# NIVEUS

INVESTMENTS LIMITED

Reg. no: 1996/005744/06

# UNAUDITED

## GROUP INTERIM RESULTS

**for the six months ended 30 September 2016**

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Unaudited 30 September 2016 R'000 | Unaudited 30 September 2015 R'000 | Audited 31 March 2016 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| ***Non-current assets*** | **883 480** | 1 406 640 | 1 428 016 |
| Property, plant and equipment | **707 675** | 1 212 986 | 1 204 622 |
| Investment properties | **7 056** | 6 813 | 6 978 |
| Goodwill | **57 386** | 60 360 | 57 386 |
| Intangible assets | **16 307** | 75 034 | 73 637 |
| Interest in associates and joint ventures | **33 290** | 30 775 | 35 400 |
| Deferred taxation | **29 677** | 13 175 | 25 650 |
| Loans receivable | **32 089** | 7 497 | 24 343 |
| ***Current assets*** | **296 019** | 1 590 115 | 1 548 041 |
| Other | **151 970** | 1 444 757 | 1 386 970 |
| Cash and cash equivalents | **144 049** | 145 358 | 161 071 |
| Assets of disposal group classified as held for sale | **1 704 332** | – | – |
| **Total assets** | **2 883 831** | 2 996 755 | 2 976 057 |
| **EQUITY AND LIABILITIES** | | | |
| ***Equity*** | **2 047 978** | 1 984 530 | 2 079 228 |
| Equity attributable to equity holders of the parent | **1 390 022** | 1 305 028 | 1 381 267 |
| Non-controlling interest | **657 956** | 679 502 | 697 961 |
| ***Non-current liabilities*** | **186 641** | 417 680 | 245 422 |
| Borrowings | **74 347** | 286 254 | 92 983 |
| Deferred revenue | **–** | – | 10 900 |
| Deferred taxation | **84 321** | 117 208 | 129 372 |
| Operating lease equalisation liability | **5 694** | 5 457 | 5 235 |
| Other payables | **22 279** | 8 761 | 6 932 |
| ***Current liabilities*** | **437 532** | 594 545 | 651 407 |
| Liabilities of disposal group classified as held for sale | **211 680** | – | – |
| **Total equity and liabilities** | **2 883 831** | 2 996 755 | 2 976 057 |
| **Net asset value per share (cents)** | **1 166** | 1 095 | 1 159 |
| **Net tangible asset value per share (cents)** | **1 116** | 993 | 1 061 |

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Unaudited Six months ended 30 September 2016 R'000 | Unaudited Six months ended 30 September 2015 Restated R'000 | Unaudited Year ended 31 March 2016 Restated R'000 |
|---|---|---|---|
| Revenue | **46 036** | 25 390 | 71 991 |
| Net gaming win | **646 009** | 555 435 | 1 166 767 |
| Group revenue | **692 045** | 580 825 | 1 238 758 |
| Other income | **6 727** | 9 561 | 6 430 |
| Operating expenses | **(520 281)** | (506 904) | (984 316) |
| | **178 491** | 83 482 | 260 872 |
| Depreciation and amortisation | **(61 759)** | (62 280) | (134 184) |
| Share of losses of associates | **(2 359)** | (483) | (1 366) |
| Investment income | **3 555** | 1 384 | 3 988 |
| Fair value adjustment of remaining investment | **–** | – | (1 094) |
| Impairment of assets | **(385)** | (504) | (9 384) |
| Impairment of goodwill | **–** | – | (8 190) |
| Gain/(loss) on disposal of subsidiaries | **–** | 529 | (6 781) |
| Finance costs | **(16 054)** | (14 664) | (29 989) |
| Profit before taxation | **101 489** | 7 464 | 73 872 |
| Taxation | **(36 703)** | (36 998) | (50 147) |
| Profit/(loss) for the period from continuing operations | **64 786** | (29 534) | 23 725 |
| Net result from discontinued operations | **(71 200)** | (4 310) | 32 882 |
| (Loss)/profit for the period | **(6 414)** | (33 844) | 56 607 |
| **Attributable to:** | | | |
| Equity holders of the parent | **25 350** | (27 942) | 44 721 |
| Non-controlling interest | **(31 764)** | (5 902) | 11 886 |
| | **(6 414)** | (33 844) | 56 607 |

