GOLD CIRCLE
RACING AND GAMING GROUP

# ANNUAL REPORT

2 0 1 3

## Gold Circle Racing and Gaming Group

**The Business Of Gold Circle Is:**

To promote the thoroughbred racehorse through operating:

The sport of horseracing • wagering and gaming facilities • related leisure activities and media management

**The Vision Of Gold Circle Is:**

To be one of the most admired Racing Centres on the international horseracing circuit

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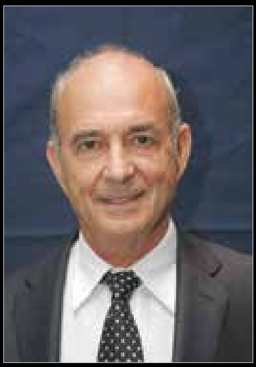
# Board of Directors

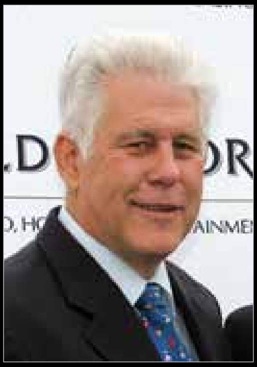


**M J R MAUVIS**
(Chairperson)

**M TEMBE**
(Vice Chairperson)

**M J L NAIRAC**
(CEO)

**N P BUTCHER**



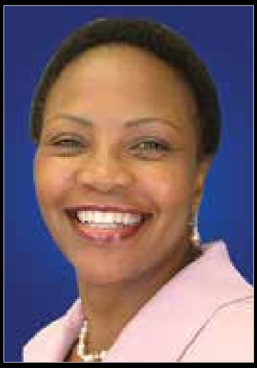
**J H S DE KLERK**

**P V LAFFERTY**

**P MNGANGA**

**L NUNAN**

**G PETZER**



**L RAKHAREBE**

**G A R STURLESE**

# Entity Information

| | | | |
|---|---|---|---|
| REGISTERED ADDRESS: | 150 Avondale Road<br>Durban<br>4001 | BANKERS: | First National Bank of SA Limited<br>Standard Bank of SA Limited<br>ABSA Bank of SA Limited<br>Nedbank Limited |
| POSTAL ADDRESS: | P.O. Box 40<br>Durban<br>4000 | ATTORNEYS: | Barkers Incorporated<br>Garlicke & Bousfield Incorporated |
| AUDITORS: | KPMG<br>Durban | | |

# Chairman’s Report

## INTRODUCTION

The Annual Financial Statements, together with this report for the year ended 31 July 2013, are presented on behalf of the Directors.

The racing and betting landscape in the country is forever changing and 2013 has been no exception. With the new Board of Directors in place following the Restructure Elections during December 2012, Gold Circle has gone from strength to strength. The 2013 financial year marked the commencement of a number of major strategies which were approved in principle during the prior year and Members, when visiting both Greyville and Summerveld would have seen the reality of some of those strategies in action.

In terms of International Financial Reporting Standards the increase in the fair value of certain investments amounting to R5.2 million Has not been included in the Consolidated Income Statement but has been transfered direct to reserves in the Statement of Financial Position. Adjusted profit for the year, before taxation and extraordinary items, amounted to R8.8 million (2012: R11.6 million).

As reported to Members in 2012, the proceeds from the disposal of Clairwood Racecourse were received in August 2012, R200 million of which was “ring-fenced” and separately invested in terms of resolutions taken by Members.

In November 2011, Members approved a transaction in terms of which the Western Cape racing business would be disposed of by way of a demerger. The Demerger was made unconditional, effective from close of business on 31st July 2013.

## FINANCIAL PERFORMANCE

The performance as reported in the 2013 Annual Consolidated Financial Statements reflects the detail of trading in KwaZulu-Natal (KZN) only, with relevant statistics pertaining to the Cape business being recorded as “Discontinued Operations”. Revenues from the horse racing industry in South Africa have continued to show declining growths. This highlights the necessity for the company to develop and expand its income earning opportunities in non-core betting and racing products.

Total bets struck in the KZN region amounted to R1.46 billion (2012: R1.44 billion) an increase of only 1.4% and well below inflation over the same period. Totalisator betting on traditional horseracing has experienced no growth against 2012, whilst totalisator bets struck on Sport reflected an increase of 55% over the same period. The inability of Gold Circle to expand its betting footprint in KZN, due to the lack of regulatory legislation, is an inhibiting factor to growth.

Income received from third party bookmaking activities increased by 11.7% to R40.9 million.

International income generation through the sale of South African racing, which is managed by Phumelela increased significantly to R32.1 million (2012: R21.4 million), an improvement of 50%. This improvement, despite the continuing depressed global economic conditions, remains an important source of revenue to the company.

Gross revenues earned from operating activities, excluding the non-trading items, amounted to R440 million, an increase of 5% on the prior year comparative.

Racing expenditure amounted to R280.7 million, an increase of 19.6% on the comparable amount spent in 2012. Operating expenses, amounting to R163.1 million, was an increase of 23.7% over the prior related period. This large variance relates in the main to extraordinary short-term expenditures and includes the rental of Clairwood Racecourse of R4.7 million, demerger costs of R7.3 million, and an increase in the provision for post employment medical aid obligations of R3.5 million. Gross Stakes paid to Owners improved significantly by 19.1% to R87.1 million despite holding two race meetings fewer than in 2012.

During the year under review, the legislation relating to Capital Gains Tax (CGT) was amended which impacted on the provisions on the disposal of the Clairwood Racecourse, as well as the deferred tax implications in relation to the provisions made for current property holding valuations and discontinued operations in the Western Cape. The aggregate of the changes resulted in a positive provision for taxation of R18.1 million in the 2013 Financial Statements and are adequately covered in the relevant notes accompanying these financial statements.

Cash flow increased by R 54.6 million due to portion of the sale proceeds of Clairwood being required for the funding of capital expenditure at Greyville and Summerveld, and this being placed on short-term call as opposed to long term investments

#### FINANCIAL POSITION

At 31 July 2013, Gold Circle had total assets of R839.7 million and total liabilities of R237.2 million. Excluding the loan owing to the Gold Circle Racing Club, amounting to R39.5 million, the total equity attributable to shareholders amounted to R602.5 million.

# National & International Initiatives

## NATIONAL

The Demerger of the business relationship with the Western Cape necessitated a review of the contractual obligations that originally only existed as between Gold Circle and Phumelela. With Kenilworth Racing (Pty) Limited being awarded Totalisator and Racecourse Operator status from the Western Cape Gaming & Racing Board, all business activities that have an impact on racing and betting required newcontracts to be drawn to ensure that each Operators' intellectual rights were protected.

Gold Circle continues to explore opportunities to improve business revenues, rationalize and reduce operating costs in order to improve profitability to achieve sustainability into the future.

## INTERNATIONAL

Sale of the South African racing picture internationally, on behalf of Gold Circle, Phumelela and Kenilworth Racing remains a significant source of revenue for Gold Circle. Despite the prevailing global economic conditions, this source of revenue again contributed materially to the company's profits, assisted in part through the Rand's weakness against foreign currencies.

The unbundling of PGE's investment in the Mauritius listed company, Automatic Systems Limited (ASL), has taken longer than expected and will be concluded in the new financial year. Once the transaction is complete, Gold Circle will directly own a 12% shareholding in ASL.

# Totalisator & Bookmaking

## TOTALISATOR

The totalisator outlet network of Gold Circle comprises 45 company owned Branches and 83 privately owned Agencies. A new outlet expansion programme has been part of the company's strategy for a few years now however, due to limiting available regulations on the part of the Kwa-Zulu-Natal Gaming & Betting Board, opening of new outlets continues to be delayed. These delays are costing the company valuable turnover in the face of competition from other participants in the industry.

The new computerized totalisator dividend indicator board at Greyville has proved to be a popular acquisition and provides a versatile marketing opportunity for the company.

Gold Circle has for many years been hindered in its ability to roll out new bet types as a result of ageing point of sale terminals. The Board recognized this impediment to growth, and approved the purchase of 550 new terminals from China. These terminals were selected following a comprehensive investigation and have been deployed at all of the race courses in KwaZulu–Natal. The roll-out of new terminals into the off-course environment is presently under consideration.

The concerted drive adopted in 2010 to increase totalisator turnover through the promotion of sports betting products has paid significant dividends. This was coupled with a strategy to attract soccer lovers to bet on soccer pool bets as opposed to trying to get horse racing enthusiasts to adapt to betting on sports pools. Over this period of time Gold Circle has increased its sports betting turnover from comprising only 1.6% of turnover in July 2010, to a current level in excess of 6% of total turnover. Significant growth has been achieved through the popularity of the Soccer 10 and Soccer 13 bets.

Gold Circle has during the past financial year embarked on a conceptual project for the electronic display of racing and sports betting information in the totalisator outlets. Several supplier products are being evaluated and it is anticipated that the first large scale rollout of this project will occur in the 2013/2014 financial year.

Many challenges, most notably those of a regulatory nature and the Open Bet, face the organization in its forward strategy but the company is certain that these will be overcome and Gold Circle will continue to grow its presence in the market place.

## BOOKMAKING

Since the sale of its shareholding in Betting World in 2011, Gold Circle has not again ventured into the bookmaking environment.

Gold Circle, through the promulgation of the KwaZulu-Natal Gaming and Betting Act 2010, retained its "Fixed Odds Authority" which was awarded and operated by TAB from 1994. The new Act provided for the Authority to be converted into a full bookmaking right within six months of the Act being enacted. Due to technicalities in the appointment of the KwaZulu-Natal Gaming & Betting Board's (the Board) committee members, the transfer never took place. Since that date, Gold Circle has been in communication with the Board to finalise this outstanding matter. The Board has determined that the bookmaking right has an inherent value, to which Gold Circle agrees, but is requesting an exorbitant capital value for the right which Gold Circle is not prepared to pay. The matter is still pending.

# Limited Payout Machines

Negotiations to dispose of the company's shareholding in Gold Circle KwaZulu-Natal Slots (Pty) Ltd was successfully concluded during the year which resulted in a profit of R2 245 000 being generated. The reasons for the disposal were that Gold Circle had no management control of the company and did not subscribe to its present business strategy.

The revenue generated by Gold Circle as a site operator from LPM's situated in its betting outlets in KwaZulu-Natal amounted to R8.1 million which was an improvement of 6.6% over the previous year. Consideration is being given by the Gambling Authorities to increase the player investment and payout limit ceilings.

# Marketing, Communication & Information

The popularity of the Vodacom Durban July continues to surpass all expectations and the 2013 event was no exception. The relationship with Vodacom as sponsor and partner in the event is very special to Gold Circle and we record our appreciation to them particularly for their continued efforts to build this event.

Tourism in the Province of KwaZulu-Natal is an important income generator and Gold Circle is proud to play a major part in attracting people to Durban. Other sponsors have also been enthusiastic in their efforts to achieve their own marketing objectives and together build the sport of Horse Racing. We extend thanks to them for their contribution.

### COMMUNICATIONS

The Members Department continues to actively communicate with members and continually strive to provide an update on all pertinent matters of interest. The newsletters have been well received.

Gold Circle, through its relationship with Independent Newspapers, continues to provide racing and betting information on a national daily basis to the public at large. This information service, in addition to that information that is provided through the race card and on the Gold Circle internet web site, is of vital importance to participants supporting the Industry.

Gold Circle continues to develop, build and nurture its relationship with National and Provincial Government, together with other important persons and entities which have an impact on the well-being of Gold Circle.

