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

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

An excellent result from the international businesses whilst South African gaming and horseracing operations faced headwinds

OPERATIONAL FEATURES OF THE PERIOD

- Trading conditions deteriorated considerably for our local tote and fixed odds operations
- December was a particularly poor month for the gaming industry locally and abroad
- Supabets and Betting World JV is making progress and now a profitable reality
- Interbet has performed well
- PGI on the Isle of Man returned an excellent result
- Commercial realities necessitate further significant cost savings and right sizing

FINANCIAL FEATURES OF THE PERIOD

- Headline earnings down 18% to R68,0 million
- Headline earnings per share down 17% to 68,02 cents
- Attributable profit to ordinary equity holders down 17% to R70,0 million
- Attributable earnings per share to ordinary equity holders down 16% to 70,05 cents
- Equity accounted profits increase by 8% to R88,6 million
- Net asset value per share 990,58 cents
- No interim dividend per share declared
- Net debt to equity ratio increase to 32%

RESULTS OVERVIEW AND STRATEGIC ASSESSMENT

The Group had what is best described as a mixed result for the six months, very good internationally and largely disappointing locally. Consolidated local operations were loss making, equity accounted profits increased, and the Group recorded a 39% reduction in profit before tax.

Our international business, driven by Premier Gateway International ("PGI") on the Isle of Man, and the local online betting exchange Interbet, both returned an excellent result. Betting World and Supabets, as did the gaming industry locally and abroad, suffered lower profitability during the period, exacerbated by a difficult December with unusually high sports results favouring customers, in particular on soccer. Encouragingly, our new Supaworld JV is now a profitable reality.

The difficulties we faced in the 2018 financial year continued, with political turbulence, labour unrest, criminality, a stagnant economy, low business and consumer confidence, increasing unemployment, higher tax, inflationary administered prices, all a daily fact of business life.

The higher rate of VAT in 2018 was a direct cost to our bottom line and the increase too has placed further pressure on already subdued discretionary spending.

Horseracing continues to face unpredictability and inconsistency in the regulatory and licensing regime, an unnecessary burden that has financial consequences and inhibits forward planning.

Phumelela is a consumer-facing business with a large retail footprint and is directly affected locally by these negative macro factors.

Our partnerships with Supabets and Interbet are important. We are developing a healthy and productive relationship between our wholly owned fixed odds business Betting World and Supabets, from which the complementary Supaworld JV was born and which contributes a 75% share of earnings to Phumelela.

The TAB and Betting World websites will operate on software developed by Interbet, our joint venture online bookmaking business and betting exchange which has proven to be an excellent investment.

Phumelela, Kenilworth Racing, and Gold Circle stage race meetings 364 days a year with live media and data rights, produced by Tellytrack, sold locally and to an expanding number of overseas territories. Without a successful domestic sport there isn't a successful international presence.

Management is engaging with key stakeholders in the horseracing industry and in gaming to improve relationships and mend fences where there has been discord. The Board remains open to any realistic and constructive ideas that may benefit horseracing and the shareholders of Phumelela.

Even as we strive to develop, management has taken a view that in the likely absence of a meaningful improvement in the domestic economy, we have no option but to right size the Group because of these commercial realities.

Further to the voluntary severance programme in the previous year, we have identified additional areas where we are not fit for purpose and where we need to right size. Detailed action plans, costed and modelled for their beneficial financial impact, are being implemented.

All executives have cost reduction targets, there are no exceptions, and they are tasked with delivery thereon.

This has been a difficult six months, with more than its fair share of challenges, a reduced level of profitability, and limited balance sheet flexibility. Nevertheless, the Group is resolute in pursuing its strategic objectives, which include being the standard bearer for the sport of thoroughbred South African horseracing and offering punters an exciting gaming experience through the complementary brands TAB, Betting World, Supabets and Interbet.

BETTING OPERATIONS

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

Consolidated betting income reduced by 7% with downward top line and betting margin pressure in both tote and fixed odds. Betting turnovers are not keeping up with inflation on the expenses line and in fact declined in nominal terms.

Like for like same outlet net betting income was down by 6% in Tab and by 10% in Betting World. Same outlet net betting income was up 4% in Supabets. December was a loss-making month due to international soccer results favouring the gaming customer.