| Reconciliation of headline earnings | Unaudited Six months ended 30 September 2016 R'000 Gross | Net | Unaudited Six months ended 30 September 2015 Restated R'000 Gross | Net | Unaudited Year ended 31 March 2016 Restated R'000 Gross | Net |
|---|---|---|---|---|---|---|
| ***Continuing operations*** | | | | | | |
| Earnings/(loss) attributable to equity holders of the parent | | **66 027** | | (25 480) | | 25 936 |
| IAS 12 Change in tax rate | **–** | **–** | – | – | 1 295 | 740 |
| IAS 16 (Gains)/losses on disposal of plant and equipment | **(751)** | **(563)** | (760) | (547) | 1 622 | 473 |
| IAS 16 Impairment of assets | **385** | **265** | 504 | 363 | 7 124 | 5 837 |
| IAS 27 (Gain)/loss from disposal of subsidiaries | **–** | **–** | (529) | (529) | 6 781 | 6 781 |
| IAS 36 Impairment of goodwill | **–** | **–** | – | – | 8 190 | 8 190 |
| IFRS 3 Fair value adjustment of remaining investment | **–** | **–** | – | – | 1 094 | 1 094 |
| | | **65 729** | | (26 193) | | 49 051 |
| ***Discontinued operations*** | | | | | | |
| (Loss)/profit attributable to equity holders of the parent | | **(40 677)** | | (2 462) | | 18 785 |
| IAS 12 Change in tax rate | **–** | **–** | – | – | 452 | 258 |
| IAS 16 Losses on disposal of plant and equipment | **599** | **246** | 2 132 | 877 | 2 260 | 930 |
| IFRS 5 Remeasurement to fair value less cost to sell | **191 134** | **72 054** | – | – | – | – |
| IAS 28 Impairment of investment in joint venture | **85** | **35** | – | – | 400 | 177 |
| | | **31 658** | | (1 585) | | 20 150 |
| Total headline earnings/(loss) | | **97 387** | | (27 778) | | (69 201) |

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

| | **Unaudited Six months ended 30 September 2016** | Unaudited Six months ended 30 September 2015 Restated | Unaudited Year ended 31 March 2016 Restated |
|---|---|---|---|
| Earnings per share (cents) | **21,3** | (23,9) | 37,9 |
| – Continuing operations | **55,4** | (21,8) | 22,0 |
| – Discontinued operations | **(34,1)** | (2,1) | 15,9 |
| Headline earnings per share (cents) | **81,7** | (23,7) | 58,6 |
| – Continuing operations | **55,1** | (22,3) | 41,5 |
| – Discontinued operations | **26,6** | (1,4) | 17,1 |
| Diluted earnings per share (cents) | **21,1** | (23,8) | 37,8 |
| – Continuing operations | **54,9** | (21,7) | 21,9 |
| – Discontinued operations | **(33,8)** | (2,1) | 15,9 |
| Diluted headline earnings per share (cents) | **81,0** | (23,7) | 58,5 |
| – Continuing operations | **54,7** | (22,3) | 41,5 |
| – Discontinued operations | **26,3** | (1,4) | 17,0 |
| Weighted average number of shares in issue ('000) | **119 163** | 117 103 | 118 133 |
| Actual number of shares in issue at end of period ('000) | **119 163** | 119 163 | 119 163 |
| Weighted average number of shares in issue (diluted) ('000) | **120 258** | 117 351 | 118 390 |

## CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| | **Unaudited Six months ended 30 September 2016 R'000** | Unaudited Six months ended 30 September 2015 Restated R'000 | Unaudited Year ended 31 March 2016 Restated R'000 |
|---|---|---|---|
| (Loss)/profit for the period | **(6 414)** | (33 844) | 56 607 |
| Other comprehensive income: | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation differences | **(11 268)** | 15 661 | 24 213 |
| Total comprehensive (loss)/income | **(17 682)** | (18 183) | 80 820 |
| **Attributable to:** | | | |
| Equity holders of the parent | **14 264** | (12 708) | 68 648 |
| Non-controlling interest | **(31 946)** | (5 475) | 12 172 |
| | **(17 682)** | (18 183) | 80 820 |
| **Total comprehensive income attributable to equity holders of the parent arises from:** | | | |
| – Continuing operations | **54 995** | (10 143) | 49 911 |
| – Discontinued operations | **(40 731)** | (2 565) | 18 737 |
| | **14 264** | (12 708) | 68 648 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | **Unaudited Six months ended 30 September 2016 R'000** | Unaudited Six months ended 30 September 2015 R'000 | Audited Year ended 31 March 2016 R'000 |
|---|---|---|---|
| Balance at beginning of the period | **2 079 228** | 1 985 645 | 1 985 645 |
| Shares issued | **–** | 57 643 | 57 643 |
| Total comprehensive (loss)/income | **(17 682)** | (18 183) | 80 820 |
| Equity-settled share-based payments | **5 341** | (8 439) | (5 214) |
| Effects of changes in holding | **(1 043)** | – | – |
| Business combination | **–** | – | 811 |
| Capital reductions and dividends | **(17 866)** | (32 136) | (40 477) |
| Balance at end of the period | **2 047 978** | 1 984 530 | 2 079 228 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | **Unaudited Six months ended 30 September 2016 R'000** | Unaudited Six months ended 30 September 2015 R'000 | Audited Year ended 31 March 2016 R'000 |
|---|---|---|---|
| Cash flows from operating activities | **195 442** | (50 778) | 162 849 |
| Cash generated from/(utilised by) operations | **248 490** | (9 530) | 250 938 |
| Net interest | **(12 174)** | (12 881) | (24 422) |
| Taxation paid | **(40 874)** | (28 367) | (63 667) |
| Cash flows from investing activities | **(120 969)** | (92 643) | (182 357) |
| Property, plant and equipment: additions | **(102 386)** | (77 583) | (151 242) |
| Other | **(18 583)** | (15 060) | (31 115) |
| Cash flows from financing activities | **(36 978)** | 73 472 | 48 293 |
| Dividends paid | **(17 516)** | (19 462) | (27 803) |
| Long-term funding (repaid)/received | **(19 462)** | 47 784 | 27 003 |
| Proceeds from share issue | **–** | 45 150 | 45 150 |
| Other | **–** | – | 3 943 |
| Increase/(decrease) in cash and cash equivalents | **37 495** | (69 949) | 28 785 |
| Classified as held for sale | **(54 517)** | – | – |
| Cash and cash equivalents | | | |
| At beginning of the period | **161 071** | 132 286 | 132 286 |
| At end of the period | **144 049** | 62 337 | 161 071 |

## SEGMENTAL ANALYSIS

| | **Unaudited Six months ended 30 September 2016 R'000** | Unaudited Six months ended 30 September 2015 Restated R'000 | Unaudited Year ended 31 March 2016 Restated R'000 |
|---|---|---|---|
| **Revenue** | | | |
| ***Continuing operations*** | | | |
| Gaming and entertainment | **46 036** | 25 390 | 71 991 |
| ***Discontinued operations*** | | | |
| Beverages | **566 898** | 548 669 | 1 224 214 |
| | **612 934** | 574 059 | 1 296 205 |
| **Net gaming win** | | | |
| Gaming and entertainment | **646 009** | 555 435 | 1 166 767 |
| **EBITDA** | | | |
| ***Continuing operations*** | **178 491** | 83 482 | 260 872 |
| Gaming and entertainment | **210 366** | 153 640 | 347 858 |
| Head office | **(26 502)** | (67 136) | (79 220) |
| Property | **(5 373)** | (3 022) | (7 766) |
| ***Discontinued operations*** | | | |
| Beverages | **81 725** | 10 132 | 75 111 |
| | **260 216** | 93 614 | 335 983 |
| **Profit before tax** | | | |
| ***Continuing operations*** | **101 489** | 7 464 | 73 872 |
| Gaming and entertainment | **132 984** | 77 476 | 160 220 |
| Head office | **(25 424)** | (66 402) | (76 975) |
| Property | **(6 071)** | (3 610) | (9 373) |
| ***Discontinued operations*** | | | |
| Beverages | **77 452** | (5 532) | 44 342 |
| | **178 941** | 1 932 | 118 214 |
| **Headline earnings** | | | |
| ***Continuing operations*** | **65 729** | (26 193) | 49 051 |
| Gaming and entertainment | **93 324** | 40 976 | 128 859 |
| Head office | **(25 212)** | (66 026) | (76 304) |
| Property | **(2 383)** | (1 143) | (3 504) |
| ***Discontinued operations*** | | | |
| Beverages | **31 658** | (1 585) | 20 150 |
| | **97 387** | (27 778) | 69 201 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Basis of preparation and accounting policies

