

RISK FACTORS

Note

The Peermont Group has three tranches of capital markets indebtedness outstanding: a PIK equity loan due 2106 (the “PIK Equity Loan”) raised by Peermont Global Holdings I (Proprietary) Limited (“PGH I”), 18% Payment-In-Kind Notes due 2015 (the “PIK Notes”) raised by Peermont Global Holdings II (Proprietary) Limited (“PGH II”) and Senior Secured Notes due 2014 (the “SSNs”) raised by Peermont Global (Proprietary) Limited (“PGPL”) (collectively the “Capital Markets Indebtedness”).

PGPL is a wholly owned subsidiary of PGH II, which in turn is a wholly owned subsidiary of PGH I. PGH I loaned the amount raised utilising the PIK Equity Loan, together with other funds raised by way of equity investment, to PGH II (the “PGH II Shareholder Loan”), which in turn, loaned the amount raised by the PIK Notes and the PGH II Shareholder Loan, to PGPL in the form of a Deeply Subordinated Shareholder Loan (the “PGPL Shareholder Loan”).

Unless the context otherwise requires, references below to “we,” “us” and “our” are:

- in the context of the SSNs, to PGPL, its subsidiaries and all entities in which it has a financial interest;
- in the context of the PIK Notes, to PGH II, its subsidiaries and all entities in which it has a financial interest; and
- in the context of the PIK Equity Loan, to PGH I, its subsidiaries and all entities in which it has a financial interest.

The Risk Factors

Pursuant to the indentures governing the Capital Markets Indebtedness (collectively, the “Governing Instruments”), we provide periodic reports (“Reports”) that include amongst other disclosures, summarised financial statements and a Management’s Discussion and Analysis of Financial Condition and Results of Operations. Our Reports contain forward-looking information which provides current expectations of future events based on certain assumptions and include any statements that do not directly relate to a historical fact or current fact. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, achievements or prospects to be materially different from any future results, performance, achievements or prospects expressed or implied by such statements.

Investment in the Capital Markets Indebtedness involves risk, which could impact our business, results of operations, financial condition and prospects, and the value of Capital Markets Indebtedness. Any forward-looking statements in our Reports are qualified in their entirety by reference to the factors discussed below, and our Reports (which our included on our website under http://www.peermont.com/peermont/content/en/peermont_global/investor-information) should be read in connection with the factors discussed below.

Risks related to our business

We derive a significant portion of our revenue, profit and cash flow from a single property, Emperors Palace, and a relatively concentrated casino market in Gauteng Province, South Africa, and our revenue, profitability and cash flows are highly dependent upon the performance of this property and market.

Emperors Palace, our flagship casino resort located in Gauteng Province, generates approximately 60% of our revenue. In addition to Emperors Palace, our property portfolio includes seven other casino resorts, two stand-alone casinos and four stand-alone hotels. We derive approximately 90% of our total revenue from South Africa. Our revenue, profitability and cash flows are highly dependent upon the performance of this property and market. Any material adverse change affecting our operations at Emperors Palace, such as a terrorist attack or other event that damages any of our properties, or affecting the casino or broader gambling market in Gauteng Province, such as a change in local gambling, Broad-based Black Economic Empowerment (“BBBEE”), smoking or alcohol sales legislation; general competitive conditions; general economic conditions; interest rates; the availability of consumer credit; the availability of labour; the occurrence of a natural disaster; or increased property, energy and insurance costs could have a material adverse effect on our total revenue, profitability and cash flow.

Gauteng Province is the most concentrated in terms of casino operations in South Africa and, if we are unable to operate successfully in this province, we may not be able to generate sufficient cash flow to fund our operations or service our debt.

Gauteng Province, with its seven casinos operating within the smallest province of South Africa by geographical area, is a highly concentrated market. The other operators in the market, one with greater market share based on our estimates of gaming revenue, and the other five of which have lesser market shares, are located between 21 and 85 kilometres from Emperors Palace. Some of these other operators are licensed to operate more slot machines and gaming tables than we are, and some may have substantially greater financial resources, lower costs and/or substantially less financial leverage than we do. Other operators may succeed in developing more attractive facilities and hotels than ours, and may also be more successful than we are in marketing their facilities and hotels.

Our performance is influenced by alternative forms of gambling such as gambling on electronic bingo terminals, online gambling, limited payout machines and illegally operated casinos as well as other forms of entertainment. In some of the provinces in which we operate, such as Gauteng, KwaZulu-Natal and Mpumalanga Provinces, the number of licensed electronic bingo terminals and limited payout machines has increased and we expect this trend to continue. Limited payout machines may be licensed to be operated in a wider variety of venues than licensed casinos. We believe that illegal casinos remain a source of concern in certain provinces, such as North West Province.

If we are unsuccessful in operating in concentrated markets or managing the factors that may have a material adverse effect on our market shares, our revenue and profitability, we may not be able to generate sufficient cash flow to fund our operations or service our debt.

An increase in the number of available casino licences may have a material adverse effect on our revenue and profitability.

Current legislation governing the gaming industry in the country limits the number of casino licences that may be granted to 40 for South Africa as a whole, and in Gauteng Province to seven. Operations for all but five of the 40 potential casino licences in South Africa have already commenced and no licences remain to be allocated in Gauteng Province. Any future change in legislation that would allow for the allocation of additional licences could have a material adverse effect on our revenue and profitability.

A downturn in the South African economy or changes to other factors affecting consumer preferences or spending may have a material adverse effect on our revenue and profitability.

Consumer spending on gaming and entertainment and demand for hotels, resorts and convention facilities is particularly sensitive to general macroeconomic conditions and consumer preferences. Any significant downturn in such conditions or changes to other factors affecting consumer preferences or spending, such as an economic recession, an increase in unemployment rates, labour unrest, fears of recession, war or acts of terrorism or changes in consumer confidence in the economy could reduce the number of our guests and the amount they spend at our properties. We cannot predict, or have control over these factors, any of which may have a material adverse effect on our revenue, profitability and cash flows.

Our casinos depend primarily on the patronage of residents from areas close to our casinos, and factors affecting access to our casinos may hinder or prevent guests from reaching us.

