



TASTE
HOLDINGS
Integrated Annual Report 2018

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REPORT SCOPE AND BOUNDARY

Welcome

Taste Holdings Limited (“Taste” or “Taste Holdings” or “the company” or “the group”) is proud to present its 2018 integrated annual report, which is intended to concisely and accurately inform its stakeholder universe of the company’s strategy, governance, performance and prospects.

For clarity and brevity, this integrated annual report discusses only those matters considered most material to our shareholders and stakeholders for making properly informed decisions regarding Taste.

Supporting information is provided on the company’s website and through other media.

Frameworks applied

This integrated annual report accords with the Companies Act, No 71 of 2008 (“Companies Act”), the Listings Requirements of the JSE Limited (“JSE Listings Requirements”) and, where possible, the recommendations of the King Report on Governance for South Africa 2016 (“King IV”). The group annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

As recommended by King IV, this integrated annual report was also prepared in accordance with the International Integrated Reporting Council’s (IIRC) International Integrated Reporting framework (“IR framework”). Taste’s board of directors (“the board”) and management have endorsed the IR framework’s concepts, guiding principles and content elements.

The six capitals

The IIRC’s six capitals model is used as a basis for describing the group’s allocation of resources, its achievement of goals, risks and opportunities, and its ability to create value, both now and in the future.

Preparation and presentation

Taste’s 2018 integrated annual report was prepared for the period 1 March 2017 to 28 February 2018 and covers the activities of Taste Holdings, its subsidiaries and associates operating in southern Africa.

Matters raised through stakeholder engagement are assessed in terms of the stakeholder’s influence, legitimacy and urgency.

The executive directors and senior management were instrumental in preparing this integrated annual report, and the board has fulfilled its responsibilities in terms of the King IV recommendations.

Directors’ statement of responsibility

The board acknowledges its responsibility to ensure the integrity of the integrated annual report and accordingly believes that it presents fairly the performance of the group and its material matters.

On the recommendation of the audit and risk committee, the board of directors approved the 2018 integrated annual report on 31 May 2018.

Chairman and CEO

Forward-looking statements

Many of the statements in this integrated annual report constitute forward-looking statements. These are not guarantees or predictions of future performance. As discussed in the report, the business faces risks and other factors outside its control. This may lead to outcomes unforeseen by the group. These are not reflected in the report.

Readers are warned not to place undue reliance on forward-looking statements.

FEEDBACK

The reporting process is an ongoing journey in which the group continually strives to improve on the quality of its reporting. Therefore, feedback is welcomed from all stakeholders and the group invites you to contact Tyrone Moodley should you have any questions.

Telephone +27 11 608 1999 or tyrone.moodley@tasteholdings.co.za

This integrated annual report is available on www.tasteholdings.co.za

WHAT WE VALUE

We are clearly focused on:

- becoming the preferred vertically integrated Quick Service Restaurant (QSR) and retail franchisor and licensee in Africa;
- giving superior returns to franchisees and shareholders; and
- displaying leading corporate social citizenship and making a positive impact in the communities within which we trade.

True north

Our vision for a better company

If our “true north” acts as a beacon guiding our everyday decisions, then these values are the common glue that holds us together.

- **Focus**
Spend your energy on the things that matter. Make big changes to big things.
- **Leadership**
The ability to make sound decisions and inspire others to perform well.
- **Intellect**
Listen to the world. Enrol good minds to interpret it. Act on what you hear.
- **Innovation**
Think big. Don't be afraid to imagine. Act on your imagination.
- **Teamwork**
A place where team members come to each other's assistance.
- **Passion and Energy**
Be positive. Work hard because you can. Believe in what you do.
- **Respect**
Respect yourself, colleagues and diversity of culture, opinion and race.
- **Integrity**
Doing the right thing all the time. Being honest, but compassionate.

WHO WE ARE

Our strategic framework

Taste is a South African-based management group that currently owns and licenses a portfolio of corporate-owned and franchised specialist and formula-driven Quick Service Restaurant (QSR), coffee and luxury retail brands housed within two divisions: Food and Luxury Goods.

Each of Taste's brands can be marketed and developed to be first choice in their segments in South Africa.

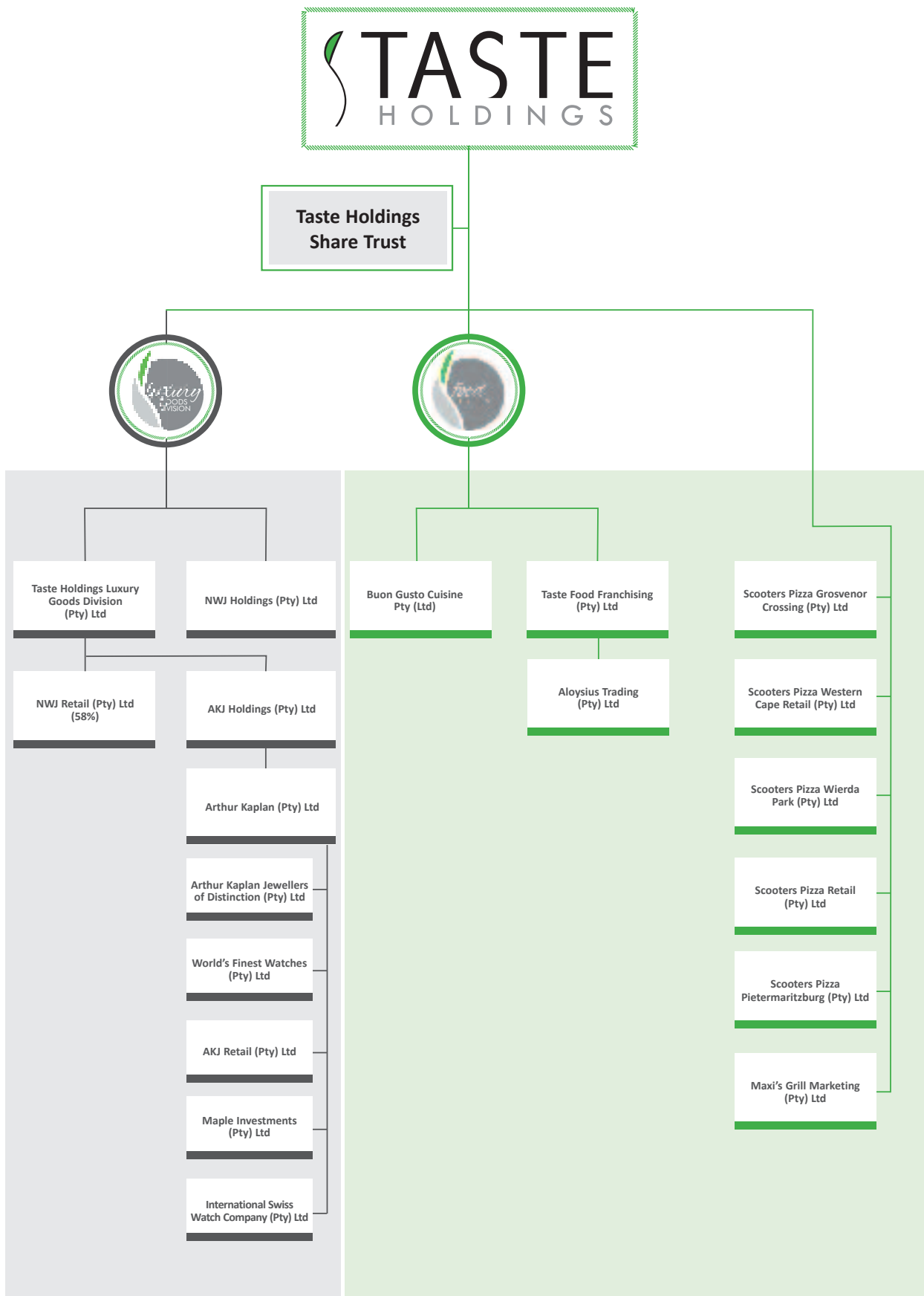
The group currently owns 131 outlets across both divisions. Taste's growth is driven by a strategic mix of corporate and franchisee-owned stores. Corporate ownership provides hands-on control, quick implementation of decisions and deep understanding of each brand, while franchisee ownership reduces the group's capital requirements and unlocks value through vertical integration and volume purchasing.

Being the custodian of and managing global brands, is far more complex than simply managing stores. A significant depth of management and operational skills are required to run these consistently well. Corporate ownership of our licensed brands is a strategic advantage and offers the tight level of control required to grow these across southern Africa, in addition to ensuring our licensing obligations are adhered to.

At this time, Taste's business model and strategic thinking is based on:

- licensing leading global brands in key consumer segments;
- leveraging scale among our local food brands;
- increasing ownership of corporate-owned stores among licensed brands;
- supporting growth through a vertically integrated supply chain; and
- creating operating leverage through a shared services framework within the Food Division.

GROUP STRUCTURE



* All subsidiaries are wholly owned unless indicated otherwise.

FOOD DIVISION

Taste's food brands are strategically spread across a diversified portfolio of the most popular product categories and dining occasions, including coffee, chicken, pizza, fish, breakfast and burgers. These brands are aimed at:

- middle- and upper-income consumers (Starbucks Coffee, Domino's Pizza and Maxi's); and
- the large low- to middle-income consumer segment (The Fish & Chip Co and Zebro's Chicken).

These brands are all underpinned by strong value price points and relatively simple in-store operations, making them ideal to franchise or own as corporate stores. With the exception of Starbucks and 72 Domino's Pizza stores, franchisees own all outlets.

Coffee

Starbucks

Since 1971, Starbucks Coffee Company has ethically sourced and roasted high-quality Arabica coffee. Starbucks is the premier roaster and retailer of specialty coffee in the world, with 26 000 stores spread across more than 73 countries. The Starbucks licence agreement is a 25-year exclusive agreement.

QSR

Domino's Pizza

Domino's Pizza is the world's largest pizza delivery brand, with more than 15 000 locations distributed through more than 85 countries. Taste has a 30-year master licence agreement. Domino's leads its market category due to world-class manufacturing and distribution of its food ingredients, systemised fast delivery and an industry-leading e-commerce platform.

Casual Dining

Maxi's

A well-established casual-dining restaurant format serving breakfast, lunch and dinner. The brand is family friendly, with a menu offering classic comfort food.

Low cost

Zebro's Chicken

Its brand offering is based on a unique cooking method with a proprietary BBQ flavour profile.

The Fish & Chip Co

The Fish & Chip Co offers good quality, affordable food to consumers.

Supply chain and distribution

Buon Gusto Cuisine is wholly owned by Taste as its food services and global supply chain business and supplies the food outlets of Taste's various brands. Buon Gusto aggregates and warehouses inventory through two distribution depots located in Gauteng and Cape Town. Logistics are conducted through a combination of owned and rented vehicles that cater for ambient, frozen and chilled inventory.

Employees

- Number of employees – 1 216.

Segmental information

	% change	28 February 2018 Audited R'000	28 February 2017 Audited R'000
Segment revenue			
Food (net of eliminations)	2	485 132	475 498
Segment EBITDA*			
Food	(51)	(177 123)	(117 670)
Segment assets			
Food	(1)	463 432	529 023

* EBITDA – Earnings before interest, tax, depreciation and amortisation.

LUXURY GOODS DIVISION

Taste's Luxury Goods Division offers a diversified portfolio aimed at first-time jewellery buyers right through to discerning premium Swiss watch collectors.

The NWJ brand offers a wide range of primarily 9ct and 18ct gold and silver jewellery, as well as numerous branded watches aimed at entry-level watch buyers. Its vertically integrated model supports a strong value proposition, innovation and guaranteed quality. Arthur Kaplan's 45-year bespoke jewellery heritage is complemented by being South Africa's largest retailer of luxury Swiss watches, thereby appealing to middle- and upper-income consumers. World's Finest Watches supports collectors of premium luxury watches.

Watch dominant retail

Arthur Kaplan

Arthur Kaplan is a luxury jewellery and Swiss watch retailer with stores located in premium South African shopping centres. Arthur Kaplan's brand appeal is its legacy of personal attention, created over many decades. All nine Arthur Kaplan stores are corporate owned. Arthur Kaplan is the leading retailer of luxury Swiss watches, including Rolex, Omega, Cartier, IWC, Breitling, Mont Blanc, TAG Heuer, Longines and Rado.

Jewellery dominant retail

NWJ

This 35-year-old brand serves the middle- to upper-income market and offers jewellery from affordable fashion items to pieces crafted in 18ct gold. Within this brand, Taste operates both franchised and corporate-owned stores. At year-end, it directly owned 49 of the 69 NWJ outlets. The group's manufacturing capability manufactures some 45% of what the brand sells.

Specialist watch

World's Finest Watches

World's Finest Watches, a specialist luxury watch retailer located in Nelson Mandela Square, Sandton, is an iconic destination for enthusiasts and collectors. This store offers a curated range of the finest Swiss branded watches. The World's Finest Watches is a corporate-owned store.

Supply chain and distribution

NWJ is the only national vertically integrated and franchised Luxury Goods business in South Africa. It manufactures approximately 45% of NWJ's inventory from a Durban manufacturing facility. It is one of few facilities that has its gold content in products certified by the South African Bureau of Standards (SABS) and distributes 100% of the goods sold through its brands, whether to franchise or corporate-owned outlets. NWJ's in-house manufacturing capability supports in-house innovation, fast routes to market and greater control over input costs. The remaining NWJ inventory is sourced from a combination of local and international suppliers.

Employees

- Number of employees – 359.

Segmental information

	% change	28 February 2018 Audited R'000	28 February 2017 Audited R'000
Core segment revenue			
Luxury Goods	(10)	558 845	622 116
Core segment EBITDA*			
Luxury Goods	(62)	23 704	60 917
Segment assets			
Luxury Goods	(8)	424 748	462 388

* EBITDA – Earnings before interest, tax, depreciation and amortisation.

FOOD AND LUXURY GOODS STORE DISTRIBUTION

as at 28 February 2018

Country	Coffee ¹	QSR ²	Casual dining ³	Low cost ⁴	Luxury Goods ⁵
Botswana	0	0	2	0	0
Eastern Cape	0	2	1	30	4
Free State	0	3	1	6	0
Gauteng ^{▲♦}	8	33	11	47	36
KwaZulu-Natal [♦]	2	18	3	13	21
Lesotho	0	1	0	0	0
Limpopo	0	2	7	27	1
Mozambique	0	0	1	0	0
Mpumalanga	0	4	5	9	4
Namibia	0	1	0	3	0
North West	0	3	2	19	4
Northern Cape	0	1	0	4	2
Swaziland	0	19	0	16	0
Western Cape ^{♦♦}	0	0	0	0	6
Zimbabwe	0	0	2	0	1
Total	10	87	35	174	79

¹ Starbucks

² Domino's Pizza/Other

³ Maxi's

⁴ The Fish & Chip Co, Zebro's Chicken

⁵ NWJ, Arthur Kaplan, World's Finest Watches

▲ Food distribution (2)

■ Food manufacturing (1)

* Jewellery manufacturing and distribution (1)

♦ Support centres (6)

RISKS AND MITIGATIONS

Risk philosophy and culture

As a business mixing and matching resources to create value, Taste is inherently exposed to several categories of risks. To manage these risks, the board instituted a risk management framework aimed at effectively balancing risk and reward to maximise business opportunities and minimise adverse outcomes.

The following risk best practices are in place:

- Risk leadership and strategy managed through a ‘top-down’ approach, with risk reporting following a ‘bottom-up’ approach.
- To ensure accountability and enforcement, risk responsibilities are assigned to specific individuals.
- A thorough risk management process for identifying, assessing and measuring risk events.
- Formulation of appropriate and effective risk responses.

The Group Risk Officer reports on risk to the executive committee, audit and risk committee and board of directors at intervals determined by the board.

Key risks and mitigation controls

Risk description	Description of impact	Mitigation
<p>Franchisee profitability</p> <p>Franchisee margins could erode through rising costs of sales due to:</p> <ul style="list-style-type: none"> • food inflation, interest rate increases and continuous utility cost increases; and • low sales growth and increased labour and fuel costs. 	<ul style="list-style-type: none"> • Non-payment of management and marketing royalties will reduce income and marketing spend. Non-profitable stores will close. Closing non-profitable stores reduces brand awareness. • Closures hinder new store growth, reduce Buon Gusto’s revenues and can impact Master Franchise commitments. 	<ul style="list-style-type: none"> • Strong, focused operational teams. • Distribution business units try to reduce input costs. • Strategic menu pricing. • Growth KPIs are pursued. • Continually drive down new store set-up costs. • Track financial benchmarks across the system and proactively address poor performers. • Continued brand repositioning and redesigning of menus and stores. • Aggressive national and regional marketing strategies.
<p>Security at stores and head office</p>	<p>Armed robberies could harm staff and customers, interrupts business and result in stock losses. Fatalities could damage brand reputation and lease renewals may be at risk.</p> <p>Franchisees may choose not to reopen stores, despite operational support that can minimise downtime.</p>	<ul style="list-style-type: none"> • Stringent security measures. • Good relationships with security service providers. • Reviewed alarm systems and protocols. • Increased security awareness through staff training. • Revamping of stores to improve security of merchandise on display. • Rolex stores are high-risk and feature heightened security measures. • Pre-employment polygraph testing and stringent hiring criteria. • Good relationships with investigators can motivate deeper dives into losses.
<p>Exchange rate fluctuation</p>	<p>Unfavourable USD/ZAR exchange rate shifts will raise imported equipment costs for Starbucks and Domino’s Pizza. Margins may be reduced due to imported key ingredients. Luxury goods may become less affordable.</p>	<ul style="list-style-type: none"> • Good relationships with offshore suppliers enables proactive negotiations on prices. • Selling prices are reviewed frequently in line with customer demand. • We are localising our luxury goods catalogue wherever feasible. The group purchases and takes out forward contracts according to specific risk criteria. • Our luxury goods catalogue is adjusted in line with sales and stock holding resulting from trading conditions. Sales mix and assortment management mitigates the strengthening currency risk as stock mixes would be more concentrated to locally desired pieces.

RISKS AND MITIGATIONS continued

Risk description	Description of impact	Mitigation
Expiry of our gold licence		For over two years group management has been working with the regulator to renew our gold licence and get our factory application approved. Despite regular interaction, these issues are not yet resolved.
Erratic trading conditions in the luxury business		<ul style="list-style-type: none"> • Open new stores to increase system-wide sales. • Constant support of franchisees. • Strong marketing plan to drive sales. • Ensure higher service standards than competitors. • Refocus catalogues on the most wanted items. • Review buying plans monthly and adjust orders and cover accordingly.
Requirement for further investments in hiring and training budgets to sustain organic store growth	Poor staff engagement causes high labour churn. It burdens recruitment, selection, training and succession planning, while impacting customer service, revenue and brand reputation.	<ul style="list-style-type: none"> • Starbucks Managing Executive to identify best practice operating systems, processes and resources for a competitive operating model. • Identify key stakeholders within supply chain, finance and IT to map paths to best practices. • Create simpler and more integrated processes to optimise procurement, ordering, distribution and financial processing.
IT security breach	Cybersecurity is becoming increasingly important as Taste's licensed brands are leaders in digital engagement. Security breaches could result in customer data being stolen, while viruses could corrupt Taste's information and infect customer devices.	<ul style="list-style-type: none"> • Domino's and Starbucks IT systems are reviewed by our international partners. • Layered security measures, supported by regular penetration testing. • Customer banking information is securely stored on bank servers. • Encryption of all data transfers. • Terms and conditions of use.

RISKS AND MITIGATIONS continued

Risk description	Description of impact	Mitigation
Reputational damage	Reputational damage from substandard products poses a financial and legal risk and may reduce Taste's ability to raise adequate capital or open new stores.	<ul style="list-style-type: none"> • A crisis control public relations (PR) plan is prepared. • A quality assurance team is in place. • All hygiene practices are HACCP-compliant. • Product recall policies are being reviewed and additional insurance obtained. • A supplier food safety management programme is in place. Starbucks suppliers are FSSC 22000-certified and Domino's suppliers require Hazard Analysis and Critical Control Points (HACCP) certification. Local suppliers must pass Global Food Safety Initiative (GFSI) level B audits as a minimal requirement. • Domino's stores are audited for food safety in the Operations Evaluation Review (OER) Audit. Starbucks stores are audited for food safety in the Quality Assurance Standards Audit (QASA). • A formal food safety management programme for our local brand stores is scheduled for implementation in 2019. These stores presently utilise a food safety manual and guidelines prepared by Taste. • Taste has implemented public liability insurance at all stores and the food manufacturing facility. • A service provider was appointed to help implement occupational health and safety (OHS) requirements and correct non-compliance. • Suppliers are periodically audited against health standards. • We have an emergency SLA with Ecolab for immediate assistance in the case of an incident.
Business interruption in food manufacturing and distribution	Production at our Midrand or Cape Town facilities may be interrupted by water or electricity shortages, fire, mechanical malfunctions or industrial action. This could result in stock losses across all brands and loss of revenue. An extended interruption of dough supply would halt Domino's stores. Starbucks products are held at the Midrand facility.	<ul style="list-style-type: none"> • Each facility can cover for the other. • Alternative suppliers have been identified. • Large water storage tanks and two generators at both sites. Additional tanks were installed at our Cape Town plant to provide a one-month production reserve. • Our OHS, fire audit and clearance certificates are up to date. • Mock contingency exercises are planned for the current year. • The majority of our employees are not unionised, but our employee relations team maintain healthy labour relations.
High insurance cost in Luxury Goods Division	Due to the current trend of robberies at stores, NWJ's and AK's risk profile may be graded adversely. This could result in premiums being adjusted upward to accommodate for the insurers' risk of not being fully covered by insurers.	Review insurance coverage annually in detail to ensure that adequate cover is maintained for the group. Security risk assessments are done in conjunction with the brokers and underwriters to identify areas of improvement annually. Stringent security processes and measures are being upheld. Initiatives, eg film on glass cabinets, etc have been implemented as a deterrent. Continue the maintenance of a self-insurance fund to cover uninsured risks.

CHAIRMAN'S REPORT

Taste's board was challenged to the hilt by an eventful year and we worked hard and decisively to bring the business through in relatively good shape. With national politics and allegations of corruption weighing down heavily on South Africa's economy and investment-grade ratings, we had to revisit Taste's growth, resource allocation and operational strategies in light of steep falls in consumer spend and confidence.

This review was influenced by having to set aside our decision made in early 2017 to dispose of the Luxury Goods Division and allocate the proceeds to settling debt and funding expansion. The offers we received for the business were unsatisfactory, probably due to South Africa's economic uncertainty throughout 2017. Nevertheless, the group still required a cash injection, and a successful capital raise concluded in January 2018 raised R398 million. The capital raise underwriter and a longstanding minority shareholder – Riskowitz Value Fund – took the opportunity to raise its stake substantially and become the 64.5% majority shareholder of Taste Holdings.

In my previous chairman's report, I noted that Taste needed a more diverse board that included directors with directly appropriate skills, such as experience in fast-moving consumer goods businesses. Linking this requirement to a strategic review prompted the board to make significant changes to its own ranks.

After a search and interview process that was already well under way in early 2017, we appointed four new non-executive directors from 1 February 2018, being Adrian Maizey, Neil Brimacombe, Nonzukiso (Zukie) Siyotula, and Leo Chou.

The outgoing non-executive directors were Kevin Utian, Wessel van der Merwe, Hylton Rabinowitz and Tony Berman. Kevin Utian was a founding member of Taste and Hylton Rabinowitz founded NWJ, which he consequently sold to Taste in 2008.

The board and group are deeply grateful for the valued roles these directors played in building the Taste business from a single pizza chain into a multi-brand market leader.

With a refreshed board in place, founding CEO Carlo Gonzaga decided that after 18 years at the helm, this was the right time for him to step down as CEO and a director. Carlo was the driving force behind Taste's launch in 2000 and led its evolution into a vertically integrated group managing global and leading local brands. Carlo has established a worthy legacy and we wish him the best for his future endeavours.

The board consequently selected Tyrone Moodley, a Non-executive director with years of exposure to Taste's business, as our interim CEO. We welcome Tyrone to the role and will support him to the hilt through a financial year that may be as daunting as the previous reporting period.

Subsequent to the year-end, Evan Tsatsarolakis communicated his decision to resign his position. Evan has been with Taste for 9 years and we thank him for the significant role he played over the years. Dylan Pienaar assumes the role of acting CFO and we wish him every success.

Financial overview

As Chairman, my role during this demanding period was to lead the board through major internal and strategic changes, while working with lenders and stakeholders to recapitalise the group.

On 29 January 2018, we informed shareholders that Taste had raised R398 million through its rights offer and that R250 million would be allocated to settling term debt. Without long-term debt, Taste is exposed only to its working capital and asset-based finance facilities. These transactions achieved our objective of restructuring the group's balance sheet, retiring significant debt, and providing capital for steady expansion.

We thank shareholders for their support.

Board focus areas for 2018/19

The reshaped board is working closely and energetically with executive management to review strategies, business plans and how financial and other resources are allocated. Our immediate aim is to secure financial stability and a viable growth path for the group. This will provide the platform for long-term sustainability and restoring value to shareholders and our broader stakeholder community.

Our revised strategy may still include separating the Food and Luxury Divisions, among various scenarios being considered. I anticipate that the board will conclude and announce critical strategic decisions during the course of this financial year.

Corporate governance

During this period of internal change and refocusing, the King IV Code of Corporate Governance ("King IV") became compulsory for all JSE-listed companies. Updating our King III corporate processes to comply with the incoming principles and practices provided the ideal opportunity to ensure that Taste's corporate governance framework remains transparent and of the highest standard. We have reviewed our practices against King IV and have found that the group is already largely compliant. Where gaps have been identified, we will work with Taste's Company Secretary to resolve these during the current financial year.

CHAIRMAN'S REPORT continued

Thank you

Looking back at one of the most trying and disappointing years in Taste's history, let us not forget that this business had grown robustly and delivered excellent results year after year for almost its entire 18-year existence. With hindsight – that perfect science – Taste's leadership may have been overambitious in launching two major global brands in quick succession within an economy falling into crisis.

Even so, Taste has worked through the learning curve of licensing and internalising the Starbucks and Domino's Pizza brands, which have proven outstandingly successful in virtually every other market they entered. I am confident that, well run, these assets will prove their value and provide sustainable rewards in time.

As a result, Taste holds exceptional potential for sustained growth into the future. For this, on behalf of the board, I thank Carlo Gonzaga and the other retiring directors for their vision and dedication. We appreciate and respect the 'sweat equity' they put in over the past four years to reshape Taste for global brands.

Although at a difficult leg in our corporate journey, Taste would be nowhere without the loyalty and ongoing support of our shareholders, employees and suppliers. We thank you for your patience and are determined to create the value you deserve for walking the road with us.



Grant Pattison

Chairman

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Stakeholder

The year 2017 proved to be one of the most challenging in the life of Taste Holdings. The group began the period with a strategic decision to concentrate its future investments and management efforts on growing the food business, which entailed the sale of Taste's Luxury Goods Division. However, the group ended the year with both businesses remaining in its stable. After initiating a sales process for the Luxury Goods business, Taste's board and executive management concluded that the sale's timing was not opportune due to the prevailing macro-economic environment and generally tough retail trading conditions.

During this period, Taste undertook two separate capital raises to provide additional capital to fund the operational requirements of the Food Division and to settle, in addition to other debt, its long-term bond debt of R225 million senior secured notes issued in terms of the R1 000 000 000 domestic medium-term note programme. While not achieving all the envisaged objectives of the strategic restructure, the group ended the year in a different position than when it started. The key changes are as follows:

- Separated the Food and Luxury Goods businesses into standalone operating divisions with no cross-subsidisation reliance by either business.
- Successfully raised the capital required for the current period and upcoming financial year.
- Settled all long-term debt, with remaining working capital facilities appropriately ringfenced to the respective divisions, so that the group is essentially free of long-term debt.
- Improved the capital structures and financing terms on remaining facilities.

In February 2018, a new board was nominated, and I was appointed as interim Chief Executive Officer (CEO), with Grant Pattison remaining as Chairman. The board has mandated management to deliver a new strategy and will act as a sounding board through the planning process, holding management accountable for specific deliverables required to succeed with the strategy.

Executive capacity

Post the financial year-end, our Chief Financial Officer (CFO) resigned and was temporarily replaced until a successor could be selected and appointed. Taste has also appointed the following individuals to key positions:

Dylan Pienaar as Chief Operations Officer (COO) for Taste Holdings. This role will be pivotal in ensuring that we bring a rational approach to the short-term initiatives that are under way. Having identified several priorities in the evolution of the business, Dylan will be utilising his understanding of Quick Service Restaurants (QSR), together with his track record in managing multiple international food brands, to help us navigate the multiple workstreams that are critical to achieving our objectives.

Dylan's most recent role was CEO of Grand Parade Investment's Food Division. His leadership of strategy, development and implementation, together with driving sound operational and financial reporting, will be value-enhancing for our group.

Bruce Layzell as Domino's Managing Executive and executive committee member. Bruce is a QSR veteran with a demonstrable track record of starting and growing businesses in multiple markets in Africa, the Middle East and Europe. His experience, operational skill, network and drive to deliver success will allow him to bring immediate benefit to Domino's as we seek to deliver on the board's mandate.

Prior to Taste, Bruce accumulated over 10 years of experience at Yum Restaurants International and Famous Brands Limited. Bruce developed and executed brand growth strategies across multiple brands.

Evan Tsatsarolakis resigned from Taste Holdings with effect from 31 May 2018. Dylan Pienaar has been appointed as acting CFO with effect from 31 May 2018 until a suitable candidate is appointed to fill the role.

Bridging the Gap

It is clear to the new management team that Taste's previous trajectory was not sustainable and required a shift in the executive team's thinking and execution. With a fresh set of eyes comes the opportunity to test the status quo from a day-to-day operational perspective and to challenge whether the business can be simplified. The **short-term objectives** (discussed below in terms of each business) of the new management team is to undertake a deep-dive operational review of all business lines, brands and structures to understand which areas in Taste require immediate optimisation. We are rethinking how decisions are reached, based on two simple but vital criteria:

- Will it enhance the brand?
- Will it improve profitability?

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER *continued*

The results of this exercise will lead to changes upon which management is required to execute as part of the **medium-term objectives**, the success of which will define Taste's **revised long-term strategy**. The desired outcome of this plan is to have a singularly focused group able to consistently make appropriate capital allocation decisions across identified focus areas on a sustainable basis. The consequence of this evolution would mean that certain elements of the group may be ringfenced, decentralised, outsourced or better served by a more appropriate stakeholder. Given the current integration of our business lines, brands and structures, at the time of publishing this report I am not yet able to share with you a firm assessment as to what Taste Holdings will look like a year from now. Nevertheless, we are now deep into the nuts and bolts of this exercise, and the urgency of this project is clear to all stakeholders.

Borrowing words from Benjamin Graham: "An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative." In understanding that **all our returns are generated at store-level**, we as management must be extremely critical of every investment decision made at our head office that filters down to our store-level partners – these must set them up for success. The group houses evident pockets of excellence and with the support of our international partners, as well as the intellectual property of which we are custodians, we have the building blocks of an operation with the potential to deliver safety of principal and a more than satisfactory return over time.

Licensed brands

Domino's Pizza – why try reinventing the wheel when the recipe is right in front of us?

Domino's Pizza, our international partners, recently reported their 96th consecutive quarter of international same-store sales growth. Domino's has 9 317 international stores (outside of the USA) in 85 developed and emerging markets. Their master franchise relationships have shown proof of concept regardless of trading region and we must always keep this in mind. Despite this consistently magnificent performance, Domino's will be the first to tell you that it has not been all smooth sailing – and for this reason their support structures and experiences in other markets are invaluable to us.

Domino's definition of success (what matters most to us) is multifaceted and benchmarked on a simple metric: "retail sales driven by comparable and store growth momentum", thereafter qualified with the statement: "profitable franchisees with industry-leading unit economics." While there will always be a drive to grow store numbers, it must be done so in a measured and sustainable manner. Precisely for this reason, the **short-term objectives** for this brand are geared toward critically assessing our store-level economic performance to understand deficiencies in the current footprint. Insights gathered from this exercise will be used for sensible intervention to improve store-level economics. These store-level economics will form the basis of future capital allocation decisions. Remember, the profits are made at store level, and that is where our immediate focus should be. When the fundamentals are in place we can begin to capitalise on the digital and delivery edge our international counterparts have perfected. This project is complex, but we have already begun on the major elements, and hope to have a progress report to shareholders on these initiatives in due course.

