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

Voluntary trading update, trading statement and renewal of cautionary announcement

Voluntary trading update

Operational context

Phumelela Gaming and Leisure Limited ("Group") has made it clear in previous communications to shareholders that trading conditions during the 2018 financial year and during the first half of the 2019 financial year were very difficult and were not expected to improve. The Group revealed to shareholders at the interim results presentation practical interventions to deliver long-term cost savings and to restructure for commercial realities. Furthermore, the removal of the Group's 50% share of the 6% levy on punters' winnings on fixed-odds bets on horseracing has had an adverse financial effect on the Group.

Phumelela was entitled to this levy in terms of Regulation 276 of the Gauteng Gambling Regulations, 1997, which the Member of the Executive Council responsible for Economic Development, Environment, Agriculture and Rural Development ("the MEC") elected to amend to revoke Phumelela's entitlement to a share of the levy. Shareholders are reminded that the Group is trading under cautionary in respect of an application to have the amendment of Regulation 276 reviewed and set aside. The most recent cautionary announcement is dated 4 June 2019.

The results for the six months ended 31 January 2019 reflected a considerable deterioration in trading conditions in local tote and fixed odds operations whilst the local losses on horseracing operations have increased. Despite international profits, the total loss in Media Operations increased by 35%. An interim dividend was not declared in order to conserve cash. The results presentation concluded that "*it is impossible to give certainty on trading results for the full year*". Circumstances post the publication of the half-year results on 29 March 2019 are worse than anticipated, exacerbated by the withholding of the levy by the Gauteng Government as a result of the amendment to Regulation 276.

Given the above backdrop of uncertainty, and in view of the fact that annual results for the twelve months ended 31 July 2019 are only scheduled to be published on or about 4 October 2019, the Board, in the interests of continuing candid communication with shareholders, believes it is necessary to advise on the situation post the interim results and with respect to guidance for the full year results.

Betting Operations

In South Africa, Betting Operations comprise over-the-counter ("OTC") retail outlets and non-OTC, being internet and telephone betting. Phumelela brands include Betting World and Tab whilst the Group has a 50% interest in Supabets and has a JV with Supabets in Supaworld Proprietary Limited, a company jointly owned by Betting World and Supabets.

As communicated at the half-year results, there are active interventions to rationalise and optimise the tote and fixed-odds operations. The costs of right-sizing fall within the 2019 financial year.

The permanent annual cash savings in the rationalised Betting World/Tab is estimated at R60 million, which will benefit the 2020 financial year and give significant relief to the Group's financial position.
Whilst there has been growth in total betting turnover for the ten months to 31 May 2019, the mix of the business has changed, with a switch in betting from the tote to fixed odds, where margin is lower. Across tote and fixed odds, the combined betting income margin is 1.9 percentage points lower than for the

same period ended 31 May 2018 with fixed odds the most affected. Profits this year are also affected by the 1% increase in VAT in April 2018.

Although Supabets had a poor March and May, the business remains profitable but is anticipated to end the year with a reduced profit. The Supaworld JV footprint is growing with Betting World licenses being deployed as Supabets mega outlets where average turnovers are higher. Supaworld also had a poor March and May and remains marginally profitable.

Interbet, the local online betting exchange in which the Group has a 50% interest, has continued to perform well, and year-to-date is recording single-digit growth, which in a depressed consumer environment is very pleasing.

The Group also records equity-accounted income from the jointly owned Premier Gateway International tote operator on the Isle of Man, included in the non-OTC segment. This business returned an excellent result for the first half and is projected to end the year with double-digit growth.

Despite Supabets recording a lower profit for the ten-month period, total profits from equity accounted associates was higher in real terms.

Media Operations

Media Operations comprise the selling of media and data rights of South African horseracing locally and internationally and includes the administration of horseracing.

The horseracing operations remain loss-making on a stand-alone basis. This has been the case for several years, with losses increasing each year.

The loss-making position has been made worse by the removal of the 3% levy due to Phumelela in terms of Regulation 276, as earlier referred to. The payment of this levy forms part of the agreement between the Gauteng Government and the racing industry and is intended to ensure the sustainability of horseracing. Phumelela must shoulder the costs in horseracing but income from other sources is insufficient to make up for the costs. The 3% levy has been withheld with effect from 1 April 2019 and deprives Phumelela of over R6 million on average per month in income.

Legal Matters and related

Further to detailed disclosure on legal matters in the first-half results, the following are pertinent.

As discussed above, the MEC amended the Gauteng Gambling Regulations with effect from 1 April 2019. Shareholders are referred to public disclosure in this regard as published via the Stock Exchange News Service and as updated in the financial results for the six months ended 31 January 2019.

The Group lodged papers on 21 June 2019 in the North Gauteng High Court to have the Public Protector's report into thoroughbred horseracing in Gauteng set aside on the basis that the findings of the Public Protector in the report are unlawful, irrational, unreasonable and unconstitutional.