Because South Africa does not yet have a highly developed public transport system, most guests drive to casinos; therefore, our operations, particularly at Emperors Palace, are dependent upon a functioning and efficient road transport infrastructure. Factors affecting our guests' ability to reach our casinos, such as road congestion, closures, crime and bad weather or natural disasters, may adversely affect the number of guests coming to our properties. In addition, local negative news reports could also impact the number of guests visiting our properties. We cannot predict or have control over these factors, any of which could have a material adverse effect on our revenue, profitability and cash flows.

If we are not allowed to increase the number of gaming positions at our casinos, we may not be able to capitalise on organic growth opportunities.

One of our strategies is to add new casino gaming positions at our existing properties. The number of gaming positions we are allowed to operate at Emperors Palace is limited by the Gauteng Gambling Board. In order to increase the number of gaming positions at Emperors Palace, we would have to obtain the approval of the Gauteng Gambling Board, which may not be forthcoming. Where an increase is allowed, it currently carries a cost of R1 million per new position created. If the Gauteng Gambling Board does not allow us to increase our gaming positions at Emperors Palace, we may not be able to grow our market share in Gauteng Province, which could have a material adverse effect on our revenue, profitability and cash flow. If the permission is granted, it will come at a significant cost to Emperors Palace.

We are currently in the development stage of several projects, each of which is subject to a variety of contingencies and risks that may ultimately prevent us from realising our plans and/or have a material adverse effect on our profitability and cash flows.

We usually have several possible, ongoing and/or planned property development projects in our development pipeline. Development projects are generally subject to various risks that may result in cost overruns or delays, or may not come to fruition. If possible or planned projects do not proceed, this could result in amounts of capitalised development expenditure or project costs being expensed and a potential negative public relations impact on the group. If our projects are not completed with our currently anticipated budgets or schedules, we may be forced to increase our capital expenditures, which could have a material adverse effect on our profitability and financial position.

Although we expect that our cash flow generated from operations, supplemented by our borrowings, will cover our anticipated capital expansion costs, we may not have sufficient funds available to complete our property development projects. Other operators may have greater financial resources than our own, allowing them to effectively compete with us for casino licences and in opening new casinos, which could have a material adverse effect on our ability to win new licences and open new casinos. Even if we are successful in completing our development projects they may not be successful. The success of each of these projects depends on a number of factors, including our ability to identify target guests and place casinos and hotels in areas convenient to those targeted guests. We may not achieve revenue and profitability levels at these properties that are in line with our expectations or that are comparable to those of our established casinos and hotels within estimated time periods, or at all. Any such failure may have a material adverse effect on our revenue, profitability and cash flows.

Our expansion strategy may have a material adverse effect on our operations, profitability and financial condition.

We believe that our position as a major casino resort operator in southern Africa provides us with a strong platform to expand our business through strategic investments. We intend to carefully evaluate, select and pursue opportunities to make such investments as these arise. Given the cash generating capabilities of casinos, we believe that we may expand our current facilities with modest equity and relatively high levels of financial leverage. Therefore, we may need to increase our leverage in the future in connection with our expansion strategy. Such high levels of financial leverage may have a material adverse effect on our profitability, cash flows and financial condition.

Interruptions in electrical power supply and significant increases in tariffs for electricity may have a material adverse effect on our operations and profitability.

We rely upon electrical power to operate our casinos and hotels. To attain maximum performance, casinos and hotels must often operate on a continuous basis. As a result, any shortage or interruption in electrical power supply may have a material adverse effect on our operations. We procure electrical power from Eskom, South Africa's state owned electrical power generator. During 2008, Eskom was unable to generate sufficient power to cater for the demand. As a result, planned and unplanned power outages were experienced in South Africa. Eskom has indicated that this situation resulted from, among other factors, unplanned maintenance having to be undertaken on certain turbine generators, unusually wet weather affecting the delivery of coal to certain coal fired power stations and inadequate facility and equipment maintenance in the past, as well as delays in building additional generating capacity. Eskom has implemented plans to address the problems, however, power outages could continue into the future. Peak demand due to one-off events and interruptions to supply due to, for example, strikes and work stoppages may further compromise the ability of Eskom to generate sufficient power. To implement a capacity expansion programme, Eskom requested and received the permission to increase electricity tariffs by 24.8% effective 1 April 2010, with further increases approved for 2011 and 2012 of 25.8% and 25.9%, respectively. A recent announcement indicated that the tariff increases for 2013 were likely to be approximately 16%. Similar power supply and cost issues are occurring at our Botswana properties.

We have from time to time experienced electrical shortages at each of our properties due to interruptions in the local power supply. In the past, we have been able to bridge temporary electrical power interruptions by using electrical power generators that are installed at most of our properties. Any extended period of electrical power supply shortages or interruptions may force us to shut down one or more of our properties or operate at reduced capacity, which may have a material adverse effect on our operations and profitability.

Significant increases in property rates, taxes and tariffs levied by local authorities may have a material adverse effect on our operations and profitability.

Any significant increase in the rates, taxes and other costs and tariffs levied by local municipalities where the properties on which we operate our facilities are situated could have a material adverse effect on our profitability and financial condition. We have no control over the amounts levied. We have experienced certain substantial increases in these costs in the past and could experience such increases in the future.

Our business may suffer if we fail to attract and retain key executives or other qualified personnel.

The success of our business depends, in part, upon the continued service of our key executive officers and qualified personnel, and our ability to continue to attract, motivate and retain such individuals. At present there is no implemented long-term incentive programme for the fair remuneration and retention of executive management. If one or more of our key senior executive officers were to leave their present positions, we may not be able to replace them on a timely basis and this could lead to a significant loss of institutional memory. We are not insured against such an event. We may not be able to attract and retain the key personnel necessary to achieve our business objectives, and our inability to do so could have a material adverse effect on our operations, profitability and financial condition. In addition, any retraction or revocation of any work permits currently awarded by the Botswana authorities and our failure to renew those permits, would result in a shortage of qualified personnel that could have a material adverse effect on our operations, profitability and financial condition.

Our existing insurance coverage may be insufficient and future coverage may be difficult or expensive to obtain.