Starbucks – the best brew requires precision and patience

A communication recently shared with the Starbucks Europe, Middle East and Africa team, told the story of when, 10 years ago in New York, Starbucks customers heading to work had the surprise of their lives. "We're taking our time to perfect our espresso", read the stark sign on the closed and locked door of every store across the city. This was a move initiated by CEO Howard Schultz, having returned to the company after a two-year hiatus. In a then unprecedented move, he closed every store in the USA for half a day to retrain every US partner. This quickly cemented both his return to the business and his reputation for making tough decisions. Howard forced the business to reset; to reconnect and rediscover that burning passion for the company and the work we do every day.

While still extremely early in our own Starbucks journey, we have opened 10 stores in the two years since launching our original Rosebank store. This has been a far more measured approach to an international rollout. Taking stock from our international counterparts, we have had to recognise that we are still in our 'honeymoon' period, in which store revenues tend to be pushed higher as customers discover and explore the brand. This period typically lasts between 18 and 24 months after the launch date, after which store revenue begins to settle at their normal levels and bottom out around the three-year mark. This understanding, combined with our mall store, standalone retail, and corporate footprint (all having unique trading patterns), has enriched our data set and enabled us to benchmark our performance against the original investment cases. From now on we can be far more accurate with future capital allocations. Taking inspiration from Howard Schultz's decisiveness of 10 years ago, we have challenged our team as part of their **short-term objectives** to focus on the current store network. This has resulted in a three-month plan to enhance the customer experience, optimise our supply chain and improve store-level economic performance.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER *continued*

Local brands – Food and Luxury Goods

Food – Our local flavour

Our local food brands had an extremely tough year, with their performances reflecting the falls in consumer spend in their targeted income bands. Store numbers have declined year-on-year, albeit partly because of a portfolio cleanup of poor-performing stores. We have implemented initiatives to refresh the Maxi's and The Fish and Chip Co brands. 'New look' stores are being rolled out and several deliberations are taking place to understand how best to enhance value to the Group while ensuring sustainability of the brands.

Luxury Goods – trading through economic cycles

The Luxury Goods Division encountered its toughest trading conditions in several years, coupled with the uncertainty of offering the division for sale and the burden of an inappropriate capital structure. Having settled the long-term debt and deciding not to sell Luxury Goods in an unfavourable economic climate, our options remain open. While we cannot control trading conditions, our current year's results must be seen in the context of the prior year being one of the best since Luxury Goods was incorporated into the Taste Holdings portfolio. Luxury personal accoutrements/adornments, such as jewelry and prestige branded timepieces, are in the inventory of a cyclical business that targets a limited discretionary spend. Now that we have an appropriate funding line, the **short-term objectives** for this business are to meet our obligations for planned refurbishments and suitable inventory replenishment. We will use this opportunity to focus on the key metrics in this business, those being stock turn, working capital and appropriate inventory purchasing. The resilience instilled through these initiatives, plus our nationwide footprint, and a range of items from affordable to licensed pieces, sets us up to manage whatever trading conditions impacts Luxury Goods in the next 12 months.

Strategy

Given that Taste's executive management team is relatively new in this business, the group's longer-term strategy will be defined by the short-term projects currently under way. We intend having a clearly articulated strategy on the back of these initiatives by year-end. For comparable purposes to half-year, group reporting for the current financial year has remained the same. Over the course of the next 12 months we will endeavour to expand on the current reporting standards to provide deeper clarity on the store-level economic performance of each brand. Whatever our precise strategy, it will be crafted from the perspective of long-term value creation for all stakeholders.

Appreciation

I would like to express my gratitude to the Chairman of the board for guiding Taste through the last 15 months in what has been one of the most challenging periods in the group's history. His wise counsel and availability throughout this period has been invaluable. Next, I would like to thank our stakeholders and anchor shareholders for supporting the business and continuing to keep in mind the longer-term potential of our brands. Lastly, while change can be unsettling, I appreciate each and every individual that wears a green, blue, orange or multi-coloured apron on a daily basis and those in head office who work hard to support our stores. In this current financial year, I hope to be guided by your voices emanating from the frontlines of Taste's outlets and operations, so that next year you can be the champions of Taste's journey to sustainable growth.



Tyrone Moodley

Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REPORT

Dear Stakeholder

The results for the year ended 28 February 2018 are highly disappointing. The extent of the group loss was not anticipated. Despite this, however, the Food Division still has the capacity, human capital and infrastructure to continue servicing and supporting the future growth of the Starbucks and Domino's brands in South Africa. The Luxury Goods Division has strong and experienced management teams with deep institutional knowledge that will remain focussed on the world-class quality brands that it licenses.

A vast positive in the year was the group's balance sheet restructure, which resulted in reducing the group's long-term debt. During the year, Taste announced its intention to restructure the Food and Luxury Goods divisions, with the view of possibly separating them in the future. Part of this intended restructure saw the group initiate a sale process for the Luxury Goods Division. The proceeds would see the group settle, in addition to other debt, its long-term debt of R225 million in respect of the notes issued under the Taste domestic medium-term note programme. Surplus cash resources would fund the Domino's Pizza and Starbucks businesses. Having initiated the sale process earlier in 2017, deteriorating macro-economic conditions meant that the timing of the disposal was not ideal and the group subsequently stopped the sale process.

With the focus on reducing its debt, the group then embarked on raising R398 million by way of a fully committed rights offer at 90 cents per rights offer share. The rights offer was fully subscribed to by Riskowitz Value Fund, the group's largest shareholder. Through this willingness to fully subscribe, Riskowitz Value Fund has shown its support for the continued rollout of the group's food services offering. The proceeds of the rights offer were primarily used to settle the term debts, including the R225 million in outstanding notes and the rights offer transaction costs. The board decided that this was the most favourable debt reduction and expansion funding option available to the group in the current circumstances. The rights offer and resultant debt reduction was finalised in February 2018. As a result, the Riskowitz Value Fund and its common controlled entities currently own 64.5% of the group's issued shares.

Performance overview

Group

Previously, the group reported core earnings in which earnings in terms of IFRS were adjusted to exclude start-up costs pertaining to Domino's and Starbucks start-up costs. The group used this core earnings measure in the last three years to disclose more fully the costs associated with establishing and launching these global brands and to reflect comparable numbers. As previously disclosed, now that the group has finalised the Domino's conversion and launched the Starbucks brand, and as these brands are now established, there are no further launch costs, reporting is comparable and thus core earnings are no longer used.

Group revenue decreased by 5% to R1.04 billion (2017: R1.1 billion), driven by decreased sales in the Luxury Goods Division. The group now owns 131 corporate stores (2017: 114 stores), 59 of which are in the Luxury Goods Division. Group system-wide sales decreased by 11.5% to R1.54 billion. Gross profit increased by 1% to R432 million due to a margin increase of 2.5 percentage points consequent to having more corporate-owned stores in the Food Division than in the prior year. Total operating costs increased 24%, or R120 million. R63 million of these costs related to increased corporate store ownership and R42 million related to once-off goodwill and intangible impairments. Excluding these non-comparable costs, group operating costs increased by 3%. The group recorded an EBITDA loss of R186.6 million (2017: R74.6 million). While an EBITDA loss was expected from the Food Division, the extent of the decline in EBITDA in the Luxury Goods Division was not. Net finance costs increased to R27.5 million (2017: R18.5 million) as both the cost of borrowing and the quantum of borrowings increased over the prior year before all long-term debt was paid down in February 2018 from the rights issue proceeds. The building of new corporate stores saw depreciation increase 16%. An increase in equity raised the weighted average number of shares in issue to 473 million shares (2017: 376 million). The resultant headline loss was 41.8 cents per share (2017: loss of 25 cents per share).

Divisional performance

Food Division

System-wide Food Division sales declined by 11% to R955 million (2017: R1.07 billion), directly resulting from declining store numbers in The Fish & Chips Co and Zebro's brands. These brands continue to close non-performing and non-conforming outlets, and reported same-store sales decline of 0.5% and 18% respectively (2017: 5.8% and -14%). In line with the continued deliberations over the Food Division brand portfolio and in understanding how best to enhance value to the group, while ensuring sustainability of the brands, the board has decided to dispose of the franchise portion of the Zebro's chicken business. This decision is in the best interest of all parties, including our group and the brand/franchisees. In light of this, the Food Division has entered into an agreement to dispose of this business effective 1 June 2018. The disposal of Zebro's is not a categorised transaction as it falls below thresholds as set out in the JSE Listings Requirements. Same-store sales in Maxi's were flat for the year (2017: -0.5%).

The Food Division continues its metamorphosis from a fully franchised, owned brand business to a mix of corporate and franchise-owned outlets, and owned licensed brands. System-wide sales in Domino's increased by 4.5% but same-store sales declined by 1%. The benefits of growing slowly in Starbucks are paying off, with good controls being implemented and tangible, continuous operational improvements in labour and margins being achieved. Seven further Starbucks stores were added in 2018. We will start reporting on Starbucks same-store sales in 2019 as the initial two stores begin to record year-on-year comparable sales data. Having finalised its material investment in supply chain and human capital to support our licensed brands, the focus of the division is to grow Starbucks and Domino's stores to the point where their individual profit contributions exceed the cost of support.

The Food Division recorded an expected EBITDA loss for the year ended 2018. We anticipated this loss, which included R40 million of intangible and goodwill impairments described later in this statement.

CHIEF FINANCIAL OFFICER'S REPORT continued

Luxury Goods Division

Our Luxury Goods Division, after multiple years of record financial performance, had its toughest year in recent history. The uncertainty linked to the sale of the division and general financial constraints on consumers and lenders during the year contributed to the system-wide sales decline of 10.6% to R589 million. 2018 was a year of two halves. The first half saw tremendous pressure on sales as the division recorded a same-store sales decline of 15%. The second half of the year saw a significant recovery through stores and reflected same-store sales decline of 5%. This resulted in same-store sales for the year declining by 10%. NWJ faced the challenges of a cash-strapped middle-to-upper income consumer, decreasing jewellery customers and a competitive landscape, fighting for share of wallet with the retail chains and independent retailers. Arthur Kaplan was affected by the negative sentiment in the country and the economy, as well as currency strength. Though this was the case, the management teams showed resilience and were able to maximise on opportunities as they presented themselves. There was, however, massive pressure on margins due to the consumer demanding better prices, as well as heavy discounting by competitors. This impacted the gross margin, which decreased by 1.3 percentage points.

Although revenue declined, the division focused on improving inventory levels, with these improving by 10% over the prior year. Additionally, the division managed to keep operating cost increases to below inflation at 2.8%. The Luxury Goods Division reported an EBITDA of R23 million (2017: R61 million).

CONDENSED GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	%	28 February 2018 R'000	28 February 2017 R'000
	change		
Revenue	(5)	1 043 977	1 097 614
Cost of sales		(612 445)	(671 237)
Gross profit	1	431 532	426 377
Other income		3 591	1 047
Operating costs	(24)	(621 753)	(502 080)
EBITDA	(150)	(186 630)	(74 656)
Amortisation and depreciation	(16)	(41 662)	(36 047)
Operating loss	(95)	(228 292)	(110 703)
Investment revenue	6	17 295	16 298
Finance costs	(29)	(44 745)	(34 809)
Loss before taxation	(98)	(255 742)	(129 214)
Taxation		14 750	28 060
Loss for the year		(240 992)	(101 154)
Attributable to:			
Equity holders of the company	(139)	(241 202)	(100 818)
Non-controlling interest		210	(336)
		(240 992)	(101 154)
Reconciliation of headline loss:			
Loss attributable to ordinary shareholders	(139)	(241 202)	(100 818)
Adjusted for:			
Impairment losses		42 053	5 260
Loss on sale of property, plant and equipment		4 839	2 062
Tax effect on headline loss adjustments		(3 274)	(385)
Headline loss attributable to ordinary			
Shareholders	(110)	(197 584)	(93 881)
Weighted average shares in issue ('000)		473 060	375 927
Weighted average diluted shares in issue ('000)		489 130	384 379
Loss per share (cents)	(90)	(51.0)	(26.8)
Diluted loss per share (cents)	(90)	(51.0)	(26.8)
Headline loss per share (cents)	(67)	(41.8)	(25.0)
Diluted headline loss per share (cents)	(67)	(41.8)	(25.0)

CHIEF FINANCIAL OFFICER'S REPORT continued

	%	28 February 2018 R'000	28 February 2017 R'000
	change		
Revenue			
Food (net of eliminations)	2	485 132	475 498
Jewellery	(10)	558 845	622 116
Group revenue	(5)	1 043 977	1 097 614
EBITDA			
Food	(51)	(177 123)	(117 670)
Jewellery	(62)	23 074	60 917
Corporate Services	(82)	(32 581)	(17 903)
Group EBITDA	(150)	(186 630)	(74 656)
Operating loss			
Food	(44)	(207 335)	(143 684)
Jewellery	(75)	13 240	52 510
Corporate Services	(75)	(34 197)	(19 529)
Group operating loss	(106)	(228 292)	(110 703)

I will now provide some clarity on the numbers and additional commentary on the significant items in the statement of financial position.

Comprehensive income

Revenue

- The 5% decrease in group revenue for the year ended 28 February 2018 is driven by the lower revenue in the Luxury Goods Division. Luxury goods are cyclical and negatively influenced by macro-economic uncertainty in the country, relative rand strength and disposable income. This division reported a 10% decrease in same-store sales on the back of a 5.4% increase in same-store sales in the prior year. Same-store sales for the first six months of 2018 were -15% and improved to -10% for the full year. The division ended the current period on 79 stores (2017: 83 stores).
- Revenue in the Food Division increased by 2% or R9.6 million after intersegment eliminations. This increase is due mainly to the increase in corporate store ownership. The division owned and operated 72 stores (62 Domino's Pizza and 10 Starbucks) at the end of 2018 (2017: 52 stores). For the year ended 28 February 2018, Domino's recorded a same-store sales decrease of 1%, and the local brands recorded a decline of 5%.

Gross profit

Gross profit increased by R5 million or 1% over 2017 due to the increase in Food Division revenue. Gross profit margin increased to 41.3% (2017: 38.8%). This is primarily due to having more corporate stores in the Food Division, which trade at higher margins than the group average. The Luxury Goods Division margin percentage declined by one percentage point in its attempt to sustain revenue.

Operating costs

Both divisions contributed to the 24% or R120 million increase in operating costs. This increase is made up as follows:

- R5.2 million in the Luxury Goods Division, which equates to a 2.8% increase. This includes a R2.7 million impairment of goodwill on stores acquired from franchisees. The decline in revenue saw costs as a percentage of its revenue increasing to 34.4% (2017: 30.1%).
- R100 million in the Food Division, R63 million of which relates to the division owning more corporate stores than the prior year, and R40 million relates to goodwill and intangible impairments in the current year. Excluding additional stores and the impairments, the Food Division costs were less on the prior year.
- R14.6 million in corporate services costs, approximately half of which relates to capital raising and restructure costs, and the remaining to costs associated with the resignation of the CEO in February 2018, such as IFRS 2 charges and restraint payments.

Impairments

The following impairments, which are included in operating costs, were made during the year:

- R4.9 million relating to goodwill of corporate stores in the Food and Luxury Goods divisions.
- R21 million relating to goodwill of The Fish and Chips Co. Same-store sales in this brand were flat for the year (2017: 5.8%) and store numbers have declined over the last few years. There were 127 The Fish and Chip Co stores at year-end.
- R15.7 million of intangibles relating to Zebro's Chicken (R7.7 million of goodwill and R8 million intangible relating to the Zebro's trademark). This impairment is a consequence of the sale of the Zebro's franchise business as described above.
- R0.4 million relating to the Domino's franchise conversion contribution intangible.

CHIEF FINANCIAL OFFICER'S REPORT continued

Amortisation and depreciation

The increase of R5.6 million in depreciation and amortisation is due to the increased number of corporate-owned stores in the Food Division compared to the prior year. This amount is expected to grow in future as the Food Division adds to its corporate store base.

Investment revenue

Investment revenue comprises interest charged to franchisees on conversion loans and interest received on positive cash balances. Although notional, this is a cash inflow.

Finance costs

The increase in finance costs is due to a combination of:

- Taste paying a higher interest rate than it previously did on its debt facilities as a result of its net leverage ratio for the year ended 28 February 2017 exceeding three; and
- interest on an additional facility of R48 million that was provided during the year to open new corporate Domino's and Starbucks outlets.

Taxation

The Group's core effective tax rate for the current year is less than 28% due to once-off intangible impairments as described below, as well as continuing non-deductible expenses such as intangible amortisation and IFRS 2: share-based payment expenses. Additionally, the group decided not to pass the deferred tax asset relating to certain of the losses incurred in the Food Division for 2018. This taxation asset amounts to R38 million and, if passed, would improve the loss after tax for 2018. As such, the deferred tax asset has not been increased by R38 million.

Financial position

Non-current assets

The change in property, plant and equipment over the prior year relates to the acquisition and construction of corporate stores predominantly in the Food Division. This was offset by the early 2018 disposal for R28 million of the property in Midrand which houses the Food Division's dough manufacturing and food distribution businesses.

The decrease in intangible assets mainly relates to [1] the intangible impairments as explained earlier; and [2] the reclassification of certain intangibles to property, plant and equipment and to goodwill when stores are acquired from franchisees.

The decrease in goodwill from the prior year is attributable to a combination of the acquisition of stores from franchisees as well as the goodwill impairments.

Other financial assets consist of [1] loans made to marketing funds of brands within the group, including pre-funding the Domino's marketing fund through a loan to launch the brand in South Africa; [2] conversion loans provided to Scooters and St Elmo's franchisees for the conversion of their stores to Domino's; [3] extended payment terms given to franchisees of the group; and [4] funded sale of the food manufacturing assets of the Cullinan facility. These assets were sold to the founding management of this facility as part of a strategic realignment of the Food Division.

The deferred tax asset arose due to the tax losses reported by the Food Division attributable to "start-up" losses from the launching of the Starbucks and Domino's brands in South Africa. These losses are expected to be recovered in the foreseeable future as the Starbucks and Domino's businesses mature out of their start-up stage. The recoverability of this asset is assessed annually at year-end. As noted above, the deferred tax asset has not been increased by R38 million.

Current assets

Group inventories reduced due to a R34.5 million decrease in the Luxury Goods Division inventory as a result of [1] an improvement in stockholding and lower revenue than the prior year; and [2] a R7.6 million increase in inventory of the Food Division as a result of more corporate-owned stores.

As a consequence, along with effective management of trade receivables and payables, R53 million cash was generated from working capital in the current year (2017: investment in working capital of R42 million).

Equity

The increase in stated capital from 2017 is consequent to the following share issues during the year:

- Clawback offer of 80 000 012 shares were issued at R1.50 on 19 June 2017.
- 707 666 ordinary shares were issued on 20 June 2017 at 43 cents per share to the Taste Holdings Share Trust in anticipation of share options being exercised in terms of the Taste Holdings Share Option Scheme.
- Rights issue of 442 222 223 shares at R0.90 on 29 January 2018.

Borrowings

The reduction in borrowings was a consequence of the capital restructure as explained in more details above.

CHIEF FINANCIAL OFFICER'S REPORT *continued*

Cash flow

At the beginning of 2018, Taste was in an overdraft position of R15.5 million. During the year, the following cash inflows amounting to R548.50 million were received:

- R500 million of equity raised.
- R29 million was raised from the sale of assets (primarily the Midrand property sale).
- R19.5 million receipts from conversion loans and finance leases.

This cash was applied as follows:

- R250 million utilised to pay down all long-term debt.
- R73 million utilised in operating activities (R126 million of cash losses offset by R53 million generated from working capital).
- R27.5 million net finance costs.
- R79.6 million on the construction and acquisition of corporate stores in both the Food and Luxury Goods divisions. The group acquired 12 stores from franchisees and opened a further 16 corporate stores during the year.
- R6.7 million repayment of short-term borrowings.

This resulted in the group cash position of R96 million at year-end, 28 February 2018.

Appreciation

As this is my final letter, I would like to convey my appreciation to all the dedicated and committed partners that are in our stores every day, facing customers and living and breathing our brands. To the management, I convey my gratitude for all your efforts and for walking this long road with me, and to the board, I thank you for your guidance, support and counsel over the years.

It has been a particularly difficult year. I have faith that with the support of a long-term major shareholder, and with the business being debt-free, that whatever strategic direction will be followed will result in renewed success and prosperity for the group.

Warm regards



Evan Tsatsarolakis
Chief Financial Officer

PERFORMANCE REVIEW

BUILT CAPITAL

Corporate store ownership at year-end

Food Division		Luxury Goods Division	
Domino's Pizza	62	NWJ	49
Starbucks	10	Arthur Kaplan	9
		World's Finest Watches	1
Total	72	Total	59

Property and development

Taste's property and development portfolio manages the intricate responsibility of locating appropriate sites and efficiently developing these into branded outlets. Taste prefers to lease property as this unencumbers development capital and shares real estate risk with landlords.

The drivers for selecting sites differ from brand to brand, depending on their customer value propositions, relative target markets and store formats, among other factors. There are several commonalities, such as visibility, accessibility and intrinsic appeal of the trade area.

The Starbucks brand requires an extra dimension of store design.

Leveraging shared services

Taste's brands are supported by centralised supply chains that control the route to market across five African countries. Leveraged support includes:

- Central warehousing
- Distribution
- Order taking
- Logistics
- Global procurement
- Replenishment

Food Division

Supply chain and distribution

Distribution is performed by Buon Gusto Food Services, which is wholly owned by Taste and enables full control of safety standards and quality.

Buon Gusto is based at two distribution depots in Gauteng and Cape Town. Distribution is conveyed through a fleet of owned and rented vehicles that transport ambient, frozen and chilled inventory.

Procurement and manufacturing

As a world-class distribution facility, Buon Gusto was vetted by Starbucks and Domino's Pizza and accredited to manufacture a range of global standard food products, including the proprietary Domino's doughs.

Buon Gusto currently supplies pizza dough, protein products, spices, pre-mixes, and sauces, as well as each brand's consumables and ingredients.

Taste only works with suppliers who share our commitment to ethical sourcing. Starbucks is a recognised world leader in responsible sourcing and community building. Buon Gusto also partners with the Food Bank, which delivers nearly expired but edible food sourced from suppliers to needy communities.

Food safety

Inbound temperatures of chilled and frozen food products are recorded and non-compliant deliveries are rejected. Suppliers must be accredited for the categories of products they supply. High-risk category suppliers must be FSSC 22000-certified and all Domino's suppliers require a full HACCP certification. A skilled quality and assurance team is in place.

PERFORMANCE REVIEW

BUILT CAPITAL *continued*

Local procurement

Apart from specialised equipment, majority of Starbucks bespoke furniture and fittings are manufactured locally. The entire Starbucks fresh food programme has been localised. South African manufacturers manufacture our food products in compliance with Starbucks quality controls, which places them in a position to export internationally.

Our food distribution network comprises:

- Two primary distribution centres based in Midrand and Cape Town.
- A fleet of owned and rented refrigerated trucks.
- Halaal-accredited food supply chain.
- HACCP-compliant distribution centres.

Buon Gusto owns 85% of its fleet, which drives value for long-haul distribution. Outsourced transport provides more economical delivery to stores close to our distribution centres.

Buon Gusto passed the rigorous Starbucks and Domino's Pizza food safety audits and is equipped to deliver products within strict temperature parameters. Buon Gusto is Hazard Analysis and Critical Control Points (HACCP) compliant and is working to become FSSC 22000-compliant by June 2018.

Our innovative "Cost to Serve" project is a bottom-up analytical build on the exact cost to serve each store countrywide, as well as each customer. This analysis enables a deeper understanding of the front- and back-end profitability of each store.

In 2018, Buon Gusto invested in an inventory management system called Sage Inventory Advisor to manage forecasting, inventory levels and inventory replenishment. We also acquired routing optimisation software to plan the most efficient routes for our delivery vehicles. This software continually assesses road networks, route schedules, drop-offs, load sizes and utilisation.

Luxury Goods Division

The Luxury Goods Division is the only vertically integrated and partly franchised jewellery business in South Africa. It owns and operates approximately 70% of the country's jewellery outlets.

NWJ

Supply chain and distribution

Approximately 45% of NWJ's inventory is produced at a Durban manufacturing facility.

Procurement and manufacturing

NWJ's in-house manufacturing capability supports in-house innovation, fast routes to market and greater control over input costs. Our manufacturing facility can also rework slow-moving or returned stock with negligible yield losses. The remaining inventory for NWJ is sourced from a combination of local and international suppliers.

New and refurbished jewellery stores

NWJ opened two new corporate stores at Springs Mall and Table Bay Mall, while also revamping three corporate stores. A new franchise store opened in the Cornubia Mall, and the Menlyn store was upgraded.

Our Ballito store relocated from the Lifestyle Centre to the new Ballito Junction, and a franchise outlet in Middelburg was converted to a corporate store.

Five stores were closed in the financial year, including three corporate stores (Loch Logan, The Grove and Highveld Mall), as well as the franchise outlets at City View and Pinecrest.

Arthur Kaplan

The re-imaged Arthur Kaplan stores are delivering pleasing results and showcasing a wider range of premium brands that includes Cartier, IWC and Montblanc. Following our significant investments into Arthur Kaplan in recent years, the board decided to hold back on opening or upgrading Arthur Kaplan outlets in this past financial year.

PERFORMANCE REVIEW

FINANCIAL CAPITAL

Investment committee

The decision of where to allocate capital is primarily made by the board of directors. The board sets the framework for how opportunities are evaluated; the thresholds for which allocations can be made by the five-person investment committee, and which are referred to the board. It also sets the strategic direction in which the company seeks opportunities.

Capital allocation

- Capital is primarily allocated on the basis of the strategic fit within identified growth areas. Identifying these growth areas follows a process of annually mapping core competencies by division and reviewing past performance of capital allocation against their specific investment cases.
- The group assesses all capital allocation opportunities based on the predicted future cash flows of those opportunities, using the group's weighted average cost of capital, adjusted upwards for opportunity-specific risks.
- The threshold IRR must support the compound annual growth rate (CAGR) and headline earnings per share (HEPS) target. Currently, the threshold IRR is 25%.
- For acquisitions, the discounted cash flow (DCF) value must exceed the price by a margin of safety. The price paid must yield an IRR of above 25% based on the future cash flows.
- Capital allocation is currently made within the context of growing Starbucks and Domino's outlets.

As the business has grown, capital raising for expansion and acquisition has changed from being transactionally based and raised within the division deploying the capital, to a group function that takes into account the group's cash flows and various funding metrics.

The group, therefore, acts in a treasury function to maximise the utilisation of cash. The division, brand or business unit is charged appropriately for the cost of capital, as if it has raised the capital, and may not necessarily reflect the group's actual source of funds at that particular instance. This capital cost charge is important when setting incentive targets and evaluating performance within divisions and business units.

PERFORMANCE REVIEW

SOCIAL AND RELATIONSHIP CAPITAL

The value of Taste's stakeholders

Our social licence to operate depends largely on the quality of our stakeholder relationships with shareholders, employees, brand partners, franchisees, customers, suppliers and the communities where we operate.

Taste is acutely aware of the socio-economic challenges faced by communities around our stores. We recognise that our impact goes beyond the workplace and that our long-term sustainability is linked with that of our communities.

Stakeholder engagement

Shareholders

Our shareholders are part owners of Taste Holdings and play a significant role in the group's operations. Shareholders elect the board of directors who appoint and supervise executives, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). Shareholders also indirectly influence the group through the stock market.

Taste's board answers to shareholders, not to management.

The group provides timely and transparent disclosures to shareholders by means of:

- SENS releases as required;
- an annual integrated report; and
- telephonic and in-person interactions as requested.

Employees

Proactive employee engagement results in increased employee trust, job satisfaction and group efficiency. We communicate regularly with employees through:

- meetings at Linbro Park (Town Hall);
- video conferencing with NWJ, Arthur Kaplan and Buon Gusto Midrand and Cape Town staff;
- business review meetings;
- department meetings; and
- weekly and monthly store meetings.

Taste initiated a Staff Engagement Survey as part of its commitment to building the business "people first, from the inside out".

The survey gave our employees the opportunity to share their opinions regarding their jobs and work environment, which helps shape Taste's culture.

The 15-minute survey was interactive and web-based and included areas such as career and professional development, manager quality and rewards and recognition. All employees were encouraged to participate, with managers being instructed to allow their staff members to complete the survey at their convenience.

We gather information about how employees regard their work experiences at Taste to inform how we design career and professional development opportunities, recognition and rewards, performance review processes, along with work environments that suit employee needs better.

All employees were assured of total confidentiality and, as such, the survey was administered by an outside organisation, CEB, which is an independent HR research company. The survey was launched on 20 June 2017 and completed by 4 July 2017.

A final aggregated report was then provided to Taste. Feedback was given to employees on the actions taken that are based on survey feedback.

Taste regularly evaluates employee feedback. Our employee relationships are described in greater detail under Human Capital on page 27.

Franchisees

We firmly believe that franchising is a social responsibility at work. The entrepreneurship unlocked by franchises underpins sustainable economic growth by transferring skills and creating jobs.

While each brand uses its own channels of engaging with its own franchisees, we share certain common practices across the group. These include:

- Regular franchisee meetings throughout the year.
- Ongoing training for existing franchisees.
- A franchisee advisory council.
- Annual recognition of high-performing franchisees.
- Store visits conducted by executive directors.

Franchisees utilise our outsourced call centre to provide feedback on our service levels to them.

Engagement with franchisee employees is maintained via in-store evaluations, training and promotional launches throughout the year.

PERFORMANCE REVIEW

SOCIAL AND RELATIONSHIP CAPITAL continued

Suppliers

Taste has a transparent pricing policy and fair procurement practices. The group engages with suppliers via supplier visits, performance measurements and quality assurance.

Taste continues vetting all its suppliers in accordance with the Starbucks and Domino's licence quality expectations.

The food safety standards demanded by Domino's and Starbucks benefit our customers and suppliers, who could enter export markets.

Customers

In a competitive marketplace, customer satisfaction plays a significant role in how much revenue we generate. Taste builds customer relationships through:

- customer satisfaction surveys;
- customer research;
- mystery shoppers; and
- an outsourced call centre.

All comments are collated in a central database and acted on as required. We respond swiftly to customer complaints, as these can result in reputational damage. Feedback from customers creates valuable opportunities to increase the overall quality of our customer service.

Media

Taste is accessible to the public media and committed to providing accurate information. Newsworthy corporate activities are supported by media releases and interview opportunities.

The value of international partnerships

Partnering with international brands strengthens Taste's value proposition and broadens the group's access to global supply chains, intellectual property and global best practices.

The transfer of operational skills from Starbucks and Domino's is unprecedented for Taste, as these brands build their knowledge from major markets around the world. In time, these learnings will permeate from Taste throughout the industry and ultimately make the South African food industry more globally competitive.

Marketing our brands

Marketing has a well-developed entry strategy for new franchisees that includes social media, neighbourhood visibility and opening specials. This is included in the store purchase price.

Ongoing marketing is financed by a brand marketing fund. Each marketing fund manager has access to the Marketing Executive, who provides marketing support, standardises our marketing approach and ensures that we pool our buying power to get more value from our suppliers.

Starbucks

The Starbucks brand is positioned as the "third place", a place between home and work. Apart from great coffee, we provide an environment for customers to come and connect with one another.

Domino's Pizza

Although the leading pizza delivery brand globally, Domino's Pizza lacks relevance with consumers in South Africa. Creating awareness, driving brand consideration and encouraging consumers to try the brand remains a challenge. Domino's marketing will continue to focus on making customers aware of multi-order channels, technology features and growing brand relevance in 2019.

Zebro's

The Zebro's chicken concept is becoming a firm favourite in new areas due to being braaiied rather than deep fried.

The Fish & Chip Co

This brand has undergone numerous challenges, but changes implemented in message and store design are starting to bear fruit. The Fish & Chip Co stores offer opportunities for local marketing initiatives tailored towards specific customer needs in their specific locales.

Maxi's

Maxi's has a highly loyal customer base due to its quality and wide-ranging menu. Maxi's is re-engaging its target markets through a refreshed brand positioning based on affordability and variety.

PERFORMANCE REVIEW

SOCIAL AND RELATIONSHIP CAPITAL continued

NWJ

The NWJ brand serves the middle- to upper-income market and offers jewellery and watches that range from affordable fashion items to 18ct gold crafted pieces. The focus on gold and diamonds under the brand positioning of “Loved for our jewellery, famous for our price”, as well as the inclusion of digital marketing material, improved gold and diamond sales by 4.7% compared to the prior financial period.