Taking the two Phumelela companies Tab and Betting World together, non-OTC increased to 27% of net betting income. Non-OTC betting demand outpaced traditional bricks and mortar and our use of smartphone apps and internet harnesses this growth. Non-OTC accounts for 21% of Supabets net betting income, however, given the size, design and location of Supaworld outlets they remain very popular as a gathering place for fellow customers.

Taking the combined net betting income of Phumelela, Supabets, Interbet, and Premier Gateway International ("PGI"), then non-OTC is 65%, up from 58% for the same period in the previous year.

Non-OTC active accounts at Tab increased by 9%, non-OTC active accounts at Betting World increased by 13% whilst the increase for Supabets was 20%.

Irrespective of the tough economic climate, this evolution to a more online world underscores the correctness of the strategy to right size our bricks and mortar footprint and staffing. There will always be a place for physical outlets, Supabets exemplifies that, but the mix of how business is transacted is changing shape.

Excluding agencies, Tab ended the period with 135 outlets, Betting World with 64 outlets, Supabets on its own with 11 outlets and Supaworld with 6 outlets.

We are deploying Betting World licences as Supabets mega outlets through our best of both strategies and therefore the number of Betting World outlets reduced during the period with the number of Supaworld JV outlets increasing from two to six. On average, turnovers in a Supabets JV outlet are 400% higher than the previous Betting World outlets and management are confident that the results of this will start filtering through.

Betting World is refining the competitiveness of the bet offering, both in soccer and horses, to grow market share. Soccer 8 and Soccer 15 are in the pipeline. The recently introduced futsal (5 a side soccer) product is popular and suitable for other African markets.

PGI located on the Isle of Man ended the 2018 year strongly and continued in top form through the six months ended 31 January. Equity accounted income was 26% higher.

Soccer is being promoted by Phumelela International as a complement to horseracing and the Opera Mini/Supabets Powerbet gambling site with its online wallet to pay has good potential in African markets such as Kenya. Furthermore, horseracing is finally gaining traction in Africa in cooperation with the African Lotteries Association, with Senegal, Ivory Coats and Mali receiving race feed.

Phumelela International footprint reaches 41 countries for horseracing and a further 3 for tote bets on football.

Internationally, a continued positive trend is anticipated from the Isle of Man, sports betting expansion into Africa through Powerbets is a positive feature with lots of runway, and there is good progress with racing into Africa with this expansion expected to continue.

Profit before equity accounted income was down by 11% to R204,1 million. Despite a weaker result from Supabets, total equity accounted income was up by 8% to R88,6 million and thus the total segment pre-tax income was down by 6% to R292,8 million. Despite a difficult six months, our combined betting operations are a formidable contributor and competitive force with substantial potential.

MEDIA OPERATIONS

Media Operations comprise the selling of media and data rights of South African horseracing locally and internationally. Administering horseracing therefore remains a fundamental part of our Media Operations and South Africa is the engine that feeds our international operations and sports betting on horseracing. The horseracing operations remain loss making on a stand-alone basis.

Racing in the period was disrupted on the Highveld by inclement stormy weather with several meetings lost, often consecutive meetings. Cancelled or rescheduled meetings put pressure on turnovers and betting volumes.

Political agitation has bedevilled the horseracing industry in the past year and trade unions have been mobilising membership and pressing for steep rises in minimum wages for grooms. Violence has ensued and there has been disruption to stable yards and meetings.

A rescheduled calendar and the addition of a new feature race are part of a campaign to showcase the best of South African racing.

In terms of the stakes agreement with the Racing Association, there is an agreed formula for prize money; during the period the distribution of this money was adapted in favour of middle to lower ranked horses.

There is ongoing strong demand from international betting operators for the media and data rights of South African thoroughbred horse racing. Commingled media and data rights fees from countries outside South Africa continue to be positive.

The loss increased by 35% to R194,1 million, which includes an international profit from media rights of R50,1 million.