Although we believe that our insurance policies provide adequate coverage for the risks inherent in our business, including those from theft or fraud by employees, these insurance policies typically exclude certain risks and are subject to certain thresholds and limits. We cannot assure you that our properties and equipment will not suffer damages due to unforeseen events or that the proceeds available from our insurance policies will be sufficient to protect us from all possible loss or damage resulting from such events. Our insurance policies may not cover all events that may cause significant disruption to our operations. Such uncovered events may have a material adverse effect on our revenue, profitability or financial condition.

We may suffer indirect losses, such as disruption of our business or third party claims of damages, as a result of an insured risk event. While we carry business interruption insurance and general liability insurance, they are subject to certain limitations, thresholds and limits, and may not fully cover all indirect losses.

We renew our insurance policies on an annual basis. The cost of coverage may increase to an extent that we may choose to reduce our policy limits or agree to certain exclusions from our coverage. Among other factors, adverse political developments, security concerns and natural disasters in any country or province in which we operate may have a material adverse effect on our ability to maintain adequate insurance coverage and may result in increased premiums for and additional exclusions from our insurance coverage.

Our business is subject to environmental regulations, workers health and safety regulations, money laundering and other legislation, exposing us to potential claims and compliance costs that could have a material adverse effect on our business.

In addition to the national and provincial gaming authorities, our operations are subject to extensive laws and regulations governing, among others, employee health and safety in the work place, minimum wage requirements, overtime and working conditions, as well as the legislation governing the measures for combating money laundering activities, smoking in public places and environmental management. Violations of these laws and regulations could result in significant fines, injunctions, seizures, criminal sanctions and/or corrective actions, as well as other claims and liabilities. We cannot predict the impact of future regulatory liabilities, investigations or claims arising under current or future regulations.

Significant labour disputes, work stoppages, increased employee expenses and the cost of compliance with South African labour laws could disrupt our business, which may have a material adverse effect on our business.

We are party to collective bargaining agreements with trade unions, which represent significant portion of our non-management employees. We renegotiate and enter into new wage agreements with trade unions annually, bi-annually or tri-annually. South African trade unions, including those representing our employees, have links to various political parties and have had an influence in South Africa on social and political reform and collective bargaining processes. South Africa has various labour laws that enhance the rights of employees. Employees are consulted on a variety of issues that may affect employee terminations, including workplace restructuring, partial or total facility closures, mergers and transfer of ownership, among others. A major disagreement or prolonged compensation negotiations between our management and our employees could result in work stoppages and picketing at our facilities. Significant labour disputes and work stoppages may disrupt our operations. In addition, increased wages and cost of compliance with labour laws could have a material adverse effect on our profitability and financial condition.

A significant number of strikes and other industrial actions by both public and private sector workers occurred in South Africa over the last few years, although we experienced only minor industrial action by our workers. Although we did not experience any recent shutdowns as a result of industrial action, we may be forced to do so as a result of industrial action in the future.

Legal proceedings or claims to which we are or may become a party may have a material adverse effect on our operations, profitability and financial condition.

We are party to various claims and legal actions in the ordinary course of our business. Any such claims or actions, either individually or in the aggregate, could have a material adverse effect on our operations, profitability, cash flows or financial condition. In addition, we may become party to claims or legal actions that may in the future have a material adverse effect on our operations, profitability, cash flows and financial condition.

In prior years the South African Revenue Service (“SARS”) conducted audits in respect of certain of our subsidiaries’ income taxation returns. We are disputing a taxation

charge levied by SARS on a gain of R33.8 million at a subsidiary. Although we provided comprehensive representation to SARS disputing its position, SARS has not accepted our interpretation and has persisted in its view and assessed us accordingly. We may not be successful in contesting the assessment. We have not yet made any provisions for reserves in connection with this dispute. Our failure to successfully contest SARS's interpretation, and our failure to set aside sufficient reserves to cover the potential liability, may have a material adverse effect on our profitability, cash flows and financial condition.

It has become common practice in South Africa for the taxation authorities to review long standing and old transactions and to re-assess the taxes payable. SARS is in a process of performing taxation audits on many highly geared companies to review the reasonability and deductibility of interest charges. This practice could result in additional taxes being imposed on us. In addition, where financial institutions have financed certain transactions, these could also be re-assessed by the taxation authorities and additional taxes imposed on them which we would be liable for as we have guaranteed the financial institution a fixed rate of return on these transactions.

Significant shareholders are able to exercise significant influence on our management and operations.

MIC Leisure (Proprietary) Limited ("MIC Leisure") is our principal shareholder, effectively directing or holding the rights to vote of approximately 75% of our ordinary shares. Accordingly, our principal shareholder can directly and indirectly exercise significant influence over our management and affairs, including blocking significant decisions made by our board of directors, such as the approval of acquisitions and other business transactions. Our principal shareholder may take actions that conflict with and have an adverse effect on interests of our debt holders. For example, the interests of our principal shareholder would conflict with the interests of the debt holders if we faced financial difficulties and were unable to comply with our obligations under the various debt agreements. Our principal shareholder may also cause us to pursue strategic objectives that may adversely affect interests of the debt holders. In addition, our principal shareholder may have an interest in pursuing acquisitions, divestitures, additional financing or other transactions that, in its judgment, could enhance the value of its equity investment, although such transactions might involve risks to debt holders. Members of MIC Leisure or their affiliates may also, currently or in the future, own businesses that directly compete with ours.

Moreover, other shareholders of our holding companies can also, alone or in concert with one another, exercise significant influence over our management and affairs as set out above.

Risks related to the gaming industry

The gaming industry is subject to extensive regulation, licensing requirements and severe fines for non-compliance. Our failure to comply with the extensive regulations and requirements that govern our operations and the ownership of our securities could result in the loss of one or more of our casino licences or severe fines, which could have a material adverse effect on our operations, profitability and financial condition.

The gaming industry in South Africa is subject to extensive regulation and requirements by each of the South African provincial licensing authorities. Each South African provincial licensing authority imposes its own requirements for casinos in its respective province, including those relating to BBBEE. In addition, the Botswana Casino Control Board regulates the gaming industry in Botswana. These gaming authorities have broad authority with respect to both licensing and registration of gaming companies, monitoring operations and individuals investing in or otherwise involved with gaming companies.