Arthur Kaplan

Arthur Kaplan services the top-end of the jewellery market as a luxury jeweller and official retailer of premium Swiss watches. Managed according to a legacy of integrity, quality and personal service, the brand sets itself apart through its premium boutique stores and unique portfolio of Swiss watch brands that appeal to numerous segments of the luxury market. The brand ethos of “Love is in the details” flows through every touchpoint from customer service to communication and product quality.

The newest Arthur Kaplan boutique, situated in the Mall of Africa, perfectly illustrates the brand’s premium identity, from the store design to its brand mix.

Franchisee engagement

All franchisees have direct access to a franchisee relationship manager, area manager and brand operations manager.

Most brands have a Franchisee Advisory Council (FAC) made up of influential franchisees. The FAC meets with franchisees more regularly to uncover areas for improvement and discuss growth strategies.

All feedback received is channelled through the marketing and operations teams, who act on the information as they see necessary. Feedback on action taken would be provided through monthly branch newsletters and at the follow-up FAC or regional meetings.

We care – socially responsible business

Creating new jobs

Job creation and enterprise development are critical to developing the South African economy. Taste’s franchising business model provides proven and sustainable enterprise development opportunities for small businesses, which are supported by seasoned franchisors. At the same time, franchised outlets create new jobs. (See our Human Capital achievements on page 27 for further details on our job creation success.)

In many cases, the opening of a new Taste franchise store provides people with their first job. In addition, they gain portable skills through the skills training they receive in our outlets.

Changing Lanes

Taste’s five-day Changing Lanes life skills and job readiness programme, implemented by Khulisa, includes modules specific to working within the QSR industry, such as the acts that govern the industry, as well as a practical overview of what it is really like to work in a QSR on a daily basis. These modules demonstrate to candidates what will be expected of them and help them to assess whether they are suitable recruits for the industry.

Following this programme, a Domino’s Pizza or Starbucks representative is introduced to the candidates in their community environment, to give the potential employer an opportunity to gain an understanding of where the candidates live and of the environmental circumstances that may at times have an impact on their ability to perform – notably transport issues. This has proved to be a successful retention strategy.

After this introduction between the identified and trained candidates and the employer, the successful candidates begin work at either a Domino’s Pizza or Starbucks store. This year, 25 people were trained for possible Starbucks placements. Of these, 14 were subsequently recruited and trained as baristas. Our new baristas were assigned to the Starbucks stores at Brooklyn, Florida Road, Gateway, Melrose Arch, Menlyn Park and Rosebank. By the end of the reporting period all 14 were still in employment – a 100% retention rate.

Harambee

Harambee was chosen as a recruitment partner to assist with recruitment at entry-level positions for Domino’s and Starbucks stores.

Harambee is a not-for-profit social enterprise with extensive experience-building solutions and innovations that can help solve the global youth unemployment challenge. They partner with business, government, young people and others committed to results that can work at scale.

This NPO connects employers looking for entry-level talent to high-potential South African youth who are hungry for opportunity, but lack the household incomes and networks to access jobs. The youth unemployment challenge is tackled using data, innovation, partnerships and on-the-ground experience to build pragmatic, implementable solutions that deliver results.

PERFORMANCE REVIEW

SOCIAL AND RELATIONSHIP CAPITAL continued

Corporate social initiatives

Taste's partnership with the Just Footprints Foundation is an integral part of our corporate social investment (CSI), specifically because it stimulates young minds and creates memories in the lives of South Africa's youth. This programme establishes the social infrastructure to support children suffering from serious life-threatening diseases and life challenges.

Just Footprints Foundation hosts unique outdoor camping experiences at no cost for children with serious health and life challenges and disabilities. At "Camp Footprints", opportunities are provided for children to participate in an amazing life-changing adventure, learn new skills through intentional programming, develop confidence and enhance their self-esteem in a secure, respectful, nurturing and fun camp environment. Our campers are encouraged to be fearless, escape, fantasise and be joyful kids once again, supported by a professional medical team, as well as trained and caring staff and volunteers. Camp Footprints programmes enable campers to reach beyond the barriers of their conditions and help build important connections that foster resilience in the face of challenge, restore their hope for the future, renew their spirit of childhood and regain their sense of possibility.

Just Footprints Foundation hosted its annual "Christmas in the Bush" camp for 2017 in Dinokeng from 11 to 15 December. Altogether 52 children from Tembisa Child and Family Welfare Society were the lucky beneficiaries. Taste Holdings has, for many years, been one of the Just Footprints partners that fund this camp initiative.

The team invited some well-known celebrities to visit the camp and spend the day with the children. Everyone joined in the various camp activities – interacting with the campers, playing games with them and assisting them in choreographing their various dance, song, drumming and drama routines for a special talent show, Camp Footprints Got Talent, which took place after lunch. The campers also received a gift bag filled with treats and enjoyed Domino's Pizza while watching a movie under the stars. The next day the team brought their Christmas cheer to the camp with decorations and a delicious lunch. After lunch, Father Christmas arrived with a beautiful watch from NWJ for each camper.

Thereafter, the team left for their annual pilgrimage to deliver food and treats to the TLC Old Aged Home in Hammanskraal.

During the period under review, the Taste Food and Jewellery divisions contributed and participated to various social initiatives such as:

- Just Footprints Foundation;
- 67-minutes for Mandela Day;
- TLC Old Aged Home Dinokeng, Hammanskraal;
- Uitkoms Home for Girls;
- Tembisa Child and Welfare Society;
- Nelson Mandela Children's Home; and
- The Haven Care Centre.

PERFORMANCE REVIEW

HUMAN CAPITAL

Taste's vision for all staff

- Promoting a company culture of respect and dignity for all employees.
- Fostering a fun yet hard-working environment where supporting fellow colleagues is customary.
- Creating a home away from home where gratitude and humility outshine ego.
- Cultivating a community from which employees go home every day renewed with the energy that comes from accomplishment, pride and appreciation of a job well done.

Staff turnover in the brands

	Feb 2018	Feb 2017
Annualised permanent employee turnover for Starbucks dropped by 9.9%	15.6%	25.5%
Annualised permanent employee turnover for Domino's dropped by 22.1%	54.3%	76.4%

Workforce statistics

Taste Holding Group

	Male								Female								Total SA workforce	% ACI representation	% ACI female representation
	Able-bodied				Disabled				Able-bodied				Disabled						
	African	Coloured	Indian	White	African	Coloured	Indian	White	African	Coloured	Indian	White	African	Coloured	Indian	White			
Top and senior management	1	2	3	15	-	-	1	2	1	2	6	5	-	-	-	-	38	42	24
Middle management	4	3	9	25	-	-	-	-	15	11	7	23	-	1	-	-	98	51	35
Junior management	97	4	21	50	-	-	1	-	104	12	27	56	-	-	1	7	380	70	38
Semi-skilled and unskilled	465	18	9	44	5	-	-	-	434	33	20	27	4	-	-	-	1 059	93	46
Total permanent workforce 2018	567	27	42	134	5	-	2	2	554	58	60	111	4	1	1	7	1 575	84	43
Total permanent workforce 2017	369	28	27	126	3	-	2	3	368	51	58	132	1	1	2	1	1 172	78	41

Franchisee workforce

	Male								Female								Total SA workforce	% black representation	% female black representation
	Able				Disabled				Able				Disabled						
	African	Coloured	Indian	White	African	Coloured	Indian	White	African	Coloured	Indian	White	African	Coloured	Indian	White			
Group franchisees 2018	50	3	60	85	0	0	1	1	31	7	11	29	0	0	0	0	278	59	18
Group franchisees 2017	68	9	65	88	0	0	2	1	36	7	10	26	-	-	-	-	312	63	17

Performance 2018

- 51% of our middle managers are historically disadvantaged South Africans (HDSAs) (2017: 51%)
- 70% of our junior managers are HDSAs
- 84% of our total permanent workforce are HDSAs
- HDSA females make up 43% of our workforce
- 34.4% growth in Taste workforce (2017: 1 172/2018: 1 575)

PERFORMANCE REVIEW

HUMAN CAPITAL continued

Building skills and creating jobs

Taste provides the training, set-up and logistical support that enables franchisees to build their businesses, create employment and transfer skills.

The benefits we provide our full-time employees, over and above legally mandated employment benefits, include paying above minimum wages and salaries. We also pay additional bonuses annually based on performance against both individual criteria and company performance. All pay grades are market-related and job-specific, with no gender differentials.

Remuneration is job-specific, therefore, women and men receive equal pay in the same job categories. All employees are paid within the parameters set by the relevant bargaining councils or regulatory bodies in each industry sector.

Our largest contribution to society is the dignity that comes with work.

This is only possible through skills transfer and sustainable employment. Franchising is widely recognised as a successful mechanism for advancing the goals inherent in the Department of Trade and Industry's Broad-Based Black Economic Empowerment (B-BBEE) guidelines, particularly in line with its measures for skills development and enterprise development.

Creating new jobs in townships

Where possible, Taste hires management and staff from local communities. This policy is being vigorously applied as the Domino's Pizza and Starbucks stores open across the country.

Taste Holdings is an early adopter of Khulisa's Corporate Volunteer Programme (CVP) that offers businesses an opportunity to effect the change they want to see in deprived communities. Khulisa and Taste launched a "Changing Lanes" programme to recruit and train young employees for new Domino's Pizza and Starbucks Coffee stores.

Taste's five-day Changing Lanes Life Skills and Job Readiness programme, implemented by Khulisa, includes modules specific to working within the QSR industry. Candidates learn what will be expected of them and trainers can assess whether they are suitable recruits for the industry. Candidates are given a food and transport stipend during this five-day programme.

Following this programme, a Taste representative is introduced to the candidates in their community environment, to give the potential employer an opportunity to gain an understanding of where the candidates live and of the environmental circumstances that may at times have an impact on their ability to perform – notably transport issues. This has proved to be a successful retention strategy.

After successful candidates and the store manager have been introduced, they begin work at a Domino's Pizza or Starbucks store.

After each programme, a number of young people are permanently employed and undergo brand-specific intensive training, for which they are remunerated, as per an employment contract.

Leadership development

South Africa and Taste alike need skilled business entrepreneurs and leaders at all levels, preferably in line with the national demographic profile.

Our operational leadership team must have the necessary skills to continue growing a flourishing business. Taste is, therefore, investing in upskilling our managers with the aim of developing a succession pipeline into all levels of senior management.

The Human Resources department was strengthened through the appointment of an Human Resources manager for Starbucks. We also launched dedicated training resources for each international brand.

During the reporting period, we prioritised capacitating executive and senior management with the appropriate skills for business growth. Succession plans are in place and supported by a robust Talent Review process.

Performance and career development

Human Resources recently re-examined our Talent Management policy and procedures. This included formalising performance management and succession planning in the Food Division. An accompanying exercise focused on reviewing whether the Food Division's organisational structure was aligned with Taste's overall business strategy and objectives. This organisational review included a formal job evaluation process, utilising the Paterson Grading system.

Standardising job grading and performance management across the business enables the alignment of job outputs with strategic objectives and targeted outcomes.

Employee relations

When being inducted, new employees are briefed on the group's expectations for their employment. They sign an acknowledgement of receipt for their induction packs, which are continually updated according to amendments or deviations. A disciplinary code is in place to correct any deliberate deviation from standards.

The CEO presents Taste's strategy and results to all employees when our results are released twice a year.

PERFORMANCE REVIEW

HUMAN CAPITAL continued

Taste is developing an effective employee value proposition through rewards, opportunities and career paths. We take pride in diversity, respect, ethics and quality work experiences:

- No issues of discrimination were recorded in the period.
- We did not experience any internal employee relations issues that warrant specific reporting. Employee discipline occurring in this period was well within normal parameters.
- Taste does not presently have collective agreements with any unions, as the majority of our employees have not taken up union membership.
- Key issues, such as health and safety, are discussed in specific internal forums.

LABOUR PRACTICES AND HUMAN RIGHTS DUE DILIGENCE

Return to work and retention rates after parental leave

All new parents are entitled to parental or maternity leave. All employees who went on maternity leave returned to work after the required period.

Labour practices in the supply chain

No instances of illegal labour practices were encountered in our supply chains.

Labour practice grievances in the group

During the reporting period, no grievances regarding labour practices were filed in the Luxury Goods Division, while two sexual harassment grievances were filed in the Food Division.

Security personnel trained in the organisation's human rights policies or procedures

No human rights training has been conducted for security personnel. The group does not employ security personnel at Taste Food Franchising stores.

Total number and percentage of operations that have been subject to human rights reviews

As human rights principles are built into our operations, this is a non-issue.

Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms

None.

Operational changes

The group experienced operational challenges that necessitated four store closures and the retrenchment of 39 employees.

Human capital in our Food Division

Number of employees as at 28 February 2018

	2018	2017
Taste Food Franchising	856	702
Taste Holdings	7	7
Buon Gusto	112	101
Total	975	810

Number of new positions due to corporate store openings

Starbucks	Full-time	Permanent Part-time	Total
Menlyn Park	18	10	28
Brooklyn	12	8	20
Eastgate	6	5	11
Melrose Arch	11	8	19
Florida Road	15	19	34
Gateway	21	19	40
Discovery head office	5	6	11
Total as at end February 2018	88	75	163

PERFORMANCE REVIEW

HUMAN CAPITAL continued

Domino's Pizza	Full-time	Permanent Part-time	Total
Thornhill	10	4	14
Wilrogate	11	2	13
Claremont	14	0	14
Phoenix	20	0	20
Kraaifontein	15	0	15
Cherry Lane	14	0	14
Silverwater	10	1	11
Total as at end February 2018	94	7	101

Training and development

Initial training is provided for our franchisees and their employees prior to a new outlet being opened. Once operational, the outlet receives ongoing training. With each new store opened, we create approximately 10 to 20 new entry-level jobs in the local community.

We also provide specific assistance to franchisees with limited financial skills.

Training provided during the year

More than 90 different training interventions were attended by 635 people during the reporting period. A total of just over 66 000 hours of training was completed by Taste Food employees, which calculates to an average of 68 hours of training for each staff member.

Training was focused on four major areas:

1. Domino's, with specific focus on:

- New Take On training (NTO)
- General Managers in Training (GMiT).

Domino's Pizza managers enter a five-week Galway-Mayo Institute of Technology (GMiT) training programme before being assigned to a store. Store insiders and drivers complete a two-week programme.

Other training included:

- Basic finance for retail operations
- Competency-based interviewing
- First Aid Level 1
- Initiating and chairing a disciplinary hearing
- MIE background screening
- Whistleblowers

Domino's recorded 9 266 training hours for the period.

2. Starbucks, with specific focus on:

- Barista training
- Shift supervisor training
- Retail management training

Other areas of training also included, but were not limited to:

- Initiating and chairing a disciplinary hearing
- Micros training

Total training hours for Starbucks is 54 913 hours.

3. Supply chain – with specific reference to:

- Inventory management
- Warehouse management
- Import management
- Optimising costs and efficiency on outsourced transport
- Sales and operations planning
- Supervisory and management development training
- ISO 22000
- Legislative-related training, eg forklift training.

Buon Gusto recorded 1 901 training hours for the period:

- 90% of Buon Gusto employees received training during the year

PERFORMANCE REVIEW

HUMAN CAPITAL continued

4. General staff development, which included training on:

- Basic finance for retail operations
- Initiating and chairing a disciplinary hearing
- SAGE Introduction to the Sage VIP People Tree

Non-brand training totalled 222 hours.

In addition to the general and brand-specific training, Taste Food Franchising embarked on a one-year National Certificate: Wholesale and Retail Operations (NQF2) learnership for employees, which commenced in July 2017.

This learnership addresses skills and competencies for enabling entry-level employment and positions. We initially focused on baristas for Starbucks, and insiders and drivers for Domino's.

A total of 52 learners have engaged in this learnership:

- Starbucks – 8 previously unemployed, 10 employed
- Buon Gusto – 2 previously unemployed and disabled
- Taste – 1 employed
- Domino's – 6 previously unemployed and disabled, 7 employed, 18 previously unemployed

New employee hires and retention rates

High employee turnover is endemic in the global food and hospitality sector, causing evidently higher costs in recruitment and training. Nevertheless, by imparting valuable industry skills, Taste embraces that we are making a positive contribution to South Africa's overall workforce. Our workforce turnover percentage is misleading due to many leaving our direct employ to be taken up by our franchisees.

We have refined the Changing Lanes programme to become more effective at retaining staff through improved screening and coaching. The 14 people recruited via Khulisa are all still in employment, which indicates a pleasing 100% retention rate. We are also reviewing employee benefits to ensure that high-performance individuals are recognised, rewarded and retained.

Domino's Pizza

Staff turnover is annualised on a monthly basis. This figure is obtained by dividing the number of employees who left the business by the average number of employees for the year. Management turnover dropped by 14% to 40% (2017: 54%). Non-management turnover reduced by 23% to 58% (2017: 81%).

This sharp drop is mainly due to improved management practices and investment in management capacity.

Starbucks

The total Starbucks headcount is made up of permanently employed salaried staff and hourly paid wage earners (students, scholars and vacation workers).

Management turnover at the end of the reporting period dropped by 4% to 12% (2017: 16%). Non-management turnover decreased by 11% to 17% (2017: 28%). Hourly paid wage earner turnover increased by 2% to 83% (2017: 81%).

The total overall employee turnover for Taste Food Franchising has decreased by 4% to a total of 37% (2017: 41%).

Specific strategies for recruitment and selection were introduced to reduce labour turnover and increase overall employee retention.

Health and safety

We have a moral and legal obligation to protect our employees and customers against injuries, diseases and risks to their health and safety. Our health and safety committees hold monthly meetings to address any issues or potential risks.

Taste is committed to providing safe food products to its affiliated franchise restaurants. Our state-of-the-art food distribution centres established in 2015 include high-volume manufacturing facilities that produce spices, sauces, dough pre-mixes and added-value meat products.

Our operations are accredited by the South African Bureau of Standards (SABS) to meet the criteria of the Hazard Analysis and Critical Control Point (HACCP) food safety management system. This system allows us to trace the origin of all our input products.

Percentage of significant product and service categories for which health and safety impacts are assessed for improvement

Taste has adequate controls in place from the supplier of the ingredients right through to the final product served to the customer. We conduct supplier audits and test ingredients to ensure that they meet our required standards. Regular audits are conducted in our corporate and franchise stores to ensure quality compliance. With a comprehensive supplier quality assurance programme implemented, the team ensures supplier food safety is in place through food monitoring programmes. Domino's suppliers need to be HACCP-certified, Starbucks suppliers require FSS22000-certification and suppliers for local brands are GFSI Level B-compliant. Supplier quality and food safety play an essential part in ongoing review processes with suppliers.

Distribution facilities are compliant Starbucks and Domino's guidelines and audited to these guidelines on an annual basis. Distribution centres are on the road to ISO 22000 certification in 2018.

Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their lifecycle

Food products are strictly regulated for health and safety. No incidents of non-compliance or illness were reported.

PERFORMANCE REVIEW

HUMAN CAPITAL continued

Our delivery vehicles are monitored in real time and we receive alerts if the cold chain is broken. We apply benchmark hygiene principles throughout our manufacturing process and our food technologist ensures that all our products comply with specifications before despatch. We have layered food safety systems that are all considered high priority.

Health and safety training

Taste employees are trained in:

- food-handling procedures;
- food sampling;
- health and safety workshops;
- machine-handling procedures;
- first aid;
- HACCP;
- ISO 22000;
- occupational health and safety;
- personal hygiene;
- QASA health and safety representative training;
- forklift operation;
- pest control;
- standard operating procedures;
- fire fighting;
- hazard identification and risk analysis (HIRA) training;
- temperature monitoring and control (both crucial in controlling product quality);
- food factory hygiene;
- electrode boiler operation;
- critical control points (CCPs) training; and
- spectank training for all employees in basic chemical usage, dilutions, chemical safety, basic hygiene and hand washing.

Safety performance

Safety committees are operational at all distribution sites. During the reporting period, 23 claims for injuries on duty were received by the Corporate Industrial and Risk Consultants (CIRC) compensation fund. Most of these injuries (78%) were related to motor vehicle accidents.

Most incidents were evidently due to misfortune rather than risks intrinsic to our operations. Taste is in the process of developing a unified group database for health and safety information and planning.

Human capital In our Luxury Goods Division

The division's human capital resources can be viewed as follows:

Luxury Goods Division	Male	Female	Total
NWJ	73	188	261
Arthur Kaplan	51	47	98
	124	235	359

Our workforce includes 101 employees aged between 18 and 29 who qualify for South Africa's employee tax incentive. We utilise part-time 102 employees for seasonal and weekend work.

Training and development

NWJ

Franchisees and their employees undergo specific training before a new store is opened, followed by ongoing training to ensure they remain updated with operational requirements.

Early morning training is conducted once a week at all NWJ outlets to improve product knowledge, enhance customer service and reinforce store policies and procedures. Employees are tested weekly and achieved an average of 94% for the year. These scores are monitored and audited by area managers.

Induction processes into NWJ impart customer service skills and outline NWJ's credit offerings, including the six-month interest-free account.

One employee completed an NQF Level 5 – General Store Management learnership at the Durban University of Technology and two employees completed the NQF Level 5 learnerships for buying and planning skills.

A further two employees graduated from the Retail Management Development Programme set up in conjunction with the Wholesale and Retail SETA and the University of Pretoria.

PERFORMANCE REVIEW

HUMAN CAPITAL *continued*

Arthur Kaplan

Our induction programme for new employees is aimed at embedding and aligning best practices throughout the Arthur Kaplan business.

Arthur Kaplan training initiatives are facilitated by operational management and suppliers to improve product knowledge, enhance customer service and reinforce store policies and procedures. Store managers conduct role plays or written tests to ensure personnel can effectively promote new merchandise to their customers.

Employee evaluations are used to identify skill and performance gaps, which are addressed through skills programmes conducted by outsourced specialists. We also send employees on diamond-grading courses to enhance their product knowledge and customer service.

We conducted a team-building exercise during the year to ensure shared goals and objectives throughout Arthur Kaplan.

Recruitment, retention and scarce skills

NWJ

We focused heavily on recruiting employees from underrepresented groups as outlined in Taste's Employment Equity (EE) plan. All but one of our 56 new employees during the period were from underrepresented groups.

NWJ encourages internal applications for vacancies, which has worked exceptionally well at store level. Casual employees can be developed into permanent positions and high-potential employees are promoted to store management roles.

NWJ prioritises succession planning and skills transfer within critical roles, which supports our drive to meet employment equity targets.

NWJ has an EE committee comprising 16 staff members drawn from across six occupational levels.

Arthur Kaplan

Arthur Kaplan offered employment to 47 new employees, of whom 13 employees were from underrepresented groups. Arthur Kaplan's EE committee comprises six employees from four occupational levels.

Employment equity is prioritised, and a detailed EE plan is being developed.

Health and safety

NWJ

We have a moral and legal obligation to protect our employees and customers against injury, disease and other risks. Our health and safety committees hold monthly meetings to address potential risks and issues.

NWJ's joint management-worker health and safety committee comprises 12 members.

Arthur Kaplan

A health and safety manager was appointed and participated in a health and safety training programme to enforce compliance and address potential risks and issues.

Safety performance

During the period under review, two injuries on duty were recorded by NWJ (2017: one) and no incidents were reported by Arthur Kaplan. No incidents of non-compliance were reported. These incidents were due to unfortunate mishaps rather than intrinsic risks.

Although not formally defined as injuries on duty (IOD), the effects of robberies can impact employees, who may require trauma counselling, anxiety treatment and recovery time.

PERFORMANCE REVIEW

INTELLECTUAL CAPITAL

HIGHLIGHTS

- Improved customer analysis
- Implemented the Starbucks loyalty programme
- Significantly expanded executive team
- Taste's IT systems audited in terms of ISO 2700 and 2701 standards

Intellectual competencies

Taste is driven through a competency framework of skills and experience that underpins each level across specific brands. Head office provides group direction and shared services across universal (common) functions.

Although each brand appeals to its own target market group, Taste applies a cascading strategy across all its integrated brands. Each brand benefits from the group's strong competency framework, which includes:

- identifying and acquiring appropriate real estate;
- hiring and training staff;
- IT systems;
- merchandising;
- procurement;
- distribution; and
- manufacturing.

Learnings from global brands

Global brands develop best practices that can be adopted by Taste's local brands.

Global brands analyse sales and marketing data differently to our traditional approach. We have amended our customer analysis accordingly.

Domino's Pizza and Starbucks have sophisticated and proven customer loyalty programmes, which Taste has introduced locally. Based on what has been learned from these, the group can create loyalty programmes for our local brands.

Starbucks license intellectual gains

- Access to global best practices, operations and new products
- Launching the world's largest loyalty programme in South Africa
- Improved standards in our supply chain
- Stronger focus on sustainability practices
- Unique approach to mitigating unemployment

Curating internal knowledge

Intellectual capital dovetails with human capital through employee competence, skills, training and development, which includes knowledge of work procedures, work ethics and values, and experience.

In recent years, Taste has assembled a proficient executive team with considerable experience. This team was significantly expanded following the Starbucks agreement to bring in executives responsible for:

- human resources;
- new property;
- new product development;
- safety; and
- IT.

Technology development

Taste's highly skilled IT team built an e-commerce platform for Domino's Pizza in South Africa. This online ordering system was launched in October 2015 and has delivered above-budgeted returns.

The entire Starbucks digital platform was launched in South Africa in late 2016. Customers can transact through their mobile phones and have access to a rewards programme.

PERFORMANCE REVIEW

INTELLECTUAL CAPITAL continued

Taste's IT department had to embed two widely differing brand platforms. Domino's offers a mature operational system with deep insight into running calls and stores. Starbucks supports strong people philosophy and communicates clearly with operators and customers. Each brand offers specific strengths that can be carried across to other operations.

Taste's IT capability is a shared service. Group policy is to make technology as user friendly as possible for our stores and customers.

Although online ordering is certainly causing a shift in customer behaviour, we remain mindful that the customer "walk in" experience must not be diminished by online ordering volumes.

Implementing the Starbucks loyalty programme was one of the biggest projects that Taste's IT department has undertaken to date. It was the first time we built systems from the ground up, at scale. This process entailed coordinating with three service providers around the world and was an invaluable learning experience. We continue gaining IT insights by participating in a global Starbucks forum in which about 20 markets share IT knowledge.

IT capital expenditure

Behind our customer interfaces, Taste is an increasingly technology-driven business. We will continue spending on IT as we constantly look for ways to streamline systems for our customers and stores, while looking out for simple and secure payment systems. Taste is increasingly investing in automating store administration and various processes to lower operating costs.

Business intelligence is maturing as a key function and Taste is developing an overarching enterprise data store to provide a single data source of data for management and operational decision-making.

IT governance

Taste's IT is audited in terms of ISO 2700 and 2701 standards and we report regularly to the board on IT strategy. In this reporting period, the group's external auditors performed a detailed audit on core IT systems and controls. We also commissioned online security specialists to test our systems for vulnerabilities.

Cybersecurity is becoming increasingly important and Taste is audited by Starbucks and Domino's Pizza. With public-facing brands and thousands of transactions happening every day, Taste is well aware that we are a prime target for cybercrime.

Taste is fully prepared for the implementation of the Protection of Personal Information (POPI) Act.

Brands and reputation

Taste intends growing into the preferred vertically integrated franchisor and licensee in Africa.

Having founded our own brands, Taste knows how to build brands across multiple customer segments. We are also proving to be exemplary licensees of global brands.

Taste Food and Luxury Goods brands are aimed at customers across most market segments in South Africa. Taste's development team is adept in identifying the optimum locations for new stores. By owning many of our own stores, we remain closely attuned to franchisee requirements and pressures.

Taste's licensing of international brands has given us access to world best practices in disciplines such as marketing, customer analysis, online ordering, loyalty programmes and supply chain logistics.

PERFORMANCE REVIEW

NATURAL CAPITAL

HIGHLIGHTS

- Started recycling Starbucks espresso pods
- Till slips at Starbucks only printed on request
- Collaborating with Starbucks International to find environmentally friendly drinking straws for implementation in 2018
- Buon Gusto and Domino's are implementing test case electricity metering at selected Domino's stores to begin establishing baseline energy measurements. Starbucks will commence a similar process towards the end of 2018
- Buon Gusto continued donating safe and unexpired food to Food Bank South Africa to feed their beneficiary organisations

Becoming more energy efficient

Taste's most material impact on natural capital is our consumption of energy, in the form of electricity used to power our stores, prepare food and manufacture jewellery, as well as the fuel consumed by our fleet of vehicles. We are working to reduce the greenhouse gas emissions resulting from our coal-powered electricity consumption.

Fuel and electricity prices continued rising above the rate of inflation, with the prospect of sharper rises in the next few years. Reducing our energy consumption is a priority, for environmental and cost-control concerns.

All new Taste outlets are designed and equipped for energy efficiency, while existing stores are retro-fitted during conversions or renovations to reduce energy consumption.

We introduced vehicle refuelling at contracted suppliers to enhance fuel consumption monitoring, while improved trip planning has significantly reduced fleet movements.

Water

Municipal water supplies are Taste's only source of water. The bulk of our water is utilised in the production of our menus and inventories, with the remainder required for hygiene purposes.

Recycled input materials

Currently, recycling of input materials is not specifically tracked but elements of our inputs, such as packaging, are made of recycled materials. Our Starbucks partnership will enable best practices for reducing waste, increasing recycling and promoting reusable cups.

During the reporting period, no significant environmental grievances, fines or sanctions were received.

The Starbucks sustainability gain

Managing Taste's environmental impacts requires our businesses to collaborate on processing and monitoring of environmental inputs and outputs. Starbucks is recognised as a world leader in sustainability practices:

- Since 2004, Starbucks has implemented strategies to address climate change and help farmers mitigate its impacts.
- Starbucks is upgrading select stores to LEED® building standards, which ensures that the approach to designing, building and maintaining stores is inclusive of a range of environmental goals.
- Starbucks works constantly on embedding recycling practices such as promoting reusable cups and reducing packaging waste.
- Renewable energy credits are enabled through conserving store energy and water usage.
- Starbucks helps provide access to clean water in coffee-growing communities while reducing impacts on their environments.

Taste's partnership with Starbucks helps us manage sustainability issues without reinventing a process that Starbucks has exhaustively prepared. Starbucks standard practices provide a lens through which we can reduce our environmental impacts by revisiting all aspects of our business and how these can be mitigated. Our learnings will be shared with our suppliers and franchisees to help spread positive changes wider.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS – NON-EXECUTIVE DIRECTORS

GRANT MICHAEL PATTISON (47)

BSc Eng Elec

Independent Non-executive Chairman
Chairman of nominations committee
Member of the social, ethics and transformation committee
Appointed: March 2014

Grant is currently Chief Executive Officer of Edcon, South Africa's largest non-food retailer. He also sits on the boards of various private companies. Prior to establishing Gpam Proprietary Limited in October 2014, he was with South African retailer Massmart Holdings Limited for 17 years, the last seven of which as Chief Executive Officer.

Grant graduated from the University of Cape Town in 1992 with a first class BSc Honours degree in Heavy Current Electrical Engineering.

NEIL GRANT BRIMACOMBE (54)

BCom (Hons), MBL

Chairman of the remuneration committee
Member of the audit and risk committee
Member of the nominations committee
Member of the social, ethics and transformation committee
Appointed: January 2018

Neil is a veteran of 29 years' experience in FMCG having worked across Europe, Latin America and Africa in various strategic and operational roles. He commenced his career with Unilever as a graduate trainee, moving through various marketing and sales positions before ending up as Laundry Category head for the Africa business group. During this period Neil was a member of the Global Laundry business team and worked extensively across Africa, Latin America and Western Europe on various projects. He moved to Tiger Brands Limited in 1999 as Marketing Director of the Tiger Brands confectionery interests (Beacon Sweets & Chocolates) and thereafter was appointed Managing Director in 2001.

Neil's portfolio was further expanded to include Beverages, Dairy and Value Added meats, and he was subsequently appointed to the Tiger Brands executive committee in 2005 and then as an executive director to the Tiger Brands Limited board in 2008. Neil was Chairman of Tiger Brands Cameroon, as well as serving as a non-executive board member of Tiger Brands operations in Zimbabwe, Ethiopia, Kenya, and the United Africa Company ("UAC") of Nigeria. He also served as a board member of the Chilean food company, Empresas Carozzi for eight years. His last role within Tiger Brands before resigning to pursue a career opportunity in the Management Consulting and Strategic advisory space, was Business Executive of Tiger Brands International, having executive responsibility for its operations in Cameroon, Ethiopia, Kenya, Zimbabwe, UAC Nigeria, as well as executive responsibility for Tiger Brands exports, Langeberg and Ashton (Deciduous fruit canning), as well as having SA domestic responsibility for its Home, Personal and Babycare businesses.

