proprietary Limited	**9**	9
	41 081	9 250

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

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
24. CONTINGENT CONSIDERATION LIABILITY				
Contingent consideration				
Balance at beginning of year	**707**	707	**707**	707
Arising on purchase of Supabets SA Holdings Proprietary Limited	**98 684**		**98 684**	
Interest accrued	**2 373**		**2 373**	
Repaid in terms of agreement	**(330)**		**(330)**	
Balance at end of year	**101 434**	707	**101 434**	707
24.1 The purchase consideration in respect of SW Security Solutions SA of R1 056 000 is payable in terms of a cession to future dividends to the seller to the amount of the purchase consideration. During the current year a dividend receipt of R330 000 along with a prior dividend of R349 000 was paid and applied to the liability leaving the balance owing. The liability is interest free.	**377**	707	**377**	707
24.2 Supabets transaction (refer note 9.2) – Part of the purchase consideration is payable contingent on transfer of ownership of certain licences, agreements and business operations to a Supabets subsidiary company as more fully set out in the Share Sale Agreement. The contingent consideration accrues interest at rates varying between that paid by the Group on overdraft facilities and 30-day fixed deposit rates.	**98 684**		**98 684**	
Interest accrued	**2 373**		**2 373**	
	101 057		**101 057**	
Total contingent liability	**101 434**	707	**101 434**	707

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
25. INCOME				
Revenue comprises:				
Gross betting income (note 26)	**1 176 913**	1 198 796	**763 273**	815 850
International division				
– Derived from international ventures	**306 844**	273 840	**306 844**	273 840
Proportionate share of Tellytrack Partnership				
– Derived from local operations	**20 911**	22 830	**35 331**	28 857
Interest received	**15 210**	4 791	**12 509**	4 637
Dividends received	**637**	540	**127 818**	234 822
	1 520 515	1 500 797	**1 245 775**	1 358 006
26. GROSS BETTING INCOME				
Bets struck net of betting dividends paid, refunds and rebates				
– South Africa – totalisator	**823 485**	882 864	**763 273**	815 850
– South Africa – fixed odds	**353 428**	315 932		
	1 176 913	1 198 796	**763 273**	815 850
27. NET BETTING INCOME				
Net betting income derived from bets struck:				
– South Africa – totalisator	**655 792**	702 476	**606 408**	647 512
– South Africa – fixed odds	**292 811**	263 075		
	948 603	965 551	**606 408**	647 512

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
28. PROFIT FROM OPERATIONS				
The operating profit is stated after:				
28.1 Income				
Dividends received				
– Unlisted investments			**127 181**	234 282
– Listed investments	**637**	540	**637**	540
Interest received	**15 210**	4 791	**12 509**	4 637
– Interest received on loans	**7 799**	3 044	**5 288**	3 044
– Interest received from banks	**7 411**	1 747	**5 930**	570
– Interest received from subsidiaries			**1 291**	1 023
Gambling Board levies received	**74 676**	66 856	**74 676**	66 856
Unclaimed dividends and breakages	**50 665**	30 020	**27 384**	27 794
Profit on disposal of property, plant and equipment	**605**		**605**	
Profit on foreign exchange	**4 411**	8 226	**16 782**	7 423
28.2 Expenses				
Auditors' remuneration	**3 247**	3 038	**1 837**	1 993
– Current year charge	**3 234**	3 038	**1 837**	1 993
– Fees for other services agreed by Board	**13**			
Depreciation	**68 079**	58 433	**43 473**	37 858
– Buildings	**10 256**	8 869	**6 797**	5 993
– Plant and machinery	**12 939**	10 846	**12 627**	10 365
– Information technology equipment and software	**14 047**	12 110	**6 818**	6 081
– Motor vehicles, heavy duty trucks and trailers	**4 328**	3 158	**3 479**	2 837
– Furniture and fittings	**4 877**	4 636	**2 180**	1 732
– Marks and signs	**546**	674	**524**	638
On leasehold				
– Fittings and improvements	**21 086**	18 140	**11 048**	10 212
Amortisation on intangible assets	**3 128**	3 038	**514**	514
Agents' commission	**36 882**	38 087	**33 935**	35 895
– Horseracing	**23 800**	24 065	**22 738**	23 336
– Other sports	**13 082**	14 022	**11 197**	12 559
Operating lease expenses	**72 854**	74 020	**44 020**	46 321
– Office equipment	**7 951**	6 678	**3 231**	3 156
– Premises	**64 903**	67 342	**40 789**	43 165
Employee costs (permanent and part-time)	**389 999**	380 809	**274 518**	285 677
– Salaries and wages	**362 285**	356 392	**256 448**	269 122
– Retirement benefits	**21 661**	18 113	**12 969**	11 726
– Social security	**6 053**	6 304	**5 101**	4 829
Share-based payment expense	**3 720**	14 000	**3 720**	14 000
Loss on disposal of property, plant and equipment		916		38