Gaming authorities may also revoke the casino licence of any corporate entity or the registration of a registered corporation or any entity registered as a holding company of a corporate licensee for violations of gaming regulations. In addition, the South African gaming authorities may, under certain conditions, revoke the licence or finding of suitability of any officer, director, controlling person, stockholder, noteholder, employer or key employee of a licensed or registered entity. If our casino licences were revoked for any reason, the relevant South African gaming authorities would require us to close the relevant casino, which could have a material adverse effect on our operations, profitability, cash flows and financial condition.

We are registered with, and we hold casino licences issued by, the relevant South African and Botswana gaming authorities. These authorities may, among other things, impose severe fines for non-compliance with legislation, which could be as high as 10% of annual gross gaming revenue on a corporate entity and of up to 10% of annual salary for individual staff members. In addition to the terms under which we can conduct our operations, some of our licences also include commitments to the relevant provincial gambling boards to build hotels or provide certain infrastructure and facilitate provincial BBBEE ownership. These commitments have expiry dates. If we do not fulfil our commitments before the expiry dates, it is possible that the respective gambling boards may revoke the licences, impose additional licence conditions, or require additional fees to be paid, prior to amending the licences or to extending the expiry dates.

In addition, we are subject to a range of other laws and regulations, including without limitation anti money-laundering laws, and anti-terrorism laws, anti-trust laws and applicable taxation regimes. These laws carry severe fines for non-compliance. The imposition of fines, restrictions on our operations or other sanctions could have a material adverse effect on our operations, profitability, cash flows and financial condition.

Failure to maintain appropriate BBBEE levels could adversely impact our ability to maintain our casino licences.

The goal of the South African Broad-Based Black Economic Empowerment Act No. 53 of 2003 (the “SABBBEE Act”) is to facilitate the economic empowerment of black citizens of South Africa. To realize the BBBEE objectives, the SABBBEE Act provides for the creation of Codes of Good Practice for BBBEE, which are binding on government institutions. Government institutions must apply the Codes of Good Practice in a wide range of interactions with the private sector, including contractual relationships and licences. The final Codes of Good Practice on BBBEE (the “Codes”) were promulgated on 9 February 2007. The implementation of the Codes occurred on 9 February 2009, and the South African government has accredited a number of rating agencies that carry out the BBBEE accreditation of companies from time to time.

Under the existing Codes, a business is assigned a BBBEE compliance level through the use of scorecards. Each scorecard measures a different element of BBBEE compliance and assigns points for each element. The BBBEE compliance elements include ownership, which is sub-divided into the measurement of the voting rights of black people and the economic interest of black people; management control; employment equity; skills development; preferential procurement (measuring whether the procurement is sourced from BBBEE compliant entities, the higher the level of compliance of such entities, the greater the points awarded to the business on this measurement); enterprise development; and socio economic development. The economic interest of a person represents his return on his ownership and is measured taking into account any encumbrances on such interest. The total BBBEE score of a business is determined by adding up scores on each element. The different BBBEE compliance elements carry unequal weight, with ownership and preferential procurement elements given the most weight (at 20 points each). A business is fully BBBEE compliant if it receives a total score of 100 points or more and the levels of BBBEE compliance range from Level 1 (over 100 points) to Level 8 (between 30 and 40 points and lowest compliance level).

South African provincial gambling boards are obligated to consider our BBBEE compliance level in awarding, maintaining or renewing our casino licences. A breach of conditions of a casino licence may lead to revocation or suspension of the licence, and other administrative penalties. As there is no transformation charter or sector code for our industry, our BBBEE compliance for purposes of our licences is measured by the Codes. We, through PGPL and our subsidiaries, have been issued casino licences in six of the nine provinces of South Africa. Most of the licence holders in our group have been notified that they must attain Level 2 BBBEE status under the Codes by March 2015 to maintain their casino licences. Currently, Peermont and our subsidiaries are rated between Level 2 and Level 3.

In addition, some of our casino licences, including the licence relating to Emperors Palace, were issued on the basis of licence bid commitments relating to BBBEE that were contained in the relevant application or were interpreted to have been so contained (“Bid Commitments”), and some provincial gambling boards are requiring compliance with the Bid Commitments in addition to the requirements in terms of the Codes. The provincial gambling authorities may also be entitled to review their licensees’ requirements in respect of BBBEE and impose additional requirements on such licensees from time to time.

In connection with the PIK Equity Loan, PGH I, as borrower under that loan, issued B ordinary shares to the lenders under that loan, which are to be repurchased simultaneously with the repayment of the PIK Equity Loan and the repurchase of the ordinary shares in PGH I's parent company. The B ordinary shares currently have limited rights; however, if the B ordinary shares are not repurchased by PGH I on or before 26 April 2015, the rights attaching to the B ordinary shares will automatically commence converting, granting an annual incremental increase in voting rights and the economic value to the holders. On 26 April 2015, the B ordinary shares will become entitled to 10% of the total votes exercisable by the members of PGH I and 31.03% of the economic value of PGH I. Either or both of these percentages will increase each succeeding April, up to 24 April 2024, on which date the holders of the B ordinary shares become entitled to 100% of the voting rights and economic interest in PGH I and the A ordinary shares will convert into A preference shares and will be sold to the holders of the B ordinary shares at a nominal price. Any such conversion and increase in voting rights and/or economic interest could adversely affect our compliance with our Bid Commitments and/or our ability to reach or maintain Level 2 BBBEE status as required by the gambling boards. This in turn could have a material adverse effect on our operations, profitability and financial condition and negatively impact our ability to repay or refinance our indebtedness.

The South African government is engaged in a process of reviewing the Codes which could result in more onerous requirements being imposed on South African companies.

Any change in gaming legislation and taxation could negatively affect our profitability and revenue.

The cost of complying with the legislation and licences applicable to our business and to the taxation of our business is significant. Any changes to these laws, regulations or licences applicable to our business, or to taxation of our business, could require us to make substantial expenditures or could otherwise have a material adverse effect on our operations, profitability and financial condition. For example, current anti-smoking legislation requires casinos to provide non-smoking areas for their guests. We believe that a higher propensity to gamble exists among guests who smoke. Therefore, providing smoking areas on gaming floors is a high priority for us and for all casino resort operators. Although current proposed changes to legislation do not include a total ban on smoking, any change in such legislation, or its interpretation, that would lead to a total ban smoking on casino premises, could reduce the number of guests who frequent casinos. In addition, the gaming industry is also subject to gaming taxation in South Africa and Botswana. Additional taxes on gaming revenue or player winnings may be created or increased or new and more detailed regulations may be enacted. Moreover, the Botswana government has approved new gaming legislation. The new gaming legislation is very similar to that of South Africa and that it will present similar risks and costs. As a result of any such changes in laws, regulations or tax compliance, profitability and revenue could decrease throughout the industry and could have a material adverse effect on our operations, profitability and financial condition.