LEO CHOU (37)

BCom

Member of the remuneration committee
Member of the audit and risk committee
Appointed: January 2018

Leo is the executive chairman of Sygma Investment & Consulting Proprietary Limited, a private investment company based in Cape Town with holdings in international brand distribution, retail, niche logistics and investments in marketable securities and treasury management.

Leo previously served as Chairman and CEO of Snowball Wealth, a privately held investment company, which was sold to Conduit Capital Limited. Leo obtained a Bachelor of Commerce degree from the University of South Africa. He currently serves as a non-executive director of Conduit Capital Limited.

CORPORATE GOVERNANCE continued

BOARD OF DIRECTORS – NON-EXECUTIVE DIRECTORS

NONZUKISO (ZUKIE) SIYOTULA (34)

CA(SA), BAC, MBA

Chairman of the audit and risk committee
Member of the remuneration and nominations committees
Member of the social, ethics and transformation committee
Appointed: January 2018

Zukie was previously the Chief Executive Officer for Thebe Capital. She has previously held senior roles at Barclays and Old Mutual. She serves on a number of boards, including Growthpoint Properties, African Phoenix Investments and Stangen. She previously served on the boards of Shell SA, Safripol, Altech Netstar, Vodacom, Combined Motor Holdings, Compass Group, JLT Insurance, Thebe Unico and Thebe Energy. She has diverse professional experience in areas such as finance, mergers and acquisitions, corporate governance, strategy, restructuring, investment management, business development, sales and distribution.

Zukie is a chartered accountant (SA) and a chartered management accountant (UK), who was ranked top student in South Africa on completion. She holds a Bachelor of Accountancy degree from Witwatersrand University and an MBA from the Gordon Institute of Business Science. She has completed executive programmes from Harvard, Insead and Oxford and won many industry awards.

ADRIAN JOHN MAIZEY (44)

MBA, BBA, CPA

Chairman of the social, ethics and transformation committee
Member of the remuneration and nominations committees
Appointed: January 2018

Adrian is a partner at Protea Asset Management LLC, a private investment adviser based in the United States. He has extensive experience in managing investment partnerships focused on controlling ownership stakes in both private and public companies. Adrian is responsible for sourcing capital and investment opportunities, providing guidance to portfolio companies, evaluating and monitoring investments, and is also responsible for Protea's financial, legal, regulatory, marketing and tax activities. Before joining Protea, Adrian was Chief Operating Officer and Chief Compliance Officer of Leonard Green & Partners, LP, a leading Los Angeles-based private equity firm known for partnering with experienced management teams and founders to invest in market-leading companies, including in the restaurant, retail, luxury goods, and consumer services sectors. Prior to that, he was a partner at Redbird Capital Partners LLC, a New York City-based private equity firm. Adrian also formerly held the positions of Chief Financial Officer and Chief Compliance Officer of ESL Investments, Inc., a value investment fund well-known for its investments in the retail sector, and he was the CEO and founder of Rand Group, LLC which provided a full spectrum of support and advisory services to investment partnerships. Adrian was Chief Financial Officer of MotherRock LP, an energy derivatives investment partnership. Prior to that, Adrian spent a decade with Deloitte & Touche LLP, serving primarily the investment management and energy industries as a management consultant and member of Deloitte's Financial Advisory Services, Corporate Finance and Energy Trading Risk management practices. Adrian holds an MBA from Harvard Business School (2003), a bachelor of Business Administration degree with distinction (accounting major) from the University of Nebraska (1996), and attended the University of Pretoria in 1992. Adrian is a Certified public accountant and currently serves as a non-executive director of Conduit Capital Limited, a JSE-listed investment holding company.

CORPORATE GOVERNANCE continued

BOARD OF DIRECTORS – EXECUTIVE DIRECTORS

TYRONE MOODLEY (32)

BCom

Chief Executive Officer
 Chairman of the executive and investment committee
 Member of the remuneration and nominations committees
 Member of the social, ethics and transformation committee
 Appointed: October 2016

Tyrone is a co-founder of Midbrook Lane Proprietary Limited (“Midbrook”), a private investment company and is Senior Adviser to Protea Asset Management LLC, an investment adviser based in the United States. His career began at Sasfin Securities before leaving to start at Midbrook.

Tyrone obtained a Bachelor of Commerce degree from the University of Johannesburg. He is also a non-executive director of Constantia Insurance Company Limited, Constantia Life & Health Assurance Company Limited and Constantia Life Limited. Tyrone was appointed as a board member at Taste Holdings in October 2016 and as CEO for Taste Holdings in February 2018.

EVANGELOS (EVAN) TSATSAROLAKIS (43)

CA(SA)

Chief Financial Officer
 Member of the executive and investment committee
 Member of the social, ethics and transformation committee
 Resigned: 21 May 2018

Evan qualified as a chartered accountant in 2001 after completing his articles with PricewaterhouseCoopers. He left PwC and spent seven years with the JSE-listed Spur Group where he gained extensive experience within the food franchising industry, having been exposed to the financial, operational and supply chain aspects of the business. He then served as Financial Director within a logistics group of companies.

Evan joined Taste Holdings in April 2009 and was appointed to the board in September 2009 as Chief Financial Officer. Evan acts in a non-executive capacity to the management boards of the Food and Luxury Goods divisions and is a member of the executive committee.

DUNCAN JOHN CROSSON (52)

BCompt (Hons)

Chief Executive Officer – Luxury Goods Division
 Member of the executive and investment committee
 Appointed: November 2000

Duncan obtained his BCompt (Hons) while serving articles with Morrison Murray in Durban. Duncan gained valuable experience in a manufacturing and distribution environment servicing the retail and fast-moving consumer goods industry. Duncan progressed to Chief Financial Officer and shareholder of the group of companies. Duncan joined Scooters Pizza in 2000 and has been a member of the board of directors of Scooters Pizza since 2001 and Taste Holdings since inception. Duncan was appointed Chief Operating Officer of NWJ Fine Jewellery in September 2009 and, subsequently, Chief Executive Officer in April 2010. Following the acquisition of Arthur Kaplan in December 2014, Duncan was appointed Chief Executive Officer of the Taste Holdings Luxury Goods Division. Duncan was appointed to the board of the Jewellery Council of South Africa in April 2011 and has served on the Jewellery Council’s executive committee from February 2012 to 2014. Duncan has been instrumental in the successful management and control of the significant growth of the group over the past 18 years. Duncan is a member of the executive committee and chairs the Luxury Goods Division management committee.

DYLAN PIENAAR (37)

BCompt Hons (UCT), CA (SA), ACMA, CGMA

Chief Operations Officer – Taste Food Division
 Interim Chief Financial Officer
 Member of the executive and investment committee
 Appointed: March 2018

Dylan is a qualified chartered accountant and a member of the Chartered Institute of the Management Accountants (United Kingdom). Prior to joining Taste Holdings, Dylan spent 10 years at Grand Parade Investments Limited (GPI) predominantly as their CFO and more recently as the CEO of their food division. At GPI, Dylan was part of the executive team that acquired and launched a number of international food brands in South Africa, most notably Burger King and Dunkin Donuts.

CORPORATE GOVERNANCE continued

How we govern our business

Our approach to governance

Taste Holdings believes that good corporate governance, which includes transparency and accountability, is key to the integrity of our organisation and our ability to manage risk and perform at optimum levels.

Underpinning our disciplined approach to governance is our determination to ensure we maintain a balance between good governance and the spirit of entrepreneurship that has built our business.

We recognise that strategy, performance, sustainability and risk are inseparable. Our board also takes into consideration the concerns and priorities of our wider stakeholder environment in its strategic guidance and decision-making process.

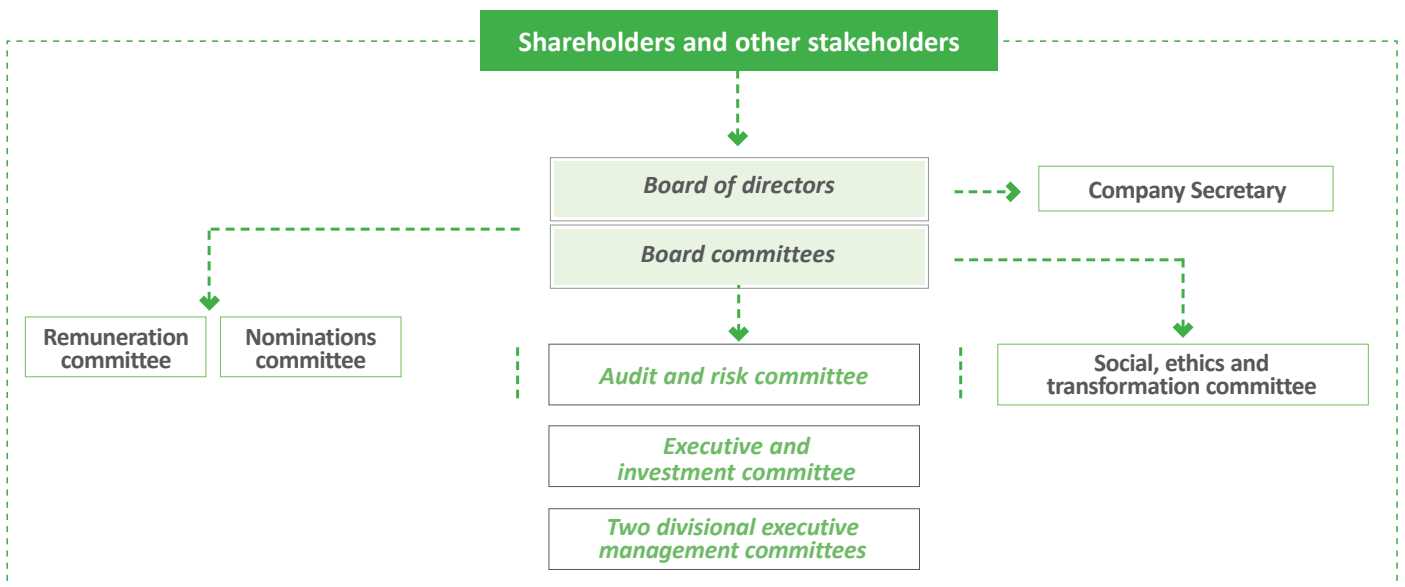
To ensure that we consistently practise effective corporate governance throughout the Taste Holdings group, our board materially applies the principles of The King IV Report on Corporate Governance for South Africa, 2016 (King IV) and the Listings Requirements of the JSE Limited (JSE Listings Requirements) (see the King IV Register Index and our reporting in terms of section 3.84 of the JSE Listings Requirements on our website www.tasteholdings.co.za, under corporate governance section).

Statement of compliance

JSE Limited

The company is subject to, and remains compliant with, the JSE Listings Requirements.

Our board governance structure



Governance and management systems

Good governance is the cornerstone of the Taste Holdings group’s board and committee structure. Our board recognises its leadership role in taking responsibility for the governance of the group and it sets the company’s values and is responsible for establishing and maintaining a strong ethical culture throughout the group.

Our board performs its governance responsibilities within a framework of policies and controls which provide for effective risk assessment and management of our economic, environmental and social performance. The board’s responsibilities are outlined in its charter which the board reviews and adopts annually. Mandates, charters and terms of reference governing the board and its committees are available from our Company Secretary. The board also plays an important role in setting ethical standards of conduct for the group.

The board charter, which is closely aligned with the recommendations of King IV, details the responsibilities and duties of the board, which are also addressed in our memorandum of incorporation.

Shareholders are required to elect the members of our audit and risk committee, which is a statutory committee in terms of the Companies Act, at our annual general meeting. The members of our social, ethics and transformation committee, which is also a statutory committee, are reappointed annually by the board.

The board of directors

Meets a minimum of three times a year and met five times in 2017/2018. It also convenes additional meetings as necessary.

As at the reporting date, the board comprised five non-executive directors, four of which are independent, and three executive directors. The chairman is an independent non-executive director.

CORPORATE GOVERNANCE continued

The chairperson ensures the overall effectiveness of the board and its committees; that the board provides effective leadership, maintains ethical standards and is responsible, accountable, fair and transparent; and that strategies are developed and implemented with the objective of achieving sustainable economic, social and environmental performance.

To achieve this, he encourages constructive debate and discussion within the board through a culture of openness and constructive challenge. He makes himself available to shareholders for discussion on corporate governance matters and matters of concern.

Board members are accountable to shareholders and they owe a duty of care and diligence to the company. They act in the best interests of the company and its shareholders. To fulfil their role, board members participate in rigorous and constructive debate and discussion.

The board is responsible for:

- strategy, strategic decision-making and execution;
- governing the company on behalf of its shareholders;
- engaging with stakeholders;
- Taste Holdings' approach to corporate citizenship, safety, health, the environment, ethics and risk;
- its own governance, including the rotation of directors, training of directors, conflicts of interest and the appointment of directors;
- monitoring and assessing Taste Holdings' reputation in the marketplace; and
- establishing the framework within which capital is allocated.

The directors' attendance at the board meetings for the year under review was as follows:

BOARD	18 May 2017	15 June 2017	2 Aug 2017	9 Oct 2017	1 Feb 2018 Telecon
GM Pattison (<i>Chair</i>) ind NED	✓	✓	✓	✓	✓
TC Moodley (<i>non-executive until 12 February 2018 then executive</i>)	✓	✓	✓	✓	✓
A Berman ^{2*}	✓	✓	✓	✓	✓
CF Gonzaga ^{1**}	✓	✓	✓	✓	✓
DJ Crosson ^{**}	✓	✓	✓	✓	✓
E Tsatsarolakis ^{3**}	✓	✓	✓	✓	✓
KM Utian ^{2*}	✓	✓	✓	✓	
WP van der Merwe ^{2*}	✓	✓	✓	✓	
HR Rabinowitz ^{2*}	✓	✓	A	✓	

¹ Resigned 12 February 2018.

² Resigned 29 January 2018.

³ Resigned 31 May 2018.

* Non-executive director.

** Executive director.

Audit and risk committee

This committee meets a minimum of three times a year with special meetings called as and when required. The committee also meets with the group's external auditors and Taste Holdings' executive management periodically.

It comprises three independent non-executive directors. The CEO and CFO, who attend meetings by invitation and do not have a vote. The chairman of the board is not a member of the committee as from 29 January 2018.

The external auditor also attends meetings by invitation.

The audit and risk committee ensures that appropriate checks and balances are in place to ensure robust, independent and efficient audit processes and that financial reporting throughout the group is accurate and reliable. The audit and risk committee has updated, formal board approved terms of reference. The board is satisfied that the committee has complied with these terms and with its legal and regulatory responsibilities as set out in the Companies Act, King IV and the JSE Listings Requirements. The terms of reference for the audit and risk committee intend to ensure compliance with both governance recommendations and statutory requirements.

The board believes that the members collectively possess the knowledge and experience to exercise oversight of the company's financial management, external auditors, the quality of the company's financial controls, the preparation and evaluation of the company's financial statements and financial reporting. The board has established and maintains internal controls and procedures, which are reviewed on a regular basis. These are designed to manage the risk of business failures and to provide reasonable assurance against such failures, but this is not a guarantee that such risks are eliminated.

The statutory report of the committee can be found on page 54 and the risk management report is on page 7.

The audit committee:

- reviews and oversees Taste's integrated reporting;
- reviews and monitors its system of internal controls;
- reviews the findings of the external auditors, and once our internal audit function is established, will review its findings and oversee the internal audit function;
- obtains external assurance on the financial statements included in Taste's integrated annual report and recommends them to the board for approval;

CORPORATE GOVERNANCE continued

- carries out its statutory duties set out in section 90 of the Companies Act;
- satisfies itself as to the expertise and experience of the group's financial director and its financial function. During the financial year under review, the committee agreed to an action plan for areas of the group where financial skills and/or procedures are considered inadequate;
- satisfies itself that management regularly monitors the group's compliance with the Franchise Association's code of conduct;
- assists the board with its responsibility for IT governance by ensuring that the group manages its information assets effectively, that an IT governance framework is in place and that management is implementing the framework; and
- monitors and evaluates significant IT investment and expenditure, if and when necessary.

The risk committee:

- considers risk in its widest sense;
- identifies and assesses all risks, their impact and the probability of them occurring;
- monitors the perceived effectiveness of the group's existing controls and systems and assesses their integrity;
- ensures the company's risk policies and strategies are effective and effectively managed;
- establishes and maintains a common understanding of the body of risks that need to be addressed if the company is to achieve its corporate objectives;
- reviews and confirms the company's levels of risk tolerance and its risk profile at least twice a year;
- coordinates the group's risk management efforts, reviews the results and ensures appropriate action is taken;
- monitors external development relating to corporate accountability, including emerging and prospective risks and opportunities; and
- reviews and discusses the group risk register, which is aggregated from the risk registers prepared by the risk officers of the company.

In February 2018, the audit and risk committee formally evaluated the performance and effectiveness of the external auditor in terms of King IV and the JSE Listings Requirements.

It confirmed the suitability and effectiveness of the external auditor and nominated Grant Thornton for reappointment as external auditor for the 2019 financial year, having satisfied itself that the company and its individual auditor are properly accredited and independent. The appointment is to be ratified by shareholders at the upcoming annual general meeting. Grant Thornton replaced BDO South Africa Incorporated during the year. The appointment will allow the company to maintain a top quality auditor while achieving its objective of reducing costs.

The committee also determines and carefully monitors the use of the external auditor for non-audit-related services. The formal policy in place precludes the auditor from providing services that could impair audit independence.

The members' attendance at the committee meetings for the year under review was as follows:

AUDIT AND RISK COMMITTEE	17 May 2017	9 Oct 2017	21 Feb 2018
A Berman (Chair)*	✓	✓	
WP van der Merwe*	✓	✓	
GM Pattison*	✓	✓	
N Siyotula (Chair)**			✓
NG Brimacombe**			✓
L Chou**			✓

* Resigned 29 January 2018.

** Appointed 29 January 2018.

Remuneration committee

The remuneration committee met once during the period under review and convenes additional meetings as necessary.

At the date of reporting, the committee comprised of three independent non-executive directors and one non-executive director. Mr GM Pattison resigned as a member of the committee on the 29 January 2018. The CEO attends portions of these meetings by invitation. He does not have a vote, nor does he participate in discussion regarding his remuneration. External remuneration specialist companies are requested to present to the remuneration committee as required.

Details of directors' fees and remuneration are fully disclosed in the financial statements. In addition, the proposed fees to be paid to non-executive directors for approval by shareholders by way of a special resolution are set out in the notice of the annual general meeting.

Non-executive directors only receive remuneration that is due to them as members of the board. Directors serving as members on board committees receive additional remuneration. Remuneration of executive directors in their capacities as executive members of the management team, as approved by the committee, is fully disclosed in the consolidated financial statements. The committee invites executives and senior managers of the group to attend meetings when needed in order to perform its mandate.

Remuneration responsibilities include:

- approving, guiding and influencing human resource policies and strategies;
- ensuring appropriate transparent disclosure of remuneration;
- skills development;
- recommending appropriate levels of remuneration to be paid to the members of the board;
- upholding, reviewing and amending, if appropriate, the company's remuneration philosophy and policy, with particular reference to the remuneration of executive directors and senior management;

CORPORATE GOVERNANCE continued

- ensuring that executive directors and senior management are fairly rewarded for their individual contributions to the company's overall performance, having regard to the interests of stakeholders and the financial condition of the group;
- approving remuneration packages to attract, retain and motivate high-performing executive directors and senior management; and
- benchmarking remuneration against competitor companies and third-party salary surveys.

The members' attendance at the committee meetings for the year under review was as follows:

REMUNERATION COMMITTEE	18 May 2017	21 Feb 2018
WP van der Merwe (Chair)*	✓	
GM Pattison*	✓	
KM Utian*	✓	
NG Brimacombe (Chair)**		✓
N Siyotula**		✓
L Chou**		✓
AJ Maizey**		✓

* Resigned 29 January 2018.

** Appointed 29 January 2018.

Nominations committee

The nominations committee met once during the period under review and convenes additional meetings as necessary.

- The chairperson of the board is the chairperson of the nominations committee, as required by the JSE Listings Requirements.

Nominations responsibilities include:

- setting the criteria for board nominations and ensuring the appointment of directors is transparent;
- identifying, evaluating and recommending suitable candidates for appointment to the board;
- succession planning;
- ensuring Taste Holdings' leadership is representative of all race groups and is in accordance with the spirit and targets set by the DTI codes of good practice;
- the board has adopted a formalised policy on the promotion of race and gender diversity at board level; and
- ensuring directors retire and are re-elected in accordance with the company's memorandum of incorporation.

The members' attendance at the committee meetings for the year under review was as follows:

NOMINATIONS COMMITTEE	21 Feb 2018
GM Pattison (Chair)	✓
NG Brimacombe**	✓
N Siyotula**	✓
AJ Maizey**	✓

** Appointed 29 January 2018.

Social, ethics and transformation committee

Taste Holdings established a social, ethics and transformation committee in accordance with the requirements of the Companies Act. The committee met twice during the period under review. This committee executes the duties assigned to it by the Companies Act, as well as any additional duties assigned to it by the board of directors. Although management is tasked with the day-to-day operational sustainability of their respective areas of business, the board remains ultimately responsible for group sustainability and has delegated certain duties in this regard to the social, ethics and transformation committee.

A formal charter has been adopted which guides the committee in ensuring that the group conducts its business in an ethical and properly governed manner of reviewing or developing policies, governance structures and practices for sustainability.

Management reports to the committee on matters relevant to its deliberations, and the committee in turn draws relevant matters to the attention of the board and reports on them to the shareholders at the annual general meeting. Mechanisms to encourage ethical behaviour, such as the code of ethics, corporate citizenship policies and the whistle-blower hotline, were confirmed as adequate by the committee in the year. No human rights incidents were reported during the year. In South Africa, aspects such as prohibition of child labour, forced compulsory labour and discriminatory practices are monitored by the Department of Labour in addition to the committee.

The primary role of the committee is to supplement, support, advise and provide guidance on the effectiveness or otherwise of management's efforts in respect of social, ethics and sustainable development-related matters which include:

- embedding an ethical culture;
- safety, health and wellness;
- socio-economic development;
- human resource development;
- employment equity and transformation;
- the group's empowerment credentials;
- the group's corporate social responsibility;
- protection of company assets; and
- stakeholder engagement.

CORPORATE GOVERNANCE continued

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE	30 March 2017	21 Feb 2018
GM Pattison (Chair)*	✓	✓
E Tsatsarolakis*	✓	✓
T Doorasamy	A	✓
AJ Maizey (Chair)**		✓
N Siyotula**		✓

* Resigned 21 February 2018.

** Appointed 29 January 2018.

A Apology

Executive and investment committee

Given recent changes to management, this committee needs to be reconstituted with the intention of meeting monthly or as often as required to review detailed operating performance of the company and assess capital allocation proposals in line with the board's mandate.

As at the reporting date, the committee comprises three executive directors and the group commercial executive, by invitation. The group CEO is the chairperson and the group CFO the deputy chairperson.

The executive committee comprises the group's executive directors. It is responsible for the daily running of the group and regularly reviews current operations in detail and develops strategy and policy proposals for submission to the board.

The CEO liaises on a regular basis with the CFO and other directors, with regard to matters concerning the daily running of the group to be raised at the committee meetings. The executive committee meets at least once a month, assists the CEO with the performance of his duties, and is responsible for, inter alia:

- developing strategy, operational plans, policies, procedures and budgets for consideration by the board;
- implementing the group's strategy;
- carrying out the board's mandates and directives;
- the operational activities of the Taste Holdings group;
- monitoring operational and financial performance against set objectives ;
- executing Taste Holdings' compliance and disclosure obligations; and
- deciding on capital allocation across the group, including replacement and investment capital, based on proposals submitted by the divisions in terms of the board-agreed investment mandate.

Company Secretary

The group's Company Secretary is responsible for administering the proceedings and affairs of the directorate, the company and, where appropriate, owners of securities in the company, in accordance with the relevant laws. The Company Secretary is available to assist all our directors with advice on their responsibilities, their professional development and any other relevant assistance they may require.

iThemba Governance and Statutory Solutions Proprietary Limited (iThemba), represented by Claire Middlemiss, is appointed as the Company Secretary of Taste Holdings. Neither iThemba nor Claire Middlemiss are directors or shareholders of Taste Holdings, or any of its subsidiaries. On that basis, the board is comfortable that both the shareholders and directors of iThemba and Claire Middlemiss have maintained an independent relationship with the executive team, the board and the individual directors in terms of section 3.84(j) of the JSE Listings Requirements.

The board has unlimited access to the Company Secretary, who advises the board and its committees on issues, including compliance with group policies and procedures, statutory regulations and relevant governance principles and recommendations. The Company Secretary attends board and committee meetings to ensure that comprehensive minutes of meetings are recorded. The Company Secretary maintains an arm's length relationship with the executive team, the board and the individual directors.

The Company Secretary has provided the board with documentary evidence of her levels of competence in terms of fulfilling her responsibilities as Company Secretary, which included her qualifications and experience.

Claire Middlemiss has over 16 years' experience as Company Secretary of listed companies and has a FCIS qualification. She is a member of the Southern African Institute of Chartered Secretaries and Administrators. She has never been censured by the JSE, penalised or fined for any misconduct. The board, having assessed her abilities based on her qualifications, experience and the level of competence she has demonstrated as Taste Holdings' Company Secretary as required in terms of section of 3.84(i) of the JSE Listings Requirements, agreed that Claire Middlemiss is sufficiently qualified, competent and experienced to act as Taste Holdings' Company Secretary. Our policies and terms of reference are available through the Company Secretary.

CORPORATE GOVERNANCE continued

Reporting in terms of section 3.84 of the JSE Listings Requirements on board governance processes

Requirement	Principle	Approach
3.84(a)	There must be a policy detailing the procedures for the appointment to the board. Appointments must be formal and transparent and a matter for the board as a whole, assisted, where appropriate, by a nominations committee. If a nominations committee is appointed, such committee must only constitute non-executive directors and the majority must be independent. The committee must be chaired by the chairman of the board.	Our directors are appointed by means of a transparent and formal procedure, governed by the mandate and terms of reference of the remuneration and nominations committees and the board charter. The board adheres to a formal board policy in this regard. The nominations committee responsibilities include setting the criteria for board nominations, identifying, evaluating and recommending to the board suitable candidates for appointment to the board, as well as succession planning. The members of the remuneration and nominations committees are all independent non-executive directors and the nominations committee is chaired by the chairman of the board.
3.84(b)	There must be a policy evidencing a clear balance of power and authority at board level to ensure that no one director has unfettered powers.	Our board charter demonstrates that there is a clear balance of power and authority at board level and that no one director has unfettered powers. Decisions, if not unanimous, are taken by a simple majority with one vote per director. The chairman does not have a casting vote.
3.84(c)	Issuers must have a CEO and a chairman and these positions must not be held by the same person. The chairman must either be an independent director or the issuer must appoint a lead independent director as defined in the King Code.	The CEO and chairman positions in Taste are held by different people and the chairman is an independent non-executive director. This principle is documented in the board charter.
3.84(d)	Issuers must appoint an audit committee in compliance with the King Code.	Taste has a combined audit and risk committee. Its membership is set out on page 41 of this annual integrated report. The committee currently has three members, all of whom are independent non-executive directors, as set out in the King Code.
	Issuers must appoint a remuneration committee in compliance with the King Code.	The board has appointed a remuneration committee, which has three members, all of whom are independent non-executive directors.
	Where appropriate, issuers must appoint a risk and nominations committee.	The risk function is handled by a combined audit and risk committee. The board has appointed a nominations committee chaired by the board's chairman.
	The composition of such committees, a brief description of their mandates, the number of meetings held and any other relevant information must be disclosed in the annual report.	Brief descriptions of the mandates of these committees and the number of meetings held during the year are available on pages 40 to 44 of this annual integrated report.
3.84(e)	Brief CV of each director standing for election or re-election must accompany relevant notice of meeting.	This information appears on pages 37 to 39 of this annual integrated report.
3.84(f)	Capacity of directors in relation to executive, non-executive and independent must be categorised and disclosed in the relevant documentation.	This information is also contained in the curriculum vitae mentioned in 3.84(e). The composition of our committees is in accordance with the requirements of the Companies Act and the King Code.
3.84(g)	Issuers must have a full-time executive financial director.	Taste Holdings has a full-time Chief Financial Officer who does not hold any other position nor does he have any other commitments that could be considered as full- or part-time employment.

CORPORATE GOVERNANCE continued

Requirement	Principle	Approach
3.84(h)	the audit committee must, notwithstanding its duties pursuant to section 94 of the Companies Act: (i) consider, on an annual basis, and satisfy itself of the appropriateness of the expertise and experience of the financial director; (ii) ensure that the issuer has established appropriate financial reporting procedures, and that those procedures are operating; and (iii) request from the audit firm (and if necessary consult with the audit firm on) the information detailed in paragraph 22.15(h) in their assessment of the suitability for appointment of their current or a prospective audit firm and designated individual partner both when they are appointed for the first time and thereafter annually for every reappointment as well as for an applicant issuers prior to listing.	The audit committee has during the year: <ul style="list-style-type: none"> (i) satisfied itself of the expertise and experience of the financial director; (ii) ensured that Taste has established appropriate financial reporting and procedures and are satisfied that those procedures are operating; and (iii) have received from the audit firm the required information detailed in paragraph 22.15(h) in their assessment of the suitability of the appointed audit firm and the designated individual partner.
3.84(i)	the board of directors or the nomination committee, as the case may be, must have a policy on the promotion of gender diversity at board level. The issuer must confirm this by reporting to shareholders in its annual report on how the board of directors or the nomination committee, as the case may be, have considered and applied the policy of gender diversity in the nomination and appointment of directors. If applicable, the board of directors or the nomination committee must further report progress in respect thereof on agreed voluntary targets;	There is a policy on gender diversity at board level.
3.84 (j)	the board of directors or the nomination committee, as the case may be, must have a policy on the promotion of race diversity at board level. The issuer must confirm this by reporting to shareholders in its annual report on how the board of directors or the nomination committee, as the case may be, have considered and applied the policy of race diversity in the nomination and appointment of directors. If applicable, the board of directors or the nomination committee must further report progress in respect thereof on agreed voluntary targets; and	There is a policy on race diversity at board level.
3.84 (k)	the remuneration policy and the implementation report must be tabled every year for separate non-binding advisory votes by shareholders of the issuer at the annual general meeting. The remuneration policy must record the measures that the board of directors of the issuer commits to take in the event that either the remuneration policy or the implementation report, or both , are voted against by 25% or more of the votes exercised. In order to give effect to the minimum measures referred to in the King Code, in the event that either the remuneration policy or the implementation report, or both are voted against by shareholders exercising 25% or more of the voting rights exercised, the issuer must in its voting results announcement pursuant to paragraph 3.91 provide for the following: (a) An invitation to dissenting shareholders to engage with the issuer; and (b) The manner and timing of such engagement.	The remuneration policy and the implementation report are tabled every year for separate non-binding advisory votes by shareholders of the issuer at the annual general meeting.

CORPORATE GOVERNANCE continued

Statement of internal control

The board acknowledges overall responsibility for the group's system of internal controls. This includes the establishment of an appropriate control environment and framework, as well as reviewing the effectiveness, adequacy and integrity of this system.

Our system of internal controls is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Our system of internal controls is designed to manage rather than eliminate risk. Accordingly, the system can only provide reasonable and not absolute assurance against the occurrence of any material misstatement or loss.

The group has an ongoing process for identifying, evaluating, monitoring and managing the principal risks affecting the achievement of our business objectives, which is embedded in the group's processes and structures.

Policies and procedures

Clearly documented policies and procedures are set out in Taste Holdings' policies and are subject to regular review and updating.

Divisional review meetings

Divisional and operating unit review meetings are held monthly. They are chaired by the divisional CEO and attended by the CEO and CFO at least once a quarter. Operational, financial and key management issues are identified, discussed and actioned at these meetings.

Monitoring of results

Sales from outlets and through the distribution centres are monitored daily and weekly. Monthly monitoring of financial results against budget takes place at both divisional and board level. Major variances against the budget are followed up by management and action is taken.

Code of ethics

The group adheres to the stringent Franchise Association's code of ethics, which commits our employees to high standards of integrity, behaviour, good faith and accountability in dealing with our stakeholders.

We expect our directors, employees, employees of companies providing outsourced functions and our suppliers to comply with the principles of this code and to act in accordance with it.

The social, ethics and transformation committee monitors ethical behaviour in the group.

Where there is any non-compliance with this code of conduct, disciplinary action is taken and consistently enforced across the group to discourage a recurrence.