GROUP FINANCIAL ANALYSIS

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

- IFRS 15 addresses revenue recognition of customer contracts, requiring that revenue and related costs are only recognised when a performance obligation has been satisfied and so the timing of when revenue is recognised and the amount thereof. IFRS15 is based on the principle that revenue is recognised when control of goods and services is transferred to a customer, the notion of control replaces the existing notion of risk and rewards. There is therefore a R24,3 million reversal of accrued account receivables directly to retained income, which amount pertains to disputes with Tellytrack customers.
- IFRS 9 deals with expected loss provisioning and has an immaterial effect and has not affected disclosure. The impairment model has been changed from an incurred loss model to an expected credit loss model. There is no significant increase in the provision for bad debts.
- Amendment to IFRS 2, Classification and Measurement of Share-based Payment Transactions. As share-based payment charges are equity settled there are no changes to the amounts recognised.
- IFRIC 22, Foreign Currency Transactions and Advance Considerations. The Group applies the transaction date rate and so there is no effect.

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

Consolidated net income decreased by 3% to R899,5 million of which local income accounted for 81% compared with 83% in the prior period. Betting Operations contributed 70%, Media 27%, and Administrative and Support Services the balance. Local income declined by 6% and international income increased by 7%.

Operating expenses increased by 1% to R886,2 million. Excluding the R27,1 million voluntary severance programme expense in the prior period local expenses increased by only 4% whilst international expenses increased by 8% as reported in rand. Intellectual property rights fees increased by 15%. Stakes increased by 6% in terms of the formula contained in the stakes agreement with the Racing Association and calculated retrospectively.

Local expenses within the Group's control have been kept restrained but the Group faced upward wage pressure during the period and must contend with inflationary administered and municipal charges.

The increase in VAT in the 2018 budget cost the Group approximately R5 million during the six months. We bear the full financial cost of the rise from 14% to 15% due to there being no relief on the take-out ratio after provincial taxes and levies.

All possible economy measures are being identified to save on costs across the Group. This will be achieved, *inter alia*, through optimising the bricks and mortar retail footprint, deepening operating synergies between Supabets and Betting World, removing duplication where identified, promoting the sharing of best practices, eliminating positions surplus to future requirements, and by improving productivity through having the right people in the right jobs working to strict deliverables.

Depreciation and amortisation of R34,8 million is allocated 55% to Betting Operations, 36% to Media, and the balance to Administrative and Support Services. The Group continues to reinvest in its estate with R36,5 million spent during the period.

A loss from operations of R21,5 million, before finance cost and share of equity accounted investees, was incurred, a reversal from an operating profit of R20,3 million previously.

Finance costs of R18,3 million increased by 6% due to higher borrowings and lower cash balances.

Profits from equity accounted investees increased by 8% to R88,6 million and comprises the Group's share of profits from PGI (up 26% to R63,4 million), Supabets (down 40% to R15,8 million), Interbet (up 19% to R8,5 million), Supaworld (loss of R0,6 million), and SW Security (R1,6 million). Supabets was impacted by adverse trading in the latter part of the period. The Supaworld joint venture, still in a start-up phase with 6 outlets now operating, made a small accounting loss but from an operating point of view earned EBITDA of R8,7 million, which is very encouraging.

The R3,2 million positive non-cash fair value adjustment relates to the investment in Automatic Systems Limited in Mauritius. The shares are held at market value.

Due to losses in the domestic operations, the Group recorded a tax credit of R17,0 million. Cash tax paid reduced substantially to R3,1 million. The deferred tax asset on the balance sheet increased to R54,6 million. Tax losses are available for utilisation against future taxable income. Equity-accounted investees Supabets, Interbet, and SW Security are profitable and pay tax at the South African corporate tax rate of 28%.

Earnings attributable to ordinary shareholders reduced by 17% to R70,0 million. This translates to 70,05 cents per share, down by 16%.

Headline earnings decreased by 18% to R68,0 million and headline earnings per share reduced by 17% to 68,02 cents.

The weighted average number of shares in issue reduced by 1,7% to 99 969 347, the same number as shares in issue. There was no movement in either shares bought back or shares issued in terms of share options.

Operating activities absorbed cash of R40,7 million. Operations absorbed cash of R2,7 million and there was R38,0 million in cash applied to working capital, primarily an increase in accounts receivable from, *inter alia*, international customers and our franchise operations.

Dividends paid to shareholders amounted to R62,0 million. Net dividends received from equity accounted investees amounted to R70,8 million, up 24% from R57,2 million.