Theft and fraud in our casinos or hotels may have a material adverse effect on our profitability and financial condition.

The integrity and security of our gaming operations are critical factors in attracting and retaining gaming customers. We have invested significant amounts in training, security, preventive measures and equipment. We maintain 24-hour video surveillance of all our gaming floors, along with uniformed and plain clothes security personnel. Despite these efforts, theft and fraud occur from time to time and new methods of committing fraud continue to be developed. Continued or expanded efforts to counteract this trend may not be effective or the cost of such efforts may increase. The failure to control theft and fraud in a cost-effective manner could have a material adverse effect on our profitability and financial condition.

Risks related to the Republic of South Africa

An adverse change in economic, political or social conditions in South Africa or regionally may adversely affect macroeconomic conditions generally and demand for our products and services and cause our revenue, profitability and cash flow to decline.

Our operations are primarily based in South Africa, where we derived approximately 90% of our revenue. Economic, political or social conditions in South Africa have a significant impact on our business. South Africa has relatively high levels of labour unrest, unemployment, poverty and crime, and a relatively low level of education. These problems, in part, have hindered investments in South Africa, prompted the emigration of skilled workers and negatively affected economic growth. Although it is difficult to predict the effect of these problems on South African businesses or the South African government's efforts to solve them, these problems, or the policy prescriptions proposed, may adversely affect economic conditions generally and demand for our products and services specifically. There has also been some economic, political and social instability in the countries surrounding South Africa, which may negatively affect South African economic, political or social conditions. An adverse change in the economic, political or social conditions in South Africa as well as regional instability may have a material adverse effect on our operations, profitability, cash flows and financial condition.

South Africa is generally considered by international investors to be an emerging market. Emerging markets are associated with relatively certain characteristic risks, including:

- adverse changes in economic and governmental policy;
- relatively low levels and instability of disposable income and consumer spending habits;
- relatively high levels of crime;
- unstable institutions;
- unpredictable changes in the legal and regulatory environment;
- inconsistent application of existing laws and regulations; and
- slow or insufficient legal remedies.

An adverse change in economic, political or social conditions in South Africa or neighbouring countries or emerging markets generally may adversely affect the value of the Rand, economic conditions in South Africa generally or demand for our products and services specifically, which may have a material adverse effect on our operations, profitability, cash flows and financial condition. In addition, any such adverse change may negatively affect investor sentiment towards South Africa or emerging markets generally, which may have a material adverse effect on the market value and liquidity of our outstanding indebtedness.

South African exchange control restrictions may hinder our ability to make foreign investments and procure foreign denominated financings.

South Africa's exchange control regulations restrict business transactions between residents of the Common Monetary Area, which consists of South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland, and non-residents of the Common Monetary Area. In particular, South African companies:

- are generally not permitted to export capital from South Africa, hold foreign currency in excess of certain limits or incur indebtedness denominated in foreign currencies without the approval of the South African exchange control authorities;
- are prohibited from using transfer pricing and excessive interest rates on foreign loans as a means of expatriating currency; and
- are generally not permitted to acquire an interest in a foreign venture without the approval of the South African exchange control authorities and subject to having complied with the investment criteria of the South African exchange control authorities.

These restrictions, among others, may hinder our ability to make foreign investments and procure foreign currency denominated financings in the future. While the South African government has relaxed exchange controls in recent years, it is difficult to predict what action, if any, the government may take in the future with respect to exchange controls. If the government were to tighten exchange controls, these restrictions may further hinder our ability to make foreign currency denominated investments and procure foreign currency denominated financings in the future and may materially adversely affect our operations, profitability, cash flows and financial condition.

To repurchase, repay or redeem any of our foreign sourced or publicly traded debt prior its stated maturity, at maturity, including upon a change of control, or to transfer any intellectual property outside South Africa, we would need to obtain the approval of the South African exchange control authorities, which might not be forthcoming.

Fluctuations in the value of the Rand may have a significant effect on our ability to service our foreign currency denominated debt.

We realise approximately 90% of our revenue, and incurred approximately 90% of our total costs in Rand. Approximately 50% of our long term debt is denominated in Euro. In recent years, the value of the Rand as measured against the Euro has fluctuated considerably.

Foreign exchange rate fluctuations in the future, in particular in relation to the Rand against the Euro, will continue to have a direct effect on our financial position, liquidity and results of operation. Volatility in the Rand exchange rate may have a material adverse effect on our ability to service our foreign currency denominated debt, including interest payments in Euro on our indebtedness. We cannot assure you that we will be able to manage our foreign currency risks effectively.

The high rates of HIV infection in South Africa and Botswana may cause us to lose skilled employees, increase our employee-related costs, adversely affect economic conditions generally or demand for our products and services specifically.

South Africa and Botswana have some of the highest reported HIV infection rates in the world. The exact effect of increased mortality rates due to AIDS-related deaths on the cost of doing business in South Africa and Botswana and the potential growth in the economy is unclear at this time. We may lose employees with valuable skills due to AIDS-related deaths. In addition, employee-related costs in South Africa and Botswana are expected to increase as a result of higher HIV infection rates. Finally, increased mortality rates due to AIDS-related deaths may slow rates of population growth, cause the South African and Botswanan populations to decline or increase the overall cost of doing business in South Africa significantly, which may affect economic conditions generally or demand for our products and services specifically. The effects of HIV infection on both our employees and on the South African and Botswana markets may have a material adverse effect on our operations, profitability, cash flows and financial condition.

Risks related to our operations in the Republic of Botswana

Conducting business in Botswana has certain political and economic risks which may affect our profitability and financial condition.