### RACING

Gold Circle staged 99 race meetings in KZN during the 2013 financial year (2012: 101). In aggregate, 892 races were run (2012: 887) for significantly increased prize money of R87 million against R73m during the prior year.

A new underpass was constructed at Greyville during the latter part of 2012 which resulted in racing only returning to Greyville in early 2013. Track racing conditions at all three KZN tracks held up well over the past year particularly over the winter racing period, and excellent racing took place throughout the year.

Champions Season once again proved to be the annual highlight of not only racing in KwaZulu- Natal but indeed the entire country. With just one exception, the Equus Award winners for the 2012/2013 Racing Season cemented their titles during Champions Season, the pinnacle of which was yet another thrilling finish to the Vodacom Durban July.

For the second successive year, the Vodacom Durban July sash was draped across the shoulders of owner Chris van Niekerk and trainer Sean Tarry, but for the first time in history a black jockey emerged victorious in the form of the highly talented and equally charismatic S'Manga Khumalo.

Not content with having steered home "For The Lads" to a Grade 1 victory in the Golden Slipper for the same connections earlier in the afternoon, S'Manga rose to the occasion riding near top-weight Heavy Metal to win an absolute cliffhanger in the dying strides of the 2200m race to forever sign his name into the annals of history.

All this took place just minutes after an emotional tribute to Nelson Mandela brought the 50 000-strong crowd together as one – truly a rare and special moment in the long and proud history of South Africa's greatest horse racing event.

Back to the Equus Awards! Congratulations to Alyson Wright, Gavin Van Zyl, Dennis Drier and of course Mike de Kock whose charges Kochka; Along Came Polly; Beach Beauty and Vercingetorix who all walked off with a championship title in their respective categories. It's absolutely wonderful to see our local stables doing so well on the national stage

At the regional KwaZulu Natal awards, held at the Elangeni Hotel towards the end of August 2013, the ever popular Beach Beauty was awarded the much coveted Horse of the Year title. Nationally, this honour went to Variety Club who rounded off his undefeated 2012/2013 campaign with another scintillating victory in the Rising Sun Gold Challenge. Beach Beauty will continue to race another season locally while Variety Club will chase the rich purses offered in Dubai, Hong Kong and other parts of the racing world.

Super Saturday, featuring the Grade 1 Gold Cup, provided a fitting climax to Champions Season on the last weekend of July. On this occasion Gold Circle once again provided the platform for needy charities to raise much sought after funds for their respective constituencies, a tradition that is set to continue well into the future.

# Asset Utilisation

Gold Circle continues to explore opportunities to increase revenues and profitability through the better and more efficient use of its real estate assets.

The sale of the Clairwood Racecourse property necessitated the leaseback of the property for a period of two years (July 2014) to allow time to plan and develop alternative accommodation and facilities for the displaced horses at Summerveld. Construction is presently underway to build 500 stables together with associated facilities which is expected to be completed by March 2014. These facilities will adequately provide for current rquirements as well as growth in the future.

With the proposed influx of additional horses and in support of the increased demand for training facilities at Summerveld, Gold Circle is presently constructing a new synthetic training surface which will allow training under all weather conditions. The synthetic surface chosen was "Polytrack" which is a product used in other racing venues in the country and well accepted in overseas jurisdictions. This track will be completed by January 2014.

In concert with the provision of the additional track at Summerveld, preparations are presently underway to increase the racing fixture capacity at Greyville by constructing a second racing surface on the inside of the present grass track. This additional track will also comprise the synthetic all-weather Polytrack surface and increase the ability for racing to continue under most inclement weather conditions.

The capital cost of construction at both venues will be R161.4 million.

## KZN REGULATION

In terms of the requirements of the KwaZulu-Natal Gaming and Betting Act 2010, Gold Circle during 2011, applied to be licenced as a Totalisator Operator and Racecourse Operator. Following a protracted and thorough audit investigation by the KwaZulu-Natal Gaming & Betting Board, Gold Circle finally obtained its licences during March 2013, the awarding of the licences were issued subject to onerous "conditions of licence" some of which are not acceptable to the Board of Gold Circle. On-going interventions are being sought to address these issues but, to date, to no avail.

## CORPORATE GOVERNANCE

As is stated in the Directors Report, Gold Circle manages its business within the reasonable corporate governance requirements of King III. In support of good governance the Board has appointed the following committees which monitor and direct the various compliance aspects of the business:

- Audit Committee
- Remuneration and Nominations Committee
- Commercial Risk Committee
- Social and Ethics Committee
- Tender Adjudication Committee

Committee chairpersons and members comprise only non-executive directors.

The following schedule records the attendance of Directors at statutory meetings of the company:

| | Board | Audit | Risk | Remco | Social & Ethics | Racing |
|---|---|---|---|---|---|---|
| Number of meetings | 9 | 3 | 1 | 3 | 4 | 7 |
| N P Butcher (appoint Dec 12) | 5/6 | 2/3 | 1/1 | | | 4/4 |
| J H S de Klerk (appoint Dec 12) | 6/6 | 2/3 | 1/1 | | | 7/7 |
| P V Lafferty | 8/9 | | | 1/2 | | 4/7 |
| D A Latimer (resign Dec 12) | 3/3 | | | | 2/2 | 3/3 |
| M J R Mauvis | 9/9 | | | | | 1/1 |
| P Mnganga | 9/9 | | | | 4/4 | 7/7 |
| M J L Nairac (appoint Dec 12) | 6/6 | | | | | 4/7 |
| L Nunan | 8/9 | | | | 3/4 | |
| G Petzer | 6/9 | | | 3/3 | | |
| L E Rakharebe (appoint Feb 13) | 3/5 | 1/1 | | | 1/2 | |
| G A R Sturlese (appoint Dec 12) | 3/6 | | | | | |
| M Tembe | 7/9 | 1/1 | | 1/1 | | 5/7 |

*Stable and track development at Summerveld*

# Transformation

Gold Circe is committed to transformation and during the past year continued to make progress towards achieving its transformation goals in areas of demographic representation at member and workforce profile levels as well as business operations. During 2012, Gold Circle produced a separate document which fully described the transformation initiatives undertaken by the company and this publication will in future be generated every second year.

## OWNERSHIP

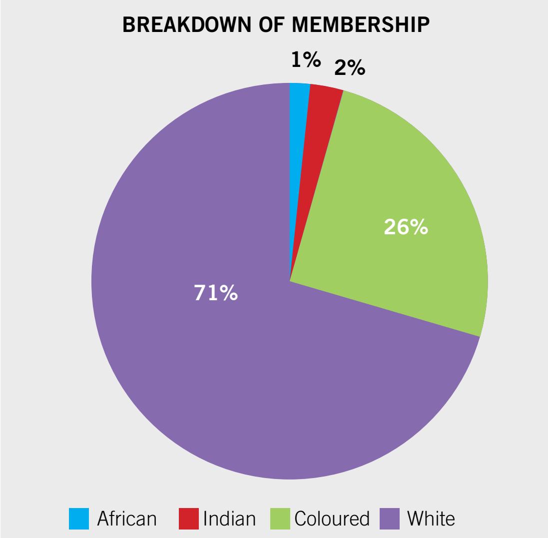
Equity shareholding in Gold Circle (Pty) Limited, prior to 31st July 2013 was held as follows:

| | |
|---|---|
| Gold Circle Racing Club | 75% |
| Western Province Racing Club | 25% |

The Demerger of Gold Circle's business from the Cape was successfully negotiated and took effect from 1st August 2013.

Equity shareholding in Gold Circle (Pty) Limited is now held 100% by Gold Circle Racing Club, which in turn is controlled through its Club Membership and all Club Members have equal voting rights in the company.

In terms of Gold Circle's strategy to increase the Ownership status of Previously Disadvantaged Persons, and in concert with the KwaZulu-Natal Gaming & Betting Board's Minimum Standards Guidelines on Transformation, the following statistics record the Gold Circle Racing Club's membership status at 30th September 2013:



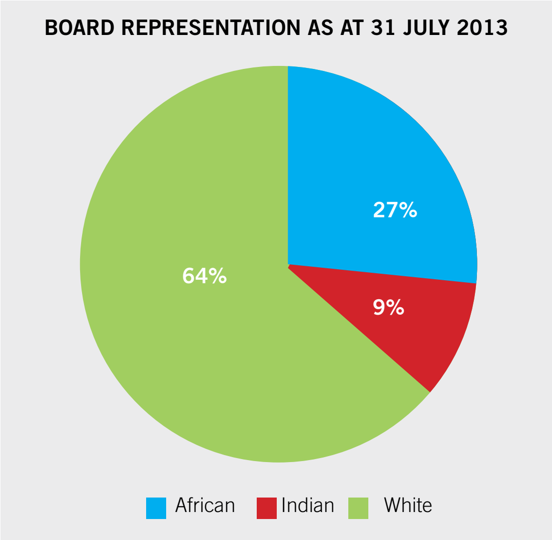

| Demographic | Members | % | Target |
|---|---|---|---|
| Black | 17 | 1.4 | |
| Coloured | 21 | 1.7 | |
| Asian | 312 | 25.9 | |
| | **350** | **29.0** | **30%** |
| White | 855 | 71.0 | |
| | 1205 | 100.0 | |

## MANAGEMENT CONTROL

Company Directorship

Gold Circle's Board of Directors comprises of 11 persons all of which are registered with CIPC. The demographic analysis of the Board's composition is as follows:

| Demographic | Directors | % | Target |
|---|---|---|---|
| African | 3 | 27 | |
| Indian | 1 | 9 | |
| | **4** | **36** | **40%** |
| White | 7 | 64 | |
| | 11 | 100 | |




## MANAGEMENT

Gold Circle has introduced a targeted Executive Development Programme the aim of which is to accelerate the promotion of Black persons into management. This Programme was introduced in April 2013 and targeted candidates are presently undergoing training to develop their knowledge of the Industry. The Programme has already reaped rewards as one incumbent, having attended the Al Maktoum School of Management Excellence, was awarded an International Scholarship to study Racing & Technology in Hong Kong during 2014.

The demographic analysis of the Management's composition is as follows:

| Occupational Levels | African | Coloured | Indian | White | Total |
|---|---|---|---|---|---|
| Executive | | | 2 | 7 | 9 |
| Senior | 8 | 1 | 19 | 22 | 50 |
| Junior | 47 | 7 | 43 | 25 | 122 |

## TOTAL STAFF COMPLEMENT

Gold Circle employs a broad cross-section of personnel across its various departmental units. The company has a policy of only hiring competent qualified staff and to offer equal opportunity and development irrespective of race profile or gender. Preference is however given to the employment of previously disadvantaged persons. The following table depicts the demographic profile of staff at 31st July 2013.

| | Exec | Senior | Junior | Semi- Skilled | Unskilled | Part-time | Total | % |
|---|---|---|---|---|---|---|---|---|
| Black | | 8 | 47 | 932 | 321 | 72 | 1380 | 70.9 |
| Asian | 2 | 19 | 43 | 268 | 11 | 9 | 352 | 18.1 |
| Coloured | | 1 | 7 | 73 | 7 | 5 | 93 | 4.8 |
| | **2** | **28** | **97** | **1273** | **339** | **86** | **1825** | **94.8** |
| White | 7 | 22 | 25 | 62 | 2 | 2 | 120 | 6.2 |
| Total | 9 | 50 | 122 | 1335 | 341 | 88 | 1945 | 100.0 |

# Skills Development

Gold Circle provides opportunities for advancement to its personnel across the broad spectrum of the company's business structure. Training for permanent staff pertains mainly to targeted skills which will ensure that the company is able to conduct its business in the most professional and efficient manner. Selected employees are able to further their education at tertiary learning institutions which is funded by the company, on application.