Gross debt of R359,0 million and cash of R68,7 million results in a net debt position of R290,3 million. At 31 July 2018, gross debt was R316,3 million and cash was R114,4 million for net debt of R201,9 million. A remaining contingent consideration payable in respect of Supabets of R28,8 million is in addition to this and payment is dependent on conditions pertaining to the sales agreement. The debt to equity ratio has risen to 32% from 23% at year end.

Including the contingent consideration results in a net debt to annualised EBITDA ratio of 1,7x and annualised interest cover of 5,2x. At year end the same metrics were 0,95x and 7,0x respectively.

The coverage ratio is still within bounds of covenant acceptability, but the Directors are cognisant of the fact that the first half results have been poor, that funding headroom has been exhausted, and that all measures necessary to stabilise the position have to be taken, particularly as it is difficult from the current vantage point to determine how the year will end. The Group though is fortunate to have strong international cash flows and profits, which in the year to 31 July 2018 amounted R204,3 million and which for period in review amounted to R113,5 million.

There is a clear focus on prioritising cash for critical capital expenditures and several growth and development initiatives.

At the end of December 2018, the Group called up a USD2,0 million bank guarantee to Mashonaland Turf Club in Zimbabwe. Repatriation of funds to South Africa are subject, *inter alia*, to Zimbabwe Reserve Bank approval.

The Group has total assets of R1,66 billion of which long term assets are R1,39 billion, the largest component being equity accounted investees to the value of R714,7 million. Attributable equity is R998,5 million, equivalent to net asset value per share of 990,58 cents.

SHARE CAPITAL

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

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

SUMMARISED CONSOLIDATED SEGMENTAL ANALYSIS

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

	Total			Betting operations		
	Jan 2019 R'000	Jan 2018 R'000	Jul 2018 R'000	**Jan 2019 R'000**	Jan 2018 R'000	Jul 2018 R'000
Betting income	**582 351**	627 342	1 182 525	**582 351**	627 342	1 182 525
Other income	**308 945**	296 293	599 620	**46 813**	44 832	108 924
Investment income	**8 185**	7 950	13 547			
Total income	**899 481**	931 585	1 795 692	**629 164**	672 174	1 291 449
Expenses						
Intellectual property rights fees	**103 856**	101 527	191 286	**34 338**	60 863	109 850
Operating expenses	**664 414**	623 579	1 256 863	**253 557**	238 511	477 182
Value added and betting taxes	**117 915**	122 927	232 764	**117 915**	122 927	232 764
Voluntary retrenchment expense		27 071	27 071			
Total expenses	**886 186**	875 104	1 707 984	**405 810**	422 302	819 796
Profit/(loss) before depreciation and amortisation and finance costs	**13 295**	56 481	87 708	**223 354**	249 872	471 653
Depreciation and amortisation	**34 786**	36 214	70 393	**19 230**	19 949	38 171
Finance costs	**18 286**	17 236	34 577			
Fair value adjustment to investment	**(3 229)**	(274)	(546)			
Profit/(loss) before share of equity accounted income	**(36 549)**	3 305	(16 716)	**204 124**	229 923	433 482
Share of profit on equity accounted income	**88 624**	82 063	169 169	**88 624**	82 063	169 169
Profit/(loss) before income tax expense	**52 075**	85 368	152 453	**292 748**	311 986	602 651
Local operations	**(61 410)**	(13 453)	(51 862)	**229 326**	261 677	490 130
International operations	**113 485**	98 821	204 315	**63 423**	50 309	112 521
Profit/(loss) before income tax expense	**52 075**	85 368	152 453	**292 748**	311 986	602 651