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
29. FINANCE COSTS				
Interest paid	**20 323**	9 368	**19 233**	9 237
Interest paid on overdraft	**5 264**	1 717	**5 231**	1 586
Interest paid on borrowings	**11 846**	5 227	**10 789**	5 227
Interest paid other	**3 213**	2 424	**3 213**	2 424
30. INCOME TAX EXPENSE				
Current tax charge	**13 261**	22 072	**(2 367)**	2 131
Current year	**15 809**	24 335		2 131
Prior year adjustment	**(2 548)**	(2 548)	**(2 367)**	
Deferred tax charge	**(3 620)**	(9 160)	**(2 364)**	(5 817)
Current year	**(3 620)**	(7 817)	**(2 364)**	(5 389)
Prior year		(310)		
Rate change		(1 033)		(428)
Total tax charge	**9 641**	12 912	**(4 730)**	(3 686)
Taxation reconciliation				
South African normal taxation at standard rate 28%	**42 629**	37 521	**31 285**	58 193
Adjusted for:				
Share of profit of equity-accounted investee	**(34 326)**	(26 514)		
Prior year over provision	**(2 367)**	(2 263)	**(2 367)**	
Deferred tax asset rate change		(1 033)		(428)
Deferred tax asset prior year adjustment	**(181)**	(310)		
Tax rate difference – foreign subsidiary	**3 532**	(168)		
Deferred tax on revaluation of investment				
Reduced tax rate for capital gains tax		(312)		(312)
Exempt dividend income	**(185)**	(151)	**(35 789)**	(65 750)
Share-based payment expenses	**1 042**	3 920	**1 042**	3 920
Depreciation on capital expenditure not deductible	**1 269**	1 938	**1 099**	422
Assessed losses utilised	**(1 698)**			
Employee tax Incentive allowance	**(376)**			
Disallowable expenses	**301**	286		269
Taxation in the current year	**9 641**	12 914	**(4 730)**	(3 686)
Estimated tax losses reconciliation				
Estimated tax losses brought forward	**8 246**	5 561		
Assessed loss utilised	**(6 064)**			
Estimated loss incurred in the current year	**42 411**	2 686	**33 007**	
Estimated tax losses available for utilisation against future taxable Income	**44 593**	8 246	**33 007**	
Applied to increase deferred tax Asset	**(44 593)**	(8 246)	**(33 007)**	
	%	%	**%**	%
Tax rate	**28**	28	**28**	28
	R'000	R'000	**R'000**	R'000
Amount per deferred tax proof	**12 486**	2 309	**9 242**	

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

	COMPANY 2017 R'000	2016 R'000
31. DIRECTORS' EMOLUMENTS		
Non-executive directors		
Fees as directors		
MP Malungani	**393**	370
R Cooper	**157**	148
BP Finch	**157**	111
MJ Jooste*	**79**	148
B Kantor	**157**	148
SKC Khampepe	**157**	148
NJ Mboweni	**118**	111
E Nkosi	**157**	148
CJH van Niekerk	**157**	148
JB Walters	**157**	148
Other services*		
MP Malungani	**45**	42
R Cooper	**268**	253
BP Finch	**67**	32
MJ Jooste	**45**	21
B Kantor	**45**	42
NJ Mboweni	**67**	95
CJH van Niekerk	**112**	106
JB Walters	**146**	138
	2 484	2 357
Executive directors		
Fees for management services		
WA du Plessis	**6 580**	4 320
Basic salary	**4 454**	4 217
Retirement, medical, accident and health benefits	**126**	103
Bonuses and performance-related payments***	**2 000**	
AW Heide	**3 485**	2 411
Basic salary	**2 203**	2 007
Retirement, medical, accident and health benefits	**272**	247
Bonuses and performance-related payments***	**1 010**	157
VJ Moodley	**3 573**	2 644
Basic salary	**2 318**	2 265
Retirement, medical, accident and health benefits	**254**	235
Bonuses and performance-related payments***	**1 001**	144
ML Ramafalo	**2 029**	1 686
Basic salary	**1 611**	1 550
Retirement, medical, accident and health benefits	**137**	136
Bonuses and performance-related payments***	**281**	
JA Stuart	**3 402**	2 247
Basic salary	**2 050**	1 866
Retirement, medical, accident and health benefits	**214**	237
Bonuses and performance-related payments***	**1 138**	144
Total executive emoluments paid	**19 069**	13 308