The results for the six months ended 30 September 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 – Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act, 71 of 2008 (as amended) and the Listings Requirements of the JSE Limited. The accounting policies of the Group are consistent with those applied for the year ended 31 March 2016. The adoption of new standards that are applicable for this financial year had no impact on the figures presented. Details of the standards adopted will be provided in the annual financial statements. As required by the Listings Requirements of the JSE Limited, the Group reports headline earnings in accordance with Circular 2/2015 – Headline Earnings, as issued by the South African Institute of Chartered Accountants. These financial statements were prepared under the supervision of the financial director, Ms MM Loftie-Eaton CA(SA), and have neither been audited nor independently reviewed by the Group's auditors.

### Change in accounting estimate

The review of the useful life of gaming machines resulted in an increase in the useful life due to the extended use of gaming machines than originally expected. The Group revised the useful life of gaming machines from six years to seven years effective 1 April 2016.

The effect of the change in the useful life of gaming machines on the depreciation expense for the six months is a decrease of R5 million and an expected annual decrease for future years of R10 million per annum.

Galaxy's site development costs were previously depreciated over the term of the initial lease, but the estimated depreciation period has been amended to include guaranteed renewal options, limited to a 10-year total depreciation term.

The effect of the change in the depreciation term for site development costs on the depreciation expense for the six months is a decrease of R4 million and an expected annual decrease for future years of R7 million.

### Discontinued operation

During May 2016, it was decided to dispose of the operating assets of KWV to the Vasari group. Revenue and expenses, and gains and losses relating to these assets, have been removed from the results of continuing operations and are shown as a single line item on the face of the consolidated statement of profit or loss ("Net result from discontinued operations"). The operating results of the discontinued operations and the effect of remeasurement of assets that were classified as held for sale were as follows:

| | **Unaudited Six months ended 30 September 2016 R'000** | Unaudited Six months ended 30 September 2015 R'000 | Unaudited Year ended 31 March 2016 R'000 |
|---|---|---|---|
| **Profit/(loss) relating to discontinued operations** | | | |
| Revenue | **566 898** | 548 669 | 1 224 214 |
| Other income and operating costs | **(485 173)** | (538 537) | (1 149 103) |
| Share of losses of associates and joint ventures | **–** | (507) | (653) |
| Investment income | **–** | 250 | 1 886 |
| Depreciation and amortisation | **(3 911)** | (14 424) | (29 982) |
| Impairment of investment in joint ventures | **(85)** | – | (400) |
| Finance costs | **(277)** | (983) | (1 620) |
| Profit/(loss) before taxation | **77 452** | (5 532) | 44 342 |
| Taxation | **(22 529)** | 1 222 | (11 460) |
| Profit/(loss) from discontinued operations | **54 923** | (4 310) | 32 882 |
| Remeasurement of disposal group | **(191 134)** | – | – |
| Taxation | **65 011** | – | – |
| Net result from discontinued operations | **(71 200)** | (4 310) | 32 882 |