Over the past few years Gold Circle has offered Learnerships to Black students who wished to enhance their knowledge in the discipline of Track & Grounds Management. Several of the students who completed these learnerships were offered employment with the company.

On an annual basis Gold Circle advertises vacancies for part-time employment as totalisator point of sale operators to fulfill the need to ensure that the Vodacom Durban July race day is appropriately staffed. A minimum level of Grade 12 is stipulated. During the training period all trainees are paid an hourly wage for their endeavors.

The total value that Gold Circle spent on all training for the financial year ended 31st July 2013 amounted to R633 716

TOTAL STAFF TRAINING

The following demographics depict the total number of persons that undertook training through company funded initiatives:

| | Exec | Senior | Junior | Other | Total | % |
|---|---|---|---|---|---|---|
| Black | | 3 | 26 | 618 | 647 | 79.7 |
| Asian | | 7 | 25 | 104 | 136 | 16.7 |
| Coloured | | 1 | 3 | 6 | 10 | 1.2 |
| | | **11** | **54** | **728** | **793** | **97.6** |
| White | 1 | 3 | 6 | 10 | 20 | 2.4 |
| **Total** | **1** | **14** | **60** | **738** | **813** | **100.0** |

# Enterprise Development Investment

Gold Circle recognizes the imperative to progress previously disadvantaged persons to be part of the horseracing industry both as employees as well as developing persons to participate in the Industry from a services perspective. In this latter respect, Gold Circle invests significant funding into individuals through learning institutions in order that they can make a positive contribution to the Industry in their own right.

The total value invested into Enterprise Development during the financial year ended 31st July 2013 amounted to R3 146 684.

## SOUTH AFRICAN JOCKEY ACADEMY (SAJA)

Professional Jockeys in the horseracing industry are not employees but freelance individuals who offer their enterprise skills to trainers to ride horses at race meetings. The building of these individual business enterprises is resultant from significant investment by Gold Circle, and other industry participants, over five year apprenticeships at SAJA.

At present, SAJA has 44 apprentices training for their trade of which 11 are international incumbents. Of the remaining 33 South African apprentices, 64% are from previously disadvantaged backgrounds.

## GROOM DEVELOPMENT

Whilst grooms are not employees of the company, Gold Circle has for many years been at the forefront of providing career opportunities to grooms who wished to improve their own abilities to become a professional groom. The Groom School, which operates from both Ashburton and Summerveld Training Centres, provides free career development for those grooms who voluntarily wish to up-skill themselves. Qualification can be achieved through a certification from SANEF in stable management and/or being certified in an ABET numeracy and literacy programme. Once qualified grooms can then become part of mainstream horse racing. Further in-house career development as a Stable Employee and/or an Assistant Trainer, will be a natural career succession opportunity.

## ASSISTANT TRAINERS/STABLE EMPLOYEES

With the knowledge that there is a serious lack of previously disadvantaged persons represented at Racehorse Trainer level, Gold Circle introduced a wage subsidy to suitably qualified grooms, who had shown the ability to progress their careers to the levels of Assistant Trainer or Stable Employee.

## RURAL RACING

Gold Circle has been involved with Rural Racing for several years. This initiative has the objective of nurturing, developing and transferring skills to participants in Rural Racing to sustain this part of the equine industry to be economically viable.

Through all planning stages in the support of Rural Racing, Gold Circle works closely with Government and other external organisations to ensure an inclusive process in the interests of rural participants and communities. The major areas of development and support of Rural Racing addresses the following principles:

Development of rural racing venues and upgrading facilities for participants and the public.

Transfer of skills and expertise in both administration and equine related disciplines.

Providing funding for support disciplines in horse care including farriery, veterinary, medication and saddlery.

Educating owners, trainers and riders on their participation.

Providing funding of prize money which assists in the sustainability of the sport.

The Dundee July Racing Festival as well as the Sisonke Summer Cup at Kilmon are prime examples of Gold Circle's contribution to enterprise development in rural areas.

An important NPO involved with the development and education of rural communities in the upliftment of horse care skills is the Coastal Horse Care Unit (CHCU). Funding for the sustainability of this important entity is through public donations and a subsidy paid to them by Gold Circle. This year Gold Circle donated the use of a truck to the CHCU which is able to navigate the rural areas.

In time, when Rural Racing has improved standards, control and skills, it will then be in a position to be considered for inclusion in the formal structure of the racing industry as a whole.

# Corporate Social Investment

The Corporate Social & Ethics Committee of the company acts in terms of a Charter agreed by the Directors of Gold Circle. The key principles that guide the Committee are summarised as follows:
Providing developmental educational resources that support broader initiatives within and external of the racing industry.
Forming partnerships with established organisations, as well as Government who already provide educational, social and welfare services in the province. This enabled Gold Circle to apply resources in a supportive role, thus enhancing established projects.
Deploy resources that leave a residual impact on beneficiaries within communities.

The total cost of the Company's funding of Corporate Social Investment, for the financial year ended 31st July 2013, amounted to R3.7 million

## COASTAL HORSE CARE UNIT

At the core of Gold Circle's business is the "Horse" and as a principle it is important that the horse racing industry invest funds into horse related welfare. The only organisation in the province that deals with equine related welfare is the Coastal Horse Care Unit (CHCU) which is a registered NPO. Gold Circle subscribes to the funding of this organisation.

In addition to normal welfare operational services that it provides, the CHCU is intricately involved in community development in the rural areas of the province. This development comprises equine clinic support in respect of saddler, veterinary and farrier educational disciplines. These clinics are carried out intermittently during each year.

## GROOMS

The direct employment responsibility of grooms in the horse racing industry lies with trainers and breeders who act on mandates given to them by Owners. Gold Circle does not employ grooms, however, a large number of grooms reside in premises owned by the company at the training centres located at Ashburton, Clairwood and Summerveld. There is no cost to grooms of providing their accommodation, maintaining such accommodation, recreational facilities, water, electricity and management services as this is carried by Gold Circle as part of its social and welfare commitment to grooms whilst employed at the centres. The aggregate value of this commitment is significant.

In addition, Gold Circle provides a health care support service which deals with day to day medical issues, as well as HIV Aids assistance.

Having regard to the environment in which grooms are accommodated at the training centres, Gold Circle this year encouraged grooms to participate in a soccer league format. This proposal was hugely successful and teams from aspects of the racing industry participated. The cost of sponsoring all sport facilities, clothing and equipment was provided by Gold Circle.

## SOCIAL WELFARE SUPPORT

As part of a broader social and welfare initiative, Gold Circle provides its administrative infrastructure, buildings and racing events to NPOs and other entities to raise funds for charity and other worthy causes. The majority of racing events featured by the company were used for fund raising purposes.

On an annual basis at the Gold Cup Race Day held at the end of July, Gold Circle makes available to welfare organisations, tented facilities on the infield grassed area. This carries a significant cost to the company and indirectly raises funds for charity.

In support of the entertainment recreational needs of the Aged, Gold Circle intermittently invites pensioners to attend horse racing and provides for their needs whilst at the racecourse.

There are several smaller ad-hoc initiatives in which Gold Circle became involved, whilst not significant in value, still has the impact of improving lives. One such project was the donation of surplus television sets to certain schools in KZN.

# Procurement

Gold Circle has since 2004 been actively involved in preferential procurement as this is an effective process in which to effect transformation in the country. The company has an active Tender Committee which adjudicates all tenders for services required in terms of the company's Limits of Authority Policy as well as the BEE Procurement Policy.

A summary of procurement recognition levels for Gold Circle over the past four years is as follows:

| | 2010 | 2011 | 2012 | 2013 | Target 2015 |
|---|---|---|---|---|---|
| Recognition Levels | % | % | % | % | % |
| All Suppliers | 47.9 | 69.0 | 70.3 | 75.1 | 60 |
| QSEs & EMEs | 22.0 | 33.0 | 33.3 | 42.1 | 15 |

## PERSONNEL

During the past year the senior management structure of the company was reviewed and restructured to ensure that all departments were appropriately staffed. Succession planning is in the process of being developed to ensure that the necessary skills required to sustain proper management into the future is achieved. Executive management will continue to be supported through outsourced personnel whilst appropriate knowledge-able and skilled persons are developed within the company to successfully manage and implement the strategic plans of Gold Circle.

A vote of thanks is extended to the CEO, Michel Nairac, together with his management team and staff who have continued with their efforts in keeping Gold Circle on the path of sustainable profitability and success.

## OFFICE BEARERS

It has been a pleasure to serve as Chairperson on a Board which serves the company with such commonality of purpose and understanding of the dynamics of a complex industry. I would like to express my sincere thanks to Board Members for their unselfish contribution to the success of the company over the past year.

The Board places on record its appreciation to Steve Sturlese for the immense contribution that he has made to the financial success of the company and giving sage advice with regard to company investments. We wish him well in his retirement.

## ACKNOWLEDGEMENTS

A special tribute of thanks is extended to the many supporting organizations and people who have provided the infrastructure and services necessary for Gold Circle to achieve its objectives. Included in this group amongst others are Owners, Trainers, Jockeys, Breeders, Sponsors, Media, our betting customers and the public at large.

## PROSPECTS

The Board of Directors met in March 2013 and prepared a Strategic Plan for the company which was approved at a subsequent Directors meeting. The implementation of the strategic plan's objectives will have the effect of better utilizing company assets and sustainably growing revenues to improve stakes and facilities in KZN.

The Board is committed to seeking an exciting and sustainable future for Gold Circle.

R Mauvis
Chairperson

# Statement of Directors' Responsibility

The directors are responsible for the preparation and fair presentation of the consolidated annual financial statements of Gold Circle Proprietary Limited, comprising the consolidated statement of financial position at 31 July 2013, and the consolidated income statement, consolidated 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 are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for 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 a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with the applicable financial reporting framework.

**Approval of the annual financial statements**

The consolidated annual financial statements of Gold Circle Proprietary Limited, as identified in the first paragraph, were approved by the board of directors on 21 October 2013 and are signed on its behalf by:

Director

Director

# Report of the Directors

### 1. Consolidated and separate annual financial statements

The separate annual financial statements have been separately presented.

### 2. Nature of Business

The principal activities of the group are to stage and promote race meetings, racing events, manage, administer and operate the racecourses, training centres, the totalisator, transport fleet and service divisions of the thoroughbred horse racing industry within the province of KwaZulu-Natal.

### 3. Review of Results

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Profit before tax | **8 801 128** | 368 150 484 |
| Less: Profit on sale of Clairwood | - | (242 488 403) |
| Less: Profit on sale of Betting World Proprietary Limited | - | (31 829 302) |
| Less: gain on acquisition of controls of Clairwood and Durban turf clubs | - | (82 215 973) |
| Total Profit before tax for the year excluding the above transactions | **8 801 128** | 11 616 806 |
| Profit from continuing operations | **26 930 153** | 334 764 911 |
| Loss from discontinued operations | **(5 704 722)** | (895 510) |
| Profit for the year | **21 225 431** | 333 869 401 |

### 4. Share Capital

The fully issued share capital comprises 2000 ordinary shares of R 1 each:

| | 2013 | 2012 |
|---|---|---|
| Clairwood Turf Club | - | 500 |
| Durban Turf Club | - | 500 |
| Gold Circle Racing Club | **1 500** | 500 |
| Western Province Racing Club | **500** | 500 |
| | **2 000** | 2 000 |

### 5. Directors and Secretary

Gold Circle Proprietary Limited

N Butcher (Appointed 06/12/2012)
J H S de Klerk (Appointed 06/12/2012)
G T Hawkins (Resigned 11/12/2012)
P V Lafferty
D A Latimer (Resigned 11/12/2012)
R Mauvis (Chairperson)
Ms P Mnganga
M J L Nairac (Appointed 11/12/2012)
L Nunan
G Petzer
T N Pillay (Resigned 11/12/2012)
Ms Rakharebe (Appointed 19/12/2012)
G A R Sturlese (Appointed 06/12/2012)
M Tembe

### 6. Company Secretary

The secretary of the company is Mr D J Furness whose business address is 150 Avondale Road, Greyville, Durban 4001.