The Taste Holdings group does not engage or condone the perpetration of any illegal acts in the conduct of its business. It is the policy of the Taste Holdings board to actively pursue and prosecute perpetrators of fraudulent or other illegal activities of which they become aware.

Certification by Company Secretary

In terms of section 88(2)(e) of the Companies Act, No 71 of 2008, as amended, I certify that, to the best of my knowledge and belief, the company has, in respect of the financial year reported upon, lodged with the Companies and Intellectual Property Commission all returns required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.



Claire Middlemiss FCIS

Company Secretary

iThemba Governance and Statutory Solutions Proprietary Limited
31 May 2018

CORPORATE GOVERNANCE continued

Share dealings

The board has an approved Trading in Shares policy in terms of which dealing in the company's shares by directors and employees is prohibited during closed periods. Directors may also not deal in the company's shares without first advising and obtaining clearance from the chairperson of the board. In the absence of the chairperson, clearance must be obtained from any two directors. No director or executive may trade in Taste shares during closed periods as defined in the JSE Listings Requirements. The directors of the company advise the Company Secretary of all their dealings in securities for publication purposes.

Directors and employees are subject to an embargo on trading in shares during closed periods when the company is operating under a cautionary announcement, and in the period between the close of annual and half-yearly reporting periods and the publishing of results.

Relationship with stakeholders

The board is very much aware of the importance of constructive and positive relationships with all stakeholders of the group. The company maintains dialogue with its key financial audiences, especially institutional shareholders and analysts. The investor relations team manages the dialogue with these audiences, and presentations take place at the time of publishing final results. The company adopts a proactive stance in timely dissemination of appropriate information to stakeholders through print and electronic news releases and the statutory publication of the company's financial performance. The board encourages shareholders to attend its annual general meeting, notice of which is contained in this integrated annual report, where shareholders will have the opportunity to put questions to the board and the chairpersons of the board committees.

Remuneration report

Our remuneration philosophy

The group's remuneration policy is based on the premise that fair and competitive remuneration motivates individual achievement and enhances a company's general performance. We achieve what we believe is fair and competitive remuneration through combining fixed and performance-enhancing incentives with the aim of attracting and retaining competent and experienced employees. We recognise that senior management has more influence over the long term than junior management and seeks to reward those who are committed to long-term value creation more than short-term opportunists. Despite having relatively complex operations, we seek to align individual performance with group performance, but recognise that individuals are relatively more motivated by incentives linked to objectives within their sphere of influence. There is, therefore, a trade-off between incentives linked solely to group performance and objectives linked solely to individual performance.

We seek to strike an appropriate balance between the two. As a professional group, Taste seeks to utilise efficient and transparent remuneration practices that are conservatively aligned with best practice, regulation and legislation.

Base remuneration policy

As part of its strategy to attract and retain top individuals in their area of expertise, Taste's strategy is to pay base salaries in the 50th percentile, as per external salary surveys. Our base pay for executive directors and senior management is benchmarked annually against direct industry peers, comparable listed companies, and we utilise at least one salary survey consultancy. We also take into consideration the revenue, profit and the number of employees and assets under each person's control. Where no adjustment is due to an employee, salary increases are guided by a combination of the consumer price index and prevailing trends among listed companies, based on surveys carried out by specialist companies.

During the year, no ex gratia payments were made to directors, executive committee or management committee members.

Retention and incentive policy

The main purpose of our remuneration policy and structure is to align management and shareholder interests. At the core of this alignment are the retention of key employees and the linking of management performance measures to shareholder and enterprise value. To this end, the group uses two structures to retain employees. Our short-term cash incentive programme rewards increases in company profitability, while our long-term incentive scheme rewards increases in enterprise value and creates disincentives for participating employees to leave the group's employ.

Short-term cash incentive programme

Participants in the long-term share incentive scheme (LTI), as well as selected other participants, have as part of their potential annual remuneration the ability to earn a cash payment based on annual audited profit targets set by the board annually.

This is in terms of a short-term cash incentive scheme (STI). The amount an individual can earn is capped based on recommendations from external remuneration specialists.

Long-term share incentive scheme

There are two schemes in operation, the first of which ran its course in the 2012 financial year.

In February 2015, the committee undertook an external review of the scheme in light of the King Code on Corporate Governance, 2009 (King III), Schedule 14 of the JSE Listings Requirements and section 8C of the Income Tax Act.

CORPORATE GOVERNANCE continued

King III provided that “Options or other conditional share awards are normally granted for the year in question and in expectation of service over a performance measurement period of not less than three years. Accordingly, shares and options should not vest or be exercisable within three years from the date of grant. In addition, options should not be exercisable more than 10 years from the date of grant. For new schemes, it is best practice to restrict the exercisable period to less than seven years”. As the first tranche of the 2013 scheme vests in 24 months, it has been resolved to comply with King III in the revision whereby the first tranche will vest after three years.

The scheme is compliant with Schedule 14 of the JSE Listings Requirements, and the revision to the scheme will remain compliant.

The revised scheme is based on the following principles:

- Share options are awarded annually, with no conditions being attached to the award. An award in one year is not a de facto guarantee of an award for the forthcoming year or any year thereafter.
- Share options are split into two types of options:
 - Options that have no strike price, ie when exercised, the purchase price to be paid for these shares is zero cents. These are referred to as “Retention Options” and are designed to retain employees.
 - Options that:
 - > have a strike price, ie when exercised, the purchase price to be paid for the shares which are the subject of the option is the 30-day volume weighted average price (VWAP); and
 - > are adjusted based on the achievement of certain performance targets.
- These are referred to as “performance options” and closely align any value created with an increase in enterprise value and ultimately the share price.
- The number of options granted annually is calculated based on a multiple of a participant’s annual cost-to-company, excluding cash bonuses received during the relevant period, divided by the volume-weighted average price (VWAP) when the remuneration committee approves the grant.
- The multiples of cost-to-company per band take into account seniority, responsibility and contribution to the group. The multiples are between the 25th and the 50th percentiles of actual multiples issued for JSE companies and reviewed by the board annually, as advised by a remuneration consultancy. The multiples for retention options range from 0.25 to 0.65 times annual cost-to-company, and multiples for performance options range from 1 to 2.15 times annual cost-to-company.
- Both options are exercisable in three equal tranches, with the first tranche being exercisable 36 months after the date of an acceptance of the award, the second tranche 12 months thereafter and the third and final tranche 12 months after that.
- In line with best practice and King IV, the scheme introduces the concept of conditions of exercise and, in the case of performance options, introduces an adjustment, including a potential “clawback”, to the number of options that are exercisable based on the achievement of certain performance targets.
 - Exercise of a retention option is conditional on the participant being in the employ of the group.
 - Exercise of performance options is conditional on the participant being in the employ of the group, and the number of performance options that are exercisable are adjusted according to the achievement of certain performance targets, as follows:
 - > The performance targets are the financial targets, at divisional or brand level, that are agreed to annually by the board and are currently based on core operating profit budgets for the forthcoming year. Certain senior executives, including the Chief Executive Officer and Chief Financial Officer, are currently measured on core headline earnings per share growth over the three years prior to exercise, as well as core EBITDA growth.
 - > The number of performance options that the participant can exercise can increase (capped at 50% of the original award) or decrease (to zero) from the original award, based on the average performance over the three-year period prior to exercise, in accordance with a pre-agreed sliding scale. This ensures that consistently sustainable financial results are rewarded.
 - > “Core” earnings will be determined by the audit committee.
 - > All shares must be exercised within six years.

Disclosure of remuneration

King IV recommends that a company should disclose the salaries paid to the top three executives (aside from the executive directors).

The Taste board has decided that because of the value of these employees to the group and the highly competitive nature of the South African retail environment it is not in Taste’s interests to disclose the individual salaries of these three executives. Instead, we are disclosing the combined salaries paid to these three executives in the 2017/2018 financial year. Including their basic salaries, motor vehicle allowance, medical aid benefits and bonuses, the three were paid a combined total of R8 135 909.

The remuneration paid to directors is disclosed on pages 98 to 99 of the financial statements contained in this integrated annual report.

Non-executive directors’ fees

In accordance with Taste’s policy of ensuring that non-executive directors’ fees are market-related, the company benchmarks annually against direct competitors and comparable listed companies. The fees for our non-executive directors are paid in the context of good governance and in line with our strategy of attracting and retaining high-calibre individuals as custodians of the company’s business.

CORPORATE GOVERNANCE continued

Their fees are based on a scale that takes into account membership or chairpersonship of subcommittees. They vary according to the different roles, such as chairperson, that non-executive directors undertake in the board subcommittees.

To avoid any conflict of interest, non-executive directors do not and will not participate in any share-based incentive scheme or any other incentive scheme that the group may implement. Non-executive fees are tabled annually for approval by Taste's shareholders. The non-executive directors' fees paid in the 2018 financial year are set out below. These take into account the evolving requirements of the board, international licensing arrangements and an increased number of meetings, while also considering peer group comparisons. The remuneration committee proposed that the fees of non-executive directors will remain the same in the 2019 financial year as per the following table:

	2018 Paid R	2019 Proposed fee R
Chairman of the board	365 700	365 700
Board membership	175 960	175 960
Chairman of the audit and risk committee	90 100	90 100
Member of the audit and risk committee	75 260	75 260
Chairman of any other board committee	55 120	55 120
Member of any other board committee	38 160	38 160

Remuneration implementation report

Shareholders will be requested to provide a non-binding advisory vote on the implementation report at the annual general meeting to be held on the 31 July 2018 (refer to notice of annual general meeting on pages 106 to 115). There will be no increase in the non-executive directors' fees for the financial year ending 28 February 2019, due to the current performance of the group.

The remuneration implementation report details the outcomes following the implementation of the approved remuneration policy. These are detailed in note 33 of the Annual Financial Statements, on pages 98 to 99) of the integrated annual report.

Annual incentive bonuses

The awarding of annual incentive bonuses for the year ended 28 February 2018 were in line with the group's remuneration policy and stipulated allocation levels, which payments have been detailed on page 98 of the integrated annual report.

Short term incentives

The awarding of short term incentives for the year ended 28 February 2018 were in line with the group's remuneration policy and stipulated allocation levels, which payments have been detailed on page 98 of the integrated annual report.

Long-term incentives

The awarding of long-term retention incentives for the year ended 28 February 2018 were in line with the group's remuneration policy and stipulated allocation levels, which payments have been detailed on page 98 of the integrated annual report.

Non-Executive Directors' remuneration

The participation of Non-Executive Directors in the group is essential to the group achieving its strategic objectives and Non-Executive Directors' fees are therefore recommended by the remuneration and nomination committee with this in mind.

The non-executive directors' remuneration for the year ended 28 February 2018 was in line with the group's remuneration policy, which payments have been detailed on page 99 of the integrated annual report.

In accordance with the Companies Act, 2008 as amended and the company's memorandum of incorporation, Non-Executive Directors' fees are approved by the shareholders at the annual general meeting. The current fee levels are approved by shareholders at the annual general meeting to be held on 31 July 2018 and are stated on page 108 of the notice of annual general meeting included in this integrated annual report.

There are no fixed-term service contracts for Executive or Non-Executive Directors. The remuneration and nomination committee reviewed the employment contracts of the Chairman, group Chief Executive Officer and group Financial Director and found this to be still appropriate to meet the needs of the company. The notice period for Executive Directors is three months, or as agreed by the Remuneration Committee.

JSE Listings Requirements

In accordance with Section 3.84 (k) of the JSE Listings Requirements, the remuneration policy and the implementation report are tabled every year for separate non-binding advisory votes by shareholders at the annual general meeting.

In the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the votes exercised, pursuant to the King Code, the Company will provide for the following:

- An invitation to dissenting shareholders to engage with the Company /Issuer; and
- The manner and timing of such engagement.

ANNUAL FINANCIAL STATEMENTS

These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa. These annual financial statements were authorised on 31 May 2018 by the board of directors.

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DIRECTORS' RESPONSIBILITY AND APPROVAL

February 2018

The directors are required by the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company and group as at the end of the financial year and the results of their operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of South Africa and the Listing Requirements of the JSE Limited. The external auditors are engaged to express an independent opinion on the annual financial statements.

These annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and group and all employees are required to maintain the highest ethical standards in ensuring the company and group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company and group is on identifying, assessing, managing and monitoring all known forms of risk across the company and group. While operating risk cannot be fully eliminated, the company and group endeavour to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the annual financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group's and company's cash flow forecast for the year to 28 February 2019 and, in light of this review and the current financial position, they are satisfied that the group has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently auditing and reporting on the group and company financial statements. The financial statements have been examined by the group's external auditor and their report is presented on page 59.


The annual financial statements set out on pages 62 to 103 which have been prepared on the going-concern basis, and the directors' report as set out on pages 55 to 58, were approved by the board of directors on 31 May 2018 and were signed on its behalf by:



Grant Michael Pattison
Non-executive Chairman

Sandton

31 May 2018



Tyrone Moodley
Chief Executive Officer

DECLARATION BY COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act of South Africa, I certify that to the best of my knowledge all returns and notices as are required by the Companies Act for a public company have been lodged with the Companies and Intellectual Properties Commission and that all such returns and notices are true, correct and up to date.



Claire Middlemiss
Company Secretary

On behalf of: iThemba Governance and Statutory Solutions (Pty) Limited
Sandton

31 May 2018

PREPARATION OF FINANCIAL STATEMENTS

The financial statements set out on pages 62 to 103 have been prepared and supervised by the Chief Financial Officer, Evangelos Tsatsarolakis CA(SA).

REPORT BY AUDIT AND RISK COMMITTEE

February 2018

The composition of the audit and risk committee is in line with the provisions of the Companies Act of South Africa and is chaired by Nonzukiso Siyotula. During the financial year ended 28 February 2018, in addition to the duties set out on page 41, the audit and risk committee:

- has reviewed the quality and effectiveness of the scope of the external audit;
- has nominated Grant Thornton as the registered independent auditor after satisfying itself through enquiry that Grant Thornton is independent as defined in terms of the Companies Act;
- has satisfied itself through enquiry that the audit partner, Serena Ho is independent;
- has approved the terms of engagement and fees paid to Grant Thornton;
- has reviewed the nature of non-audit services provided by the external auditors in order to ensure that the fees for such services do not become so significant as to call to question their independence. Grant Thornton did provide certain non-audit services during the year but ceased to provide the same before they were appointed as auditors of the group;
- no reportable irregularities were identified and reported by Grant Thornton to the committee;
- there was no material weakness in financial controls which resulted in material financial loss during the year under review;
- the audit and risk committee has considered and satisfied itself of the appropriateness of the expertise and experience of the financial director, Evan Tsatsarolakis, and is unanimously satisfied of his suitability for the position. The committee has further assessed the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the finance function and concludes that these are adequate; and
- the audit and risk committee recommended the annual financial statements for the year ended 28 February 2018 for approval to the board. The board has subsequently approved the annual financial statements which will be open for discussion at the forthcoming annual general meeting.



Nonzukiso Siyotula

Chairman – Audit and Risk committee

Sandton

31 May 2018

DIRECTORS' REPORT

February 2018

The directors submit their report for the year ended 28 February 2018.

Nature of business

Taste Holdings Limited is a South African-based management group listed on the JSE Limited, the recognised securities exchange in South Africa. Taste Holdings Limited is the leading licensor of global brands in the Southern Africa region. It owns and licenses a portfolio of franchised and owned, category specialists, Quick Service Restaurants (QSR), coffee and luxury retail brands currently represented in five countries in Southern Africa. Its Food Division licenses the world's leading coffee retailer and roaster, Starbucks; the world's largest pizza delivery chain, Domino's and owns one of South Africa's leading fish take-away brands The Fish & Chip Co; in addition to Zebro's Chicken and Maxi's. Taste's food brands comprise a diversified portfolio of the largest product categories (coffee, pizza, chicken, fish, burgers and breakfasts) which appeal to middle-and-upper income consumers (Starbucks, Domino's, Maxi's) as well as lower income consumers (The Fish & Chip Co, Zebro's Chicken). Along with these customer facing brands the division, through its manufacturing and distribution business, manufactures sauces, spices, dough and value added meat products and distributes the majority of the products used by its food outlets.

Its Luxury Goods Division consists of retail outlets branded under NWJ, Arthur Kaplan and World's Finest Watches. Through Arthur Kaplan and World's Finest Watches, Taste is the leading retailer (by number of outlets) of luxury Swiss watches in the region, with brands like Rolex, Omega, Breitling, Hublot, TAG Heuer, Longines and Rado, among its custodian brands. Additionally, the division recently became custodian of Cartier, IWC and Montblanc in selected outlets. Its brands appeal to a diversified customer base ranging from premium watch and jewellery buyers (Arthur Kaplan and World's Finest Watches) to first time jewellery and fashion watch buyers (NWJ).

Acquisitions

During the year, in line with its strategy, the group made the following acquisitions (for more details refer to note 20).

- Acquired a further one NWJ store from a franchisee.
- Acquired 11 food outlets from franchisees.
- Acquired the remaining 20% shareholding in Aloysius Trading Proprietary Limited ("Aloysius"). Aloysius owned 17 Domino's Pizza franchise stores in Gauteng, Free State, North West, Mpumalanga and Limpopo. Aloysius has been a franchisee of the group for over ten years, starting with two Scooters Pizza outlets in 2006. 80% of Aloysius was acquired in December 2016.

Disposals

In April 2017 Buon Gusto Cuisine Proprietary Limited a wholly owned subsidiary of Taste entered into an agreement to dispose of and further lease back the property in Midrand which houses the dough manufacturing and food distribution business of the food division. This sale became effective in September 2017.

Capital restructure and debt reduction

During the year, Taste announced its intention to restructure its Food Division and Luxury Goods Division with a view to possibly separating them in the future. Part of this intended restructure saw the group initiate a sale process for the Luxury Goods Division, the proceeds of which would see the group settle, in addition to other debt, its long-term debt of R225 million in respect of the Notes that it had issued under the Taste Domestic Medium Term Note Programme. Surplus cash resources would fund the Domino's Pizza and Starbucks businesses. Having initiated the sale process earlier in 2017, deteriorating macro-economic conditions meant that the timing of the disposal was not ideal and the group therefore stopped the sale process.

With the focus on reducing debt, the group then embarked on raising R398 million by way of a fully committed Rights Offer at 90 cents per Rights Offer Share. The Rights Offer was fully subscribed for by Riskowitz Value Fund, the company's largest shareholder who through its willingness to fully subscribe indicated its support for the continued roll out of the company's food services offering. The proceeds of the Rights Offer were used to settle, inter alia, the term debts, including the R225 million of Notes that were outstanding and the transaction costs in connection with the Rights Offer. It was decided that this was the most favourable debt reduction and expansion funding option available to the company in the current circumstances. This Rights offer and resultant debt reduction was finalised in February 2018. As a result, the Riskowitz Value Fund and its common controlled entities currently own 64,5% of the groups issued shares.

Financial statements and results

The group results and financial position are reflected in the financial statements on pages 62 to 103. The group recorded a loss after tax attributable to equity holders of the company for the year ended 28 February 2018 of R241,2 million (2017: loss after tax: R100.8 million).

Authorised and issued share capital

The authorised share capital of the company was amended to 2 000 000 000 for the year ended 28 February 2018, details of which are set out in note 16 of the annual financial statements. The following share issues were made during the year:

- Clawback offer of 80 000 012 shares were issued at R1.50 on 19 June 2017.
- On 20 June 2017, 707 666 ordinary shares were issued at 43 cents per share to the Taste Holdings Share Trust in anticipation of share options being exercised in terms of the Taste Holdings Share Option Scheme.
- Rights issue of 442 222 223 shares were issued at R0.90 on 29 January 2018.

DIRECTORS' REPORT continued

February 2018

As at 28 February 2018, 2 531 443 ordinary shares were held by The Taste Holdings Share Trust. These are treated as treasury shares and are eliminated on consolidation.

Employee share option scheme

Details are reflected in note 32 of the annual financial statements.

Borrowings

In terms of the articles of Memorandum of Incorporation, the directors may exercise all powers of the company to borrow money, as they consider appropriate.

Capital expenditure

The capital expenditure incurred during the year related to the acquisition and construction of corporate stores in the Food and Luxury Goods Divisions.

Dividends

No dividend has been declared for the year ended 28 February 2018.

Directors

The directors of the company during the year and to the date of this report are as follows:

Name

Carlo Ferdinando Gonzaga – resigned 12 February 2018
Wessel Petrus van der Merwe – resigned 29 January 2018
Kevin Michael Utian – resigned 29 January 2018
Hylton Roy Rabinowitz – resigned 29 January 2018
Anthony (Tony) Berman – resigned 29 January 2018
Evangelos Tsatsarolakis
Duncan John Crosson
Grant Michael Pattison
Tyrone Christie Moodley – change of duties to Chief Executive Officer on 12 February 2018
Neil Grant Brimacombe – appointed 29 January 2018
Nonzukiso (Zukie) Siyotula – appointed 29 January 2018
Adrian John Maizey – appointed 29 January 2018
Leo Chou – appointed 29 January 2018

In terms of the Memorandum of Incorporation, GM Pattison will retire at the forthcoming annual general meeting and, being eligible, offers himself up for re-election. Service agreements with the directors of Taste Holdings Limited at the date hereof do not impose any abnormal notice periods on the company. Shareholders will be asked at the forthcoming annual general meeting to confirm the reappointment of GM Pattison and to ratify the appointments of NG Brimacombe, L Chou, AJ Maizey and N Siyotula.

Company Secretary

The secretary of the company is Ithemba Governance and Statutory Solutions Proprietary Limited of:

Business address 12 Gemini Street
Linbro Business Park
Frankenwald
2065

Postal address PO Box 1125
Ferndale
Randburg
2160

Special resolutions

At a general meeting of shareholders on 17 May 2017, the following resolutions were passed:

- To convert the authorised share capital of Taste, comprising 500 000 000 (five hundred million) authorised and 378 571 047 (three hundred and seventy-eight million five hundred and seventy-one thousand and forty-seven) issued ordinary shares, having a par value of R0.00001 each, into ordinary shares having no par value.
- To increase the authorised share capital of the company to 1 000 000 (one million) ordinary no par value shares.
- The inclusion of preference share capital to the authorised share capital of the company.
- To amend the company's Memorandum of Incorporation to include the three changes to authorised share capital above.

DIRECTORS' REPORT continued

February 2018

At a general meeting of the shareholders on 4 July 2017, the following resolutions were passed:

- General authority to directors to acquire the company's shares.
- Approval of fees payable to the non-executive directors for the year ended 28 February 2018.
- To amend the company's Memorandum of Incorporation in order to allow for delivery of notices via electronic communication.
- Approval of authority to directors to provide financial assistance to all subsidiaries and their inter-related companies within the Taste Holdings group of companies.

At a general meeting of the shareholders on 15 December 2017, the following resolutions were passed:

- To increase the authorized no par value shares of the company from 1 000 000 000 (one billion) to 2 000 000 000 (two billion).
- To amend the Company's Memorandum of Incorporation to include the increase in the authorised shares.

Directors' responsibility

The responsibility of the company's directors is detailed on page 52 of this report.

Directors' interests

No contracts in which directors or officers of the company or group had an interest and that significantly affected the affairs or business of the company or any of its subsidiaries were entered into during the year.

Director	Number of shares held		Total	%
	Beneficially direct	Beneficially indirect		
At 28 February 2018				
Carlo Ferdinando Gonzaga and associates – resigned 12 February 2018	–	–	–	–
Duncan John Crosson	4 711 082	–	4 711 082	0.53
Hylton Roy Rabinowitz and associates – resigned 29 January 2018	–	–	–	–
Kevin Utian and associates – resigned 29 January 2018	–	–	–	–
Anthony Berman and associates – resigned 29 January 2018	–	–	–	–
Wessel Petrus van der Merwe and associates – resigned 29 January 2018	–	–	–	–
Evangelos Tsatsarolakis	195 628	–	195 628	0.02
Grant Michael Pattison and associates	–	2 922 642	2 922 642	0.32
Leo Chou – appointed 29 January 2018	–	5 505 522	5 505 522	0.61
	4 906 710	8 428 164	13 334 874	1.48

Director	Number of shares held		Total	%
	Beneficially direct	Beneficially indirect		
At 28 February 2017				
Carlo Ferdinando Gonzaga and associates	–	5 491 891	5 491 891	1.44
Duncan John Crosson	4 711 082	–	4 711 082	1.24
Ramsay L'Amy Daly (Bill) and associates	85 000	4 779 758	4 864 758	1.29
Hylton Roy Rabinowitz and associates	426 358	32 039 954	32 466 312	8.58
Kevin Utian and associates	–	1 292 000	1 292 000	0.34
Anthony Berman and associates	–	2 180 250	2 180 250	0.58
Wessel Petrus van der Merwe and associates	–	1 938 000	1 938 000	0.51
Evangelos Tsatsarolakis	161 500	–	161 500	0.04
Grant Michael Pattison and associates	–	2 000 000	2 000 000	0.53
	5 383 940	49 721 853	55 105 793	14.56

There has been no change in the directors' interests between the end of the financial year and the date of approval of the financial statements.

Events subsequent to year-end

Other than the events described in this report in note 40, the directors are not aware of any significant events which have occurred subsequent to year-end and up to the date of this report.

DIRECTORS' REPORT continued

February 2018

Corporate governance and sustainability

The corporate governance and sustainability report is set out on pages 37 to 50.

Shareholder spread

Details of the company's shareholder spread are recorded on page 104.

Going concern

The annual financial statements have been prepared on the going-concern basis. Having reviewed the group's financial projections, the directors believe that the group will continue trading as a going concern in the foreseeable future. The group losses are attributable to the launch of the Starbucks and Domino's brands in South Africa. These losses are expected to be recovered in the foreseeable future as the Starbucks and Domino's businesses mature out of their infancy stage and eventually reach profitability.



Grant Pattison
Non-executive Chairman



Tyrone Moodley
Chief Executive Officer

REPORT OF THE INDEPENDENT AUDITOR

February 2018

To the shareholders of Taste Holdings Limited and its subsidiaries

Report on the financial statements

Opinion

We have audited the consolidated and separate financial statements of Taste Holdings Limited and its subsidiaries (the group) set out on pages 62 to 103, which comprise the consolidated and separate statements of financial position as at 28 February 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 28 February 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following key audit matters relate to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Assessment of carrying value of goodwill and intangible assets (refer note 5)</p> <p>Included in non-current assets are intangible assets and goodwill amounting to R207,4 million.</p> <p>On an annual basis, the directors prepare a goodwill valuation in accordance with IAS 36, to assess if any impairment is required. The directors furthermore determine whether there are indicators of impairment on the intangible assets.</p> <p>Due to the degree of management judgement over factors such as future cash flows, growth rates and discount rates, this has been considered a key audit matter.</p> <p>Goodwill was impaired in respect of the following cash generating units:</p> <ul style="list-style-type: none">• R4,9 million relating to company owned stores in the jewellery and food divisions.• R21 million relating to The Fish & Chip Co.• R7,8 million relating to Zebro's Chicken. <p>In addition, the Zebro's Chicken trademark was impaired by R8 million.</p>	<p>Our audit procedures included amongst others:</p> <ul style="list-style-type: none">• With the assistance of our valuation specialists, reviewed the budgeted forecast, discount rates, cash flows and assumptions used to ensure there was adequate support for the assumptions underlying the forecast.• Compared the financial forecasts against historical performance to evaluate the reliability of the data used.• Re-performed the calculations in the impairment models and performed sensitivity analysis to determine the impact thereon should the key assumptions change.• Assessed the adequacy of the disclosures in the financial statements.

REPORT OF THE INDEPENDENT AUDITOR continued

February 2018

Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of deferred tax asset (refer note 10)</p> <p>A deferred tax asset amounting to R68,8 million was raised in respect of estimated tax losses in the group.</p> <p>The directors have prepared the company's financial forecasts and have recognised a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the tax losses can be utilised.</p> <p>Due to the degree of management judgement over the future profitability of the group, this has been considered a key audit matter.</p>	<p>Our audit procedures included amongst others:</p> <ul style="list-style-type: none"> • Reviewed the budgeted forecast, cash flows and assumptions used to ensure there was adequate support for the assumptions underlying the forecast. • Compared the financial forecasts against historical performance to evaluate the reliability of the data used. • Discussed with management their plans for future actions and the availability of financing facilities and access to capital needs. • Assessed the adequacy of the disclosures in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Integrated Annual Report, which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and / or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

REPORT OF THE INDEPENDENT AUDITOR *continued*

February 2018

- Conclude on the appropriateness of the directors of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Grant Thornton has been the auditor of Taste Holdings Limited and its subsidiaries for 1 year.



GRANT THORNTON

Registered Auditors

Practice Number: 903485E

S Ho

Partner

Registered Auditor

Chartered Accountant (SA)

31 May 2018

@Grant Thornton

Wanderers Office Park

52 Corlett Drive

Illovo, 2196

STATEMENTS OF FINANCIAL POSITION

February 2018

	Notes	Group			Company	
		2018 R'000	Restated 2017 R'000	Restated 2016 R'000	2018 R'000	2017 R'000
Assets						
Non-current assets						
Property, plant and equipment**	4	186 920	190 692**	159 767	175	108
Intangible assets**	5	86 027	104 833**	117 180	–	–
Goodwill*	5	121 348	140 070	127 456	–	–
Investments in subsidiaries	6	–	–	–	105 058	105 058
Loans to group companies	7	–	–	–	902 266	733 238
Net investment in finance lease	8	4 919	8 905	10 742	–	–
Other financial assets	9	25 345	46 820	78 324	–	–
Deferred tax	10	88 840	87 647	56 648	173	586
		513 399	578 967	550 117	1 007 672	838 990
Non-current assets held for sale	11	–	–	3 459	–	–
Current assets						
Loans to group companies	7	–	–	–	50 621	40 050
Net investment in finance lease	8	450	522	459	–	–
Other financial assets	9	5 281	11 720	2 921	–	–
Advertising levies	12	2 914	3 416	5 444	–	–
Inventories*	13	296 017	322 935	270 756	–	–
Trade and other receivables	14	56 059	66 722	88 996	301	1 508
Current tax receivables		1 911	897	3 610	107	–
Cash and cash equivalents	15	116 421	32 791	202 644	88 107	9 300
		479 053	439 003	574 830	139 136	50 858
Total assets		992 452	1 017 970	1 128 406	1 146 808	889 848
Equity and liabilities						
Equity						
Equity attributable to equity holders of the company						
Stated capital	16	1 112 162	611 610	611 192	1 124 934	624 146
(Accumulated loss)/retained income		(308 806)	(63 579)	37 239	(30 752)	(25 295)
Equity-settled share-based payments reserve	32	10 586	11 055	6 221	4 211	3 190
Equity attributable to owners of the company		813 942	559 086	654 652	1 098 393	602 041
Non-controlling interest		1 503	(2 732)	1 174	–	–
Total equity		815 445	556 354	655 826	1 098 393	602 041
Liabilities						
Non-current liabilities						
Loans from group companies	7	–	–	–	38 750	38 750
Borrowings	17	1 109	246 916	248 906	–	242 800
Lease equalisation	18	11 270	11 025	6 517	–	–
Deferred tax	10	13 652	26 943	40 379	–	22
		26 031	284 884	295 802	38 750	281 572
Current liabilities						
Current tax payable		–	179	3 805	–	20
Bank overdraft	15	20 179	48 259	32 148	–	–
Borrowings	17	2 662	13 543	6 984	–	1 522
Lease equalisation	18	2 755	1 164	4 495	–	–
Trade and other payables	19	125 380	113 587	129 346	9 665	4 693
		150 976	176 732	176 778	9 665	6 235
Total liabilities		177 007	461 616	472 580	48 415	287 807
Total equity and liabilities		992 452	1 017 970	1 128 406	1 146 808	889 848

* Refer to note 13 for restatement.

** Refer to notes 4 and 5 for reclassification of prior year amount.

STATEMENTS OF COMPREHENSIVE INCOME

February 2018

	Notes	Group		Company	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Revenue	21	1 043 977	1 097 614	26 000	8 500
Cost of sales	22	(612 445)	(671 237)	–	–
Gross profit		431 532	426 377	26 000	8 500
Other income		3 591	1 047	–	–
Operating expenses		(663 415)	(538 127)	(32 155)	(17 924)
Operating loss	23	(228 292)	(110 703)	(6 155)	(9 424)
Investment revenue	24	17 295	16 298	36 599	37065
Finance costs	25	(44 745)	(34 809)	(35 510)	(28 233)
Loss before taxation		(255 742)	(129 214)	(5 066)	(592)
Taxation	26	14 750	28 060	(391)	(214)
Loss for the year		(240 992)	(101 154)	(5 457)	(806)
Other comprehensive income		–	–	–	–
Total comprehensive loss for the year		(240 992)	(101 154)	(5 457)	(806)
Attributable to:					
Equity holders of the company		(241 202)	(100 818)	(5 457)	(806)
Non-controlling interests		210	(336)	–	–
		(240 992)	(101 154)	(5 457)	(806)
Loss per share attributable to equity holders of the company					
Basic loss per share (cents)	37	(51.0)	(26.8)	–	–
Fully diluted loss per share (cents)	37	(51.0)	(26.8)*	–	–

* Refer to note 37 for restatement.