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

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

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

	COMPANY 2017 R'000	2016 R'000
31. DIRECTORS' EMOLUMENTS CONTINUED		
Value of share options exercised during the year:		
AW Heide	7 192	
VJ Moodley	6 090	
ML Ramafalo	4 698	
JA Stuart	6 455	
	24 435	
Current year share-based payment expense allocated as follows:		
WA du Plessis	2 870	2 033
AW Heide	64	1 626
VJ Moodley	57	1 703
ML Ramafalo	44	1 218
JA Stuart	57	1 544
Total executive director share-based payment costs	3 092	8 124
Total directors' emoluments	49 080	23 789
Prescribed officers' emoluments		
CC Basel Racing Executive (formerly Sales and Marketing Executive)	2 930	2 064
Basic salary	1 801	1 700
Retirement, medical, accident and health benefits	228	220
Bonuses and performance-related payments***	901	144
BK McLoughlin Chief Financial Officer	2 183	1 612
Basic salary	1 424	1 333
Retirement, medical, accident and health benefits	181	167
Bonuses and performance-related payments***	578	112
Total prescribed officers' emoluments paid	5 113	3 676
Value of share options exercised during the year:		
CC Basel	6 090	
BK McLoughlin	4 795	
Total prescribed officers share-based payment costs	10 885	
Current year share-based payment expense allocated as follows:		
CC Basel	57	1 473
BK McLoughlin	43	856
Total prescribed officers' share-based payment costs	100	2 329
Total prescribed officers	16 098	6 005
Total directors' and prescribed officers' emoluments	65 178	29 794
Paid by: the Company		
Emoluments	26 666	19 341
Share-based payment expense	3 192	10 453
Value of share options exercised during the year	35 319	
Total directors' and prescribed officers' emoluments	65 178	29 794

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

There are no service contracts for non-executive directors, the Group Chief Executive Officer has a fixed-term contract.

All other executive directors have service contracts terminable upon one month's written notice from the director concerned.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 July 2017

	GROUP	
	2017	2016
	cents	cents
32. EARNINGS PER ORDINARY SHARE		
Basic earnings per share	**168,46**	163,62
Diluted earnings per share	**160,84**	155,01
Headline earnings per share	**167,96**	164,51
Diluted headline earnings per share	**160,36**	155,85
	R'000	R'000
32.1 Reconciliation of basic/diluted earnings to headline earnings		
Earnings attributable to ordinary shareholders for basic and diluted earnings per share	**146 520**	121 944
Adjusted for:		
Equity-accounted investee impairment		
Net loss/(profit) on disposal of property, plant and equipment	**(605)**	916
Tax effect	**169**	(256)
Headline earnings attributable to ordinary shareholders	**146 084**	122 604
	Number	Number
Number of shares in issue after deducting treasury shares	**101 559 769**	74 535 485
Calculation of weighted average number of shares:		
Weighted average number of shares		
Number of shares in issue at beginning of year	**77 101 885**	77 101 885
Treasury shares at beginning of year	**2 566 400**	2 576 400
Opening shares not belonging to Group	**74 535 485**	74 525 485
Effects of rights issue shares	**7 823 517**	
Effects of shares issued on acquisition investments	**3 663 177**	
Effect of share purchased as treasury shares	**(27 017)**	
Effect of share granted in term of share option scheme	**979 114**	2 521
Weighted average number of shares at year end	**86 974 276**	74 528 006
Weighted average number of ordinary shares in issue for basic and headline earnings per share	**86 974 276**	74 528 006
Potential dilutive impact of outstanding share options	**4 123 422**	4 141 664
Number of outstanding options	**9 394 988**	8 870 000
Number of options deemed to be issued at fair value or not vesting	**(5 271 566)**	(4 728 336)
Weighted average number of ordinary shares in issue for diluted basic and diluted headline earnings per share	**91 097 697**	78 669 670
	cents	cents
32.2 Dividends per ordinary share		
Final dividend declared to shareholders recorded in the register on 4 November 2016 (2016: 31 October 2015) and paid on 7 November 2016 (2016: 3 November 2015)*	**70,00**	60,00
Interim dividend declared to shareholders recorded in the register on 23 May 2017 (2016: 20 May 2016) and paid on 26 May 2017 (2016: 23 May 2016)*	**34,00**	34,00
	104,00	94,00

** The final and interim dividends were 59,50 (2016: 51,00) and 28,90 (2016: 27,20) cents per share respectively net of the dividend withholding tax at a rate of 15% for the final dividend and 20% for the interim dividend.*

On 6 October 2017 the Board declared gross cash dividend from income reserves of 70,0 cents per share (56,0 cents per share net of dividend withholding tax at a rate of 20%) payable to shareholders recorded in the register on Friday, 3 November 2017.

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

32. EARNINGS PER ORDINARY SHARE CONTINUED

32.3 Definitions

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

33. SHARE OF JOINTLY CONTROLLED OPERATION

Tellytrack Partnership ("Tellytrack")

The Tellytrack Partnership is a joint operation between the Company, Gold Circle Proprietary Limited and Kenilworth Racing Proprietary Limited. Pursuant to the agreements concluded between the parties Tellytrack has the right to exploit the joint commercial interests and intellectual property in respect of South African race meetings within the confines of South Africa, Namibia and Zimbabwe. The decision making and partnership agreement determines that the partnership is a jointly controlled operation. In terms of the joint control agreement, the Company's share of the partnership income and expenditure for the year is 61% (2016: 61%) which is as follows:

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
ASSETS				
Non-current assets				
Property, plant and equipment	**4 322**	2 012	**4 322**	2 012
Current assets	**15 527**	22 158	**15 527**	22 158
Inventories	**459**	176	**459**	176
Trade and other receivables	**14 193**	20 094	**14 193**	20 094
Cash and cash equivalents	**875**	1 888	**875**	1 888
	19 849	24 170	**19 849**	24 170
CAPITAL AND RESERVES				
Partners' accounts	**13 993**	11 818	**13 993**	11 818
LIABILITIES				
Current liabilities				
Trade and other payables	**5 856**	12 352	**5 856**	12 352
	19 849	24 170	**19 849**	24 170
CASH FLOW				
Cash flows from operating activities	**(34 823)**	(126)	**(34 823)**	(126)
Cash flows from investing activities	**(3 165)**	(491)	**(3 165)**	(491)
Cash flows from financing activities	**36 976**	(1 361)	**36 976**	(1 361)
Net (decrease)/increase in cash and cash equivalents	**(1 012)**	(1 978)	**(1 012)**	(1 978)
INCOME	**20 728**	21 597	**25 204**	27 623
Expenditure	**(54 071)**	(50 356)	**(54 071)**	(50 356)
Loss for the year	**(33 342)**	(28 759)	**(28 867)**	(22 733)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

33. SHARE OF JOINTLY CONTROLLED OPERATION CONTINUED

Tellytrack Partnership ("Tellytrack") continued

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

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
34. COMMITMENTS AND CONTINGENCIES				
34.1 Capital expenditure				
Commitments in respect of capital expenditure approved by directors				
– Contracted for		4 261		4 261
– Not contracted for	**125 683**	164 953	**90 547**	110 071
The above capital expenditure will be financed out of cash and cash equivalents generated by operations or borrowing facilities as and when required.				
34.2 Operating leases				
Commitments in respect of operating leases				
Office equipment	**6 448**	3 517	**6 448**	3 517
– Within one year	**6 448**	3 517	**6 448**	3 517
Leasehold properties	**99 301**	98 519	**48 720**	46 323
– Within one year	**51 229**	47 020	**29 115**	25 274
– Between two and five years	**48 072**	46 943	**19 605**	21 049
– More than five years		4 556		
	105 749	102 036	**55 168**	49 840

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

34.3 Guarantees and surety issued

Guarantees in lieu of operating lease deposits amount to R939 231 (2016: R939 231) and are held by insurers and banks.

The Company has issued a surety in favour of a bank in order for the bank to issue guarantees in favour of the gambling boards in respect of the Betting World Proprietary Limited in the amount of R1 500 000 (2016: R1 650 000).

The Company has stood surety in respect of the banking facilities of Kenilworth Racing Proprietary Limited in the amount of R50 million which is secured by means of a first bond over the Milnerton property owned by Kenilworth Racing Proprietary Limited in the amount of R60 million. At year end the utilisation of the facility amounted to R48 657 450 (2016: R25 389 824).

35. RELATED PARTIES

Related parties include shareholders of the Company, the subsidiary companies, joint venture and equity-accounted investees as well as senior employees and directors.

During the year the Company entered into various transactions with related parties in the normal course of business.

Shareholders

Details of the shareholders are set out on page 138.

Details of the directors', shareholding and options are set out in notes 18 and 36 respectively.

Treasury shares are set out in note 18.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 7 and on page 137.

Related party balances are disclosed in notes 13 and 23.

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

	COMPANY	
	2017	2016
	R'000	R'000
Turnover levies received from TAB North West Proprietary Limited	**32 348**	36 311
Marketing sponsorship from Betting World Proprietary Limited	**10 166**	2 301
Sub-lease rental income received from Betting World Proprietary Limited	**8 573**	6 344
Tellytrack licence fees paid by Betting World Proprietary Limited	**7 335**	7 214
Interest received from Betting World Proprietary Limited	**1 290**	1 023
Sponsorship paid to Tellytrack by Uptonvale Services Proprietary Limited group	**1 000**	1 000
Leasehold property rentals paid to Betting World Proprietary Limited	**(1 046)**	(917)
Commission paid to Betting World Proprietary Limited	**(3 689)**	(3 837)
Leasehold property rentals paid to East Cape Racing Proprietary Limited	**(10 183)**	(10 160)
Agents commission paid to Uptonvale Services Proprietary Limited	**(14 191)**	(13 383)
Security costs paid to SW Security Solutions SA Proprietary Limited	**(28 109)**	(22 622)

Guarantees

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

Directors

Details regarding the directors' emoluments in the Company are disclosed in note 31 and directors' interests in the Company in note 18.

Jointly controlled operation

Details of investments in joint operation are disclosed in note 33.