### 7. Dividends

No dividends were declared or paid during the year under review.

### 8. Corporate Governance

The Audit Committee, which consists only of non-executive directors, has met with the group's independent auditors and executive management to discuss accounting, auditing, internal control and financial reporting matters. The group has an internal audit department, which reports directly to the Audit Committee.

The following standing committees have been appointed:

| | |
|---|---|
| Audit | N P Butcher |
| Committee | J H S de Klerk (Chairperson - Appointed 11/12/2012) |
| | Ms L E Rakharebe (Appointed 05/02/2013) |
| | G A R Sturlese (Resigned 11/12/2012) |
| | M Tembe (Resigned 11/12/2012) |
| | |
| Remuneration | P V Lafferty (Appointed 11/12/2012) |
| Committee | G Petzer ( Chairperson) |
| | |
| Risk | N P Butcher |
| Committee | J H S de Klerk (Chairperson - Appointed 11/12/2012) |
| | Ms L E Rakharebe (Appointed 05/02/2013) |
| | G A R Sturlese (Resigned 11/12/2012) |
| | M Tembe (Resigned 11/12/2012) |
| | |
| Racing | N P Butcher (Chairperson) |
| Committee | J H S de Klerk |
| | V Doorgapershad |
| | G T Hawkins |
| | P V Lafferty |
| | M J L Nairac |
| | L Nunan |
| | K Russon |
| | A Rivalland |
| | M Tembe |

### 9. Subsidiaries

The subsidiaries of the company held directly and indirectly are as follows:

| | Issued Share Capital | Percentage Holding |
|---|---|---|
| Natal Racing Properties Proprietary Limited | 150 000 | 100% |
| Cape Racing Properties Proprietary Limited | 100 | 100% |
| Gold Circle Gaming Investments Proprietary Limited | 100 | 100% |

### 10. Black Empowerment Initiatives

Gold Circle has a transformation policy which regulates its activities against Government's Broad Based Black Economic Empowerment Codes as gazetted in February 2007. The group's transformation initiatives are monitored by the Board of Directors as well as audited by the Western Cape Gambling and Racing Board on behalf of the National Gambling Board.

### 11. Demerger agreement

The demerger agreement was approved by the members by Special Resolution on 14 November 2011. The effective date of the demerger with the Western Province division was 31 July 2013. These annual financial statements have been based on the finalisation of the demerger.

# Report of the Directors (continued)

**12. Events after the statement of financial position date.**

The demerger with the Western Cape division will be completed during the early part of 2014. Major development projects at Greyville and Summerveld which commenced during the latter part of the 2013 financial year are due for completion by the end of April 2014.

**13. Going concern**

The directors believe that the group will continue as a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the group annual financial statements.

# Independent Auditor's Report

*To the shareholders of Gold Circle Proprietary Limited*

We have audited the consolidated financial statements of Gold Circle Proprietary Limited, which comprise the consolidated statement of financial position at 31 July 2013, and the consolidated income statement, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 24 to 52.

*Directors' Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, these financial statements present fairly, in all material respects, the consolidated financial position of Gold Circle Proprietary Limited at 31 July 2013, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

*Other Reports Required by the Companies Act*

As part of our audit of the financial statements for the year ended 31 July 2013, we have read the directors' report for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. This report is the responsibility of the respective preparers. Based on reading this report we have not identified material inconsistencies between this report and the audited financial statements. However, we have not audited this report and accordingly do not express an opinion on this report.

KPMG Inc.

Per P Fay
Chartered Accountant (SA)
Registered Auditor
Director

# Consolidated Statement of Financial Position

| | Notes | 2013 | 2012 |
|---|---|---|---|
| | | **R** | R |
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *3* | **274 553 396** | 588 444 321 |
| Investment in joint venture | *4* | **21 462 878** | 16 586 419 |
| Loans receivable | *5* | **7 628 510** | 23 390 046 |
| Intangible assets | *6* | **3 074 327** | 4 359 327 |
| Straight lining of lease assets | | **635 948** | 3 696 982 |
| Other investments | *7* | **120 000 000** | - |
| | | **427 355 059** | 636 477 095 |
| **Current assets** | | | |
| Inventories | *8* | **2 941 485** | 2 955 453 |
| Trade and other receivables | *9* | **23 021 972** | 476 921 191 |
| Cash and cash equivalents | *10* | **107 807 689** | 54 865 695 |
| Available for sale financial assets | *11* | **197 053 967** | - |
| Taxable receivable | *18* | **2 123 701** | - |
| | | **332 948 814** | 534 742 339 |
| **Assets held for sale** | | **79 429 982** | - |
| **Total assets** | | **839 733 855** | 1 171 219 434 |
| | | | |
| **Equity and liabilities** | | | |
| **Equity reserves** | | | |
| Share capital | *13* | **2 000** | 2 000 |
| Retained earnings | | **431 959 552** | 410 734 121 |
| Available for sale fair value reserve | | **4 226 161** | - |
| Revaluation reserve | | **166 261 229** | 415 955 310 |
| **Total equity** | | **602 448 942** | 826 691 431 |
| | | | |
| **Non-current liabilities** | | | |
| Deferred income | | **18 177** | - |
| Borrowings | *14* | **41 366 370** | 94 834 095 |
| Deferred tax liability | *15* | **35 784 929** | 100 196 233 |
| Post employment medical aid obligations | *16* | **15 243 000** | 18 342 613 |
| | | **92 412 476** | 213 372 941 |
| **Current liabilities** | | | |
| Short term portion of post employment medical aid obligations | *16* | **1 211 000** | 1 578 387 |
| Trade and other payables | *17* | **69 864 313** | 122 036 180 |
| Borrowings | *14* | **-** | 3 307 389 |
| Taxation payable | *18* | **-** | 4 233 106 |
| | | **71 075 313** | 131 155 062 |
| | | | |
| **Liabilities held for sale** | | **73 797 124** | - |
| | | | |
| **Total equity and liabilities** | | **839 733 855** | 1 171 219 434 |

# Consolidated Income Statement

| | Note | 2013 | 2012 | 2012 |
|---|---|---|---|---|
| | | **R** | Restated R | R |
| Total bets struck | | **1 462 879 000** | 1 443 705 000 | 2 010 628 762 |
| Gross wagering revenue before provincial tax | | **324 950 225** | 316 632 298 | 447 890 608 |
| Provincial tax | | **(22 653 689)** | (22 067 657) | (29 749 512) |
| Gross wagering revenue after provincial tax | | **302 296 536** | 294 564 641 | 418 141 096 |
| Less: Agents commissions paid | *21* | **(30 157 279)** | (30 894 587) | (36 832 848) |
| Less: Wagering expenditure | *21* | **(137 429 352)** | (132 608 848) | (196 899 267) |
| **Contribution to racing from wagering activities** | | **134 709 905** | 131 061 206 | 184 408 981 |
| Add contribution to racing from third party bookmaking activities | | **40 907 704** | 36 635 443 | 54 461 363 |
| - Stand up and information fees | | **252 626** | 336 101 | 392 796 |
| - Tax on punters winnings | | **40 655 07** | 36 299 342 | 54 068 567 |
| Share of income from joint venture | | **32 131 258** | 21 404 420 | 33 444 406 |
| Profit on disposal of KZN Slots shares | | **2 245 000** | - | - |
| Net wagering revenues available for racing activities | | **209 993 867** | 189 101 069 | 272 314 750 |
| Add: direct racing and other revenue | *19* | **64 363 713** | 411 543 969 | 445 078 466 |
| Gross revenues available for racing activities | | **274 357 580** | 600 645 038 | 717 393 216 |
| Racing expenditure | *21* | **(280 744 862)** | (234 457 129) | (351 027 269) |
| Operating expenditure for racecourses and training facilities | | **(164 564 176)** | (132 983 214) | (178 509 520) |
| NHA- regulatory costs | | **(11 623 820)** | (10 794 026) | (19 657 079) |
| Stakes - Owners | | **(87 110 203)** | (73 815 218) | (127 668 635) |
| - Breeders | | **(7 532 742)** | (6 737 279) | (7 178 228) |
| Racing SA contributions | | **(312 000)** | (402 000) | (804 000) |
| Contribution to jockeys | | **(9 601 921)** | (9 725 392) | (17 209 807) |
| Net (loss)/ profit before finance income | | **(6 387 282)** | 366 187 909 | 366 365 947 |
| Add: Finance income | *20* | **15 526 145** | 2 144 988 | 3 014 432 |
| Less: Finance costs | *20* | **(337 735)** | (875 546) | (2 470 284) |
| | | **8 801 128** | 367 457 351 | 366 910 095 |
| Income taxation | *22* | **18 129 025** | (32 692 440) | (33 040 694) |
| Net income after taxation from continued operations | | **26 930 153** | 334 764 911 | 333 869 401 |
| Net loss after taxation from discontinued operations | *24* | **(5 704 722)** | (895 510) | - |
| Profit for the year | | **21 225 431** | 333 869 401 | 333 869 401 |

# Consolidated Statement of Comprehensive Income

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | **R** | R |
| Profit for the year | | **21 225 431** | 333 869 401 |
| | | | |
| **Other comprehensive income** | | | |
| Revaluation of property, plant & equipment | | **-** | 19 998 214 |
| Net change in fair value of available for sale financial assets | | **5 194 908** | - |
| Impairment of assets held for sale to Western Province | *3* | **(302 247 928)** | |
| Income taxation on other comprehensive income | | **51 585 099** | (5 350 105) |
| | | **(245 467 921)** | 14 648 109 |
| **Total comprehensive (loss)/ income** | | **(224 242 490)** | 348 517 510 |

# Consolidated Statement of Changes in Equity

| | *Note* | **Share Capital** | **Revaluation reserve** | **Retained earnings** | **Available for sale fair value reserve** | **Total** |
|---|---|---|---|---|---|---|
| **Balance at 31 July 2011** | | 2 000 | 506 720 530 | (32 965 852 | - | 473 756 678 |
| Profit for the year | | - | - | 333 869 401 | - | 333 869 401 |
| Other comprehensive income for the year | | - | 14 648 109 | - | - | 14 648 109 |
| Transfer of revaluation reserve on disposal of asset | | - | (128 074 478) | 128 074 478 | - | |
| Reversal of Betting World share of profit since acquisition | | - | - | (18 782 727) | - | (18 782 727) |
| Deferred tax on disposal of Land and Buildings | *15* | - | 30 109 482 | - | - | 30 109 482 |
| Deferred tax through equity | *15* | - | (7 448 333) | 542 315 | - | (6 906 018) |
| Other equity adjustments | | - | - | (3 494) | - | (3 494) |
| **Balance at 31 July 2012** | | **2 000** | **415 955 310** | **410 734 121** | **-** | **826 691 431** |
| | | | | | | |
| Total comprehensive loss: | | | | | | |
| Profit for the year | | **-** | | **21 225 431** | **-** | **21 225 431** |
| Other comprehensive loss | | **-** | **(302 247 928)** | **-** | **5 194 908** | **(297 053 020)** |
| Taxation on other comprehensive loss | | **-** | **52 553 847** | **-** | **(968 747)** | **51 585 100** |
| **Balance at 31 July 2013** | | **2 000** | **166 261 229** | **431 959 552** | **4 226 161** | **602 448 942** |