We currently operate the Grand Palm casino resort, two stand-alone casinos and two stand-alone hotels in Botswana. In addition, we operate the Gaborone International Convention Centre located on the premises of the Grand Palm. Accordingly, significant political, social and economic developments in Botswana and changes in policies of the government or changes in laws and regulations or the interpretations thereof could have a material adverse effect on our operations, profitability and financial condition. Our operations in Botswana are also exposed to the risk of changes in laws and policies that govern operations of businesses located in Botswana and owned by companies based outside of Botswana. Tax laws and regulations may also be subject to amendment or different interpretation and implementation, thereby adversely affecting our profitability after taxation. Currency fluctuations between the Rand and Botswana Pula could also have a material adverse effect on our operations, profitability, cash flows and financial condition.

The Botswana Casino Control Board has granted a new casino licence for the city of Gaborone in Botswana, which is where the Grand Palm casino resort is located. To date this decision has been successfully opposed, but we and other casino operators may not continue to be successful in our opposition. The operations of the new casino could have a material adverse effect on our operations, profitability, cash flows and financial condition.

Risks relating to our indebtedness

We believe it is imperative that we restructure and refinance our debt obligations in order to grow and to meet our contractual and regulatory commitments.

The board and management continue with a process to negotiate a possible consensual debt restructuring and achieving an early refinancing of our external debt. The objective is to de-gear and improve the group's balance sheet on an expedited basis ahead of the maturity date of existing instruments. The board believes this will require the support of aligned long-term equity investors and an injection of fresh equity. The group is in discussions with representatives of certain key stakeholders, including significant shareholders and subordinated debt holders whom we believe represent in excess of 90% of the PIK Notes and 50% of the PIK Equity Loan. We believe that these subordinated debt holders also hold in excess of 50% of the SSN's. Where these key stakeholders believe it is necessary, they have restricted themselves from trading in the group's securities. Once formal agreement is reached between the MIC and the subordinated debt holders, other subordinated debt holders and minority shareholders are expected to be engaged. Management is simultaneously engaging with local financial institutions to arrange a local debt funding package.

The board envisions, taking into account the levels of debt that the business can sustain, current market conditions, the availability of new funding, potential growth projects and the group's requirements to maintain level 2 contributor status (under BBEE Codes of Good Practice and Gambling Board requirements), a new capital structure consisting of approximately R4,5 billion of senior debt (Rand denominated and financed by South African financial institutions), with the balance of the funding to be provided in the form of mezzanine funding, common or quasi-equity. A possible option of a layer of mezzanine or vendor funding to facilitate paid up BBEE equity stake of at least 25%, will be implemented if required. While the board envisions implementation of the restructuring and refinancing by the end of 2013, there can be no assurances as to the ultimate elements of the restructuring and refinancing, the ultimate components of any new capital structure and the timing of implementation of the foregoing. Any such transactions will need to reflect the complex financial structure of the group, applicable BBEE requirements, the consensual nature of the process and therefore the need to achieve the support of the relevant stakeholders for the various steps of the restructuring and refinancing, and a likely requirement for a fresh equity injection to support a local refinancing. Failure to achieve the envisioned restructuring and refinancing could have a material adverse effect on our growth prospects and ultimately on our ability to continue to meet our obligations under our Bid Commitments and/or ability to reach or maintain Level 2 BBEE status as required by the gambling boards.

We are currently technically insolvent, which raises doubt regarding our ability to continue as a going concern.

PGPL was in a net equity deficit position of R1 776.9 million as at 31 December 2012, *inter alia* as a result of the accounting treatment of the PGPL Shareholder Loan, which is a "Deeply Subordinated Shareholders Loan" as defined in the indenture relating to the SSNs. The effect of the subordination of this loan is sufficient to cover the deficit at PGPL. Several of PGPL's subsidiaries and holding companies are also technically insolvent by varying amounts.

PGH II was in a net equity deficit position of R1 724.0 million as at 31 December 2012, *inter alia* as a result of the accounting treatment of the PGH II Shareholder Loan, which is a “Deeply Subordinated Shareholders Loan” as defined in the indenture relating to the PIK Notes. The effect of the subordination of this loan is sufficient to cover the deficit at PGH II. Several of PGH II’s subsidiaries and its holding company are also technically insolvent by varying amounts.

PGH I was in a net equity deficit position of R5 074.2 million as at 31 December 2012, *inter alia* as a result of the accounting treatment of the PIK Equity Loan and the rights attaching to the B ordinary shares. Several of PGH I’s subsidiaries are also technically insolvent by varying amounts.

Technical insolvency is specifically excluded as an event of default in the Governing Instruments. If we are unable to reduce our equity deficits through, for example, improved operating performance, internal efficiency drives, improved cost control, debt refinancing or restructuring or an injection of equity, we could become insolvent.

Our business may be adversely affected as a result of our substantial indebtedness, which requires the use of a significant portion of our cash flow to service our debt obligations and may limit access to additional capital. Our ability to generate sufficient cash in the future depends on many factors, some of which are beyond our control.

As of 31 December 2012, PGPL had outstanding total interest-bearing long-term indebtedness of R9 805.7 million. We have three levels of non-property-related debt, namely the Capital Markets Indebtedness. We also have property related loans and hedging related loans. The SSNs and the PIK Notes are traded on the Global Exchange Market of the Irish Stock Exchange. Our large amount of indebtedness and our obligations under the Capital Markets Indebtedness, our other indebtedness and any additional indebtedness has important consequences and:

- requires us to dedicate a significant portion of our cash flow from operations to making payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital and capital expenditures and for other general corporate purposes;
- increases our vulnerability to general adverse economic and industry conditions;
- limits our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limits our ability to make strategic acquisitions or take other corporate action;
- places us at a disadvantage compared to other operators that have less indebtedness; and
- limits our ability to borrow additional funds and increase the cost of any such borrowings, particularly because of the financial and other restrictive covenants contained in the Governing Instruments.

Our ability to make payments on and repay or refinance our indebtedness and to fund working capital requirements, capital expenditures or business opportunities that may arise, such as acquisitions of other businesses, depends on our future operating performance and ability to generate cash. This depends, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond our control. In addition, our ability to continue as a going concern is dependent on our future operating performance and ability to generate cash.