| | Unaudited Six months ended 30 September 2016 R'000 | Unaudited Six months ended 30 September 2015 R'000 | Unaudited Year ended 31 March 2016 R'000 |
|---|---|---|---|
| **Cash flows from discontinued operations** | | | |
| Cash flows from operating activities | **34 407** | (65 728) | 11 914 |
| Cash flows from investing activities | **(16 766)** | (17 638) | (41 880) |
| Cash flows from financing activities | **–** | – | 16 395 |
| | **17 641** | (83 366) | (13 571) |
| **Assets of disposal group classified as held for sale** | | | |
| Property, plant and equipment | **488 060** | | |
| Intangible assets | **56 481** | | |
| Investments in associates and joint ventures | **5 463** | | |
| Inventory | **1 052 928** | | |
| Trade and other receivables | **212 416** | | |
| Current income tax assets | **7** | | |
| Derivative financial instruments | **25 594** | | |
| Bank and cash balances | **54 517** | | |
| | **1 895 466** | | |
| **Liabilities of disposal group classified as held for sale** | | | |
| Trade and other payables | **(205 637)** | | |
| Loans | **(51)** | | |
| Derivative financial instruments | **(5 992)** | | |
| | **(211 680)** | | |
| **Net asset value of disposal group** | **1 683 786** | | |
| **Fair value less cost to sell i.t.o. IFRS 5** | **1 492 652** | | |
| Fair value of disposal group assets | **1 704 332** | | |
| Fair value of disposal group liabilities | **(211 680)** | | |
| **Remeasurement of disposal group** | **(191 134)** | | |

## COMMENTARY

While consumer spending is under pressure and competition for discretionary spending is increasing, the Group still managed to increase net gaming win by 16% compared to the prior period.

The Department of Trade and Industry ("dti") published the draft National Gambling Amendment Bill. Unfortunately, despite our extensive representations of the logical inconsistency of the position, the Bill persists with its view that electronic bingo terminals ("EBTs") should not "look and feel" like slot machines. It seems like the dti attempts to curtail gambling and targets gambling outside casinos. Evidence indicates that most of the increase in gambling occurred in casinos, in line with the growth in the number of slot machines on casino floors. The dti is taking no steps to curb this growth and holds the view that gambling in casinos has less negative social impact, despite evidence from the National Responsible Gambling Board indicating the contrary. The average gross gaming revenue ("GGR") per slot machine is appreciably higher than the average GGR per EBT. We will continue to present arguments in line with the above.

In addition, the draft Liquor Amendment Bill has provisions that may be detrimental to Vukani, mainly relating to the location of liquor outlets and the diminishment of the power of the provincial liquor authorities to adjudicate applications on a case-by-case basis, depending on their circumstances.

The Group continued with its own project to counter illegal gambling and we hope that the dti and South African Police Service will also take action against these illegal internet establishments in due course. The North Gauteng High Court ruled that certain internet cafés are facilitating illegal gambling and ordered the closure of the site that was the subject of the judgment.

**Bingo and casino operations**

The EBITDA contribution from the segment increased to R43 million from R19 million in the comparative period. EBITDA for fully developed sites increased to R75 million from R62 million in the comparative six months. The R75 million decreased by R32 million (consisting of: head office costs, development costs and losses from sites that are not complete) to a segment EBITDA of R43 million. If the development sites are closed and no further bid or legal costs are incurred, the cost of managing only the fully operational sites is estimated to be R15 million per annum. On a stand-alone basis, for the six months, the fully developed sites would therefore contribute R67,5 million to Group EBITDA.

We are in discussions with the KwaZulu-Natal Gaming and Betting Board to settle the numerous court cases impeding the roll-out of EBTs in the province. Currently, four bingo sites are operational in the province, but they may only operate limited pay-out machines ("LPMs") and paper-based bingo.

The Group was awarded bingo licences in Hazyview, Tonga, Musina, Bochum, Moruleng and Tzaneen. Of these licences, only Moruleng is open. The Group's interest in these licences ranges from 29% to 51%. The Group also commenced trading in Ngcobo. Other licences that are undeveloped are King William's Town, Uitenhage, and two licences in KwaZulu-Natal. We are challenging the licence awards in Mahikeng and Klerksdorp as we believe the scoring was flawed.

The Group is now operating 1 886 EBTs (1 642 at 31 March 2016) and 174 slot machines. The average monthly income per EBT is R19 727 for the six months ending September 2016.