# Consolidated Statement of Cash Flows

| | Notes | 2013 | 2012 |
|---|---|---|---|
| | | **R** | R |
| **Cash flows from operating activities** | | | |
| Cash generated/ (utilised) from operations | *25* | **91 193 877** | (385 603 339) |
| Interest paid | *20* | **(337 735)** | (2 470 284) |
| Interest received | *20* | **15 306 060** | 3 014 432 |
| Tax paid | *18* | **1 065 414** | (16 376 843) |
| Net cash flows from operating activities | | **107 227 616** | (401 436 034) |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchases of plant and equipment | | **(54 147 316)** | (16 569 193) |
| Proceeds in cancellation of lease | | **-** | 150 000 000 |
| Proceeds from disposal of property, plant and equipment | | **7 206 642** | 280 171 702 |
| Proceeds from disposal of Western Cape division | | **13 193 417** | - |
| Movement in equity accounted investee | | **-** | 214 106 |
| Proceeds in disposal of shares in associate | | **-** | 32 697 787 |
| Loans receivable from associates and joint ventures | | **(18 759 746)** | (16 710 540) |
| Net cash flows from investing activities | | **(52 507 003)** | 429 803 862 |
| | | | |
| **Cash flow from financing activities** | | | |
| Post-retirement medical obligation | | **3 114 387** | - |
| (Repayment)/ proceeds of short-term borrowings | | **(3 307 389)** | - |
| Proceeds/ (repayment) of long-term borrowings | | **143 624** | (6 801 162) |
| Net cash flows from financing activities | | **(49 378)** | (6 801 162) |
| | | | |
| **Net increase in cash and cash equivalents** | | **54 671 235** | 21 566 666 |
| Cash and cash equivalents at beginning of year | | **54 865 695** | 33 299 029 |
| **Cash and cash equivalents at the end of year** | *10* | **109 536 930** | 54 865 695 |

# Accounting Policies

## 1. Accounting policies

### 1.1 Reporting Entity

Gold Circle (Proprietary) Limited is a company domiciled in the Republic of South Africa. The address of the group's registered office is 150 Avondale road, Greyville. The consolidated financial statements of the Group as at and for the year ended 31 July 2013 comprise the company, its subsidiaries and joint venture (together referred to as the "Group").

The financial statements incorporate the following principal accounting policies as set out below. The accounting policies of the subsidiaries are consistent with those of the holding company.

### 1.2 Basis of Preparation

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). Separate annual financial statements for the Company have been prepared.

#### (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for land and buildings which are stated at their fair value.

The methods used to measure fair values are discussed further in note 1.2 (d) use of estimates and judgements.

#### (c) Functional and presentation currency

These consolidated financial statements are presented in South African Rands, rounded to the nearest Rand, which is the Group's functional currency.

#### (d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

- Note 3 Property, plant and equipment
- Note 6 Intangible assets
- Note 14 Borrowings
- Note 15 Deferred tax liability
- Note 22 Income taxation
- Note 23 Operating lease commitments
- Note 27 Financial risk factors

### 1.3 Significant accounting policies

#### (a) Basis of consolidation

*(i) Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

*(ii) Investments in associates and jointly controlled entities (equity-accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognised initially at cost (including transaction costs). The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

In the separate financial statements the investments in associates and joint ventures are measured at cost less accumulated impairments.

*(iii) Transactions eliminated on consolidation*

Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

**(b) Financial instruments**

*(i) Non-derivative financial assets*

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on 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 classifies its non-derivative financial assets as loans and receivables and available-for-sale financial assets.

**Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment loss.

Loans and receivables comprise: loans, trade and other receivables and cash and cash equivalents. The Company also has amounts owing by subsidiary companies.

**Cash and cash equivalents**

Cash and cash equivalents are measured at amortised cost using the effective interest method. Cash and cash equivalents comprise cash balances and bank balances with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost which approximates their fair value.

**Available-for-sale**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any other categories. The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses or foreign exchange differences on debt instruments, are recognised in other comprehensive income and presented within equity in the available-for-sale fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is reclassified to profit or loss.

*(ii) Non-derivative financial liabilities*

The Group initially recognises debt securities and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group has the following non-derivative financial liabilities: loans and borrowings, loans from shareholders, bank overdrafts and trade and other payables. The Company also has amounts owing to subsidiary companies.

Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

*(iii) Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**(c) Property, plant and equipment**

*(i) Recognition and measurement*

Land and buildings are shown at fair value, based on periodic, but at least three-yearly, valuations by external independent valuators, less subsequent depreciation for buildings. Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the statement of comprehensive income.

*(i) Recognition and measurement*

Movable items of property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

*(ii) Subsequent costs*

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

*(iii) Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Items of property, plant and equipment are depreciated from the date that they are installed and ready for use.

The estimated useful lives for the current and comparative periods are 25 years for buildings and between 3 and 6 years for movable assets.

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate.

**(d) Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investments, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

**(e) Investment property**

Investment property is held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

An external, independent valuation expert, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property every three years.

Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein both parties had each acted knowledgeably.

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

# Accounting Policies (continued)

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the first in first out (FIFO) formula. When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(h) Impairment**

*(i) Non-derivative financial assets*

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset and can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restricting of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**Financial assets measured at amortised cost**

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested trends.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance against loans and receivables. When an event occurring after the impairment was recognised causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*(ii) Non-financial assets*

The carrying amount of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs 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.

Impairment losses are recognised other comprehensive income to the extent of any previous revaluation reserves. Any excess impairment is recognised in profit or loss

An impairment loss in respect of goodwill is 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.

### (i) Employee benefits

*(i) Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

*(ii) Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which benefits are expected to be paid.

The Group's obligation is valued bi-annually by independent qualified valuators. The movement in the obligation is recognised to profit or loss.

*(iii) Termination benefits*

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

*(iv) Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Employee entitlements to annual leave are recognised when they accrue. An accrual is made for the estimated liability for accumulated leave as a result of services rendered up to the reporting date.

### (j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### (k) Revenue

*(i) Commissions*

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

*(ii) Goods sold*

Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised once the risks and rewards of ownership have passed, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

*(iii) Rental income*

Rental income is recognised as revenue on a straight-line basis over the term of the lease.

### (l) Leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### (m) Finance income and finance costs

Interest income and borrowing costs are recognised as they accrue in profit or loss, using the effective interest method.

### (n) Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on 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;
- temporary differences related to investments in subsidiaries and jointly controlled entitled to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (o) Deferred income

Proceeds from the sale of the right to use of suites are recognised as income in each year in the proportion of one year to the total number of years right of use sold in respect of each suite.

### (p) Related parties

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

i) Directly, or indirectly through one or more intermediaries, the party controls, is controlled by or is under common control with the Company;

ii) The party is a member of the key management personnel of the entity or its parent;

iii) The party is a close member of the family of any individual referred to the above.

Close family member of the family of an individual includes:

i) The individual's domestic partner and children;

ii) Children of the individual's domestic partner; and

iii) Dependents of the individual or the individual's domestic partner.

### (q) Non-current assets held-for-sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets (or components of a disposal group) are re-measured in accordance with the Company's accounting policies. On initial classification as held-for-sale and subsequently, non-current assets or disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses are included in profit or loss or other comprehensive income and are allocated first to goodwill and then to the remaining assets and liabilities on a pro rata basis (with the exception of inventories, financial assets, deferred taxation assets, employee benefit assets, investment property, which continue to be measured in accordance with the Group's accounting policies). Gains are not recognised in excess of any cumulative impairment loss. Gains and losses on re-measurement are recognised in other expenses in the statement of comprehensive income.

Intangible assets and property, plant and equipment once classified as held-for-sale are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

### (r) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

  Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.


## 2 New standards and interpretations

### 2.1 Standards and interpretations not yet effective

| Standard/ Interpretation | | Effective date |
|---|---|---|
| IFRS 10 | Consolidated Financial Statements | Annual periods beginning on or after 1 January 2013 |
| IFRS 11 | Joint Arrangements | Annual periods beginning on or after 1 January 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | Annual periods beginning on or after 1 January 2013 |
| IFRS 13 | Fair Value Measurement | Annual periods beginning on or after 1 January 2013 |
| IFRS 10, IFRS 11 and IFRS 12 amendment | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance | Annual periods beginning on or after 1 January 2013 |
| IAS 19 amendments | Employee Benefits: Defined Benefit Plans | Annual periods beginning on or after 1 January 2013 |
| IAS 27 | Separate Financial Statements (2012) | Annual periods beginning on or after 1 January 2013 |
| IAS 28 | Investments in Associates and Joint Ventures (2012) | Annual periods beginning on or after 1 January 2013 |
| IFRS 7 amendment | Disclosures – Offsetting Financial Assets and Financial Liabilities | Annual periods beginning on or after 1 January 2013 |
| IAS 32 | Offsetting Financial Assets and Financial Liabilities | Annual periods beginning on or after 1 January 2014 |
| IAS 36 | Recoverable amount disclosures for Non-financial assets | Annual periods beginning on or after 1 January 2014 |
| IFRS 9 (2009) | Financial Instruments | Annual periods beginning on or after 1 January 2015 |
| IFRS 9 (2011) | Financial Instruments | Annual periods beginning on or after 1 January 2015 |

All Standards and Interpretations will be adopted at their effective date.

The Directors are of the opinion that the above amendments will not have a material impact on the Group's annual financial statements.

# Notes to the Financial Statements

### 3. Property, plant and equipment

| 2013 | Cost | Accumulated depreciation and impairment | Carrying amount |
|---|---|---|---|
| Land | **41 810 000** | **-** | **41 810 000** |
| Buildings | **230 287 621** | **(54 828 453)** | **175 459 168** |
| Plant, vehicles and equipment | **163 156 178** | **(105 871 950)** | **57 284 228** |
| | **435 253 799** | **(160 700 403)** | **274 553 396** |

| Movement in carrying amount | Land and buildings | Plant, vehicles and equipment | Total |
|---|---|---|---|
| Carrying amount at beginning of year | **542 463 602** | **45 980 719** | **588 444 321** |
| Impairment of Western Province Property | **(302 247 928)** | **-** | **(302 247 928)** |
| Reclassification to held for sale | **(29 975 855)** | **(11 159 822)** | **(41 135 677)** |
| Additions | **14 626 105** | **39 521 211** | **54 147 316** |
| Disposals | **(286 836)** | **(376 491)** | **(663 327)** |
| Depreciation | **(7 309 920)** | **(16 681 389)** | **(23 991 309)** |
| | **217 269 168** | **57 284 228** | **274 553 396** |

| 2012 | Cost | Accumulated depreciation and impairment | Carrying amount |
|---|---|---|---|
| Property, plant and equipment | | | |
| Freehold land | 243 060 764 | (6 750 026) | 236 310 738 |
| Freehold buildings | 318 658 628 | (47 108 517) | 271 550 111 |
| Leased buildings | 62 190 285 | (27 587 532) | 34 602 753 |
| Plant, vehicles and equipment | 182 919 323 | (136 938 604) | 45 980 719 |
| | 806 829 000 | (218 384 679) | 588 444 321 |

| Movement in carrying amount | Land and buildings | Plant, vehicles and equipment | Total |
|---|---|---|---|
| Carrying amount at beginning of year | 708 967 357 | 48 736 880 | 757 704 237 |
| Additions | 2 777 678 | 13 791 515 | 16 569 193 |
| Revaluation of land & buildings | 19 998 214 | - | 19 998 214 |
| Disposals | (179 556 597) | (5 910) | (179 562 507) |
| Depreciation | (9 723 050) | (16 541 766) | (26 264 816) |
| | 542 463 602 | 45 980 719 | 588 444 321 |

The group's land and buildings were revalued on 31 July 2012 by an independent valuator. Valuations were made on the basis of recent market transactions on arm's length terms. The revaluation surplus, net of applicable deferred income taxes, was credited to non-distributable reserves.