Our business may not generate sufficient cash flow from operations or future borrowings may not be available to us in an amount sufficient to enable us to service and pay our indebtedness, including the SSNs and PIK Notes, when due or to fund our other capital requirements or any operating losses. If our future cash flow from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;
- sell assets;
- obtain additional indebtedness or equity capital;
- restructure or refinance all or a portion of our indebtedness, including the SSNs or PIK Notes, on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

We may not be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of our existing and future indebtedness, including SSNs, PIK Notes and PIK Equity Loan, may limit our ability to pursue any of these alternatives. We may also incur other indebtedness in the future that may contain financial or other covenants more restrictive than those contained in the Governing Instruments.

Despite our current levels of indebtedness, we and our subsidiaries may still be able to incur substantially more debt.

We may be able to incur substantial additional indebtedness in the future, including in connection with future acquisitions, some of which may also be secured. The terms of the Governing Instruments limit, but do not prohibit, us or our subsidiaries from incurring such indebtedness. Any such incurrence of additional indebtedness could exacerbate the risks that we now face.

Restrictions in the Governing Instruments and other instruments governing our indebtedness may limit our ability to operate our business.

Restrictions contained in the Governing Instruments and/or our other indebtedness may limit our ability to, among other things:

- incur more debt;
- create liens;

- pay dividends and make distributions or repurchase shares;
- make investments;
- sell assets;
- enter into new businesses;
- enter into sale-leaseback transactions;
- merge or consolidate or transfer and sell substantially all of our assets; and
- engage in transactions with affiliates.

These restrictions may adversely affect our ability to finance our future operations or capital needs, or engage in other business activities that may be in our interest.

The insolvency laws of the Republic of South Africa may not be as favourable to you as the bankruptcy laws of the jurisdiction with which you are familiar.

In the event of our insolvency, the claims of holders of SSNs, the SPIK, the PIK Equity Loan and other indebtedness would be subject to the insolvency laws of South Africa. The following is a brief description of certain aspects of insolvency law in South Africa.

Any creditor, or the debtor itself, may initiate insolvency proceedings in South Africa. Generally, a company will be considered to be insolvent if it cannot pay its debts as and when they become due. After the initiation of liquidation proceedings, the debtor must refrain from any actions that are not in the ordinary course of business and which would reduce its assets. Under the Insolvency Act, 1936 (the “Insolvency Act”), a court may set aside a disposition of property not made for value by an insolvent company.

A court will set aside such a disposition if:

- the disposition was made two years before the liquidation of the insolvent company’s estate, and it is proved that, immediately after the disposition was made, the liabilities of the insolvent company exceeded its assets; or
- the disposition was made within two years before the liquidation of the insolvent company’s estate, and the person who benefited by the disposition is unable to prove that, immediately after the disposition was made, the assets of the insolvent company exceeded its liabilities.

In either case, if it is proved that “at any time after the making of the disposition” the liabilities of the insolvent company exceeded its assets by an amount less than the “value of the property disposed of,” the disposition may be set aside only to the extent of such excess.

The Insolvency Act provides for the setting aside of a disposition of the debtor’s property which is made not more than six months before the liquidation of the debtor and had the effect of preferring one creditor over another, if immediately after the making of such disposition the liabilities of the debtor exceeded the value of its assets. If the person in

whose favour the disposition was made proves that the disposition was made in the ordinary course of business and that it was not intended thereby to prefer one creditor above another, then such disposition may not be set aside. The Insolvency Act provides that if a debtor made a disposition of its property at a time when its liabilities exceeded its assets, with the intention of preferring one of its creditors above another, and it is thereafter liquidated, the court may set aside the disposition. A surety for the debtor and a person in a position by law analogous to that of a surety is deemed to be a creditor of the debtor concerned.

A disposition which was completed and set aside by the court, or a disposition which was not completed, does not give rise to any claim in competition with the creditors of the estate. In the latter case, however, where the disposition was one of suretyship, guarantee or indemnity, the creditors in whose favour the suretyship, guarantee or indemnity was executed may compete with the creditors of the estate for an amount not exceeding the amount of the excess of the insolvent company's assets over its liabilities immediately before making the disposition.

The Insolvency Act provides for the setting aside of all dispositions in terms of which the insolvent company, prior to insolvency and in collusion with another person, disposed of property belonging to the company in a manner which had the effect of prejudicing its creditors or of preferring one creditor over another. There is legal authority which states that in order for any transaction to be set aside under this provision, the transaction must have been concluded with a fraudulent intention. This applies equally to actions by creditors under South African common law.

Under South African common law, a disposition may be set aside where the creditors of the insolvent estate can prove that:

- the disposition reduces the assets of the company;
- the company and the entity in favour of whom the disposition was made had a common intention to defraud or prejudice the creditors of the insolvent; and
- the prejudice to the insolvent's creditors was caused by the fraud referred to above.

The Insolvency Act provides that if a company transfers any business belonging to it or the goodwill of such business or any goods or property forming part thereof (save in the ordinary course of that business or for the purpose of securing the payment of a debt) and such company has not published a notice of the intended transfer in the Government Gazette within a period of not less than thirty and not more than sixty days prior to the date of such transfer, the transfer shall be void as against the creditors of the seller for a period of six months after such transfer and in addition shall be void against the trustee if the estate of the seller is liquidated within such time period.

Under South African insolvency law, there are three types of creditors, namely:

- preferred creditors;
- secured creditors; and
- concurrent creditors.

Preferred creditors are entitled to payment out of the free residue of the estate (that portion which is not subject to any security interests) and rank in right of payment before concurrent creditors. A secured creditor is one who holds security for its claim in the form of a special mortgage, landlord's legal hypothec, pledge or right of retention. A secured creditor is entitled to be paid out of the proceeds of the property subject to the security, after payment of certain expenses and any secured claim which ranks higher. If the proceeds of the encumbered property are insufficient to cover the secured creditor's claim, it has a concurrent claim for the balance. Should the secured creditor choose to rely exclusively on its security, it waives the right to participate in the free residue.

Concurrent creditors do not enjoy any advantage over other creditors of the insolvent company. Concurrent creditors are paid out of the free residue after any preferred creditors have been paid. Concurrent creditors all rank equally. Should the free residue be insufficient to meet their claims, each receives an equal portion of its claim by way of a dividend.