Equity-accounted investees

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 July 2017

36. SHARE OPTION SCHEMES

Summary of share options granted

Executive option scheme 2008

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

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

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

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

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

Date of option	Monday, 12 January 2015
Number of shares	200 000
Dividend yield	5,45%
Interest rate	6,55%
Volatility	32,00%
Option take-up	100,00%
Equity price	R18,58
Maturity date	12 January 2018

Executive option scheme 2014

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

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

Date of option	16 July 2016	17 July 2017
Number of shares	2 700 000	2 957 188
Dividend yield	5,12%	5,12%
Interest rate	7,04%	7,04%
Volatility	33,00%	33,00%
Option take-up	100,00%	100,00%
Equity price	R17,34	R20,70
Maturity date	06 July 2018	17 July 2020

	2017 Number of shares	2017 Weighted average exercise price R	2016 Number of shares	2016 Weighted average exercise price R
36. SHARE OPTION SCHEMES CONTINUED				
Summary of share options granted				
Balance at beginning of year	**5 870 000**	**17,27**	8 255 000	16,74
Granted	**2 957 188**	**20,70**		
Rights offer adjustment**	**374 670**	**17,46**		
Exercised	**(2 970 000)**	**15,00**		
Forfeited	**(50 000)**	**17,34**	(2 035 000)	8,38
Forfeited			(350 000)	15,00
	6 181 858	**18,99**	5 870 000	17,27
Made up as follows:				
Granted to directors				
AW Heide – 1 October 2013*			390 000	15,00
AW Heide – 16 July 2015 **	**459 528**	**17,34**	407 530	17,34
AW Heide – 17 July 2017	**352 470**	**20,70**		
ML Ramafalo – 1 October 2013 *			270 000	15,00
ML Ramafalo – 16 July 2015 **	**368 935**	**17,34**	327 188	17,34
JA Stuart – 1 October 2013 *			350 000	15,00
JA Stuart – 16 July 2015 **	**459 528**	**17,34**	407 530	17,34
JA Stuart – 17 July 2017	**352 470**	**20,70**		
VJ Moodley – 1 October 2013 *			350 000	15,00
VJ Moodley – 16 July 2015 **	**547 057**	**17,**34	485 154	17,34
VJ Moodley – 17 July 2017	**274 846**	**20,70**		
Granted to staff				
Effective grant date – 1 October 2013 *			1 610 000	15,00
Effective grant date – 12 January 2015 **	**236 547**	18,58	200 000	18,58
Effective grant date – 16 July 2015 **	**1 153 075**	**17,34**	1 072 598	17,34
Effective grant date – 17 July 2017	**1 977 402**	**20,**70		
Balance at end of year	**6 181 858**	**18,99**	5 870 000	17,27
The above options may be exercised between the following dates:				
2 October 2016 to 1 March 2017 *			2 970 000	15,00
13 January 2018 to 12 July 2018	**236 547**	**18,58**	200 000	18,58
17 July 2018 to 16 January 2019	**2 988 123**	**17,34**	2 700 000	17,34
17 July 2018 to 16 January 2019	**2 957 188**	**20,70**		
	6 181 858	**18,99**	5 870 000	17,27

* *Exercised during the year.*
** *Adjusted for Supabets deal rights offer.*

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

36. SHARE OPTION SCHEMES CONTINUED

Group Chief Executive option schemes

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

Approval for a further grant of 1 500 000 options was obtained at the Company's annual general meeting held on 4 December 2014.

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

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

	2017 Number of shares	**2017** Exercise price cents	2016 Number of shares	2016 Exercise price cents
Summary of share options granted				
Effective grant date – 20 January 2012*	**1 500 000**	**2,5**	1 500 000	2,5
Effective grant date – 2 March 2015	**1 500 000**	**2,5**	1 500 000	2,5
Effect of rights offer	**213 130**			
	3 213 130	**2,5**	3 000 000	2,5
Granted to director				
WA du Plessis	**3 213 130**	**2,5**	3 000 000	2,5
The above options may be exercised between the following dates:				
21 January 2015 to 20 January 2018*	**1 558 101**	**2,5**	1 500 000	2,5
3 March 2018 to 2 March 2021	**1 655 029**	**2,5**	1 500 000	2,5
	3 213 130	**2,5**	3 000 000	2,5

** Options have vested.*

		GROUP		COMPANY	
		2017	2016	**2017**	2016
		R'000	R'000	**R'000**	R'000
37.	**NOTES TO THE CASH FLOW STATEMENTS**				
37.1	**Cash generated by operations**				
	Profit before income tax expense	**152 243**	134 002	**110 851**	207 832
	Adjustments for:				
	Share of profit of equity-accounted investees	**(122 591)**	(94 694)		
	Investment income	**(15 846)**	(5 331)	**(140 328)**	(239 459)
	Finance costs	**20 323**	9 368	**19 233**	9 237
	Depreciation	**68 079**	58 433	**43 473**	37 858
	Amortisation of intangible assets	**3 128**	3 038	**514**	514
	(Profit)/loss on disposal of property, plant and equipment	**(605)**	916	**(605)**	38
	Accrual and prepaid expenses release to the income statement	**(18 410)**		**(14 487)**	
	Fair value adjustment to investments	**(946)**	(5 578)	**(946)**	(5 578)
	Impairment of subsidiary			**882**	
	Post-retirement curtailments	**(846)**	(1 108)	**(846)**	(1 108)
	Initial recognition adjustment to loan	**522**		**522**	
	Share-based payment	**3 720**	14 000	**3 720**	14 000
		88 771	113 046	**21 983**	23 334
37.2	**Movements in working capital**				
	(Increase)/decrease in inventories	**(546)**	(1 041)	**5**	(277)
	Increase in trade and other receivables	**(1 598)**	(37 019)	**(20 776)**	(6 954)
	Increase in amounts owing from subsidiary companies			**(71 298)**	(54 838)
	Decrease in amounts owing to subsidiary companies			**31 831**	(69 825)
	(Decrease)/increase in trade and other payables	**(40 878)**	68 009	**(27 039)**	42 397
		(43 022)	29 949	**(87 277)**	(89 497)
37.3	**Taxation paid**				
	Balance at beginning of year	**17 550**	9 316	**15 695**	7 709
	Current year charge (note 30)	**(13 261)**	(22 072)	**2 367**	(2 131)
	Balance at end of year	**(19 371)**	(17 550)	**(13 842)**	(15 695)
		(15 082)	(30 306)	**4 220**	(10 117)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