It is further noted that the Gauteng Gambling Board ("the Board") and the MEC filed a separate application, on 8 July 2019, to have the public Protector's report (alternatively the remedial action) reviewed and set aside and to have the report remitted to the Public Protector for reconsideration.

The Group intends to lodge papers in the High Court to have the decision by the Gauteng Gambling Board to find it guilty of contravening condition 10 of its Gauteng Race-Meeting licence reviewed and set aside. The Board imposed a fine of R5 million, of which R2.5 million has been suspended for 5 years and directed Phumelela to apply to it for the approval of its broadcasting fees.

Financial Position

Given the reduced profitability and withholding of the 3% levy, that has been received for over twenty years, the Group finds itself in a challenging situation. An accrual of approximately R26 million is necessary in the 2019 financial year due to the income from the bookmaker levy not being paid since 1 April 2019, with an annual impact of approximately R75 million.

The Group is therefore in breach of covenants in respect of its R300 million in borrowings. Phumelela's financial executives are in regular contact with banking executives to keep them apprised of developments within the business.

No interim dividend was paid, and the Group is in no position to pay a final dividend.

Cash conservation is of the utmost priority as is cutting our coat according to the diminished cloth available. At the half-year, the Group reported that Directors are cognisant of the fact that the results have been poor, that funding headroom has been exhausted, and that all measures necessary to stabilise the position must be taken. Shareholders should be aware that the Board see no positive relief from external factors anytime soon and that internal remedial measures are the only option.

For the ten month period to 31 May 2019, cash utilised by operations, payment of the final gross cash dividend declared for the 2018 financial year, together with capital expenditure, was funded and covered by dividends received from equity accounted investees and asset sales, which included a property and shares in ASL in Mauritius. A further asset sale is under negotiation and the Group is seeking a fair settlement.

A provision of R20 million has been made for current right-sizing initiatives.

Capex is under scrutiny. Whilst we subscribe to prudent spending to ensure a competitive estate, recent negative events mean we must economise in order to be able to maintain necessary capex in future.

The Group is fortunate to have strong international cash flows and profits, which in the year to 31 July 2018 amounted to R204,3 million and which for the six months ended 31 January 2019 amounted to R113,5 million.

However, it is important to bear in mind that a considerable proportion of international income is a function of Phumelela in South Africa being able to put up the show and ensure a world-class racing product for international punters. Should the local operations be in jeopardy, and that includes the betting operations, the domino effect through the entire horseracing value chain would be disastrous, it would destroy an already fragile industry and eliminate international income. It is therefore imperative to take all steps necessary to ensure that we navigate this unprecedented turbulence to keep the show alive.

Total assets have a carrying value of R1.7 billion, of which R0.7 billion represents equity accounted investees, including Supabets and Interbet. Equity is at R985 million. Net gearing to total equity is 30% and net gearing to tangible net asset value is approximately 40%.

In view of the reduced profitability and the withholding of the 3% levy, the carrying value of assets may have to be reassessed. The deferred taxation asset may have to be impaired.

Permanent annual cash savings of R60 million from the rationalisation of Betting World/Tab, immediate steps taken to focus on restoring fixed odds margins, and measures to economise on capex, will relieve the financial position and address the short-term cash deficit.

Restructuring options for the horseracing industry

As mentioned in the half-year commentary, the Board remains open to any realistic and constructive ideas that may benefit horseracing and the shareholders of Phumelela.
The Group has reopened the conceptual discussions that were terminated last year and is presently engaging with key stakeholders in the horseracing industry to examine scope for cooperation, consolidation, and pooling of financial resources. All feasible scenarios are on the table. Shareholders will be kept informed when we have concrete information to convey.

Trading statement

The Board does not have the required degree of certainty to provide shareholders with detail of the anticipated range expected for earnings per share and headline earnings per share for the year ending 31 July 2019. The Board does have the required degree of certainty that earnings per share and headline earnings per share will be below those of the previous year by more than 20%, hence this trading statement. With ten months of the financial year behind the Group and given the deterioration in income and profitability subsequent to the interim period, together with substantial restructuring costs, it is inevitable that the Group will report a loss for the year.

As and when the Board has the required degree of certainty to provide a further update on this trading statement, it will do so without delay.

The financial information contained in this voluntary trading update and trading statement has not been reviewed or reported upon by the Group's external auditors.

Renewal of cautionary announcement

Further to the announcement dated 4 June 2019, the Company remains under cautionary as engagements with the Gauteng Member of the Executive Council responsible for Economic Development, Environment, Agriculture and Rural Development ("the MEC") and the Gauteng Gambling Board are still in progress.

Shareholders are advised to continue exercising caution when dealing in the Company's securities until a further announcement is made.

Turffontein
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