STATEMENTS OF CHANGES IN EQUITY

February 2018

Group	Stated capital R'000	Equity-settled share-based payments reserve R'000	Retained earnings/ (accumulated loss) R'000	Total attributable to equity holders of the company R'000	Non- controlling interest R'000	Total equity R'000
Balance at 1 March 2016	611 196	6 221	37 239	654 656	1 174	655 830
<i>Changes in equity:</i>						
Options exercised	414	–	–	414	–	414
Total comprehensive loss for the year	–	–	(100 818)	(100 818)	(336)	(101 154)
Acquired through business combination	–	–	–	–	(3 570)	(3 570)
Share-based payment	–	4 834	–	4 834	–	4 834
Balance at 1 March 2017	611 610	11 055	(63 579)	559 086	(2 732)	556 354
<i>Changes in equity:</i>						
Shares issue	500 069			500 069		500 069
Options exercised	483			483		483
Minority interest acquired			(4 025)	(4 025)	4 025	–
Total comprehensive loss for the year			(241 202)	(241 202)	210	(240 992)
Share-based payment		(469)		(469)		(469)
Total changes	500 552	(469)	(245 227)	245 856	4 235	259 091
Balance at 28 February 2018	1 112 162	10 586	(308 806)	813 942	1 503	815 445
Notes	16	16				

Company	Stated capital R'000	Equity-settled share-based payments reserve R'000	Accumulated loss R'000	Total attributable to equity holders of the company R'000	Total equity R'000
Balance at 1 March 2016	623 909	2 355	(24 489)	601 775	601 775
<i>Changes in equity:</i>					
Options exercised	237	–	–	237	237
Total comprehensive loss for the year	–	–	(806)	(806)	(806)
Share-based payment	–	835	–	835	835
Balance at 1 March 2017	624 146	3 190	(25 295)	602 041	602 041
<i>Changes in equity:</i>					
Shares issued	500 484			500 484	500 484
Options exercised	304			304	304
Total comprehensive loss for the year			(5 457)	(5 457)	(5 457)
Share-based payment		1 021		1 021	1 021
Total changes	500 788	1 021	(5 457)	496 352	496 352
Balance at 28 February 2018	1 124 934	4 211	(30 752)	1 098 393	1 098 393
Notes	16	16			

STATEMENTS OF CASH FLOWS

February 2018

	Notes	Group		Company	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Cash flows from operating activities					
Cash (utilised in)/generated from operating activities	27	(72 828)	(68 187)	1 114	(4 446)
Investment revenue	24	17 295	16 298	36 599	37 065
Finance costs	25	(44 745)	(34 809)	(35 510)	(28 233)
Income tax paid	29	(796)	(12 861)	(127)	(903)
Net cash from operating activities		(101 074)	(99 559)	2 076	3 483
Cash flows from investing activities					
Acquisition of property, plant and equipment	4	(53 933)	(48 242)	(136)	(85)
Proceeds on disposal of property, plant and equipment	4, 27	28 875	10 207	–	3
Acquisition of non-current asset held-for-sale	11	–	(181)	–	–
Proceeds from disposal of non-current asset held-for-sale	11	–	3 659	–	–
Disposal of intangible assets	5	5 042	–	–	–
Acquisition of intangible assets	5	(6 450)	(6 436)	–	–
Acquisition of businesses	20	(24 173)	(15 882)	–	–
Change in finance lease asset		4 058	(358)	–	–
Loans advanced – other financial assets	9	(14 281)	(28 527)	–	–
Loans repaid – other financial assets	9	29 782	13 211	–	–
Net cash from investing activities		(31 080)	(82 053)	(136)	(82)
Cash flows from financing activities					
Proceeds from issue of shares	16	500 552	418	500 788	237
Loans advanced to group companies		–	–	(179 598)	(190 660)
Loans raised – borrowings	17	–	945	–	945
Loans repaid – borrowings	17	(256 688)	(6 802)	(244 323)	–
Net cash from financing activities		243 864	(5 439)	76 867	(189 478)
Change in cash and cash equivalents					
Cash acquired from business acquisition	20	–	1 087	–	–
Cash and cash equivalents at beginning of the year		(15 468)	170 496	9 300	195 377
Cash and cash equivalents at end of the year	15	96 242	(15 468)	88 107	9 300

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

February 2018

1. Accounting policies

Presentation of annual financial statements

The group annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements, and the Companies Act of South Africa. The group annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous period, except for changes set out in note 2 – new standards and interpretations.

Significant estimates and judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Where the group has made significant estimates and judgements, these are reflected under the relevant accounting policies.

Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of the company and all investees which are controlled by the company or its subsidiaries.

The company has control of an investee when it has power over the investee; it is exposed to or has rights to variable returns from involvement with the investee; and it has the ability to use its power over the investee to affect the amount of the investor's returns.

The results of subsidiaries are included in the consolidated annual financial statements from the effective date of acquisition to the effective date of disposal.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the company's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3: Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree, is recognised as goodwill arising on a business combination.

If the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit and loss.

Costs directly attributable to the business combination are expensed as incurred.

The non-controlling interest in the acquiree is initially measured at the minority's proportion of the net fair value or carrying amount of the assets, liabilities and contingent liabilities recognised.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity, which arise as a result of the contingent consideration, are not affected against goodwill, unless they are valid measurement period adjustments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

1. Accounting policies continued

1.2 Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Costs include costs incurred initially to acquire an item of property, plant and equipment and costs incurred subsequently to add to it.

Property, plant and equipment is depreciated to its estimated residual value over its estimated useful life.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of items to their residual values, over their estimated useful lives on a straight-line basis, being a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the group.

Item	Average useful life
Land – not depreciated	
Buildings	50 years
Furniture and fixtures	6 years
General equipment	5 years
IT equipment	3 years
Kitchen equipment	5 – 10 years
Leasehold improvements	5 – 10 years
Motor vehicles	5 years
Office equipment	5 – 6 years
Plant and machinery	5 years

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

The residual value, useful life and depreciation method of each asset is reviewed at the end of each reporting period, if there are indicators present that there has been a significant change from the previous estimates.

Management applies its judgement based on past experience to determine expected useful lives and residual values of property, plant and equipment.

1.3 Goodwill

Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the business recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to annual impairment review.

On disposal of a business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

1.4 Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. The group typically arrives at the cost of such intangibles on a relief from royalty basis.

An intangible asset is also recognised for the financial contributions made to franchisees for the conversion of their Scooters and St Elmo's stores to Domino's Pizza. This intangible asset is derecognised if any of the stores become corporate-owned stores.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

1. Accounting policies continued

1.4 Intangible assets continued

Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to nil as follows:

Item	Useful life
Trademarks and intellectual property	10 – 40 years
Franchise contributions	Agreement period
Master franchise licence	25 – 30 years
Computer software	3 years
Key site premiums	Agreement period
Joining fees	10 years

1.5 Impairment of non-current assets

The group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the company also:

- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Key assumptions used in the calculation of the recoverable amounts are discount rates, terminal value growth rates and EBITDA growth rate.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss is recognised immediately in profit or loss.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit.
- Then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

1.6 Investments in subsidiaries

Company annual financial statements

In the company's separate annual financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

1.7 Financial instruments

The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

The group classifies financial assets and financial liabilities into the following categories:

- Loans and receivables.
- Financial liabilities measured at amortised cost.

Financial assets and financial liabilities are recognised on the group's balance sheet when the company becomes party to the contractual provisions of the instrument.

Loans and receivables and financial liabilities are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Transaction costs are included in the initial measurement of the instrument.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

1. Accounting policies continued

1.7 Financial instruments continued

Loans and receivables and financial liabilities measured at amortised cost on the face of the statement of financial position comprise the following:

Loans to/from companies

These include loans to and from subsidiaries and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables. Loans from group companies are classified as financial liabilities at amortised cost.

Trade and other receivables

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade and other payables are classified as financial liabilities measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are classified as loans and receivables.

Bank overdrafts and borrowings

Bank overdrafts and borrowings are classified as financial liabilities measured at amortised cost. Any difference between the proceeds (net of transaction costs) and settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs.

Other financial assets

Other financial assets are classified as loans and receivables.

These financial assets are not quoted in an active market and have fixed or determinable payments.

Impairment of financial assets

At each reporting date, the group assesses all financial assets to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. For amounts due to the group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss and are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after impairment was recognised, subject to the restriction that the carrying amount of the financial asset, at the date that the impairment is reversed, shall not exceed what the carrying amount would have been had the impairment not been recognised. Reversals of impairment losses are recognised in profit or loss.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write-off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

1.8 Taxation

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities/assets for the current and prior periods are measured at the amount expected to be paid to/recovered from the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Judgement is required in determining the provision of income taxes due to the complexity of legislation.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

1. Accounting policies continued

1.8 Taxation continued

Deferred tax assets and liabilities continued

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which:
 - is not a business combination; and
 - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, directly in equity; or
- a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance lease – lessor

The company recognises finance lease receivables in the statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the company's net investment in the finance lease.

Operating lease – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset or liability. The asset or liability is not discounted.

1.10 Inventories

Inventories are initially measured at cost.

Inventories are subsequently measured at the lower of cost and net realisable value on the weighted average basis.

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

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

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

1. Accounting policies continued

1.10 Inventories continued

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

Management has made estimates of the selling price and direct cost to sell on inventory items to write stock down to the lower of cost and net realisable value. Any write-down is included in operating profit. Any stock that is physically identified as slow moving, damaged or obsolete is written off when discovered.

1.11 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

Shares in the company held by the Taste Holdings Share Trust are classified as treasury shares. The number of shares held is deducted from the number of issued shares and the weighted average number of shares in the determination of earnings per share. Dividends received on treasury shares are eliminated on consolidation.

1.12 Equity-settled share-based payments reserve

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit or loss over the vesting period with a corresponding increase in equity recorded in a share option reserve. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied.

If the share-based payments granted do not vest until the counterparty completes a specified period of service, the group accounts for those services as they are rendered by the counterparty during the vesting period (or on a straight-line basis over the vesting period).

If the share-based payments vest immediately, the services received are recognised in full.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care) is recognised in the period in which the services are rendered and is not discounted.

1.14 Revenue

Revenue for services is recognised in the period when they are rendered.

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value-added tax.

Franchise fees and advertising levies are recognised on the accrual basis as services are rendered or the rights used in accordance with the substance of the related franchise agreements. Advertising levies are recognised as revenue to the extent of the expenditure incurred.

Franchise joining fees are recognised in the month when the outlet opens for trading and are considered services rendered.

Retail outlet sales are recognised from sale of goods.

Development revenue is related to the conversion/renovation charged to the franchisees and is recognised as services rendered. This occurs ultimately in the month the outlet opens for trading.

Management fees are recognised as and when services are rendered.

Dividends are recognised in profit or loss, when the group's right to receive payment has been established.

Interest is recognised in profit or loss, using the effective interest rate method.

1.15 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

1. Accounting policies continued

1.16 Advertising levies

In terms of the group's franchise agreements, the group receives advertising levies from franchisees which are held and accounted for separately in marketing funds. These funds are utilised for the procurement of marketing and advertising services for the benefit of franchisees. Advertising expenditure incurred in excess of the levies received is carried forward as a prepaid expense in the group statement of financial position to be set off against future levies.

Any amounts not expended are carried forward as liabilities in the group statement of financial position to be set off against future advertising expenditure.

1.17 Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Derivatives are classified as financial assets at fair value through profit or loss – held for trading.

1.18 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Taste executive committee. Intersegment revenues comprise services rendered between entities within the group. Intersegment revenues are accounted for as if the sale were to third parties, ie at current market prices.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

The following new standards, revisions and amendments to issued accounting standards and interpretations, which were relevant to the group, have been adopted by the group:

– IAS 7 Statement of Cash Flows

Disclosure Initiative: Amendments requiring entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).

This amendment did not have a significant impact on the groups' disclosure for the year ended 28 February 2018.

2.2 New accounting standards and interpretations not yet adopted

– IFRS 15: Revenue from Contracts from Customers

New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers.

The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

The standard is effective for periods on or after 1 January 2018.

The adoption of IFRS 15 will affect the following areas:

- > Revenue recognised for services rendered, such as franchise fees and development revenue; and
- > Revenue recognised for sale of goods.

These amendments will be adopted in the group's consolidated financial statements for the annual period beginning 1 March 2018. The group has identified that only the franchise revenue received by The Fish & Chip Co brand will be impacted by the new standard. The implementation of this new standard will not have a significant impact on the timing or amount of The Fish & Chip Co revenue recognised by the group in any year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

2. New standards and interpretations continued

2.2 New accounting standards and interpretations not yet adopted continued

– IFRS 9: Financial Instruments

A finalised version of IFRS 9 has been issued which replaces IAS 39: Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition.

IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as “fair value through other comprehensive income” in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

The standard is effective for periods beginning on or after 1 January 2018.

The new model introduces a single impairment model being applied to all financial instruments, as well as an “expected credit loss” model for the measurement of financial assets. IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition, enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements. IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.

These amendments will be adopted in the group’s consolidated financial statements for the annual period beginning 1 March 2018. It is not anticipated that the application of the new standard will have a significant impact on amounts reported in respect of the group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

– IFRS 16: Leases

New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7: Statement of Cash Flows.

IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor’s risk exposure, particularly to residual value risk.

IFRS 16 supersedes the following standards and interpretations:

- (a) IAS 17: Leases.
- (b) IFRIC 4: Determining whether an arrangement contains a lease.
- (c) SIC-15: Operating Leases — Incentives.
- (d) SIC-27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

It is anticipated that these amendments will be adopted in the group’s consolidated financial statements for the annual period beginning 1 March 2019. It is anticipated that the application of the new standard will have a significant impact on amounts reported in respect of the group’s financial assets and financial liabilities due to the number of retail stores that the company owns. The company will continue to own more corporate stores and thereby enter into more leases. At present, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

3. Segment reporting

For management reporting purposes, the group is organised into three major operating divisions:

- Food Division.
- Luxury Goods Division.
- Corporate Services.

These operating segments are monitored by the group's chief operating decision-maker and strategic decisions are made on the basis of adjusted segment operating results.

Such structural organisation is determined by the nature of risks and returns associated to each business segment and is representative of the internal reporting structure used for management reporting.

Intersegment revenues comprise costs charged out to the divisions by corporate services, and intercompany revenues within the food segment.

The following tables present details of revenue, operating profit, assets, liabilities and depreciation and amortisation, finance costs, investment revenue and capital expenditure by business segment:

	Food Division R'000	Luxury Goods Division R'000	Corporate Services R'000	Inter- segment division revenues R'000	Total R'000
2018					
Revenue	605 102	558 845	26 000	(145 970)	1 043 977
Operating (loss)/profit	(207 335)	13 240	(34 197)	–	(228 292)
Investment revenue	8 414	3 752	40 136	(35 007)	17 295
Finance costs	(25 359)	(18 883)	(35 510)	35 007	(44 745)
Loss before taxation	(224 280)	(1 891)	(29 571)	–	(255 742)
Segment depreciation and amortisation	(30 212)	(9 834)	(1 616)	–	(41 662)
Segment assets	463 432	424 748	104 272	–	992 452
Segment liabilities	(100 364)	212 452	(135 809)	–	177 007
Segment capital expenditure	48 431	5 386	116	–	53 933
Impairment of assets	39 357	2 696	–	–	42 053
– intangible assets	8 469	–	–	–	8 469
– goodwill	30 888	2 696	–	–	33 584
2017					
Revenue	551 099	662 116	8 500	(84 101)	1 097 614
Operating (loss)/profit	(143 684)	52 510	(19 529)	–	(110 703)
Investment revenue	8 202	424	37 078	(29 406)	16 298
Finance costs	(18 911)	(17 071)	(28 233)	29 406	(34 809)
(Loss)/profit before taxation	(154 392)	35 862	(10 684)	–	(129 214)
Segment depreciation and amortisation	(26 014)	(8 407)	(1 626)	–	(36 047)
Segment assets	529 023	462 388	26 559	–	1 017 970
Segment liabilities	118 888	238 448	104 280	–	461 616
Segment capital expenditure	31 994	16 152	84	–	48 230
Impairment of intangibles	4 739	–	521	–	5 260

The group's only geographic location is Southern Africa.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

4. Property, plant and equipment

Group	2018			2017		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Land and buildings	–	–	–	23 765	(179)	23 586
Furniture and fixtures	68 044	(37 411)	30 633	91 592	(35 875)	55 717
Motor vehicles	17 817	(8 759)	9 058	16 488	(6 644)	9 844
Office equipment	2 225	(1 333)	892	1 931	(1 125)	806
IT equipment	12 806	(8 296)	4 510	9 208	(6 317)	2 891
Kitchen equipment	68 884	(22 825)	46 059	71 518	(20 423)	51 095
General equipment	857	(379)	478	944	(535)	409
Leasehold improvements	93 976	(17 071)	76 905	43 130*	(7 574)*	35 556*
Plant and machinery	23 458	(5 073)	18 385	13 221	(2 433)	10 788
Total	288 067	(101 147)	186 920	271 797*	(81 105)*	190 692*
Company						
Furniture and fixtures	113	(47)	66	122	(39)	83
IT equipment	274	(165)	109	183	(158)	25
Total	387	(212)	175	305	(197)	108

* An intangible asset with a cost of R1,1 million and a carrying value of R1 million was incorrectly reflected as leasehold improvement in 2017. This asset has now been reflected correctly as an intangible.

Reconciliation of property, plant and equipment – Group 2018

	Opening balance R'000	Acquisition of business			Disposals R'000	Depreciation R'000	Total R'000
	Additions R'000	Transfers R'000	Note 20 R'000				
Land and buildings	23 587	–	–	–	(23 561)	(26)	0
Furniture and fixtures	55 718	7 568	(23 506)	258	(12)	(9 393)	30 633
Motor vehicles	9 843	1 976	–	–	(141)	(2 620)	9 058
Office equipment	806	394	–	–	–	(308)	892
IT equipment	2 891	3 687	–	68	(49)	(2 087)	4 510
Kitchen equipment	51 096	6 303	–	2 187	(5 142)	(8 385)	46 059
General equipment	409	213	–	–	–	(144)	478
Leasehold improvements	36 612	23 059	23 506	6 047	(4 168)	(8 151)	76 905
Plant and machinery	10 789	10 733	–	–	(641)	(2 496)	18 385
Total	191 751	53 933	–	8 560	(33 714)	(33 610)	186 920

In April 2017, Buon Gusto entered into an agreement to dispose of and further lease back the property in Midrand which houses the dough manufacturing and food distribution business of the Food Division. This sale became effective in September 2017.

Reconciliation of property, plant and equipment – Group 2017

	Opening balance R'000	Acquisition of business			Disposals R'000	Depreciation R'000	Total R'000
	Additions R'000	Transfers R'000	Note 20 R'000				
Land and buildings	20 159	3 521	–	–	–	(94)	23 586
Furniture and fixtures	70 826	20 183	(24 658)	608	(524)	(10 718)	55 717
Motor vehicles	10 954	335	–	1 344	(332)	(2 457)	9 844
Office equipment	583	503	–	–	(45)	(235)	806
IT equipment	1 722	2 242	368	109	(85)	(1 465)	2 891
Kitchen equipment	30 624	5 216	20 355	7 751	(4 826)	(8 025)	51 095
General equipment	263	393	–	–	(77)	(170)	409
Leasehold improvements	24 585	6 533*	–	13 853	(6 188)	(3 227)	35 556*
Plant and machinery	51	8 257	3 935	–	(192)	(1 263)	10 788
Total	159 767	47 183*	–	23 665	(12 269)	(27 654)	190 692*

* An intangible asset with a cost of R1,1 million and a carrying value of R1 million was incorrectly reflected as leasehold improvement in 2017. This asset has now been reflected correctly as an intangible.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

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4. Property, plant and equipment continued

Reconciliation of property, plant and equipment – Company 2018

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fixtures	83	–	–	(17)	66
IT equipment	25	136	–	(52)	109
Total	108	136	–	(69)	175

Reconciliation of property, plant and equipment – Company 2017

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fixtures	19	85	–	(19)	83
IT equipment	66	–	(3)	(40)	25
Total	85	85	(3)	(59)	108

The carrying value of property, plant and equipment held under a finance lease is as follows:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Motor vehicles	2 489	6 673	–	–
Kitchen equipment	–	106	–	–
Furniture and fixtures	4 895	6 058	–	–
IT equipment	–	30	–	–

Property, plant and equipment in the Luxury Goods Division and in the company is ceded as security in terms of the general banking facilities (refer to note 15).

5. Intangible assets

Group	2018				2017			
	Cost R'000	Accumulated amortisation R'000	Impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation R'000	Impairment R'000	Carrying value R'000
Trademarks and intellectual property	83 297	(13 245)	(8 044)	62 008	96 000	(22 008)	–	73 992
Master franchise licences	7 618	(903)	–	6 715	7 618	(630)	–	6 988
Franchise conversion contributions	15 895	(9 401)	(425)	6 919	17 314	901	(4 739)	13 476
Computer software	11 208	(7 509)	–	3 699	9 218	(2 307)	(521)	6 390
Joining fees	4 381	(515)	–	3 866	1 139*	(80)*	–	1 059*
Key site premiums	3 633	(813)	–	2 820	3 834	(906)	–	2 928
Total	126 457	(32 386)	(8 469)	86 027	135 123*	(24 838)*	5 260	104 833*
Company								
Computer software	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–

* An intangible asset with a cost of R1,1 million and a carrying value of R1 million was incorrectly reflected as Leasehold improvement in 2017. This asset has now been reflected correctly.

Reconciliation of intangible assets – 2018

Group	Opening balance R'000	Additions R'000	Disposals R'000	Impairment R'000	Amortisation R'000	Total R'000
Trademarks and intellectual property	73 992	–	–	(8 044)	(3 940)	62 008
Master franchise licences	6 988	–	–	–	(273)	6 715
Franchise conversion contributions	13 476	56	(5 042)	(425)	(1 146)	6 919
Computer software	6 390	1 969	–	–	(4 659)	3 700
Joining fees	–	4 194	–	–	(329)	3 865
Key site premiums	2 928	231	–	–	(339)	2 820
Total	103 774	6 450	(5 042)	(8 469)	(10 686)	86 027
Company						
Computer software	–	–	–	–	–	–
Total	–	–	–	–	–	–

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February 2018

5. Intangible assets continued

Reconciliation of intangible assets – 2017

Group	Opening balance R'000	Additions R'000	Acquisition of business R'000	Impairment R'000	Amortisation R'000	Total R'000
Trademarks and intellectual property	77 931	–	–	–	(3 939)	73 992
Master franchise licences	7 261	–	–	–	(273)	6 988
Franchise conversion contributions	24 358	2 729*	(6 191)	(4 739)	(2 681)	13 476
Computer software	5 080	3 089	–	(521)	(1208)	6 390
Joining fees	1 139	–	–	–	(80)	1 059**
Key site premiums	2 550	668	–	–	(290)	2 928
Total	117 180	7 575	(6 191)	(5 260)	(8 471)	104 833**
Company						
Computer software	521	–	–	(521)	–	–
Total	521	–	–	(521)	–	–

* Net of R2.8 million on franchised stores becoming corporate stores during the year.

** An intangible asset with a cost of R1,1 million and a carrying value of R1 million was incorrectly reflected as Leasehold improvement in 2017. This asset has now been reflected correctly.

Group	2018 R'000	2017 R'000
Trademarks and intellectual property consist of:		
NWJ trademark	47 658	49 224
The Fish & Chip Co trademark	14 350	15 382
Zebro's Chicken trademark	–	9 385
Total	62 008	73 991
Master franchise licences consist of:		
Master franchise licence – Domino's	4 127	4 285
Master franchise licence – Starbucks	2 588	2 703
Total	6 715	6 988

Trademarks and intellectual property

The Natal Wholesale Jewellers (NWJ) trademark originated through the acquisition of the NWJ subsidiary during the 2009 financial year. This trademark is amortised on a straight-line basis over its useful life of 40 years. The remaining amortisation period is 30.4 years.

The Fish & Chip Co trademark originated through the purchase of The Fish & Chip Co business on 1 February 2012. This trademark is amortised on a straight-line basis over its useful life of 20 years. The remaining amortisation period is 13.9 years.

Zebro's Chicken trademark originated through the purchase of the Zebro's Chicken business on 1 March 2014. This trademark is amortised on a straight-line basis over its useful life of ten years.

This brand has continued to report a same store sales decline in 2018 of -18% (2017: -14%). Additionally store numbers have declined due to the closure of non-performing and non-conforming stores. There were 51 stores at year-end (2017: 69). In line with the continued deliberations over the Food Division brand portfolio and in understanding how to best enhance value to the group, the Board has decided to dispose of the franchise portion of the Zebro's business. In light of all the above, the trademark and goodwill relating to this brand have been fully impaired. These impairments are reflected under the Food Division in the segment report.

Master franchise licences

The Domino's master franchise licence originates from an exclusive 30-year master franchise agreement with Domino's Pizza International Franchising Inc. signed on 10 April 2014 to develop the Domino's Pizza brand in Southern Africa. This master licence is amortised on a straight-line basis over its useful life of 30 years. The remaining amortisation period is 26.1 years.

The Starbucks licence agreement is a 25-year exclusive agreement to develop Starbucks coffee outlets in South Africa. This master licence is amortised on a straight-line basis over its useful life of 25 years. The remaining amortisation period is 22.4 years.

Franchise conversion contributions

These represent the fair value adjustment on inception of franchise contributions made to Scooters Pizza and St Elmo's franchisees to assist in the conversion of their stores to Domino's Pizza (see note 9). These are amortised over the duration of the underlying franchise agreements of ten years.

Key site premiums

Key site premiums represent the cost of key sites acquired for new corporate-owned stores, or on behalf of franchised stores where the site is considered strategic.

Key site premiums are amortised over the duration of the lease term.

Computer software

Amortised over 3 years. The remaining amortisation period ranges between 1 and 3 years.

Joining fees

These represent once-off fees paid to Starbucks and Domino's for corporate-owned stores. The fees are amortised over 10 years. The remaining amortisation period ranges between 1 and 10 years.

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February 2018

5. Intangible assets continued

Goodwill

	2018			2017			2016		
	Cost R'000	Accumulated impairments R'000	Carrying value R'000	Cost R'000	Accumulated impairments Note a R'000	Carrying value R'000	Cost R'000	Accumulated impairments R'000	Carrying value R'000
Goodwill	154 932	(33 584)	121 348	140 070	–	140 070	130 632	(3 176)	127 456
Total	154 932	(33 584)	121 348	140 070	–	140 070	130 632	(3 176)	127 456

Reconciliation of goodwill – 2018

	Opening balance R'000	Acquisition of business Note 20 R'000	Impairment R'000	Total R'000
Goodwill	140 070	14 862	(33 584)	121 348
Total	140 070	14 862	(33 584)	121 348

Reconciliation of goodwill – 2017

	Opening balance R'000	Acquisition of business R'000	Impairment R'000	Total R'000
Goodwill	127 456	12 614	–	140 070
Total	127 456	12 614	–	140 070

Reconciliation of goodwill – 2016

	Opening balance R'000	Acquisition of business R'000	Impairment R'000	Total R'000
Goodwill	130 579	53	(3 176)	127 456
Total	130 579	53	(3 176)	127 456

Note a

Prior period error and restatement of comparative numbers

At the time of determining the fair values of assets and liabilities acquired in the acquisition of Arthur Kaplan, in November 2014 an error was made in the determination of the fair value of inventory. The retail value of inventory acquired was inadvertently substituted for the fair value of inventory in the wholesale market. Inventory was thus overstated by R18.5 million and accordingly goodwill was understated by a like amount. To correct this error, goodwill was increased and inventory was decreased by R18.5 million in order to reflect the correct value of these items on the statement of financial position. This restatement affects the statement of financial position only and has had no effect on previously published earnings.

A prior period error adjustment has been made to the Year ended 2016 and year ended 2017, as follows:

	2017			2016		
	As previously reported R'000	Adjustment R'000	Restated R'000	As previously reported R'000	Adjustment R'000	Restated R'000
Non-current assets						
Goodwill	121 581	18 489	140 070	108 967	18 489	127 456
Current assets						
Inventory	341 424	(18 489)	322 935	289 245	(18 489)	270 756

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

5. Intangible assets continued

For the purposes of impairment testing, goodwill is allocated to the following cash-generating units:

	2018 R'000	2017 R'000	2016 R'000
Maxi's	14 759	14 759	14 759
The Fish & Chip Co	29 283	50 233	50 233
Aloysius Trading Proprietary Limited	12 240	8 354	–
Zebro's Chicken	–	7 705	7 705
Arthur Kaplan	38 790	38 790	38 790
NWJ Retail Proprietary Limited	1 735	1 735	1 735
Company-owned stores – Jewellery	12 590	15 092	13 477
Company-owned stores – Food Division	15 976	3 402	757
Total goodwill	125 373	140 070	127 456

In March 2017 the Luxury Goods Division acquired the assets of one franchised NWJ store as this store was located in a key strategic site. The goodwill acquired as a result of this acquisition amounts to R0.2 million (refer to note 20.1).

During the current year, the Food Division acquired 11 Domino's outlets. The goodwill acquired as a result of these acquisitions amounts to R14.8 million (refer to note 20.2).

Maxi's

The Maxi's goodwill formed part of the Maxi's assets acquired in the 2006 financial year. The recoverable amount has been calculated using the value-in-use valuation method, which discounts to present value, the future cash flows, attributable to the Maxi's business, using an applicable discount rate. Cash flows were determined using projections from financial budgets approved by directors covering a one-year period, for revenue, gross profit and operating profit margin expectations. The key assumptions used in these budgets are a reflection of management's past experience in the market in which the unit operates. Cash flows beyond the one-year period, for a further four years, have been extrapolated using a steady 6% (2017: 8%) per annum growth rate. Beyond this five-year period, the group used a terminal growth rate of 5% (2017: 5%). These cash flows were discounted using a pre-tax discount rate of 21% (2017: 22.25%). The various sensitivity analyses performed by changing key variables by 1% in the calculation resulted in the recoverable amount exceeding the carrying amount in all instances.

The Fish & Chip Co

The goodwill on The Fish & Chip Co formed part of the assets acquired in The Fish & Chip Co and represents the excess of the purchase price paid over the fair value of acquired assets and liabilities. The recoverable amount has been calculated using the value-in-use valuation method, which discounts to present value, the future cash flows, attributable to The Fish & Chip Co business, using an applicable discount rate. Cash flows were determined using projections from financial budgets approved by directors covering a one-year period, for gross profit and operating profit margin expectations. The key assumptions used in these budgets are a reflection of management's past experience in the market in which the unit operates. Cash flows beyond the one-year period, for a further four years, have been extrapolated using a steady 6% (2017: 8%) per annum growth rate. Beyond this five-year period the group used a terminal growth rate of 5% (2017: 8%). These cash flows were discounted using a pre-tax discount rate of 20.15% (2017: 20.15%). This resulted in an impairment of R21 million. This impairment is reflected in the Food Division in the segment report. Same-store sales in the brand were flat for the year (2017: 5,8%) and store numbers have been declining over the past few years as the brand continues to close non-performing and non-conforming outlets. New store openings have also been negatively affected due to lack of prospective franchises on account of lack of availability of funding. There were 128 stores at year-end (2017:164). The various sensitivity analyses performed by changing key variables by 1% in the calculation resulted in the recoverable amount exceeding the carrying amount in all instances after the impairment was made.