38. SEGMENTAL ANALYSIS

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

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

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

	% Change	31 July 2017 R'000	31 July 2016 R'000
SOUTH AFRICA			
Excluding fixed odds			
Income	(24)	**856 104**	962 666
Net betting income	(7)	**655 792**	702 475
– Horseracing	(6)	**427 976**	453 977
– Other sports	(8)	**227 816**	248 498
Other income	7	**241 297**	226 369
Investment income	184	**11 706**	4 116
Net income	(3)	**908 795**	932 960
Stakes	3	**(208 756)**	(202 871)
Operating expenses	0	**(790 579)**	(790 270)
Loss before depreciation and amortisation	50	**(90 540)**	(60 181)
Depreciation and amortisation	15	**(48 078)**	(41 918)
Loss before finance costs and income tax expense	36	**(138 618)**	(102 099)
Finance costs	108	**(19 233)**	(9 237)
Loss from operations	42	**(157 851)**	(111 336)
Share of profit on equity-accounted investee	424	**33 805**	6 447
Loss before fair value adjustment and equity-accounted impairment	18	**(124 046)**	(104 889)
Fixed odds			
Income	35	**356 921**	263 716
Net betting income	11	**292 811**	263 076
– Horseracing	(11)	**77 725**	87 346
– Other sports	26	**66 799**	53 046
– Other	21	**148 287**	122 684
Other income	54	**40 357**	26 234
Investment income	446	**3 494**	640
Net income	16	**336 662**	289 950
Operating expenses	9	**(219 460)**	(200 835)
Profit before depreciation and amortisation	32	**117 202**	89 115
Depreciation and amortisation	20	**(23 056)**	(19 266)
Profit before finance costs and income tax expense	35	**94 146**	69 849
Finance costs	732	**(1 090)**	(131)
Profit before fair value adjustment and equity-accounted impairment	33	**93 056**	69 718

38. SEGMENTAL ANALYSIS CONTINUED

	% Change	31 July 2017 R'000	31 July 2016 R'000
INTERNATIONAL			
Income	12	**307 490**	274 415
Other income	12	**306 844**	273 840
Investment income	12	**646**	575
Net income	12	**307 490**	274 415
Intellectual property rights fees	7	**(111 146)**	(104 015)
Operating expenses	8	**(102 770)**	(94 765)
Profit before depreciation and amortisation	24	**93 574**	75 635
Depreciation and amortisation	(75)	**(72)**	(287)
Profit from operations	24	**93 502**	75 348
Share of profit on equity-accounted investee	1	**88 785**	88 247
Profit before fair value adjustment and equity-accounted impairment	11	**182 287**	163 595
TOTAL FOR THE GROUP			
Income	(7)	**1 520 515**	1 500 797
Net betting income	(2)	**948 603**	965 551
– Horseracing	(7)	**505 701**	541 323
– Other sports	(2)	**294 616**	301 544
– Other	21	**148 287**	122 684
Other income	12	**588 498**	526 443
Investment income	197	**15 846**	5 331
Net income	4	**1 552 947**	1 497 325
Stakes	3	**(208 756)**	(202 871)
Intellectual property rights fees	7	**(111 146)**	(104 015)
Operating expenses	2	**(1 112 809)**	(1 085 870)
Profit before depreciation and amortisation	15	**120 236**	104 569
Depreciation and amortisation	16	**(71 207)**	(61 471)
Profit before finance costs and income tax expense	14	**49 029**	43 098
Finance costs	117	**(20 323)**	(9 368)
Profit before share of equity-accounted investees	(15)	**28 706**	33 730
Share of profit of equity-accounted investees	29	**122 591**	94 694
Profit before fair value adjustment and equity-accounted impairment	18	**151 297**	128 424
Fair value adjustments in respect of assets held for sale	(83)	**946**	5 578
Profit before tax expense	14	**152 243**	134 002

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

39. SUBSEQUENT EVENTS

There are no significant subsequent events that have a material impact on the financial statements at 31 July 2017.

40. GOING CONCERN

The directors consider the Company and its subsidiaries to have adequate resources to continue operating for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements.