Galaxy's depreciation charge includes depreciation of some EBTs, but the bulk of the base remains rented. The depreciation charge for the period was R13,5 million (R16,5 million in the comparative period).

The Kuruman casino is still trading below our expectation, but the EBITDAR margin of 36% indicates that our cost structure is not out of line with other similar-sized casino operations.

**Vukani**

Vukani increased EBITDA to R170 million from R143 million, excluding the losses in the sports betting business that were previously reported in this segment. The installed base increased to 5 341 from 5 265 LPMs, despite the closure of sites with a total of 285 machines, as part of a capital optimisation programme. The increase in installed machines remains below target and is expected to improve in future.

The average GGR per machine increased to R19 989 from R18 492 at year-end and R18 092 at September 2015. The depreciation charge of R46 million is marginally lower than the comparative period, mainly due to the revision of the useful life of LPMs from six to seven years.

Excluding expenses associated with sports betting, operating expenses of R95 million increased by 6% from the comparative period.

The retail and online sports betting offerings have been combined in BET.co.za, which enabled us to reduce overall costs and provide customers with a consistent experience. Sports betting remains an attractive business segment, but our execution has been poor in the past. The combined management team appears to be making progress to develop a sustainable business with uniform branding.

**KWV**

The Group concluded the sale of the operating assets of KWV for R1,15 billion and received the first tranche of the purchase consideration of R575 million on 14 October. The balance of the purchase price will be received in three tranches, supported by an Investec Bank payment guarantee.The trading results of KWV, included in discontinued operations, decreased from a profit of R55 million to a loss of R71 million following the remeasurement of the book value of the operating assets to the purchase consideration. Attributable headline profits from discontinued operations increased to R32 million from a loss in the prior period.

The board of KWV will advise shareholders, in due course, about their future plans to use the cash reserves in the company.

**Head office costs**

Following the restructuring of the management agreement with Hosken Consolidated Investments Limited at an average share price of R26, head office costs reduced to R26 million from R67 million during the comparative period. Head office costs include share-based compensation costs of R17,8 million, which is significantly higher than the comparative period due to the increase in Niveus's share price. Excluding abnormal expenses, head office costs amounted to R13 million.

**Dividend to shareholders**

The directors declared and approved an interim gross ordinary dividend for the six months ended 30 September 2016 of 18 cents per share on Friday, 18 November 2016, out of income reserves. The dividend will be payable on Monday, 19 December 2016. As at 23 November 2016, there are 119 162 734 ordinary shares in issue.

The dividend meets the definition of a dividend in terms of the Income Tax Act, 58 of 1962. The dividend amount net of South African dividends tax of 15% is 15,3 cents per share to those shareholders that are not exempt from dividends tax. The Company's tax reference number is 9564/137/84/3.

| | |
|---|---|
| Last day to trade cum dividend | Monday, 12 December 2016 |
| Trading ex dividend commences | Tuesday, 13 December 2016 |
| Record date | Thursday, 15 December 2016 |
| Payment date | Monday, 19 December 2016 |

Share certificates may not be dematerialised or rematerialised between Tuesday, 13 December 2016 and Thursday, 15 December 2016, both days inclusive.

**André van der Veen**
*Chief executive officer*

23 November 2016
Paarl

## CORPORATE INFORMATION

**Niveus Investments Limited Incorporated in the Republic of South Africa**

**Registration number:** 1996/005744/06

**JSE share code:** NIV **ISIN code:** ZAE000169553
("**the Company**" or "**the Group**" or "**Niveus**")

**Directors:** JA Copelyn†, MM Loftie-Eaton*, KI Mampeule#, ML Molefi#, JG Ngcobo#, Y Shaik†, A van der Veen* *(* executive † non-executive # independent non-executive)*

**Company secretary:** HCI Managerial Services Proprietary Limited

**Transfer secretaries:** Computershare Investor Services Proprietary Limited
70 Marshall Street, Johannesburg 2001

**Sponsor:** PSG Capital Proprietary Limited

# www.niveus.co.za