Aloysius Trading Proprietary Limited

The Aloysius Trading Proprietary Limited goodwill represents the excess of the purchase price paid over the fair value of acquired assets and liabilities as at 1 December 2016. The recoverable amount has been calculated using the value-in-use valuation method, which discounts to the present value, the future cash flows, attributable to the Aloysius Trading Proprietary Limited business, using an applicable discount rate. Cash flows were determined using projections from financial budgets approved by directors covering a one-year period for revenue, gross profit and operating profit margin expectations. The key assumptions used in these budgets are a reflection of management's past experience in the market in which the unit operates. Cash flows beyond the one-year period, for a further four years, have been extrapolated using a steady 6% (2017: 8%) per annum growth rate. Beyond this five-year period the group used a terminal growth rate of 5% (2017: 5%). These cash flows were discounted using a pre-tax discount rate of 18% to 19% (2017: 21%). The various sensitivity analyses performed by changing key variables by 1% in the calculation resulted in the recoverable amount exceeding the carrying amount in all instances.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

5. Intangible assets continued

Arthur Kaplan

The Arthur Kaplan goodwill represents the excess of the purchase price paid over the fair value of acquired assets and liabilities as at 27 November 2014. The recoverable amount has been calculated using the value-in-use valuation method, which discounts to the present value, the future cash flows, attributable to the Arthur Kaplan Proprietary Limited business, using an applicable discount rate. Cash flows were determined using projections from financial budgets approved by directors covering a three-year period for revenue, gross profit and operating profit margin expectations. The key assumptions used in these budgets are a reflection of management's past experience in the market in which the unit operates. Cash flows beyond the three-year period, for a further three years, have been extrapolated using a steady 8% (2017: 8%) per annum growth terminal rate, and a terminal value has been determined after this six-year period. These cash flows were discounted using a discount rate of 20.3% (2017: 22.9%). The various sensitivity analyses performed by changing key variables by 1% in the calculation resulted in the recoverable amount exceeding the carrying amount in all instances.

NWJ Retail (Pty) Limited

The NWJ Retail Proprietary Limited goodwill represents the excess of purchase price paid over the fair value of acquired assets and liabilities as at 1 September 2014. The recoverable amount has been calculated using the value-in-use valuation method, which discounts to the present value, the future cash flows, attributable to the NWJ Retail business, using an applicable discount rate. Cash flows were determined using projections from financial budgets approved by directors covering a three-year period for revenue, gross profit and operating profit margin expectations. The key assumptions used in these budgets are a reflection of management's past experience in the market in which the unit operates. Cash flows beyond the three-year period, for a further three years, have been extrapolated using a growth terminal rate of 8% (2017: 8%), and a terminal value has been determined after this six-year period. These cash flows were discounted using a discount rate of 20% (2017: 20%). The various sensitivity analyses performed by changing key variables by 1% in the calculation resulted in the recoverable amount exceeding the carrying amount in all instances.

Company-owned stores – NWJ

This amount represents the excess of the purchase price paid over the fair value of acquired assets and liabilities of jewellery stores purchased by the Jewellery Division. The recoverable amount has been calculated on a store-by-store basis using the value-in-use valuation method, which discounts to present value, the future cash flows, attributable to each store, using an applicable discount rate. Cash flows were determined using projections from financial budgets approved by directors covering a three-year period, for revenue, gross profit and operating profit margin expectations for each store. The key assumptions used in these budgets are a reflection of management's past experience in the market in which the unit operates. Cash flows beyond the three-year period, for a further three years, have been extrapolated using a terminal growth rate of 8% (2017: 8%), and a terminal value has been determined after this six year period. These cash flows were discounted using a discount rate of 17.9% to 18.7% (2017: 24.9% to 26.2%). Of the 23 stores that were assessed, a total goodwill impairment amounting to R2.7 million was made (refer to note 23). This impairment is reflected in the Luxury Goods Division in the segment report. The various sensitivity analyses performed by changing key variables by 1% in the calculation resulted in the recoverable amount exceeding the carrying amount in all instances on all stores after the impairment was made.

Company-owned stores – Food Division

This amount represents the excess of the purchase price paid over the fair value of acquired assets and liabilities of food stores purchased by the Food Division. The recoverable amount has been calculated on a store-by-store basis using the value-in-use valuation method, which discounts to present value, the future cash flows, attributable to each store, using an applicable discount rate. Cash flows were determined using projections from financial budgets approved by directors covering a one-year period, for revenue, gross profit and operating profit margin expectations for each store. The key assumptions used in these budgets are a reflection of management's past experience in the market in which the unit operates. Cash flows beyond the one-year period, for a further four years, have been extrapolated using a steady 6% (2017: 8%) per annum growth rate. Beyond this five-year period the group used a terminal growth rate of 5% (2017: 5%). These cash flows were discounted using a pre-tax discount rate of 19% to 20% (2017: 21%). Of the 30 stores that were assessed, a total goodwill impairment amounting to R2.2 million was made (refer to note 23). This impairment is reflected in the Food Division in the segment report. The various sensitivity analyses performed by changing key variables by 1% in the calculation resulted in the recoverable amount exceeding the carrying amount in all instances on all stores after the impairment was made.

6. Investments in subsidiaries

Name of company	Directly held	% holding	% holding	Carrying amount	Carrying amount
		2018	2017	2018	2017
				R'000	R'000
NWJ Holdings Proprietary Limited – Dormant	Taste Holdings Limited	100	100	*	*
Taste Holdings Luxury Goods Division Proprietary Limited	Taste Holdings Limited	100	100	105 056	105 056
Maxi's Grill Marketing Proprietary Limited – Dormant	Taste Holdings Limited	100	100	*	*
Scooters Pizza Wierda Park Proprietary Limited – Dormant	Taste Holdings Limited	100	100	1	1
Scooters Pizza Retail Proprietary Limited – Dormant	Taste Holdings Limited	100	100	*	*
Scooters Pizza Grosvenor Crossing Proprietary Limited – Dormant	Taste Holdings Limited	100	100	*	*
Taste Food Franchising Proprietary Limited	Taste Holdings Limited	100	100	*	*
Buon Gusto Cuisine Proprietary Limited	Taste Holdings Limited	100	100	*	*
Taste Holdings Share Trust	Taste Holdings Limited	100	100	1	1
				105 058	105 058

* Less than or equal to R1 000.

The carrying amounts of subsidiaries are shown net of impairment losses of Rnil (2017: Rnil).

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Subsidiaries	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
7. Loans to/(from) group companies				
Taste Holdings Luxury Goods Division Proprietary Limited – Treasury loan	–	–	167 099	166 377
<i>The loan bears interest at a rate of 7%.</i>				
NWJ Holdings Proprietary Limited – Working loan	–	–	(38 750)	(38 750)
Taste Holdings Luxury Goods Division Proprietary Limited – Working loan	–	–	17 190	17 211
Buon Gusto Cuisine Proprietary Limited – Treasury loan	–	–	114 209	104 865
<i>The loan bears interest at a rate of 4%.</i>				
Buon Gusto Cuisine Proprietary Limited – Working loan	–	–	13 302	13 196
Taste Food Franchising Proprietary Limited – Working loan	–	–	18 078	8 316
Taste Food Franchising Proprietary Limited – Treasury loan	–	–	620 958	461 997
<i>The loan bears interest at a rate of 4%.</i>				
Taste Holdings Share Trust	–	–	2 052	1 326
	–	–	914 137	734 538
Credit risk on loans to group companies is negligible due to the fact that all these group companies are commonly controlled.				
Non-current assets	–	–	902 266	733 238
Current assets	–	–	50 621	40 050
Non-current liabilities	–	–	(38 750)	(38 750)
	–	–	914 137	734 538

All loans are unsecured. Loans are to be settled within 30 years. Working loans are settled on an ongoing basis.

The company has deferred its rights to claim or receive payment of amounts owing by certain subsidiaries until such time as the subsidiaries' assets fairly valued exceeds its liabilities.

8. Net investment in finance lease

The finance lease asset is recognised in respect of agreements for the rental of equipment to franchisees in the Food Division for which the present value of the minimum lease payments due in terms of the lease agreements amounted substantially to the fair value of the equipment at the time the agreements were entered into.

The finance leases are for a period of ten years. The lessor holds these assets as security.

Group	2018			
	Within 1 year	2 to 5 years	>5 years	Total
Gross investment in finance lease	1 370	4 952	3 581	9 903
Unearned finance income	(920)	(2 780)	(834)	(4 534)
	450	2 172	2 747	5 369
Group	2017			
	Within 1 year	2 to 5 years	>5 years	Total
Gross investment in finance lease	2 131	11 220	3 186	16 537
Unearned finance income	(1 609)	(6 182)	681	(7 110)
	522	5 038	3 867	9 427

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
9. Other financial assets				
Group				
Loans and receivables				
Extended terms to food franchise stores	2 587	8 206	–	–
These amounts represent extended payment terms given by the brands to certain franchisees. These amounts attract no interest, are unsecured and are repayable over an average of 24 months.				
Domino's marketing fund	15 907	14 328	–	–
In the 2017 financial year a decision was made to not charge interest on this loan in order to ensure that more funds are available for future brand marketing. As a result a present value discount adjustment amounting to R36.4 million was made to reflect the loan at its present value (refer to note 23). This loan now bears no interest (2017: no interest) and is repayable in annual instalments of R2 million per annum over the master franchise agreement term commencing 1 March 2019 over the balance of the master franchise agreement.				
Loans to Domino's stores	1 544	1 254	–	–
This loan was given to a franchisee, attracts no interest and is repayable in 60 equal instalments of R20 900 each commencing on 1 April 2017.				
This loan is secured over the asset of the store.				
Loans to The Fish & Chip Co stores	304	1 546	–	–
These loans were given to certain franchisees to finance the shortfall of the new store cost. They attract interest at the prime interest rate and are generally repayable over a period ranging between 12 and 36 months. These loans are secured over the asset of the stores.				
NWJ marketing fund	638	1 482	–	–
This loan is unsecured, bears interest at the prime lending rate and is repayable in 120 equal instalments of R30 410 (2017: 30 410) per month. This amount is ceded as security in terms of general banking facilities (see note 15).				
Maxi's marketing fund	1 200	1 765	–	–
This loan is unsecured, bears interest at the prime (2017: prime) lending rate and is repayable in 72 (2017: 84) equal instalments of R28 634 (2017: R28 634) per month.				
Zebro's marketing fund	–	1 000	–	–
The loan is unsecured, bears no interest and has been repaid in full.				
Franchise conversion contributions	5 972	14 990	–	–
Contributions granted to Scooters Pizza and St Elmo's franchisees to assist with the conversion of their stores to Domino's Pizza. These contributions which bear no interest are initially recognised at fair value with the difference recognised as an intangible asset (refer to note 5). These loans have varying repayment periods based on repayment thresholds applicable to each individual franchisee spanning as long as 120 months. In terms of the franchise agreement, these contributions are immediately payable upon sale of store or cancellation of franchise agreement. Personal sureties are in place for all these contributions.				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
9. Other financial assets continued				
Ticaphase	2 475	13 969	–	–
This loan originates from the sale in December 2016 of the food manufacturing assets in the Cullinan facility to the facility's management in terms of a funded buy-out. This loan is secured and bears interest at the prime rate. Repayments commenced in April 2017 based on production throughput and it is envisaged that it will be repaid in 48 months. An allowance for collectability amounting to R12,0 million has been raised against the debt.				
	30 627	58 540	–	–
Non-current assets	25 346	46 820	–	–
Current assets	5 281	11 720	–	–
	30 627	58 540	–	–
The directors consider that the carrying amount of the franchise conversion contributions closely approximates fair values as noted above.				
The directors consider that the carrying amount of interest-bearing loans and other receivables approximates their fair value as these are linked to market-related interest rates. The recoverable amount of extended loans to food franchisees approximates the fair value, because of the short-term nature of these loans.				
The credit quality of other financial assets is as follows:				
Not past due – not impaired	28 796	56 994	–	–
Past due – not impaired	1 830	1 546	–	–
Not past due – Impaired (franchise conversion contributions)	5 395	7 831	–	–
Past due – impaired	1 146	3 173	–	–
Provision for impairment	(6 540)	(11 004)	–	–
	30 627	58 540	–	–

	2018			2017		
	Past due total R'000	Allowance for impairment R'000	Net past due not impaired R'000	Past due total R'000	Allowance for impairment R'000	Net past due not impaired R'000
Ageing of amounts past due						
120 days+	8 370	(6 540)	1 830	12 550	(11 004)	1 546
	8 370	(6 540)	1 830	12 550	(11 004)	1 546

No formal credit ratings are available for any of these assets. The credit risk on the loans to the marketing funds is assessed as low due to management's past experience and knowledge of the business.

The risk on the conversion contributions has been assessed as low due to the sureties contained in the franchise agreement (refer to franchise conversion contributions on page 82).

Reconciliation of provision for impairment of other financial assets is as follows:

	2018 R'000	2017 R'000
Opening balance	11 004	14 177
Provision raised	1 097	1 327
Provision reversed	(5 561)	(4 500)
Closing balance	6 540	11 004
Carrying amounts of other financial assets that have been renegotiated:		
Other financial assets	2 587	8 270

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
10. Deferred tax				
Non-deductible temporary differences	818	–	–	–
Advertising levies and marketing funds	(801)	(974)	–	–
Prepayments	(961)	(273)	(22)	(22)
Provisions, accruals and deposits	16 665	6 465	195	586
Temporary differences relating to acquisition of business	(13 344)	(7 970)	–	–
Accelerated wear and tear	3 975	3 541	–	–
Gross investment in finance lease	–	(2 639)	–	–
Tax losses available for set-off against future taxable income	68 835	62 554	–	–
	75 187	60 704	173	564
Deferred tax asset	88 840	87 647	173	586
Deferred tax liability	(13 652)	(26 943)	–	(22)
	75 188	60 704	173	564
Reconciliation of deferred tax				
At beginning of the year	60 704	16 269	564	212
Recognised through profit or loss	14 043	39 352	(391)	352
Adjustment to prior year	440	835	–	–
Acquisition of business	–	4 248	–	–
	75 188	60 704	173	564

The deferred tax liability raised on the acquisition of business relates to The Fish & Chip Co, NWJ trademark intangibles and Zebro's Chicken. This liability will decrease as the intangibles are amortised over their expected useful lives.

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered, having reviewed the group's financial projections.

The losses incurred are attributable to the launch of the Starbucks and Domino's brands in South Africa and are not operational losses but rather "start-up" losses. These losses are expected to be recovered in the foreseeable future as the Starbucks and Domino's businesses mature out of their infancy stage and reach profitability. An increase in the asset relates to Buon Gusto and Luxury Division (R8 million). The group decided not to pass the deferred tax asset relating to certain losses incurred in the Food Division for 2018. The taxation asset amounts to R38 million.

11. Non-current assets held-for-sale

No non-current assets held-for-sale for year ended 28 February 2018

	2017			Carrying value R'000
	Opening balance R'000	Additions R'000	Disposals R'000	
Maxi's	644	–	(644)	–
The Fish & Chips Co	2 815	–	(2 815)	–
Zebro's	–	181	(181)	–
Total	3 459	181	(3 640)	–

The above represented stores from the Food Division that have been acquired from franchisees and have immediately been classified as non-current assets held-for-sale.

The carrying amount of these assets approximated their fair value at year-end.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
12. Advertising levies				
Current asset	2 914	3 416	–	–
This amount represents advertising expenditure incurred in excess of the levies received from franchisees (refer to note 1.16). This amount is recovered through controlled underspending of marketing funds in subsequent years.				
The carrying amount of this asset approximates its fair value at year-end				
Total	2 914	3 416	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
13. Inventories				
Luxury Goods Division				
Raw materials and components	1 979	2 247	–	–
Finished goods	244 474	296 361	–	–
Packaging	6 166	7 093	–	–
Food Division				
Catering equipment	2 473	3 504	–	–
Raw materials and components	649	640	–	–
Finished goods	39 228	31 579	–	–
Goods in transit	1 048	–	–	–
Total	296 017	341 424	–	–

All inventories in the Luxury Goods Division have been ceded as security in terms of general banking facilities (refer to note 15).

Prior period error and restatement of comparative numbers

At the time of determining the fair values of assets and liabilities acquired in the acquisition of Arthur Kaplan in November 2014, an error was made in the determination of the fair value of inventory. The retail value of inventory acquired was inadvertently substituted for the fair value of inventory in the wholesale market. Inventory was thus overstated by R18.5 million and accordingly goodwill was understated by a like amount. To correct this error, goodwill was increased and inventory was decreased by R18.5 million in order to reflect the correct value of these items on the statement of financial position. This restatement affects the statement of financial position only and has had no effect on previously published earnings.

A prior period error adjustment has been made to the year ended 2016 and year ended 2017 as follows:

	2017			2016		
	As previously reported R'000	Adjustment R'000	Restated R'000	As previously reported R'000	Adjustment R'000	Restated R'000
Non current assets						
Goodwill	121 581	18 489	140 070	108 967	18 489	127 456
Current assets						
Inventory	341 424	(18 489)	322 935	289 245	(18 489)	270 756

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
14. Trade and other receivables				
Gross trade receivables	47 764	68 829	–	–
Allowance for doubtful debts	(17 670)	(21 706)	–	–
Net trade receivables	30 094	47 123	–	–
Prepayments	1 513	1 526	80	78
Deposits	2 302	1 783	–	–
Sundry debtors	13 581	13 163	200	5
VAT	5 088	2 423	21	1 425
Store development in advance	3 481	704	–	–
Total	56 059	66 722	301	1 508

No independent credit ratings are available for any of the trade receivables. The credit quality of trade receivables has been assessed based on the historical information of the counterparty and any evidence of financial distress, including non-adherence to credit terms. Normal credit terms are within 30 days from statement.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	2018			2017		
	Gross trade receivables R'000	Allowance for doubtful debt R'000	Net trade receivables R'000	Gross trade receivables R'000	Allowance for doubtful debt R'000	Net trade receivables R'000
14. Trade and other receivables continued						
Less than 30 days	11 217	(936)	10 281	17 441	(251)	17 190
31 to 60 days	1 555	(393)	1 162	5 861	(275)	5 586
61 to 90 days	3 393	(366)	3 027	3 081	(24)	3 057
91 to 120 days	1 899	(178)	1 721	188	(9)	179
Over 120 days	29 700	(15 797)	13 903	42 258	(21 147)	21 111
	47 764	(17 670)	30 094	68 829	(21 706)	47 123

As of 28 February 2018, trade and other receivables were impaired and provided for as reflected above.

The amount of the allowance as of 28 February 2018 is R17 669 900 (2017: R21 706 422).

The carrying value of these trade and other receivables approximates their fair value.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Reconciliation of allowance for doubtful debts of trade and other receivables is as follows:				
Opening balance	21 706	16 431	–	–
Allowance for doubtful debt raised	21 409	10 675	–	–
Allowance for doubtful debt reversed	–	(210)	–	–
Amounts written off as uncollectable	(25 445)	(5 425)	–	–
Bad debts recovered	–	235	–	–
	17 670	21 706	–	–

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade receivables mentioned above.

The group does not hold any collateral as security. All amounts receivable are denominated and recoverable in ZAR. The Luxury Goods Division's debtors have been ceded as security in terms of the general banking facilities (refer to note 15).

Company

Credit quality of trade and other receivables

No independent credit ratings are available. The trade and other receivables are intercompany transactions with subsidiaries.

Trade receivables past due but not impaired

There are no trade and other receivables past due and not impaired.

The company does not hold any collateral as security.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
15. Cash and cash equivalents				
Cash and cash equivalents consist of:				
Cash on hand	189	150	–	–
Bank balances	114 470	32 181	88 107	9 300
Bank overdraft	(20 179)	(48 259)	–	–
Cash in transit	1 762	460	–	–
	96 242	(15 468)	88 107	9 300

A guarantee is in place to the amount of R77 066 (2017: R226 766) in favour of the lessor of a lease entered into by Taste Holdings Limited with the lessor.

Bank guarantees are in place to the amount of R9 073 851 (2017: R10 153 304) in favour of the lessor for leases entered into by Taste Luxury Goods Division with these lessors.

Bank guarantees are in place to the amount of R4 550 044 (2017: R2 657 526) in favour of the lessor for leases entered into by Taste Food Franchising Proprietary Limited with these lessors.

There is a R57 million (2017: R70 million) overdraft facility in place with Rand Merchant Bank. The overdraft facility and the guarantees are secured by cession in security, general notarial bonds over all moveable assets of the Luxury Goods Division and of the company and cross guarantees from the company and the Luxury Goods Division.

	Group		Company	
	2018 Number of shares	2017	2018 Number of shares	2017
16. Stated capital				
Ordinary shares of no par value				
Authorised	2 000 000 000	500 000 000	2 000 000 000	500 000 000
Issued (fully paid-up)	901 500 948	378 571 047	901 500 948	378 571 047
In issue at 1 March	378 571 047	377 322 380	378 571 047	377 322 380
Shares issued to Taste Holdings Share Trust ¹	–	1 248 667	–	1 248 667
Clawback offer (19 June 2017) ²	80 000 012	–	80 000 012	–
Shares issued to Taste Holdings Share Trust ³	707 666	–	707 666	–
Rights issue (29 January 2018) ⁴	442 222 223	–	442 222 223	–
In issue at 28 February	901 500 948	378 571 047	901 500 948	378 571 047
Treasury shares ⁵	(2 531 443)	(1 983 777)	(2 531 443)	(1 983 777)
In issue at 28 February – excluding treasury shares⁵	898 969 505	376 587 270	898 969 505	376 587 270

¹ Shares issued between R0.43 – R4.21 in anticipation of share issues being exercised in terms of the Taste Holdings share option scheme.

² Shares issued at R1.50.

³ Shares issued at R0.43.

⁴ Shares issued at R0.90.

⁵ Treasury shares held by Taste Holdings Share Trust.

1 098 499 052 (2017: 121 428 953) unissued ordinary shares are under the control of the directors in terms of a resolution passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

75 000 000 (2017: 75 000 000) of the unissued ordinary shares are specifically reserved for the share incentive scheme, of which 34 487 388 (2017: 45 321 868) options have already been offered to and accepted by employees.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
16. Stated capital continued				
Balance at 1 March	611 610	611 196	624 146	623 909
Shares issued	102 069	–	102 484	–
Options exercised	483	414	304	237
Rights issue	398 000	–	398 000	–
	1 112 162	611 610	1 124 934	624 146
17. Borrowings				
17.1 Senior secured floating rate notes 1				
Notes issued	–	125 000	–	125 000
Interest accrued	–	1 186	–	1 186
Fees capitalised	–	(2 141)	–	(2 141)
Fees amortised	–	627	–	627
On 31 July 2014, Taste Holdings Limited issued Senior Secured Notes with a nominal value of R125 million in terms of a registered R1 billion Domestic Medium-Term Note programme. These notes were secured by cession in security, general notarial bonds over all moveable assets of the company and its subsidiaries, and the company's cross guarantees from all Taste Holdings subsidiaries. Interest was payable quarterly in arrears at a rate of three-month JIBAR, reset quarterly, plus 5% (2017: 5%). The notes were settled on 5 February 2018.				
17.2 Senior secured floating rate notes 2				
Notes issued	–	75 000	–	75 000
Interest accrued	–	711	–	711
Fees capitalised	–	(600)	–	(600)
Fees amortised	–	144	–	144
On 22 April 2015, Taste Holdings Limited issued Senior Secured Notes with a nominal value of R75 million in terms of a registered R1 billion Domestic Medium-Term Note programme. These notes were secured by cession in security, general notarial bonds over all moveable assets of the company and its subsidiaries, and the company's cross guarantees from all Taste Holdings subsidiaries. Interest was payable quarterly in arrears at a rate of three-month JIBAR, reset quarterly, plus 5% (2017: 5%). The notes were settled on 5 February 2018.				
17.3 Senior secured floating rate notes 3				
Notes issued	–	25 000	–	25 000
Interest accrued	–	237	–	237
On 8 September 2015, Taste Holdings Limited issued Senior Secured Notes with a nominal value of R25 million in terms of a registered R1 billion Domestic Medium Term Note programme. These notes were secured by cession in security, general notarial bonds over all moveable assets of the company and its subsidiaries, and the company's cross guarantees from all Taste Holdings subsidiaries. Interest was payable quarterly in arrears at a rate of three-month JIBAR, reset quarterly, plus 5% (2017: 5%). The notes were settled on 5 February 2018.				
17.4 Revolving credit facility	–	19 158	–	19 158
On 29 July 2014, Taste Holdings Limited entered into a Revolving Credit Facility (RCF) agreement with Rand Merchant Bank Limited with a nominal value of R40 million. This RCF was secured by cession in security, general notarial bonds over all moveable assets of the company and its subsidiaries, and the company's cross guarantees from all Taste Holdings subsidiaries. Interest was payable quarterly in arrears at a rate of three-month JIBAR, reset quarterly, plus 5.5% (2017: 3.5%). The RCF was settled on 29 December 2017.				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
17. Borrowings continued				
17.5 WesBank	3 771	9 800	–	–
These secured loans bear interest at the prime rate ranging from prime less 0.5% to prime +2.25% and are payable over a period ranging from 48 to 60 months. The loans are secured over property, plant and equipment (refer to note 4).				
17.6 Fiamme Pizza Proprietary Limited	–	6 000	–	–
Originated from the acquisition of 100% of the claims held by Fiamme Pizza Proprietary Limited in Aloysius Trading Proprietary Ltd in terms of the acquisition of Aloysius Trading Proprietary Limited (see note 21.3). This loan is unsecured and bears interest at prime +1%. This loan was repaid in February 2018.				
17.7 Aloysius Trading Proprietary Limited				
Shareholder loan	–	337	–	–
This loan was unsecured, interest free and had no fixed terms of repayment. This is the minority shareholder loan in Aloysius Trading Proprietary Limited. The loan was settled during the current year.				
	3 771	260 459	–	244 322
Non-current liabilities				
Senior secured floating rate notes	–	223 800	–	223 800
Revolving credit facility	–	19 000	–	19 000
WesBank	1 109	3 779	–	–
Shareholder's loan	–	337	–	–
	1 109	246 916	–	242 800
The carrying value of the non-current liabilities approximates their fair value because these are linked to market interest rates.				
Current liabilities				
Senior secured floating rate notes	–	1 364	–	1 364
Revolving credit facility	–	158	–	158
WesBank	2 662	6 021	–	–
Fiamme loan	–	6 000	–	–
	2 662	13 543	–	1 522
	3 771	260 459	–	244 322
18. Lease equilisation				
Future lease equilisation payments under non-cancellable agreements				
– within one year	2 755	1 164	–	–
– one to five years	11 270	11 025	–	–
	14 025	12 189	–	–
19. Trade and other payables				
Trade payables	72 801	66 846	175	257
Development deposits	6 478	3 649	–	–
VAT	913	3 425	–	–
Payroll accruals	16 247	14 054	6 208	2 091
Dividends payable	109	109	109	109
Other accrued expenses and deposits	28 418	25 504	3 173	2 236
Forward Exchange Contracts	414	–	–	–
	125 380	113 587	9 665	4 693
The directors consider that the carrying amount of trade and other payables approximates their fair value due to their short-term nature.				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

20. Acquisition of businesses

20.1 Acquisition of NWJ stores

Goodwill arose on the acquisition of the business of one NWJ stores in March 2017 (2017: four). The rationale for this acquisition is consistent with the brands strategy of:

- expanding its corporate store ownership; and
- retaining key strategic sites.

The fair value of assets and liabilities acquired is set out below:

	2018 R'000	2017 R'000
Property, plant and equipment	75	535
Trade receivables	3	–
Inventory	609	5 468
Fair value of assets acquired	687	6 003
Consideration paid	(881)	(7 617)
In cash	(817)	(3 985)
Balance owed by vendors	(64)	(3 632)
Goodwill acquired	(194)	(1 614)

During the year that this store was owned, it contributed R2.6 million (2017: R12.8 million) to revenue and R0.620 million (2017: R3.4 million) to operating profit.

20.2 Acquisition of Domino's Pizza stores

During the current period, the Food Division acquired the business of 11 Domino's Pizza (2017: five) outlets in order to expand its corporate store footprint.

The fair value of assets and liabilities acquired is set out below:

	2018 R'000	2017 R'000
Property, plant and equipment	8 485	5 598
Inventories	–	20
Fair value of assets acquired	8 485	5 618
Consideration paid	(23 291)	(8 264)
Balance owed by vendors	(23 291)	(8 264)
Goodwill acquired	(14 806)	(2 646)

During the year that these stores were owned, they contributed R29.5 million (2017: R10.3 million) to revenue and an EBITDA of R0.3 million (2017: R0.5 million). The revenue and EBITDA as if these stores were owned for a full year cannot be disclosed, as complete and compliant financial records of these stores prior to the date that they were acquired could not be obtained.

20.3 Acquisition of Domino's Pizza stores

In December 2016, the Food Division acquired an 80% share in Aloysius Trading Proprietary Limited, a company which owned 15 Domino's Pizza franchise stores in Gauteng, Free State, North West, Mpumalanga and Limpopo. The remaining 20% of shares were retained by the existing management who have been franchisees of Taste for ten years.

The Food Division acquired 60% of the ordinary shares in Aloysius from Fiamme Pizza Proprietary Limited as well as 100% of the claims held by Fiamme Pizza in Aloysius. The Food Division also subscribed for a further 200 ordinary shares in Aloysius, resulting in a total shareholding of 80% in Aloysius.

Mr Carlo Gonzaga, the Chief Executive Officer of Taste is a director and indirect shareholder of Aloysius through his indirect shareholding in Fiamme Pizza. Although Mr Gonzaga was not actively involved in the management of this company, there was a perceived conflict of interest, given Mr Gonzaga's position as Chief Executive Officer of Taste. This perceived conflict had been aggravated by the recent strategic direction of the Food Division to own corporate stores, whereas in the past this division did not actively pursue a corporate store ownership strategy. The disposal of Mr Gonzaga's shares and claims in Aloysius served to remove the perceived conflict of interest as well as to increase the number of corporate owned Domino's Pizza stores, in line with the Food Divisions corporate store ownership strategy.

The value of the Fiamme Pizza claim in Aloysius amounted to R6 million and is included in borrowings below. This claim will be paid within the next 12 months.

Goodwill arose on acquisition as a result of the excess of the cost of the acquisition over the group's interest in the net fair value of the identifiable assets of Aloysius recognised at date of acquisition.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

20. Acquisition of businesses continued

20.3 Acquisition of Domino's Pizza stores continued

	2017 R'000
Property, plant and equipment	17 529
Inventory	459
Trade and other receivables	682
Trade and other payables	(6 330)
Tax receivable	180
Deferred tax	4 248
Finance lease liability	(2 132)
Bank	1 087
Other financial liability	(11 030)
Deferred gain	(6 191)
Borrowings	(10 426)
Minority interest	3 570
Fair value of assets acquired	(8 354)
Consideration paid	(0)
Goodwill acquired	(8 354)

During the period that the company was owned/operated by the Food Division, they contributed R13.7 million to revenue and R0.6 million EBITDA.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
21. Revenue				
Sale of goods	987 839	1 007 178	–	–
Services rendered and franchise revenue	43 459	66 456	–	–
Store development	12 679	23 980	–	–
Management fees	–	–	26 000	8 500
	1 043 977	1 097 614	26 000	8 500
22. Cost of sales				
Sale of goods	570 912	624 929	–	–
Services rendered	30 057	25 177	–	–
Store development	11 476	21 131	–	–
	612 445	671 237	–	–
23. Operating loss				
Operating loss for the year is stated after accounting for the following:				
Income from subsidiaries				
Administration and management fees	–	–	26 000	8 500
	–	–	26 000	8 500
Operating lease charges				
Premises	88 266	76 840	–	–
Equipment	614	679	–	–
	88 880	77 519	–	–
Loss on sale of property, plant and equipment	4 839	2 062	–	–
Depreciation of property, plant and equipment	30 976	27 654	69	59
Share-based payment (income)/expense	(469)	4 834	1 021	835
Employee costs	246 763	216 555	15 920	9 217
Research and development	633	510	–	–
Profit on exchange differences	(386)	(863)	–	–
Fair value adjustment to loan to Domino's marketing fund (see note 9)	–	36 492	–	–
Impairment				
– intangible assets	8 469	5 260	–	521
– goodwill	33 584	–	–	–
Allowance against other financial assets	11 996	–	–	–
Amortisation of intangibles	10 686	8 391	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
28. Reconciliations of liabilities arising from financing activities				
Long-term borrowings				
Opening balance	246 572	248 879	242 793	242 023
– Interest	27 641	28 798	27 575	27 631
– Proceeds	–	3 283	–	–
– Repayment	(273 104)	(34 388)	(270 368)	26 861
Closing balance	1 109	246 572	–	242 793
Short-term borrowings				
Opening balance	13 543	6 974	1 522	1 425
– Interest	804	1 153	144	158
– Proceeds	–	6 478	–	–
– Repayment	(11 685)	(1 062)	(1 666)	(61)
Closing balance	2 662	13 543	–	1 522
29. Tax paid				
Balance at beginning of the year	718	(16)	(20)	(357)
Current tax for the period recognised in income statement	397	(12 127)	–	(566)
Balance at end of the year	(1 911)	(718)	(107)	20
	(796)	(12 861)	(127)	(903)

30. Commitments

The group has commitments arising from property leases for its own business operations, leases entered into to secure key sites for franchised outlets, as well as contracts entered into to lease motor vehicles and equipment. With regard to leases entered into to secure sites, it is the group's policy to enter into sublease agreements with the franchisees, where applicable, on the same terms and conditions as those in the main lease.