The directors have satisfied themselves that the Company and its subsidiaries are in a sound financial position and that they have access to sufficient borrowing facilities to meet their foreseeable cash requirements.

41. STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial statements of Phumelela Gaming and Leisure Limited for the year ended 31 July 2017, the following standards and interpretations were in issue but not yet effective:

Effective for the financial year commencing on/after 1 January 2017

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

Effective for the financial year commencing on/after 1 January 2018

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

Effective for the financial year commencing on/after I January 2019

- IFRS 16 Leases

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

Disclosure Initiative (Amendments to IAS 7)

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

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted. There will be no material effect on the Group results.

Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)

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

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

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

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The amendments apply for annual periods beginning on or after 1 August 2017 and early application is permitted. The Group currently accounts for deferred tax on unrealised losses and there will be no material effects on the Group results.

41. STANDARDS AND INTERPRETATIONS CONTINUED

IFRS 15 Revenue from Contracts with Customers

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

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

This new standard will not have a material effect on the Group results, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised.

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

IFRS 9 Financial Instruments

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

This standard will have an impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, the expected credit loss model is not expected to increase the provision for bad debts recognised in the Group results.

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

Clarifying share-based payment accounting (Amendments to IFRS 2)

Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.

The amendments cover three accounting areas:
Measurement of cash-settled share-based payments – There is currently no guidance in IFRS 2 on how to measure the fair value of the liability in a cash-settled share-based payment. The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method. Therefore, in measuring the liability, market and non-vesting conditions are taken into account in measuring its fair value and the number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions.

The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.

Classification of share-based payments settled net of tax withholdings – The Company may be obligated to collect or withhold tax related to a share-based payment, even though the tax obligation is often a liability of the employee and not the Company. Currently, it is unclear whether the portion of the share-based payment that is withheld in these instances should be accounted for as equity-settled or cash-settled. The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.

Clarifying share-based payment accounting (Amendments to IFRS 2)

Accounting for a modification of a share-based payment from cash-settled to equity-settled – There is no specific guidance in IFRS 2 that addresses the accounting when a share-based payment is modified from cash-settled to equity-settled. The amendments clarify the approach that companies are to apply.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 July 2017

41. STANDARDS AND INTERPRETATIONS CONTINUED

Clarifying share-based payment accounting (Amendments to IFRS 2) *continued*

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

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

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

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

The Group currently recognises rental expenses on a straight-line basis over the lease term. If the adoption of the standard was 1 August 2017. The effect of the adoption of the standard would result in the Group recognising the right-of-use assets (using discounted future minimum lease payments as at 31 July 2017) amounting to R64,9 million (Company: R37,2 million) and corresponding lease liabilities of the same amount. The Group's operating lease charge in profit or loss will be replaced by the depreciation charge in respect of the corresponding right-of–use assets and an interest charge relating to the respective lease liabilities. The adoption of the standard will also result in the Group reversing the lease-smoothing liability amounting to R4,5 million (Company: R1,7 million) directly against retained earnings.

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

Transition

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

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

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

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

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

Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a business under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

DETAILS OF SUBSIDIARY COMPANIES

at 31 July 2017

Name and nature of business	2017 Invest-ment R'000	2017 Issued capital R	2017 % held	2016 Invest-ment R'000	2016 Issued capital R	2016 % held
Direct subsidiaries incorporated in South Africa						
Highveld Racing Authority Technical Services Proprietary Limited						
- Dormant	**4 253**	**8**	**100**	4 253	8	100
HRA Racehorse Transport Proprietary Limited						
- Dormant		**3 600**	**100**		3 600	100
Highveldt Training Centre Proprietary Limited						
- Dormant	**277**	**3**	**100**	277	3	100
Rand Sporting Club Proprietary Limited						
- Property holding	**22 960**	**200**	**100**	22 960	200	100
Hadrian Investments Proprietary Limited						
- Property holding		**200**	**100**		200	100
Shelanu Investments Proprietary Limited						
- Property holding		**200**	**100**		200	100
Injector Investments Proprietary Limited						
- Property holding		**200**	**100**		200	100
Glenfiddich Investments Proprietary Limited						
- Property holding		**200**	**100**		200	100
Transvaal Racing Holdings Proprietary Limited						
- Property holding		**37 500**	**100**		37 500	100
Tote Property Investments Proprietary Limited						
- Property holding	**1 967**	**50 000**	**100**	1 967	50 000	100
Vaal Racecourse Proprietary Limited						
- Property holding		**1 070**	**100**		1 070	100
East Cape Racing Proprietary Limited						
- Property holding	**11 227**	**100**	**100**	11 227	100	100
TAB North West Proprietary Limited						
- Betting outlets	**8 100**	**4 000**	**100**	8 100	4 000	100
Betting World Proprietary Limited						
- Entertainment and wagering industry.	**47 500**	**1 000**	**100**	47 500	1 000	100
Silks Gaming and Leisure Proprietary Limited						
- Dormant operations		**100**	**100**		100	100
Direct subsidiaries incorporated in Isle of Man						
Phumelela Gold International Limited	**329**	**100**	**100**	329	100	100
- Licensed sports bookmaker and worldwide internet pari-mutuel service provider						
- Impairment Highveldt Training Centre Proprietary Limited	**(277)**					
	96 336			96 613		