	Media			Administration and Support Services		
	Jan 2019 R'000	Jan 2018 R'000	Jul 2018 R'000	**Jan 2019 R'000**	Jan 2018 R'000	Jul 2018 R'000
Betting income						
Other income	**246 152**	236 916	475 227	**15 980**	14 544	15 469
Investment income				**8 185**	7 950	13 547
Total income	**246 152**	236 916	475 227	**24 165**	22 494	29 016
Expenses						
Intellectual property rights fees	**69 518**	40 664	81 436			
Operating expenses	**358 344**	327 460	650 301	**52 514**	57 608	129 380
Value added and betting taxes						
Voluntary retrenchment expense					27 071	27 071
Total expenses	**427 862**	368 123	731 737	**52 514**	84 679	156 451
Profit/(loss) before depreciation and amortisation and finance costs	**(181 710)**	(131 207)	(256 510)	**(28 349)**	(62 185)	(127 435)
Depreciation and amortisation	**12 387**	12 510	25 052	**3 170**	3 754	7 170
Finance costs				**18 286**	17 236	34 577
Fair value adjustment to investment				**(3 229)**	(274)	(546)
Profit/(loss) before share of equity accounted income	**(194 096)**	(143 718)	(281 562)	**(46 577)**	(82 900)	(168 636)
Share of profit on equity accounted income						
Profit/(loss) before income tax expense	**(194 096)**	(143 718)	(281 562)	**(46 577)**	(82 900)	(168 636)
Local operations	**(244 159)**	(192 230)	(373 356)	**(46 577)**	(82 900)	(168 636)
International operations	**50 062**	48 512	91 794			
Profit/(loss) before income tax expense	**(194 096)**	(143 718)	(281 562)	**(46 577)**	(82 900)	(168 636)

CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by directors.

	2019 R'000	2018 R'000
Contracted for	**579**	7 880
Not contracted for	**65 649**	90 460

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

INVESTMENTS

Further to the audited annual financial statements dated 5 October 2018, there has been no further movement with respect to investments.

MATTERS OF CORPORATE INTEREST AND LITIGATION

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

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

On 15 January 2019, the Gauteng Member of the Executive Council responsible for Economic Development, Environment, Agriculture and Rural Development ("the MEC") published proposed amendments to the Gauteng Gambling Regulations, 1997 ("the Regulations").

These include an amendment to Regulation 276, which provides for a bookmaker to deduct 3% of a punters' winnings on bets on horseracing in terms of Regulation 270 ("bookmakers' tax") and a further 3% of a punters' winnings on bets on horseracing for the benefit of the holder of a totalisator licence, in terms of Regulation 273 ("betting tax"). Under Regulation 270, the specified tax must be paid over to the Gauteng Gambling Board ("the Board"). The Board is then obliged to pay 3% of the total 6% (i.e. half) to Phumelela, the sole holder of a totalisator licence in Gauteng.

The amendments will have the effect of depriving Phumelela of the betting tax and directing it towards the Board, meaning that the Board will be the beneficiary of the entire 6% of the tax levied on punters' winnings on bets on horseracing.

Phumelela submitted detailed representations in respect of the proposed amendments, supported by an economic report analysing the economic effects of the amendments.

The betting tax received by Phumelela in Gauteng constitutes 90% of the betting tax received by it in South Africa and amounts to approximately R75 milliion per year. If the amendment is implemented and Phumelela is deprived of the betting tax, it will have a material adverse effect on Phumelela and on racing in general.

It is anticipated that the final amended regulations will be published in the Provincial Gazette on 29 March 2019. Phumelela has been advised to apply to the High Court to have the amendment regarding the betting tax reviewed and set aside, should it be implemented, on the basis that it is irrational, unreasonable and unconstitutional. Such an application will include an urgent application to stay the implementation of the amended regulations, pending the outcome of the review application.

As part of the ongoing disciplinary proceedings instituted by the Gauteng Gambling Board, the disciplinary committee delivered its preliminary recommendation on sanction on 11 March 2019. The Disciplinary Committee has recommended that: a fine in the amount of R10m be imposed on Phumelela with half the amount suspended for a period of 5 years.

The Committee further recommended that Phumelela be directed to comply with Condition 10 of its race meeting licence with immediate effect by providing the Tellytrack channel to all bookmakers.

Phumelela has made submissions in respect of the preliminary finding and the Gauteng Gambling Board must now decide whether to follow or reject the disciplinary committee's recommendations or remit the matter to the disciplinary committee for further investigation. Phumelela has been advised to apply to the High Court to have any decision by the Board to follow the disciplinary committee's recommendations reviewed and set aside. This will include an application to stay the enforcement of the decision, pending the outcome of the review.

REPORTING ENTITY

Phumelela Gaming and Leisure Limited is a company domiciled in South Africa. The condensed consolidated interim financial statements as at 31 January 2019 comprises of the company and its subsidiaries and the Group's interests in equity accounted investees and joint operations.

BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, and include disclosure as required by IAS 34 Interim Financial Reporting and the Companies Act of South Africa. They do not include all the information required for a complete set of IFRS financial statements. In preparing these interim condensed consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income, and expense. Actual results may differ from these estimates.

The implementation of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments became effective for the Group in the 2019 financial year. The Group has assessed and applied the new standards and the interim results have been reported in line with the new requirements. As reported under Group Financial Analysis, the 31 January 2018 and 31 July 2018 comparative periods have been restated.

Mr B McLoughlin CA (SA) Chief Financial Officer was responsible for supervising the preparation of the interim condensed consolidated financial statements and preparing the summarised financial statements.

SUBSEQUENT EVENTS

There are no significant subsequent events that have an impact on the financial information at 31 January 2019.

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.

SOCIAL RESPONSIBILITY

Empowerdex has audited the Group as a level 4 with Empowering Supplier status. The Group continues to identify areas for improvement.

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

DIRECTORS

With effect from:

- 30 November 2018, Mr Vee Moodley tendered his resignation as executive director, Sports Betting;
- 11 December 2018, subject to regulatory approval, Mr Mark Currie was appointed as a non-executive director;
- 11 December 2018, subject to regulatory approval, Colonel Johnny Sexwale was appointed as a non-executive director;
- 11 December 2018, Mr Rob Cooper retired from the Board;
- 11 December 2018, Mr Chris van Niekerk retired from the Board;
- There are no other changes to the composition of the Board.

The Board expresses sincere thanks to Messrs Cooper, Moodley and van Niekerk for their valued contribution and loyal service to the Company and wish them well in their future endeavours.

PROSPECTS

Management is focused on reducing expenses in a challenging domestic economic climate but will also ensure that capital expenditure and investment is prioritised where necessary within the resources that we have. Our international operations are nevertheless doing well, and we shall have a pleasing result if current trends continue.

Politics will be dominated by electioneering in the run up to the general elections on 8 May, which could further unsettle the trading situation and customer sentiment and willingness to spend.

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

DIVIDEND TO SHAREHOLDERS

In the interests of conserving cash and with a view to future capital commitments, the Board has resolved not to declare an interim cash dividend.

For and on behalf of the Board

B Kantor	**JA Stuart**
Chairman	*Chief Executive Officer*

Turffontein, Johannesburg
29 March 2019

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% Change	**Unaudited 6 months 31 Jan 2019 R'000**	Unaudited 6 months 31 Jan 2018 R'000	Audited 12 months 31 Jul 2018 R'000
Income	(4)	**764 939**	797 749	1 526 979
Betting income				
– Local operations*	(7)	**582 351**	627 342	1 182 525
Other operating income				
– Local operations	1	**138 625**	136 718	283 558
– International operations	7	**170 320**	159 575	316 062
Investment income				
– Local operations	1	**7 369**	7 332	12 928
– International operations	32	**817**	618	619
Net income	(3)	**899 482**	931 585	1 795 692
Operating expenses and overheads				
– Local operations*	4	**(765 128)**	(736 371)	(1 456 069)
– Voluntary severance program expense			(27 071)	(27 071)
– International operations	8	**(121 060)**	(111 662)	(224 844)
Profit before finance costs, income tax, depreciation and amortisation	(76)	**13 294**	56 481	87 708
Depreciation and amortisation	(4)	**(34 786)**	(36 214)	(70 393)
(Loss)/Profit from operations	(206)	**(21 492)**	20 267	17 315
Finance costs – Local operations	6	**(18 286)**	(17 236)	(34 577)
(Loss)/Profit before share of profit of equity accounted investees	(1 412)	**(39 778)**	3 031	(17 262)
Share of profit of equity accounted investees	8	**88 624**	82 063	169 169
Profit before fair value adjustment	(43)	**48 846**	85 094	151 907
Fair value adjustment to investment		**3 229**	274	546
Profit before income tax expense	(39)	**52 075**	85 368	152 453
Income tax expense		**16 999**	(509)	(707)
Profit for the period	(19)	**69 074**	84 859	151 746
Other comprehensive income net of taxation				
Items that may subsequently be reclassified to profit or loss				
– Remeasurement of defined benefit obligation				1 395
– Exchange differences on translating foreign operations		**(166)**	494	623
Total comprehensive income for the period	(19)	**68 908**	85 353	153 764
Profit attributable to:				
Ordinary equity holders of the parent	(17)	**70 026**	84 585	155 112
Non-controlling interest		**(952)**	274	(3 366)
Profit for the period	(19)	**69 074**	84 859	151 746
Total comprehensive income attributable to:				
Ordinary equity holders of the parent	(18)	**69 860**	85 079	157 130
Non-controlling interest		**(952)**	274	(3 366)
Total comprehensive income for the period	(19)	**68 908**	85 353	153 764
Earnings per ordinary share (cents)				
– Basic	(16)	**70,05**	83,17	153,78
– Diluted	(16)	**70,05**	83,17	153,78