Depreciation expense of R23 991 309 (2012: R26 264 816) has been included in 'administrative expenses.

A register detailing the descriptions, situation and date of acquisition of fixed assets is available for inspection at the registered office of the group. A mortgage bond in favour of First National Bank Limited (amounting to R20 million) is registered over the Milnerton property. Movable assets having a carrying value of R3 303 904 (2012: R8 013 940) are held under finance leases. If land and buildings were stated on the historical cost basis, the amounts would be as follows:

| | **2013** | 2012 |
|---|---|---|
| | **R** | R |
| Cost | **18 532 000** | 75 744 696 |
| Accumulated depreciation and impairment | **12 607 692** | (33 344 533) |
| | **5 924 308** | 42 400 163 |

### 4 Investment in joint venture

| | | |
|---|---|---|
| Phumelela Gold Enterprises Partnership | | |
| Investment in PGE and its subsidiary | **38 898 154** | 40 459 454 |
| Loan account | **(17 435 276)** | (23 873 035) |
| | **21 462 878** | 16 586 419 |

The loan is unsecured, bears no interest and has no fixed date for repayment. The group has a legally enforceable right to offset balances owing and receivable with Phumelela Gaming and Leisure, and intends to realise the asset and settle the liability on a net basis or simultaneously.

The summarised financial information of the partnership is as follows:

| | **2013** | 2012 |
|---|---|---|
| | **R** | R |
| Assets | **160 124 000** | 87 724 000 |
| Liabilities | **72 648 000** | 57 109 000 |
| Revenue | **239 466 000** | 195 109 000 |
| Profit | **128 460 000** | 85 097 000 |

Gold Circle Proprietary Limited has a 24,96% interest and profit share (2012: 39%) in Phumelela Gold Enterprises which is a joint venture between Gold Circle Proprietary Limited, Phumelela Gaming and Leisure Limited and Kenilworth Racing Proprietary Limited.

| 5 Loans receivable | **2013** | 2012 |
|---|---|---|
| | **R** | R |
| Unsecured | | |
| PGE Mauritius | **5 159 822** | 5 159 822 |
| Kenilworth Racing Proprietary Limited | **31 261 782** | - |
| Phumelela Gaming & Leisure Limited – KZN | **1 454 289** | 1 454 289 |
| Phumelela Gaming & Leisure Limited – WP | **-** | 15 287 137 |
| Horseracing S A Proprietary Limited | **2 028 798** | 1 488 798 |
| Transfer to held for sale assets | **(32 276 181)** | - |
| | **7 628 510** | 23 390 046 |

# Notes to the Financial Statements

**5 Loans receivable (continued)**

The loan to Horseracing SA Proprietary Limited is unsecured, bears no interest and has no fixed date for repayment.

The loan to PGE Mauritius is unsecured and bears no interest. The loan has been utilized to purchase shares in ASL Limited.

The Kenilworth Racing Proprietary Limited and Phumelela loans are to be settled once the assets held for sale have been disposed.

| **6 Intangible assets** | **2013** | 2012 |
|---|---|---|
| | **R** | R |
| Goodwill | | |
| Balance at the beginning of the year | **4 359 327** | 4 359 327 |
| Impairment | **(1 285 000)** | - |
| Goodwill | **3 074 327** | 4 359 327 |

Goodwill arose as a result of the acquisition of agency outlets.

The carrying amount of goodwill was subject to an impairment test at statement of financial position date. This test indicated impairment was required on the Western Cape outlets to be sold as part of the demerger agreement. The underlying key assumptions of the test of impairment include, but are not limited to, cash flow forecasts. Such forecasts are performed utilising growth in revenue based on inflation rate (2013: 6%, 2012: 4.9% ) and expected tax rate (2013: 28%, 2012 28%)

| **7 Other investments** | **2013** | 2012 |
|---|---|---|
| | **R** | R |
| FNB Preference Shares – held to maturity | **120 000 000** | - |

Preference shares are redeemable on 01 January 2016.

Cumulative dividends earned are 66.6% of prime rate.

| **8 Inventories** | **2013** | 2012 |
|---|---|---|
| | **R** | R |
| Finished goods | **3 090 134** | 2 955 453 |
| Transferred to held for sale assets | **(148 649)** | - |
| | **2 941 485** | 2 955 453 |

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to R7 802 092 (2012: R9 913 764).

| **9 Trade and other receivables** | | |
|---|---|---|
| Trade receivables | **24 778 905** | 19 744 687 |
| Less provision for impairment of receivables | **(1 056 962)** | (387 753) |
| Trade receivables – net | **23 721 943** | 19 356 934 |
| Other receivables | **1 810 598** | 4 806 857 |
| Prepayments | **1 629 665** | 1 757 400 |
| Proceeds - sale of Clairwood | **-** | 451 000 000 |
| Transfer to held for sale assets | **(4 140 234)** | - |
| | **23 021 972** | 476 921 191 |

The amounts are subject to the group's standard credit terms and are due within a maximum of either 30 days or 60 days after month end depending on the class of debtor. Interest has not been charged on these accounts.

| | 2013 | 2012 |
|---|---|---|
| | **R** | R |
| Trade receivables can be analysed as follows: | | |
| Neither past due nor impaired | **18 692 522** | 16 183 933 |
| Past due but not impaired | **6 086 383** | 3 173 001 |
| Past due and impaired | **1 056 962** | 387 753 |
| Impairment against these receivables | **(1 056 962)** | (387 753) |
| | **24 778 905** | 19 356 934 |

| | | |
|---|---|---|
| The movement in the allowance for impairment is as follows: | | |
| At beginning of the year | **(387 753)** | (813 538) |
| Trade receivables written off during the year | **258 349** | 813 538 |
| Increase in impairment | **(927 558)** | (387 753) |
| At end of the year | **(1 056 962)** | (387 753) |

The impairment charge for doubtful debts for the year has been included in 'administration expenses' in the statement of comprehensive income.

The other classes within trade and other receivables do not contain impaired assets. There is no significant concentration of credit risk in respect of any particular customer or industry segment.

| 10 Cash and cash equivalents | 2013 | 2012 |
|---|---|---|
| | **R** | R |
| Current accounts | **20 685 268** | 46 487 135 |
| Fixed deposits | **83 677 335** | - |
| Cash on hand | **5 174 327** | 8 378 560 |
| | **109 536 930** | 54 865 695 |
| Transferred to held for sale assets | **(1 729 241)** | - |
| | **107 807 689** | 54 865 695 |

**Guarantees**

Gold Circle Proprietary Limited has the following Guarantees in place:

| In favour of | Value | Review Date |
|---|---|---|
| KwaZulu Natal Bookmakers Control Committee | 100 000 | 20/02/2013 |
| Artemis Properties Proprietary Limited | 110 000 | 31/05/2017 |
| Pinetown Regional Water | 69 285 | 31/12/2035 |
| SA Retail Properties Proprietary Limited | 98 504 | 31/07/2016 |
| South African Breweries Limited | 170 000 | 31/12/2025 |
| Eskom | 117 945 | 31/12/2025 |
| Ethekwini Municipality | 1 260 921 | 31/12/2025 |
| KZN Gambling Board | 200 000 | 31/12/2025 |

**Facilities**

Gold Circle Proprietary Limited has overdraft facilities of R11 000 000 and contingent facilities of R2 600 000 with FNB, due for review on 31 August 2014.

# Notes to the Financial Statements

| 11. Available for sale financial assets | 2013 |
|---|---|
| | R |
| RMB Private Bank Trust Account | 4 339 031 |
| Investec Asset Management account | 4 349 566 |
| Nedbank Corporate Saver account | 4 222 941 |
| Prudential Portfolio | 100 861 536 |
| Sanlam Portfolio | 20 420 052 |
| RMB Protected Flexible | 42 096 490 |
| Sanlam Private Portfolio: listed shares | 16 456 059 |
| Asset swap | 4 308 292 |
| | 197 053 967 |

The assets are at fair value as determined by an active market. The Company's exposure to credit, currency and interest rate risks related to financial assets and the exposure to currency, interest rate and liquidity risk related to financial liabilities is disclosed in note 27.

**11.1 Ring fenced investments**

The investments noted below relate to the ring fenced investments including the returns for the 2013 financial year.

| | Initial Investment<br>R | Actual Return<br>R | Ring fenced assets<br>R |
|---|---|---|---|
| FNB Preference Share – held to maturity | 120 000 000 | 4 115 538 | 124 115 538 |
| RMB Protected Flexible | 40 000 000 | 2 096 490 | 42 096 490 |
| Sanlam Private Portfolio mixed portfolio | 20 000 000 | 1 720 493 | 21 720 493 |
| Sanlam Portfolio | 20 000 000 | 420 052 | 20 420 052 |
| | 200 000 000 | 8 352 573 | 208 352 573 |

| | |
|---|---|
| Financial Assets – Ring fenced | 208 352 573 |
| Financial Assets – Not ring fenced | 211 334 666 |
| | 419 687 239 |

| 11.2 Disclosed as follows in the statement of financial position | 2013 |
|---|---|
| | R |
| Non current | |
| Financial Assets – Ring fenced | |
| FNB Preference Share | 120 000 000 |
| | |
| Current | |
| Cash and cash equivalents | 107 807 689 |
| Available for sale | 197 053 967 |
| Less cash on hand | (5 174 417) |
| | 299 687 239 |
| **Total investments** | 419 687 239 |

| 11.3 Disclosed as follows in the income statement | 2013 |
|---|---|
| | R |
| As part of finance income and other associated income | 4 435 538 |
| Net change in fair value of available for sale financial assets | 3 917 035 |
| | 8 352 573 |

## 12 Assets/liabilities held for sale

The Company's Western Cape operations are presented as a disposal group held for sale following the commitment of the Company's directors to sell these operations after the sale was approved by the Competition Commission on 15 November 2012. At 31 July 2013, the disposal group comprised the following assets and liabilities:

| | 2013 |
|---|---|
| | R |
| **Assets** | |
| Property, plant and equipment | 41 135 677 |
| Long-term loan receivables | 32 276 181 |
| Trade and other receivables | 4 140 234 |
| Inventories | 148 649 |
| Cash and cash equivalents | 1 729 241 |
| | 79 429 982 |
| | |
| **Liabilities** | |
| Finance lease obligations | 3 389 019 |
| Long-term loan payable | 38 654 588 |
| Mortgage bond | 13 158 498 |
| Medical aid obligation | 6 214 000 |
| Provisions | 1 652 811 |
| Trade and other payable | 10 728 208 |
| | 73 797 124 |

## 13 Share capital

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Authorised and issued | | |
| 2 000 ordinary shares of R1 each | 2 000 | 2 000 |
| No dividends were declared or paid during the year. | | |

## 14 Borrowings

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| **Non-current - shareholders loans** | | |
| Clairwood Turf Club | - | |
| Durban Turf Club | - | |
| Gold Circle Racing Club | 39 457 424 | 39 458 881 |
| Western Province Racing Club | 38 654 588 | 38 654 588 |
| Transfer to held for sale liabilities | (38 654 588) | - |
| | 39 457 424 | 78 113 469 |
| **Non-current - other** | | |
| Finance lease liabilities- long-term portion | 1 908 946 | 3 390 894 |
| Bank borrowings | 13 158 498 | 13 329 732 |
| Transfer of mortgage bond to held for sale liabilities | (13 158 498) | - |
| | 1 908 946 | 16 720 626 |
| | 41 366 370 | 94 834 095 |

# Notes to the Financial Statements

## 14 Borrowings (continued)

| | 2013 | 2012 |
|---|---|---|
| | **R** | R |
| **Current** | | |
| *Bank borrowings* | - | 3 307 389 |

*Shareholder's loans*

Loans are unsecured, interest free and are not repayable in the next 12 months.