Indirectly held subsidiaries held through Betting World Proprietary Limited

	Percentage holding 2017	Percentage holding 2016
Cerino Trading 13 Proprietary Limited	**100**	100
Newton Park Proprietary Limited (formely Betting World Eastern Cape Proprietary Limited)	**100**	100
Betting World KZN Proprietary Limited	**100**	100
Betting World Limpopo Proprietary Limited	**100**	100
Betting World North West Proprietary Limited	**100**	100
Betting World Mpumalanga Proprietary Limited	**100**	100
Betting World Northern Cape Proprietary Limited	**100**	100
Betting World Eastern Cape Proprietary Limited (formely Afribet Proprietary Limited)	**51**	51

SHAREHOLDER INFORMATION
for the year ended 31 July 2017

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	362	39,23	125 267	0,12
1 001 – 10 000 shares	360	39,00	1 273 492	1,24
10 001 – 100 000 shares	144	15,60	4 405 067	4,30
100 001 – 1 000 000 shares	40	4,33	14 715 760	14,36
1 000 001 shares and over	17	1,84	81 980 972	79,98
Totals	**923**	**100,00**	**102 500 558**	**100,00**

Distribution of shareholders	Number of shareholders	%	Number of shares	%
Banks/brokers	12	1,30	8 315 111	8,11
Close corporations	10	1,08	58 809	0,06
Empowerment	3	0,33	11 549 889	11,27
Endowment funds	6	0,65	18 493	0,02
Individuals	746	80,82	8 219 930	8,02
Insurance companies	6	0,65	674 810	0,66
Investment companies	1	0,11	249 833	0,24
Medical schemes	1	0,11	127 916	0,12
Mutual funds	16	1,73	10 234 062	9,99
Other corporations	12	1,30	6 391 992	6,24
Private companies	33	3,57	19 362 752	18,89
Public companies	3	0,33	5 864 509	5,72
Retirement funds	5	0,54	860 756	0,84
Share trust	1	0,11	384 285	0,37
Treasury stock	1	0,11	940 789	0,92
Trusts	67	7,26	29 246 622	28,53
Totals	**923**	**100,00**	**102 500 558**	**100,00**

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	**27**	**2,93**	**54 780 894**	**53,44**
Directors of the Company	20	2,16	14 514 748	14,16
Strategic holdings more than 10%	2	0,22	27 391 183	26,72
Own holdings/treasury stock	1	0,11	940 789	0,92
Share trust	1	0,11	384 285	0,37
Empowerment	3	0,33	11 549 889	11,27
Public shareholders	**896**	**97,07**	**47 719 664**	**46,56**
Totals	**923**	**100,00**	**102 500 558**	**100,00**

Beneficial shareholders holding 3% or more	Number of shares	%
The Thoroughbred Horse Racing Trust	27 391 183	26,72
Kalamojo Trading & Investments Proprietary Limited	9 419 197	9,19
IHH Company Proprietary Limited	8 796 443	8,58
Yerranzano Property Investments Limited	4 498 011	4,39
Gride Investments Proprietary Limited	4 278 000	4,17
Dihla Investment Holdings Proprietary Limited	3 752 913	3,66
Du Plessis, WA	3 726 052	3,64
Vela Phumelela Investments	3 518 976	3,43
Racing Association	3 157 178	3,08
Totals	**68 537 953**	**66,87**

Institutional shareholders holding 3% or more	Number of shares	%
Truffle Asset Management	4 515 556	4,41
Totals	**4 515 556**	**4,41**

CORPORATE INFORMATION
at 31 July 2017

DIRECTORS	MP Malungani (Chairman) WA du Plessis (Group Chief Executive Officer) AW Heide (Chief Operating Officer and Group Finance Director) JA Stuart (International Executive Director) VJ Moodley (Executive Director, Sports Betting) P Anastassopoulos R Cooper MJ Jooste B Kantor SKC Khampepe NJ Mboweni E Nkosi CJH van Niekerk JB Walters
SECRETARY	F Moloi
REGISTERED OFFICE	Turffontein Racecourse 14 Turf Club Street Turffontein
AUDITORS	KPMG Inc.
PRINCIPAL BANKER	First National Bank – A division of FirstRand Bank Limited
ATTORNEYS	Roodt Inc.
MERCHANT BANK	Investec Bank Limited
SPONSOR	Investec Bank Limited
TRANSFER SECRETARIES	Computershare Investor Services Proprietary Limited
COMPANY REGISTRATION NUMBER	1997/016610/06
COUNTRY OF INCORPORATION	South Africa
WEBSITE	www.phumelela.com
LISTING	Travel and Leisure – JSE Limited (ISIN: ZAE000039269 Share Code: PHM)