If an insolvency proceeding were to be commenced by or against us or any of our subsidiaries prior to the security spv having repossessed and disposed of the collateral or otherwise completed the realisation of the collateral securing the SSNs, the realisation of the collateral over which the security spv holds security will occur in terms of the provisions of the Insolvency Act. In terms of the Insolvency Act, a secured creditor such as the security spv is prohibited from repossessing its security from a debtor after the commencement of the winding up of the debtor. In terms of the Companies Act, the winding up of a debtor is deemed to commence at the time of the presentation to the court of the application for the winding up, with the result that the commencement of the winding up (provided that a winding up order is ultimately granted) is retrospective to the time that the application was first presented to the court. The liquidator will then realise the property in question and pay the security spv (as secured creditor) in priority to any other claim from the proceeds of the realisation of the collateral property constituting the security after deduction from such proceeds of certain costs of realisation, including the liquidator's remuneration. The liquidator may also, with creditors' authorisation, if the secured creditor has valued the security when proving its claim, "take over" the property at such value within three months from the date of his appointment or from the date of the proof of claim, whichever is the later. Accordingly, it is impossible to predict how long payments under the SSNs could be delayed following the commencement of insolvency proceedings and whether or to what extent holders of the SSNs would be compensated for any delay in payment.

The Companies Act in South Africa has brought about significant changes to the corporate law of South Africa, including introducing a new regime of "business rescue" for financially distressed companies, which could significantly affect the rights of creditors.

The Companies Act, Act 71 of 2008 as amended (the "Act") became effective in South Africa on 1 May 2011. The Act replaced a predecessor Companies Act, with the exception of the provisions that deal with the winding-up and liquidation of companies (which remain in effect until new insolvency legislation is enacted). The Act applies to us and all of our South African incorporated subsidiaries. The Act introduced significant changes to the corporate law of South Africa and to corporate actions, and the responsibilities of directors.

Under the Act, the concept of a “scheme of arrangement” has been replaced with the concept of a “compromise with creditors.” A compromise with creditors may only be proposed by the board of directors or, if the company is being wound-up, by the liquidator and there is no provision in the Act for the creditors to propose a compromise with creditors. To become effective, the proposed compromise with creditors must be supported by a majority in number, representing at least 75% in value, of the creditors (or each relevant class of creditor) present and voting in person or by proxy, at a meeting called for that purpose. There is no mention of shareholders being entitled to vote in favour or against the adoption of a compromise with creditors. Like the concept of a “scheme of arrangement” in the previous Companies Act, a compromise with creditors must be sanctioned by the court, which has a discretion as to whether it will sanction the compromise or not. Once the compromise is court-sanctioned, all creditors included in the compromise, whether they voted in favour or against it, will be bound by the terms of the compromise. A compromise with creditors may involve the subordination of payment to certain creditors, the dilution of a creditor’s claim or other situations which may adversely affect a creditor’s claim.

Under the Act, the concept of “judicial management” has been replaced with the concept of “business rescue, a concept substantially similar to “Chapter 11” proceedings in the United States. Business rescue allows a company that is “financially distressed” (defined as occurring where it seems reasonably likely that the company will not be able to pay its debts as they become payable during the ensuing six months or it seems reasonably likely that the company will become insolvent in the ensuing six months) and has a “reasonable prospect” of rescue to avoid liquidation by implementing a “business rescue plan”. Business rescue proceedings may be instituted by the board of directors of the company or by any “affected person” (including a shareholder or creditor, registered trade union or employee) on application to court or by the court of its own accord at any time during the course of any liquidation proceedings or proceedings to enforce any security against the company.

After initiating business rescue proceedings, the board of directors or the court, as the case may be, must appoint a business rescue “practitioner” who will assume full management control of the company and must prepare a business rescue plan listing, among other things, all details of the plan envisaged to rescue the company. After such appointment, the company must publish a notice thereof to each affected person, failing which the business rescue proceedings lapse. The practitioner investigates the company’s affairs and financial situation, and is to consider the prospects for rescue. The practitioner supervises management, approves or vetoes management decisions and assists management in developing the rescue plan to be presented to all affected persons. Directors continue to exercise their functions, subject to the authority of the practitioner.

The business rescue plan must be approved by creditors and, if the plan alters the rights of the shareholders, the shareholders of the company. If not approved, the appointed business rescue practitioner may be required to revise the plan.

The business rescue practitioner is also empowered to “cancel or suspend entirely, partially or conditionally, any provision of an agreement to which the company is a party at the commencement of the business rescue period, other than an agreement of employment”. This power will have significant implications for claims of, and security held by, creditors. A practitioner may, for example, have the power to cancel provisions

relating to creditors' rights, while maintaining provisions relating to creditors' performance obligations; however as any cancellations will be part of the business rescue plan they will be subject to creditor approval. The right to cancel can only be exercised if a court confirms the cancellation.

A business rescue pre-empts liquidation proceedings while the business rescue proceedings are ongoing. In addition, during business rescue proceedings no legal proceedings may be instituted against the company except with the approval of the practitioner or criminal proceedings against the company or its directors or officers. The only recourse provided for the affected creditor in the Act is to institute a claim for damages against the company. However, an affected creditor would require the consent of the practitioner or leave from the court to institute action.

The Act provides some protection to a party that has security over, or title interest in, property held by the company. It states that if the company wishes to dispose of any property in which another person has any security over, or title interest in, the company must obtain the prior consent of that other person, unless the proceeds of the disposal would be sufficient to fully discharge the indebtedness protected by that person's security or the title interest and, following the disposal, either promptly pay to that person the sale proceeds attributable to that property up to the amount of the company's indebtedness or provide security for the amount of those proceeds, to the reasonable satisfaction of that other person.

The Act requires that claims against the business be ranked as follows: (a) the practitioner's remuneration and costs of business rescue proceedings; (b) amounts due to employees relating to employment; (c) post-commencement secured loans; (d) post-commencement unsecured loans; and (e) all other unsecured claims. No mention is made of secured claims prior to commencement of the business rescue proceedings in this part of the Act. However, the Act does state that to the extent that the practitioner's remuneration and expenses are not fully paid, the practitioner's claim for those amounts will rank in priority before the claims of all other secured and unsecured creditors.

The business rescue regime is an entirely new regime and significant interpretive questions remain unanswered. Many of the important concepts are untested, and as such it is impossible to predict what the impact of the regime ultimately will be.