*Bank borrowings*

The FNB loan is secured by the following property:

First mortgage bond for R20 000 000 over property described as remainder of Erf 935, Erf 8 641, Erf 12 506 and Erf 12 585, Milnerton are held under Title Deed of Transfer No. T32142, 2008.

Unlimited Suretyship over the loan is provided by the following parties:

Cape Racing Properties Proprietary Limited
Natal Racing Properties Proprietary Limited
Clairwood Turf Club
Durban Turf Club
Gold Circle Racing Club
Western Province Racing Club

*Finance lease liabilities*

Finance lease obligations secured by lease agreements over property, plant and equipment with a carrying value of R3 303 904 (2012: R8 013 940). Finance lease obligations bear interest at rates between prime and prime less 1,5%.

| | 2013 | 2012 |
|---|---|---|
| | **R** | R |
| Finance lease liability | **3 465 389** | 9 375 646 |
| Less: Payable within one year | **(1 556 443)** | (5 984 752) |
| | **1 908 946** | 3 390 894 |
| Minimum lease payments are due as follows: | | |
| Due within one year | **1 556 443** | 5 984 752 |
| Due within two and five years | **1 908 946** | 3 390 894 |
| | **3 465 389** | 9 375 646 |

## 15 Deferred tax liability

| | | |
|---|---|---|
| Opening balance | **100 196 233** | 105 076 532 |
| Prior period over provision | **-** | (810 129) |
| Temporary differences | **(12 172 446)** | (3 554 335) |
| Utilisation of assessed loss | **-** | 16 795 209 |
| Change in capital gains tax rate – through equity | **-** | 8 816 319 |
| Temporary difference through OCI (assets) | **(52 533 846)** | 5 350 105 |
| Temporary difference through OCI (investments) | **313 962** | - |
| Increase in assessed loss | **(600 061)** | - |
| Deferred tax CGT on disposal of assets | **(73 697)** | - |
| Deferred tax through OCI | **654 784** | - |
| Release of deferred tax on sale of Clairwood – through equity | **-** | (30 109 482) |
| Prior period over provision – through equity | **-** | (1 367 986) |
| | **35 784 929** | 100 196 233 |

### 15.1 Deferred tax liability (continued)

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Comprises: | | |
| Revaluation of property | - | 100 972 661 |
| Provisions | (10 684 620) | (5 577 880) |
| Capital allowances and finance leases | 44 065 205 | 8 102 138 |
| Assessed loss | (271 123) | - |
| Investments | 1 026 237 | - |
| Assets held for sale | 1 478 343 | - |
| Income received in advance | (5 090) | - |
| Prepayments | 175 977 | (3 300 686) |
| | 35 784 929 | 100 196 233 |

### 16 Medical aid benefits

The group's obligation towards the post-retirement medical aid obligation was actuarially calculated as at 30 April 2013 and projected for the 31 July 2013 by Alexander Forbes Health Proprietary Limited and is disclosed in accordance with International Accounting Standard 19: Employee Benefits, as follows:

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| **Consolidated Statement of Financial Position** | | |
| Present value of funded obligations | 16 454 000 | 19 921 000 |
| Non- current portion | 15 243 000 | 18 342 613 |
| Current portion | 1 211 000 | 1 578 387 |
| | 16 454 000 | 19 921 000 |
| | | |
| **Consolidated Statement of Comprehensive Income** | | |
| Service cost | 37 000 | 42 000 |
| Interest cost | 1 530 000 | 1 661 000 |
| Amount recognised in Consolidated Statement of Comprehensive Income | 1 567 000 | 1 703 000 |
| | | |
| **Movement in the net liability recognised in the Consolidated Statement of Financial Position** | | |
| Opening value | 19 921 000 | 19 853 000 |
| Employer contributions | (1 512 000) | (1 635 000) |
| Amount recognised in consolidated statement of comprehensive income | 1 567 000 | 1 703 000 |
| Transfer to liabilities held for sale | (6 214 000) | |
| Actuarial loss | 2 692 000 | |
| Closing value | 16 454 000 | 19 921 000 |
| | | |
| **Key Valuation Assumptions** | | |
| Discount Rate | 6.50% | 8.75% |
| Health care cost inflation | 7.30% | 7.75% |
| Expected retirement age | 65 years | 65 years |

# Notes to the Financial Statements

## 16 Medical aid benefits (continued)

**Health care cost inflation**

The valuation basis assumes that the health care cost inflation rate will remain constant in the long term. The effect of a one percent increase and decrease in the health care cost inflation rate is as follows:

| | 1% increase | Valuation basis | 1% decrease |
|---|---|---|---|
| | R'000 | R'000 | R'000 |
| **Employer's accrued liability** | **(1 639 000)** | **16 454 000** | **1 424 000** |
| **Employer's service and interest cost** | **(107 000)** | **1 026 000** | **92 000** |

Therefore, a 1% increase in the health care cost inflation assumption will result in a 9.96% increase in the accrued liability. Similarly, a 1% decrease in the health care cost inflation assumption will result in an 8.65% decrease in the accrued liability.

## 17 Trade and other payables

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Amount due to punters | **4 915 139** | 5 775 730 |
| Provision for breeders and owners premiums | **5 533 860** | 5 585 225 |
| Provision for leave pay | **4 711 649** | 6 215 189 |
| Rental provision | **-** | 1 721 083 |
| Trade creditors and accruals | **56 895 236** | 66 008 953 |
| Short term portion of leases | **4 945 462** | 5 984 752 |
| Telephone Betting | **3 147 005** | 4 311 889 |
| VAT | **3 986 000** | 26 433 359 |
| Transfer of provision to liabilities held for sale | **(1 652 811)** | - |
| Transfer of finance lease obligation to liabilities held for sale | **(3 389 019)** | - |
| Transfer of trade creditors to liabilities held for sale | **(10 728 208)** | - |
| | **68 364 313** | 122 036 180 |

## 18 Tax paid

| | | |
|---|---|---|
| Balance at the beginning of the year | **(4 233 106)** | 542 315 |
| Current tax for the year recognised in the statement of comprehensive income | **7 422 221** | (20 609 949) |
| Tax liability reversed through equity | - | (542 315) |
| (Receivable) / payable at year end | **(2 123 701)** | 4 233 106 |
| Tax paid | **1 065 414** | (16 376 843) |

## 19 Direct racing and other revenues

| | | |
|---|---|---|
| Profit on disposal of Clairwood | **-** | 242 488 403 |
| Clairwood and Durban turf clubs | **-** | 82 215 973 |
| Profit on disposal of Betting World | **-** | 20 370 753 |
| Race meeting and stabling | **51 105 199** | 48 401 887 |
| Other revenue | **13 258 514** | 18 066 953 |
| | **64 363 713** | 411 543 969 |

## 20 Net finance income/(cost)

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Finance income | **15 306 060** | 3 014 432 |
| Finance costs | **(337 735)** | (2 470 284) |
| Finance income from discontinued operations | **-** | 725 294 |
| | **14 968 325** | 1 269 442 |

## 21 Expenses by nature

| | 2013 | 2012 |
|---|---|---|
| | **R** | R |
| The following items have been included in arriving at operating profit: | | |
| Advertising, events and promotions | **17 509 050** | 15 029 448 |
| Audit fee | **449 400** | 420 000 |
| Cash collection costs | **2 173 787** | 2 239 475 |
| Catering costs | **8 853 416** | 7 260 043 |
| Contribution to jockey's remuneration | **9 601 921** | 9 725 392 |
| Depreciation (including impairment) | **15 163 708** | 18 476 697 |
| Directors emoluments | **784 118** | 408 200 |
| Employee benefits | **102 886 776** | 89 877 410 |
| Insurance costs | **1 227 442** | 1 384 999 |
| Licence fees and subscriptions | **24 295 916** | 25 596 496 |
| Operating lease rentals | | |
| - Property | **13 009 359** | 8 899 792 |
| - Equipment and vehicles | **2 179 678** | 2 342 104 |
| Printing costs | **4 749 684** | 4 441 444 |
| Race meeting expenses | **5 820 167** | 4 662 638 |
| Regulatory costs (National Horseracing Authority) | **11 623 820** | 10 794 026 |
| Repairs and maintenance | **24 167 245** | 17 082 604 |
| Security expenses | **6 941 238** | 5 609 009 |
| Service fee (Saftote) | **7 384 101** | 7 356 891 |
| Stakes - owners | **87 110 203** | 73 815 218 |
| - breeders | **7 532 742** | 6 737 279 |
| Tote agents commission paid | **30 157 279** | 30 894 587 |
| Transformation fund | **1 132 593** | 671 314 |
| Utility costs | **23 257 529** | 21 185 178 |
| Other operating expenses | **40 320 321** | 33 050 320 |
| | **448 331 493** | 397 960 564 |

| Reconciled to expense by function | 2013 | 2012 |
|---|---|---|
| | **R** | R |
| | | Restated |
| Agent commissions paid | **30 157 279** | 30 894 587 |
| Wagering expenditure | **137 429 352** | 132 608 848 |
| Racing expenditure | **280 744 862** | 234 457 129 |
| | **448 331 493** | 397 960 564 |

# Notes to the Financial Statements

| | R | R |
|---|---|---|
| Current taxation | **-** | (20 609 949) |
| Current tax- change in CGT rate | **7 751 157** | - |
| Current tax- change in CGT rate | **(328 928)** | - |
| Deferred tax- rate change on property fair value movements | **9 284 613** | - |
| Deferred tax- CGT on disposal of assets | **73 697** | - |
| Deferred tax- temporary differences | **2 966 928** | 3 554 335 |
| Deferred tax – prior period over provision | **-** | 810 129 |
| Deferred tax- increase in assessed loss | **600 061** | - |
| Deferred tax – utilisation of assessed loss | **-** | (16 446 955) |
| | **20 347 528** | (32 692 440) |
| Deferred tax on discontinued operations | **(2 218 503)** | (348 254) |
| | **18 129 025** | (33 040 694) |

22.1 Reconciliation of tax charged

| | | |
|---|---|---|
| Profit before tax on continued operations | **8 801 128** | 285 589 632 |
| Loss before tax on discontinued operations | **(7 923 225)** | (895 510) |
| Profit before tax charge | **877 903** | 284 694 122 |

| | **%** | **2013** | % | 2012 |
|---|---|---|---|---|
| | | **R** | | R |
| Income tax at 28% | **(28)** | **(245 813)** | 28 | 79 714 354 |
| Change in CGT rate | **883** | **7 751 157** | | - |
| Rate change on property fair value movements | **1 057** | **9 284 613** | | - |
| CGT on disposal of assets | **8** | **73 697** | | - |
| Permanent differences comprising: | | | | |
| - Capital profit on sale of assets | | **-** | (28) | (79 036 357) |
| - Other | **467** | **4 098 239** | 0.4 | 1 211 552 |
| Capital gains tax | **(70)** | **(614 365)** | 11 | 32 309 528 |
| Deferred tax – prior over provision | | **-** | 0.3 | (810 129) |
| | | **20 347 528** | | 33 388 948 |
| Tax on discontinued operations | | **(2 218 503)** | | (348 254) |
| | **838** | **18 129 025** | 11.7 | (33 040 694) |

No current taxation was provided as the company had an assessed loss of R 968 297 (2012: R 57 055 632.)