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

SUPPLEMENTARY STATEMENT OF COMPREHENSIVE INCOME INFORMATION

	% Change	**Unaudited 6 months 31 Jan 2019 R'000**	Unaudited 6 months 31 Jan 2018 R'000	Audited 12 months 31 Jul 2018 R'000
Reconciliation of headline earnings				
Earnings attributable to equity holders of the parent	(17)	**70 026**	84 585	155 112
Adjusted for:				
Profit on sale of property, plant and equipment		**(2 812)**	(2 132)	(2 849)
Impairment of goodwill				2 844
Tax effect		**787**	597	461
Headline earnings	(18)	**68 001**	83 050	155 568
Headline earnings per share (cents)	(17)	**68,02**	81,66	154,23
Diluted headline earnings per share (cents)	(17)	**68,02**	81,66	154,23
Net asset value per share (cents)		**990,58**	989,12	1012,93
Dividend to shareholders				
Interim dividend				
Dividend per ordinary share (cents)			42,00	42,00
Final dividend				
Dividend per ordinary share (cents)				62,00
Number of shares in issue		**99 969 347**	100 469 347	99 969 347
Weighted average number of shares in issue for basic and headline earnings per share calculation	(2)	**99 969 347**	101 707 053	100 868 421
Weighted average number of shares in issue for diluted earnings per share calculation	(2)	**99 969 347**	101 707 053	100 868 421

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 31 Jan 2019 R'000	Unaudited as at 31 Jan 2018 R'000	Audited as at 31 Jul 2018 R'000
ASSETS			
Non-current assets	**1 393 419**	1 299 102	1 338 850
Property, plant and equipment	**467 169**	458 151	464 707
Goodwill	**12 362**	15 206	12 362
Intangible assets	**43 612**	49 548	45 000
Interest in equity accounted investees	**714 700**	671 381	690 421
Investments	**15 337**	11 837	12 108
Investment property	**18 700**	18 700	18 700
Long-term loans	**66 958**	47 932	63 341
Deferred taxation asset	**54 581**	26 347	32 211
Current assets	**269 928**	306 266	311 824
Inventories	**5 368**	4 082	3 773
Trade and other receivables	**160 882**	174 914	155 679
Defined benefit funds	**14 650**	9 029	14 650
Income tax receivable	**20 345**	20 608	23 348
Cash and cash equivalents	**68 683**	97 633	114 374
Total assets	**1 663 347**	1 605 368	1 650 674
EQUITY AND LIABILITIES			
Total equity	**990 279**	993 760	1 012 624
Share capital and premium	**473 786**	473 799	473 786
Retained earnings	**524 865**	523 704	546 092
Non-distributable reserves	**(136)**	(99)	30
Equity attributable to ordinary shareholders	**998 515**	997 404	1 019 908
Non-controlling interest	**(8 236)**	(3 644)	(7 284)
Non-current liabilities	**320 411**	202 299	301 319
Deferred taxation liability	**96**	1 905	872
Borrowings	**320 315**	200 394	300 447
Current liabilities	**352 657**	409 309	336 731
Trade and other payables	**272 439**	275 319	278 118
Short-term borrowings	**640**	2 914	1 639
Contingent consideration liability	**28 806**	106 309	28 806
Income tax payable	**24**	2 796	24
Betting dividends payable	**12 700**	13 185	13 965
Bank overdrafts	**38 048**	8 786	14 179
Total equity and liabilities	**1 663 347**	1 605 368	1 650 674