The deferred tax asset in respect of Cape Racing Properties (2013: R319 359, 2012: R89 109) has not been recognised as it is not probable that future taxable profit will be available against which the group can utilise the benefits there from.

### 23 Operating lease commitments

The Durban Turf Club has a lease over Greyville racecourse that expires on 31 December 2069. The rental payable under the lease is determined on a formula based on gross totalisator turnover or a minimum rental whichever is the greater. The future lease commitment based on the minimum rental is as follows:

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Due within one year | **1 008 000** | 1 008 000 |
| Due within two and five years | **4 032 000** | 4 032 000 |
| Due after five years | **52 171 000** | 53 179 00 |

The Pietermaritzburg Turf Club has a lease over Scottsville racecourse that expires on 30 November 2035. The rental payable under the lease is based on on-course turnover and the rateable value of land. The future lease commitment on the current basis is as follows:

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Due within one year | **311 196** | 311 196 |
| Due within two and five years | **1 244 784** | 1 244 784 |
| Due after five years | **6 846 312** | 7 157 5008 |

The group leases certain other properties, the future commitments being as follows:

| | | |
|---|---|---|
| Due within one year | **9 699 615** | 12 586 550 |
| Due within two and five years | **21 601 752** | 12 858 122 |

The group leases certain of its plant, equipment and vehicles in terms of operating leases as follows:

| | | |
|---|---|---|
| Due within one year | **2 295 709** | 2 633 220 |
| Due within two and five years | **1 299 052** | 3 708 089 |

### 24 Discontinued operations

During the year the board decided to discontinue the Western Cape operations through a disposal as at 31 July 2013. This disposal had the following effects on the financial statements:

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Results of discontinued operation | | |
| Revenue | **180 239 640** | 174 925 572 |
| Operating expenses | **(188 162 865)** | (176 169 336) |
| Trading loss Western Province | **(7 923 225)** | (1 243 764) |
| Taxation | **2 218 503** | 348 254 |
| Net loss from discontinued operations | **(5 704 722)** | (895 510) |
| | | |
| Cash flows from/(used in) discontinued operations | | |
| Net cash from/(used in) operating activities | **1 120 236** | (3 726 209) |
| Net cash from/(used in) investing activities | **(3 308 007)** | (37 953 861) |
| Net cash from/(used in) financing activities | **630 350** | (2 136 333) |
| Net cash outflows for the year | **(1 557 421)** | (43 816 403) |

# Notes to the Financial Statements

## 25 Cash generated by operations

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Profit from continuing operations before tax | **8 801 128** | 366 910 095 |
| Loss from discontinuing operations before tax | **(7 923 225)** | - |
| Adjustments for: | | |
| Depreciation | **23 991 309** | 26 264 816 |
| Impairment | **1 285 000** | 128 000 |
| Non-cash movement through equity | **4 226 161** | (3 497) |
| Proceeds on cancellation of lease | **-** | (150 000 000) |
| Profit on disposal of property, plant and equipment | **-** | (100 609 193) |
| Profit on disposal of shares in associate | **-** | (31 829 302) |
| Profit on disposal of Western Cape | **(1 007 768)** | - |
| Profit on disposal of fixed assets | **(1 868 807)** | - |
| Post retirement medical aid | **(367 387)** | - |
| Deferred income | **18 777** | - |
| Staright lining provision | **3 061 034** | - |
| Clairwood and Durban turf clubs | **-** | (82 215 973) |
| Interest received | **(15 306 060)** | (3 014 432) |
| Interest paid | **337 735** | 2 470 284 |
| Post-retirement medical obligation | **-** | 68 000 |
| Lease receivable | **-** | 452 347 |
| | **15 247 897** | 28 621 145 |
| Changes in working capital | **75 945 980** | (414 224 484) |
| Inventories | **(134 681)** | (554 073) |
| Trade and other receivables | **386 155 377** | (455 498 505) |
| Trade and other payables and provisions | **(108 144 290)** | 41 828 094 |
| Investment in joint venture | **(4 876 459)** | - |
| Available for sale | **(197 053 967)** | - |
| Cash generated from operations | **91 193 877** | (385 603 339) |

## 26 Capital Commitments

| | 2013 | 2012 |
|---|---|---|
| | R | R |
| Authorised and contracted for | **161 582 425** | 4 500 000 |
| Authorised and not contracted for | **23 000 474** | 12 700 000 |
| | **184 582 899** | 17 200 000 |

## 27 Financial risk factors

The group's activities expose it to a variety of financial risks, market risks, credit risks and liquidity risks. The group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the group's financial performance.

Risk management is carried out by the board of directors.

**(a) Market risk**

(i) Foreign exchange risk

The company does not operate internationally and is therefore not exposed to foreign exchange risk.

The company holds investments at fair value through profit or loss or as available for sale and is therefore not exposed to price risk.

(iii) Cash flow and fair value interest rate risk

The group's interest rate risk arises from long term borrowings with banks. Borrowings issued at variable rates expose the company to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the group to fair value interest rate risk.

**(b) Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only large and well established entities are used. Ongoing evaluations are performed on the financial position of these debtors by monitoring monthly receipts. At year end, the company did not consider there to be any significant concentration of credit risk for which a provision needs to be made.

**(c) Interest rate risk**

The group's fixed-rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in short-term receivables and payables are not exposed to interest rate risk. The group holds loans with interest rates of prime less 1.5% and 10.96%, refer to note 14.

If interest rates had been 100 basis points higher/lower and all other variables held constant, the group's profit before tax would increase/decrease by R413 363 (2012: R948 340)

**(d) Liquidity risk**

Cash flow forecasting is performed by the entity and management monitors rolling forecasts to ensure that the entity has sufficient cash to meet operational need's while maintaining sufficient headroom on its undrawn borrowing facilities. Surplus cash held by the entity over and above its working capital requirements are invested in interest bearing current accounts, time deposits and money market deposits.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses the company maintains flexibility in funding by maintaining availability under committed credit lines. The table below analyses the group's financial liabilities into relevant maturity groupings. The impact of discounting is not significant.

# Notes to the Financial Statements

| | Less than 1 year | Between 2 & 5 years | Over 5 years |
|---|---|---|---|
| **As at 31 July 2013** | | | |
| Trade and other payables and provisions | 68 364 313 | - | - |
| Borrowings | 13 158 498 | 39 457 588 | - |
| Finance lease liability* | 1 556 443 | 1 908 946 | - |
| | | | |
| As at 31 July 2012 | | | |
| Trade and other payables and provisions | 122 036 180 | - | - |
| Borrowings | 3 307 389 | 10 489 285 | 2 840 448 |
| Finance lease liability* | 5 984 752 | 3 390 894 | - |

*Current portion of finance lease liability is included in trade and other payables.

Management monitors its projected cash flow requirements against cash and cash equivalents and undrawn borrowing facilities. At year end the group's position was as follows:

| | **2013** | 2012 |
|---|---|---|
| | **R** | R |
| Cash resources | **107 807 689** | 54 865 695 |
| Undrawn borrowing facilities | **11 000 000** | 11 000 000 |
| **Total available resources** | **118 807 689** | 65 865 695 |

**Fair value estimation**

The carrying amounts of financial assets and liabilities in the statement of financial position approximate fair values at the year end. The particular recognition methods are disclosed in the individual policy statement associated with them.

**Capital risk management**

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns to stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The company does not target specific capital ratios.

**28 Subsidiaries of Gold Circle Proprietary Limited**

| | **Issues share capital** | **% holding** | **Issued share** | **% holding** |
|---|---|---|---|---|
| | **2013** | **2013** | **2012** | **2012** |
| | | | R | |
| Directly held | | | | |
| Cape Racing Properties Proprietary Limited | 1 000 | 100 | 1 000 | 100 |
| Gold Circle Racing and Gaming Investments Proprietary Limited | 100 | 100 | 100 | 100 |
| Natal Racing Properties Proprietary Limited | 150 000 | 100 | 150 000 | 100 |

## 29 Related parties

### 29.1 Identity of related parties

Related party transactions have been conducted on an arm's length basis.

The holding entities of Gold Circle Proprietary Limited are Gold Circle Racing Club (75%) and Western Province Racing Club (25%). In the prior year Durban Turf Club, Clairwood Turf Club, Western Province Racing Club and Gold Circle Racing Club each held of the group's ordinary shares.

*Subsidiaries are as follows:*
Natal Racing Properties Proprietary Limited
Cape Racing Properties Proprietary Limited
Gold Circle Gaming Investments Proprietary Limited

*Holding entities are as follows:*
Gold Circle Racing Club
Western Province Racing Club

The directors are listed in the directors' report.

N Butcher (Appointed 06/12/2012)
G T Hawkins (Resigned 11/12/2012)
J H S de Klerk (Appointed 06/12/2012)
P V Lafferty
D A Latimer (Resigned 11/12/2012)
R Mauvis (Chairperson)
Ms P Mnganga
G Petzer
T N Pillay (Resigned 11/12/2012)
Ms Rakharebe (Appointed 19/12/2012)
M Tembe
G A R Sturlese (Appointed 06/12/2012)
M J L Nairac (Appointed 11/12/2012)
L Nunan

The company owns 24.96% of the partnership Phumelela Gold Enterprises.
The following related party transactions have occurred between Phumelela Gold Enterprises and Gold Circle Proprietary Limited as well as balances payable and receivable at 31 July 2013.

| **29.2 Related parties transactions** | **2013** | 2012 |
|---|---|---|
| | **R** | R |
| **Expenses** | | |
| Subscriptions expense | **8 034 559** | 11 025 224 |
| Royalties – International | **14 164 716** | 12 532 749 |
| Royalties – Zimbabwe | **513 905** | 45 181 |
| T V Production income | **-** | (324 900) |
| | | |
| **Transactions and balances at year end** | | |
| Loan account | **(17 435 276)** | (23 873 035) |
| Investment in PGI Limited | **6 766 896** | 7 950 330 |
| Share of profit of PGE exclusive of equity share of PGI Limited | **32 509 124** | 32 509 124 |
| Amounts included in trade and other payables | **-** | (2 614 965) |
| Amounts included in trade and other receivables | **-** | 3 815 728 |

# Notes to the Financial Statements

**Directors and Prescribed officers**

| | | |
|---|---|---|
| Salary and short-term employee benefits | | |
| P Loker | **900 260** | 1 091 348 |
| G Hawkins | **1 224 000** | 1 141 944 |
| D Furness | **582 781** | 349 925 |
| M Smith | **723 800** | 555 684 |
| M Nairac | **1 800 000** | 1 884 906 |
| V Nathan | **660 000** | 589 056 |

**29.2 Related parties transactions**

| | 2013 | 2012 |
|---|---|---|
| | **R** | R |
| **Material transactions with Directors' of Gold Circle Proprietary Limited** | | |
| Tote agency commission direct and in partnership | | |
| - director interest TN Pillay | **-** | 1 575 734 |

## 30 Subsequent events

No material events have occurred subsequent to the statement of financial position date.

## 31 Going Concern

The directors believe that the company will continue as a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the company annual financial statements.

GOLD CIRCLE

RACING AND GAMING GROUP

GOLD CIRCLE PUBLISHING