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	Unaudited 6 months 31 Jan 2019 R'000	Unaudited 6 months 31 Jan 2018 R'000	Audited 12 months 31 Jul 2018 R'000
Net cash outflow from operating activities	**(116 721)**	(77 727)	(94 640)
Cash (utilised)/generated by operations	**(2 688)**	43 793	70 716
Movements in working capital	**(38 029)**	(30 941)	(7 815)
Cash (utilised by)/generated from operating activities	**(40 717)**	12 852	62 901
Income tax paid	**(3 143)**	(12 354)	(24 961)
Investment income received	**7 406**	5 652	9 003
Finance costs paid	**(18 286)**	(12 130)	(27 849)
Dividends paid to shareholders	**(61 981)**	(71 747)	(113 734)
Net cash inflow/(outflow) from investing activities	**28 458**	37 983	(25 101)
Acquisition of property, plant and equipment and intangible assets	**(36 532)**	(25 917)	(67 515)
Proceeds on disposal of property, plant and equipment and intangible assets	**20**	189	626
Investment in equity accounted investees	**(2 942)**	(11 915)	(3 993)
Prepayment and contingent settlements on investments		(231)	(86 979)
Net loans (advanced)/received	**(2 838)**	18 676	2 358
Dividends received from equity accounted investees	**70 750**	57 181	130 402
Net cash inflow from financing activities	**18 869**	31 463	122 679
Net borrowings raised	**18 869**	78 931	177 709
Shares repurchased and options issued		(47 468)	(55 030)
Net (decrease)/increase in cash and cash equivalents	**(69 394)**	(8 281)	2 938
Effect of conversion of foreign operations on cash and cash equivalents	**(166)**	494	623
Cash and cash equivalents at beginning of period	**100 195**	96 634	96 634
Cash and cash equivalents at end of period	**30 635**	88 847	100 195
Make up of balance of cash and cash equivalents			
Cash and cash equivalents	**68 683**	97 633	114 374
Bank overdraft	**(38 048)**	(8 786)	(14 179)
Cash and cash equivalents at end of period	**30 635**	88 847	100 195

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Non-distri-butable reserves R'000	Retained earnings R'000	Equity attribu-table to ordinary share-holders R'000	Non-con-trolling interest R'000	Total equity R'000
Balance at 31 July 2017	473 826	(593)	560 678	1 033 911	(3 918)	1 029 993
Total comprehensive income for the period		494	84 585	85 079	274	85 353
– Profit for the period			84 585	84 585	274	84 859
– Foreign currency translation reserve		494		494		494
Transactions with owners recorded directly in equity						
– Shares repurchased/issued in terms of share option scheme	(27)		(47 442)	(47 469)		(47 469)
– Share based payment			(2 370)	(2 370)		(2 370)
– Dividends paid to equity holders			(71 747)	(71 747)		(71 747)
Balance at 31 January 2018	473 799	(99)	523 704	997 404	(3 644)	993 760
Total comprehensive income for the period		129	71 922	72 051	(3 640)	68 411
– Profit for the period			70 527	70 527	(3 640)	66 887
– Foreign currency translation reserve		129	1 395	1 524		1 524
Transactions with owners recorded directly in equity						
– Shares repurchased	(13)		(7 547)	(7 560)		(7 560)
– Dividends paid to equity holders			(41 987)	(41 987)		(41 987)
Balance at 31 July 2018	473 786	30	546 092	1 019 908	(7 284)	1 012 624
Total comprehensive income for the period		**(166)**	**70 026**	**69 860**	**(952)**	**68 908**
– Profit for the period			**70 026**	**70 026**	**(952)**	**69 074**
– Foreign currency translation reserve		**(166)**		**(166)**		**(166)**
Transactions with owners recorded directly in equity						
– Share based payment			**(4 986)**	**(4 986)**		**(4 986)**
– Accounts receivable reversed on adoption of IFRS15 Revenue recognition			**(24 286)**	**(24 286)**		**(24 286)**
– Dividends paid to equity holders			**(61 981)**	**(61 981)**		**(61 981)**
Balance at 31 January 2019	**473 786**	**(136)**	**524 865**	**998 515**	**(8 236)**	**990 279**

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