Certain property leases have contingent rental payable based on turnover clauses. Leases are subject to escalation and renewal clauses along normal commercial terms.

Buon Gusto Cuisine Proprietary Limited, a wholly-owned subsidiary of Taste Holdings Limited entered into an agreement to dispose of and further lease back the property in Midrand that houses the dough manufacturing and food distribution business of the Food Division. The sale became effective 10 September 2017.

The net future minimum rentals due under operating leases are as follows:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Amounts due for motor vehicles and equipment	–	726	–	–
Gross amounts due under property leases	183 174	159 397	–	–
	183 174	160 123	–	–
The net future minimum rentals are repayable as follows:				
Payable within the next 12 months	56 112	51 429	–	–
Two to five years	105 085	103 071	–	–
More than five years	21 977	5 623	–	–
	183 174	160 123	–	–

Capital commitments

An amount of R42 million has been approved for capital expenditure for the 2019 financial year in respect of the rollout of corporate stores in Starbucks, Domino's and the Luxury Division. This capital expenditure will be funded from the latest equity raised in January 2018.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

31. Related parties

Related party	Position in group	Nature of interest	
Carlo Gonzaga	Previous Chief Executive Officer	– Shareholder and Director in Fiamme Proprietary Limited – Indirect shareholder in Aloysius Trading Proprietary Limited – company that owned 15 Domino’s stores	Resigned 12 February 2018
Hylton Roy Rabinowitz	Non-executive director	Majority shareholder in the company that NWJ rents its premises from	Resigned 29 January 2018
Richard Timothy Fitzgerald	Production Manager – NWJ	Majority shareholder in one NWJ outlet	

The group, in the ordinary course of business, entered into various transactions with related parties. The transactions between the group and all the above have occurred under terms and conditions that are no more favourable than those entered into with third parties in arm’s length transactions.

	Group		Company	
	2018 R’000	2017 R’000	2018 R’000	2017 R’000
Franchise income received from related parties	(871)	(4 098)	–	–
Rent paid to related party	2 812	3 017	–	–
Stock sold to related parties	(8 060)	(2 982)	–	–
Amount owing to Fiamme Proprietary Limited	–	(6 000)*	–	–
Interest paid to Fiamme Proprietary Limited	631	112	–	–

* Amount owing for the purchase of 100% of the claims held by Fiamme Pizza Proprietary Limited in Aloysius Trading Proprietary Limited in terms of the acquisition of 100% shareholding in Aloysius (see note 20.3).

32. Equity-settled share-based payments reserve

Taste Holdings Limited operates the Taste Holdings Share Trust which incorporates, among other things, share option schemes which enable directors and executive management to benefit from the Taste Holdings share price performance and form part of the retention strategy for key executive management.

Scheme 1

This scheme confers the right to participants to acquire ordinary shares at a strike price of 43 cents per share (30-day volume-weighted average of Taste shares on the grant date). Options vest in three tranches from the second anniversary of the option grant date. Once vesting of a tranche has been triggered, a third of the options within the tranche can be exercised one year after vesting was triggered, a further third two years after the vesting was triggered and the final third three years after the vesting was triggered. The options must be exercised within five years of vesting having been triggered. Upon cessation of employment, options that have been granted and accepted, but not yet vested, are forfeited unless approval is obtained from the trustees.

All options must be exercised no later than the eighth anniversary on which they were granted unless approval is obtained from the trustees.

Schemes 2, 3, 4 and 5

These schemes confer the right to participants to acquire ordinary shares at a strike price determined as the volume-weighted average price of an ordinary share over the 30 business days immediately preceding the option grant date. Options vest and can be exercised in four equal tranches, beginning on the second anniversary of option grant date up to the fifth anniversary of the option grant date. Upon cessation of employment, options that have been granted and accepted, but not yet vested, are forfeited unless approval is obtained from the trustees. All options must be exercised by no later than the sixth anniversary of the option grant date unless approval is obtained from the trustees.

Scheme 6

This scheme was approved by shareholders in January 2016 to more fully comply with the principles of King III. Share options comprise two types of options, namely retention and performance options. Retention options have no strike price and the performance options have a strike price equal to the volume, weighted average price of an ordinary share over the 30 business days immediately preceding the option grant date. Options vest and can be exercised in three equal tranches, beginning on the third anniversary of the option grant date up to the fifth anniversary of the option grant date. All options must be exercised by no later than the sixth anniversary of the option grant date unless approval is obtained from trustees. Upon cessation of employment, options that have been granted and accepted, but not yet vested, are forfeited unless approval is obtained from the trustees. With the introduction of this new scheme, participants with outstanding unvested options under schemes 2, 3, 4 and 5 (“previous options”) were offered the opportunity in June 2016 to receive new retention options under scheme 6 in lieu of the previous options. The previous options were fair valued at the time using the widely accepted Black-Scholes-Merton model and new retention options of equivalent fair value were offered to participants. All of those participants chose to accept the new retention options offered to them in terms of this exercise.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	2018		2017	
	Number	Weighted average exercise price (cents)	Number	Weighted average exercise price (cents)
32. Equity-settled share-based payments reserve <small>continued</small>				
Scheme 1				
Share options vested and were exercised during the year.				
There are no further share options available for allocation.				
The number of share options granted and accepted are:				
Opening balance	707 665	43	2 377 793	43
Granted and accepted	–	–	–	–
Exercised*	(160 000)	43	(1 670 128)	43
Forfeited	–	–	–	–
Granted and accepted – shares not issued yet	547 665	43	707 665	43
Number of share options granted to and accepted by directors	547 665	–	547 665	–
<i>* Average share price at the date of exercise ranged between R1.75 and R2.55.</i>				
Vesting period of options granted and accepted				
Number of options				Latest vesting date
652 110				Year to Feb 2018
55 555				Year to Feb 2019
707 665				
Scheme 2				
Share options vested, exercised and forfeited during the year.				
The number of share options granted and accepted are:				
Opening balance	–	–	450 000	254
Granted and accepted	–	–	–	–
Forfeited	–	–	(450 000)	254
Exercised*	–	–	–	–
Granted and accepted – shares not issued yet	–	–	–	–
Number of share options granted to and accepted by directors	–	–	–	–
Scheme 3				
Share options vested, exercised forfeited and modified during the year.				
The number of share options granted and accepted are:				
Opening balance	–	–	1 218 070	386
Granted and accepted	–	–	–	–
Forfeited	–	–	(206 712)	386
Exercised*	–	–	–	–
Modified and replaced by scheme 6 retention options	–	–	(1 011 358)	–
Granted and accepted – shares not issued yet	–	–	–	–
Number of share options granted to and accepted by directors	–	–	–	–
<i>* Weighted average share price at the date of exercise was R4.72.</i>				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	2018		2017	
	Number	Weighted average exercise price (cents)	Number	Weighted average exercise price (cents)
32. Equity-settled share-based payments reserve <small>continued</small>				
Scheme 4				
Share options forfeited during the year.				
The number of share options granted and accepted are:				
Opening balance	–	–	2 500 000	367
Granted and accepted	–	–	–	–
Forfeited	–	–	(2 500 000)	367
Granted and accepted – shares not issued yet	–	–	–	–
Number of share options granted to and accepted by directors	–	–	–	–
Scheme 5				
Share options vested, exercised, forfeited and modified during the year.				
The number of share options granted and accepted are:				
– 1 November 2013	–	–	13 713 696	351
– 16 April 2014	–	–	–	–
– 1 June 2014	–	–	–	–
– 29 July 2014	–	–	–	–
– 1 August 2014	–	–	–	–
– 1 September 2014	–	–	–	–
– 1 December 2014	–	–	–	–
– 19 January 2015	–	–	–	–
Forfeited	–	–	(4 664 792)	–
Modified and replaced by scheme 6 retention options	–	–	(9 048 904)	–
Exercised*	–	–	–	–
Granted and accepted – shares not issued yet	–	–	–	–
Number of share options granted to and accepted by directors	–	–	–	–

* Weighted average share price at the date of exercise was R4.20.

	2017			
	Performance options		Retention options	
	Number	Weighted average exercise price (cents)	Number	Weighted average exercise price (cents)
Scheme 6				
The number of share options granted and accepted are:				
1 June 2016	12 279 598	2.55	10 609 192*	–
1 September 2016	–	–	200 000	–
17 February 2017	13 878 764	1.85	7 646 649	–
Exercised	–	–	–	–
Granted and accepted – shares not issued yet	26 158 362	2.18	18 455 841	–
Number of share options granted to and accepted by directors	7 799 118	2.20	4 262 422	–

* Included in the above are 2 838 910 retention options issued to replace certain scheme 3 and scheme 5 options 267 433 replaced scheme 3 options and 2 571 477 replaced scheme 5 options.

Vesting period of options granted and accepted

Last vesting date	Performance options	Retention options
Year to February 2020	8 719 454	6 151 947
Year to February 2021	8 719 454	6 151 947
Year to February 2022	8 719 454	6 151 947
	26 158 362	18 455 841

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

	2018			
	Performance options		Retention options	
	Number	Weighted average exercise price (cents)	Number	Weighted average exercise price (cents)
32. Equity-settled share-based payments reserve <small>continued</small>				
Scheme 6 <small>continued</small>				
The number of share options granted and accepted are:	26 158 362	2.18	18 455 841	–
1 May 2017	–	–	200 000	–
1 June 2016	–	–	375 000	–
20 December 2017	858 333	0.72	360 500	–
15 January 2018	–	–	2 035 135	–
Forfeited	(9 815 446)	2.19	(4 688 002)	–
Exercised	–	–	–	–
Granted and accepted – shares not issued yet	17 201 250	2.10	16 738 474	–
Number of share options granted to and accepted by directors	4 832 309	2.24	2 809 123	–

Vesting period of options granted and accepted

Last vesting date	Performance options	Retention options
Year to February 2021	286 111	990 212
Year to February 2022	286 111	990 212
Year to February 2023	286 111	990 211
	858 333	2 970 635

IFRS 2 requires the fair value of equity-settled share-based payments granted to employees to be valued at the grant date and recognised in profit and loss over the vesting period. The fair value of each share option granted has been valued at grant date using the widely accepted Black-sholes-Mertan model which takes into account vesting periods. All market conditions were assumed to be met. Expected volatility was determined by using the daily share volatility of the share price over the last five years.

The following assumptions were applied in determining the value of the share options granted during the year:

	Scheme 6 Performance options	Scheme 6 Retention options	Scheme 6 Performance options	Scheme 6 Retention options	Scheme 5	Scheme 4	Scheme 3	Scheme 2	Scheme 1
Number of options granted and accepted	858 333	2 970 635	26 158 362	18 455 841	–	–	–	–	707 665
Weighted average fair value of options	32 cents	94 cents	81 cents	213 cents	47 cents	31 cents	43 cents	37 cents	15 cents
Exercise price	72 cents	zero cents	185 – 255 cents	zero cents	306 – 372 cents	367 cents	386 cents	421 cents	43 cents
Closing price of Taste share at grant date	73 cents	73 – 205 cents	185 – 246 cents	185 – 246 cents	329 cents	355 cents	385 cents	230 – 400 cents	230 cents
Expected volatility of share price (%)	38.7% – 41.7%	n/a	33.2% – 39.3%	33.2% – 39.3%	39.35% – 61.39%	61.12%	66.73%	105.39% – 110.24%	110.24%
Risk-free rate for the life of the option	7.70%	n/a	7.8% – 8.7%	7.8% – 8.7%	6.04% – 7.8%	6.22%	6.14%	5.29% – 6.94%	6.94%
Expected life of options	3 – 5 years	3 – 5 years	3 – 5 years	3 – 5 years	5 years	5 years	5 years	5 years	6 years
Expected dividend yield	0%	0%	0%	0%	1.75% – 2.25%	2.32%	2.32%	1.48%	1.48%

	Performance option strike price	Carlo Performance Options	Carlo Retention Options	Evan Performance Options	Evan Retention Options	Duncan Performance Options	Duncan Retention Options
01-Mar-16	Opening balance	0.43	322 666	–	100 000	–	125 000
01-Jun-16	Granted	2.55	1 205 490	694 110	683 675	707 795	1 987 923
17-Feb-17	Granted	1.85	1 761 319	759 189	998 905	434 307	1 161 806
28-Feb-17	Closing balance		3 289 475	1 453 299	1 782 580	1 142 102	3 274 729
12-Feb-18	Forfeited	2.55	(1 205 490)	–	–	–	–
	Forfeited	1.85	(1 761 319)	–	–	–	–
28-Feb-18	Closing balance		322 666	1 453 299	1 782 580	1 142 102	3 274 729
							1 667 021

Retention options have a zero strike price.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

32. Equity-settled share-based payments reserve continued

Scheme 6 continued

Reconciliation of share-based payment expense charged directly to profit or loss:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Balance at beginning of the year	11 055	6 221	3 190	2 355
Charge to profit or loss	(469)	4 834	1 021	835
Charge for the year	(469)	4 834	1 021	835
Balance at end of the year	10 586	11 055	4 211	3 190

Executive – Paid by company Year ended 2018	Allowances and benefits		Total R'000	Short-term employee benefits R'000	Restraint payment R'000	Long-term employee benefits R'000	Total R'000
	Basic R'000	R'000					
Carlo Ferdinando Gonzaga	2 579	135	2 714	385	5 000	–	8 099
Evangelos Tsatsarolakis	1 925	113	2 038	276	–	–	2 314
	4 504	248	4 752	661	5 000	–	10 413
Executive – Paid by subsidiary Year ended 2018							
Duncan John Crosson	2 253	84	2 337	–	–	–	2 337
	2 253	84	2 337	–	–	–	2 337
Executive – Paid by company Year ended 2017							
Carlo Ferdinando Gonzaga	2 554	119	2 673	–	–	881	3 554
Evangelos Tsatsarolakis	1 811	115	1 926	–	–	369	2 295
	4 365	234	4 599	–	–	1 250	5 849
Executive – Paid by subsidiary Year ended 2017							
Duncan John Crosson	2 129	75	2 204	801	–	575	3 580
	2 129	75	2 204	801	–	575	3 580

All the above executive directors are part of the group executive committee and have been identified as prescribed officers in terms of the Companies Act of South Africa.

	2018 Number	2017 Number
Carlo Ferdinando Gonzaga	1 775 965	4 742 774
Evangelos Tsatsarolakis	2 924 682	2 924 682
Duncan John Crosson	4 941 750	4 941 750
	9 642 397	12 609 206

The above options have been granted in terms of the Taste Holdings share option scheme (see note 32).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

33. Directors' emoluments continued

	2018 R'000	2017 R'000
Non-executive fees		
Ramsay L'Amy Daly (Bill) – resigned 28 February 2017	–	218
Kevin Michael Utian – resigned 29 January 2018	196	202
Wessel Petrus van der Merwe – resigned 29 January 2018	265	273
Anthony Berman – resigned 29 January 2018	244	251
Hylton Roy Rabinowitz – resigned 29 January 2018	161	166
Brimstone Investment Corporation Limited – S Patel – resigned 30 May 2016	–	59
Grant Pattison	459	433
Conduit Capital – T Moodley – appointed 10 October 2016	166	69
Neil Grant Brimacombe – appointed 29 January 2018	–	–
Nonzukiso (Zukie) Siyotula – appointed 29 January 2018	–	–
Adrian John Maizey – appointed 29 January 2018	–	–
Leo Chou – appointed 29 January 2018	–	–
	1 491	1 671

	Notes	Loans and receivables R'000	Total R'000
34. Financial assets and liabilities by category			
Financial assets by category			
Group 2018			
Loans to group companies	7	–	–
Net investment in finance lease	8	5 369	5 369
Other financial assets	9	30 627	30 627
Advertising levies	12	2 914	2 914
Trade and other receivables	14	49 458	49 458
Cash and cash equivalents	15	116 421	116 421
		204 789	204 789
Company 2018			
Loans to group companies	7	986 841	986 841
Trade and other receivables	14	200	200
Cash and cash equivalents	15	88 107	88 107
		1 088 529	1 088 529
Group 2017			
Net investment in finance lease	8	9 427	9 427
Other financial assets	9	58 540	58 540
Advertising levies	12	3 416	3 416
Trade and other receivables	14	62 773	62 773
Cash and cash equivalents	15	32 791	32 791
		166 947	166 947
Company 2017			
Loans to group companies	7	809 312	809 312
Trade and other receivables	14	5	5
Cash and cash equivalents	15	9 300	9 300
		818 617	818 617

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

34. Financial assets and liabilities by category continued

	Notes	Liabilities at amortised cost R'000	Total R'000
Financial liabilities by category			
Group 2018			
Bank overdraft	15	20 179	20 179
Borrowings	17	3 771	3 771
Trade and other payables	20	112 830	112 830
		136 780	136 780
Company 2018			
Loans from group companies	7	72 704	72 704
Borrowings	17	–	–
Trade and other payables	20	3 457	3 457
		76 161	76 161
Group 2017			
Bank overdraft	15	48 259	48 259
Borrowings	17	260 459	260 459
Trade and other payables	20	96 108	96 108
		404 826	404 826
Company 2017			
Loans from group companies	7	74 774	74 774
Borrowings	17	244 322	244 322
Trade and other payables	20	2 602	2 602
		321 698	321 698

35. Risk management

The group's activities expose it to a variety of risks. These risks include: liquidity risk, interest rate risk, credit risk and foreign exchange risk.

Liquidity risk

The group's exposure to liquidity risk is that insufficient funds will be available to meet future obligations as they fall due. The group manages liquidity risk through an ongoing review of its future commitments and of the facilities available from financial institutions. Cash flow forecasts are prepared and adequate unutilised borrowing facilities are maintained. The following table represents the group and company's outstanding contractual maturity profile. The analysis presented is based on the undiscounted contractual obligation.

	Notes	<1 year R'000	1 – 2 years R'000	2 – 5 years R'000	Total R'000
Group 2018					
Bank overdrafts	15	20 179	–	–	20 179
Borrowings	17	2 662	1 109	–	3 771
Trade and other payables	19	112 830	–	–	112 830
		136 780	1 109	–	136 780
Company 2018					
Trade and other payables	19	3 457	–	–	3 457
		3 457	–	–	3 457
Group 2017					
Bank overdrafts	15	48 259	–	–	48 259
Borrowings	17	13 543	19 568	227 348	260 459
Trade and other payables	19	96 108	–	–	96 108
		157 910	19 568	227 348	404 826
Company 2017					
Bank overdrafts	15	–	–	–	–
Borrowings	17	1 522	18 491	224 310	244 322
Trade and other payables	19	2 602	–	–	2 602
		4 124	18 491	224 310	246 924

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

35. Risk management continued

Interest rate risk

The group's and company's interest rate risk arises from fixed and variable rate interest-bearing assets and liabilities described in the table below. The group and company manages its interest rate exposure by only depositing cash and cash equivalents with major banks with high-quality credit standing and by limiting exposures to any one counterparty.

A hypothetical increase/decrease in interest rates by 1%, with all other variables remaining constant, would increase/decrease profits after tax by R1 331 448 (2017: R2 558 493) for the group.

At reporting date, the interest rate profile of the group's interest-bearing financial instruments was:

	Notes	Interest rates applicable	Group		Company	
			2018 R'000	2017 R'000	2018 R'000	2017 R'000
Variable rate instruments						
Assets						
Loans to group companies	7		–	–	986 841	809 312
Other financial assets	9	Prime	4 617	18 762	–	–
Cash and cash equivalents	15	Daily call rates	114 470	32 181	88 107	9 300
Liabilities						
Bank overdraft	15	Prime +2.25%	20 179	48 259	–	–
Borrowings – WesBank	17	Prime to prime +2.25%	3 771	9 800	–	–
Borrowings	17	Three-month JIBAR reset quarterly +5%	–	124 672	–	124 672
Borrowings	17	Three-month JIBAR reset quarterly +5%	–	75 255	–	75 255
Borrowings	17	Three-month JIBAR reset quarterly +5%	–	25 237	–	25 237
Borrowings – RCF	17	Three-month JIBAR reset quarterly +3.5%	–	19 158	–	19 158

Foreign exchange risk

The group is exposed to foreign exchange risk only to the extent that it imports raw materials used to manufacture jewellery and inventory for the Luxury Division and inventory for the Food Division. These purchases are denominated mainly in US dollar and euro. The liabilities are settled in one of these foreign currencies.

As at 28 February 2018, the group and company had the following foreign currency-denominated liabilities:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Trade and other payables – Euro	4 922	1 803	–	–
Trade and other payables – US dollar	3 398	720	–	–
Trade and other payables – British pound	14	–	–	–
Total	8 334	2 523	–	–

Exchange rates used for conversion of foreign items were: USD 11.93 (2017: USD 13.12), Euro 14.62 (2017: Euro 13.87) and Pound 16.64.

If the foreign exchange rates change by R1 and were applied to the outstanding balances as at 28 February 2018, with all other variables held constant, the impact on post-tax profits would be R622 332 (2017: R184 855).

A forward exchange contract was entered into on or before 28 February 2018, which has an unutilised balance of USD 299 760. The contract was closed out on 19 March 2018 at a loss of R0.4 million.

The following table shows the levels within the hierarchy of financial liabilities measured at fair value:

	2018		2017	
	Level 2 R'000	Total R'000	Level 2 R'000	Total R'000
Financial liability	414	414	–	–
	414	414	–	–

Financial liabilities classified as Level 2, have been valued by an independent third party based on prevailing exchange rates to determine the value of which the liability could be settled.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

35. Risk management continued

Credit risk

Credit risk is the risk of financial loss to the group if a counterparty to a financial asset fails to meet its contractual obligations. Credit risk arises on cash and cash equivalents, trade and other receivables, other financial assets and loans to group companies. The group only deposits cash with major banks with high-quality credit standing and limits exposure to any one counterparty. Trade and other receivables mostly comprise stock debtors, royalties and marketing fees receivable from franchisees. Other financial assets comprise loans and extended terms offered to franchisees, loans to marketing funds of brands and conversion contributions. Management evaluates credit risk relating to these receivables on an ongoing basis. The credit risk is assessed on an ongoing basis based on management's past experience and knowledge of the business. The credit risk on group companies is negligible due to the fact that all these group companies are commonly controlled. The granting of credit is made on application and is approved by directors. At year-end, the group and company did not consider there to be any significant concentration of risk.

The following table represents the group's and company's exposure to credit risk:

	Notes	<1 year R'000	1 – 2 years R'000	2 – 5 years R'000	More than 5 years R'000	Total R'000
Group 2018						
Net investment in finance lease	8	450	504	1 668	2 747	5 369
Other financial assets	9	5 281	8 091	13 230	4 026	30 627
Advertising levies	12	2 914	–	–	–	2 914
Trade and other receivables	14	49 458	–	–	–	49 458
Cash and cash equivalents	15	114 470	–	–	–	114 470
		172 573	8 595	14 897	6 773	209 439
Company 2018						
Loans to group companies	7	4 260	–	–	982 581	986 841
Trade and other receivables	14	200	–	–	–	200
Cash and cash equivalents	15	88 107	–	–	–	88 107
		92 567	–	–	982 581	1 075 148
Group 2017						
Net investment in finance lease	8	522	648	2 908	5 349	9 427
Other financial assets	9	11 720	14 558	30 157	2 105	58 540
Advertising levies	12	3 416	–	–	–	3 416
Trade and other receivables	14	62 773	–	–	–	62 773
Cash and cash equivalents	15	32 181	–	–	–	32 181
		110 612	15 206	33 065	7 454	166 337
Company 2017						
Loans to group companies	7	14 463	–	–	794 849	809 312
Trade and other receivables	14	5	–	–	–	5
Cash and cash equivalents	15	9 300	–	–	–	9 300
		23 768	–	–	794 849	818 617

To the extent that recoverable amounts are estimated to be less than their associated carrying values, impairment charges have been recorded in profit or loss and the carrying values have been written down to their recoverable amounts.

36. Capital management

The board's policy is to maintain a strong capital base so as to maintain investors', creditors' and market confidence and to sustain future development of the business. The capital base comprises equity and borrowings. As a result, the board reviews its total capital employed on a regular basis and makes use of several indicative ratios which are appropriate to the nature of the group's operations and consistent with conventional industry measures. The principal ratios used in this review process are:

- gearing, defined as interest-bearing borrowings, less cash divided by capital employed; and
- return on equity, defined as headline earnings divided by average capital employed.

There were no changes in the group's approach to capital management during the year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

February 2018

37. Loss and headline loss per share

	2018 Cents	2017 Cents
Loss per share	(51.0)	(26.8)
Diluted loss per share	(51.0)	(26.8)*
Headline loss per share	(41.8)	(25.0)
Diluted headline loss per share	(41.8)	(25.0)*
Previously reported		
– diluted loss per share	–	(26.2)
– diluted headline loss per share	–	(24.4)

* Anti dilution not taken into account in prior year.

	R	R
Loss per share is calculated on the loss for the group	(241 202 316)	(100 818 075)
Headline loss per share is calculated on headline losses	(197 584 434)	(93 808 202)

	Number	Number
Weighted average number of ordinary shares	473 059 812	375 926 781

The weighted average number of shares is calculated after taking into account the effect of setting off 2 531 443 (2017: 1 983 777) treasury shares held by the Taste Holdings Share Trust against the issued share capital.

	2018 R	2017 R
Diluted headline loss per share is based on basic losses	(241 202 316)	(100 818 075)
Diluted headline loss per share is based on diluted headline losses	(197 584 434)	(93 808 202)

	Number	Number
Weighted average diluted shares in issue	489 130 185	384 379 136

Weighted average diluted shares is calculated after taking into account the effect of the possible issue of 16 070 373 (2017: 8 452 355) ordinary shares in the future relating to the share option scheme and the no par value portion rights issue.

	2018		2017	
	Gross R'000	Net R'000	Gross R'000	Net R'000
Headline loss has been computed as follows:				
Loss attributable to ordinary shareholders		(241 202)		(100 818)
Loss on sale of property, plant and equipment	4 839	3 938	2 062	1 678
Impairment of goodwill	33 584	33 584	–	–
Impairment of intangibles	8 469	6 096	5 260	5 260
Headline loss		(197 584)		(93 880)

38. Going concern

Based on positive forward financial projections, which include the effect of the fully underwritten rights issue of R398 million in January 2018, the directors are confident that the group operates a highly sustainable business model which will continue as a going concern in the foreseeable future. The group losses are attributable to the launch of the Starbucks and Domino's brands in South Africa. These losses are expected to be recovered in the foreseeable future as the Starbucks and Domino's businesses mature out of their infancy stage and eventually reach profitability.

39. Contingency

Taste Holding Limited has guaranteed all rental obligations of Buon Gusto Cuisine Proprietary Limited in favour of the lessor in relation to the lease of the Midrand property.

40. Events after balance sheet date

In line with the continued deliberations over the entire portfolio of brands in the Food Division, in understanding how to best enhance value to the group while ensuring the sustainability of the brands, the Board has decided to dispose of the franchise portion of the Zebro's business. The effective date of the sale will be 1 June 2018.

Mr Evan Tsatsarolakis has resigned from the Board and from his position as Chief Financial Officer with effect from 31 May 2018. Mr Dylan Pienaar has been appointed as acting Chief Financial Officer with effect from 31 May 2018 until such time as a suitable candidate is appointed to fill the role.

SHAREHOLDERS' ANALYSIS

February 2018

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1 – 999	1 412	37.41	373 203	0.041
1 000 – 9 999	1 454	38.53	5 346 224	0.59
10 000 – 99 999	756	20.03	21 638 035	2.4
100 000 shares and over	152	4.03	874 143 486	96.97
Total	3 774	100	901 500 948	100

Distribution of shareholders

Banks/Brokers	22	0.58	624 170 110	69.24
Close corporations	31	0.82	1 119 024	0.13
Endowment funds	5	0.13	36 199 984	4.02
Individuals	3 528	93.48	53 977 687	5.99
Insurance companies	3	0.08	16 712 049	1.85
Mutual funds	6	0.16	49 434 494	5.48
Other corporations	11	0.29	4 415 240	0.49
Private companies	62	1.65	47 912 714	5.31
Public companies	2	0.05	500 000	0.06
Retirement funds	1	0.03	11 668 339	1.29
Share trusts	1	0.03	2 531 443	0.28
Trusts	102	2.7	52 859 864	5.86
Total	3 774	100	901 500 948	100

Beneficial shareholders holding 5% or more, other than directors

Protea Asset Management LLC & Conduit Capital			581 501 912	64.50
PSG Konsult			49 147 411	5.45
Aaron Beare Foundation			36 168 724	4.01
Total			666 818 047	73.97

Shareholder spread

Non-public shareholders	16	0.42	597 368 229	66.26
Directors of the company	9	0.24	13 334 874	1.48
Own holdings	1	0.02	2 531 443	0.28
Strategic holdings (10% or more)	6	0.16	581 501 912	64.5
Public shareholders	3 758	99.58	304 132 719	33.74
Total	3 774	100	901 500 948	100

SHAREHOLDERS' DIARY

February 2018

Announcement of final results	31 May 2018
Annual general meeting	31 July 2018
Announcement of interim results	October 2018
Financial year-end	28 February

JSE PERFORMANCE

at February 2018

Opening price (cents)	180
Closing price (cents)	60
High for the year (cents)	215
Low for the year (cents)	52
Volume of shares traded during the year	45 955 634
Value of shares traded during the year (R)	67 925 702
Shares in issue	901 500 948
Market capitalisation (R)	540 900 569

NOTICE OF ANNUAL GENERAL MEETING

February 2018

TASTE HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2000/002239/06)

JSE code: TAS

ISIN: ZAE000081162

("Taste" or "the company" or "the group")

Notice is hereby given that the annual general meeting of shareholders of Taste will be held at 12 Gemini Street, Linbro Business Park, Frankenwald, Sandton, on Tuesday, 31 July 2018, at 10:00 to present the annual financial statements to shareholders and to consider and, if deemed appropriate, pass the ordinary and special resolutions listed below, with or without modification.

Kindly note that in terms of section 63(1) of the Companies Act, 2008 (Act No. 71 of 2008), as amended ("the Companies Act"), meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to participate in or vote at the annual general meeting. Forms of identification that will be accepted include original and valid identity documents, driver's licences and passports.

The board of directors of the company ("the board") has determined that the record date in terms of section 62(3)(a), as read with section 59(1) of the Companies Act, for the purpose of determining which shareholders of the company are entitled to receive notice of the annual general meeting, is Friday, 25 May 2018 and the record date for purposes of determining which shareholders of the company are entitled to participate in and vote at the annual general meeting is Friday, 20 July 2018. Accordingly, the last day to trade in the company's shares is Tuesday, 17 July 2018.

Shareholders are referred to the explanatory notes as attached to the notice of the annual general meeting for additional information, including abbreviated profiles of the directors standing for re-election.

Presentation of annual financial statements

The audited annual financial statements of Taste Holdings Limited and the consolidated audited financial statements of the Taste Holdings group for the year ended 28 February 2018, including the directors' report, the auditors' report and the report of the audit and risk committee, to be presented as required in terms of section 61(8)(a) of the Companies Act.

Report from the Social and Ethics Committee

In accordance with Companies Regulation 43(5)(c), issued in terms of the Companies Act, the chairman of the Social, Ethics and Transformation Committee, or in the absence of the chairman, any member of the Committee, will present the Committee's report to shareholders at the annual general meeting.

Ordinary resolutions 1: Rotation and appointment of directors

Neil Brimacombe, Leo Chou, Adrian Maizey and Nonzukiso Siyotula, who were appointed as non-executive directors of the company following the previous annual general meeting, offer themselves for reappointment as directors of the company.

Grant Pattison, a non-executive director of the company, will retire by rotation and offers himself for reappointment.

Accordingly, shareholders are requested to consider and, if deemed fit, approve the separate ordinary resolutions set out below.

Ordinary resolution 1.1

It is RESOLVED that the appointment of N Brimacombe as an independent non-executive director of the company be and is hereby approved.

Ordinary resolution 1.2

It is RESOLVED that the appointment of L Chou as an independent non-executive director of the company be and is hereby approved.

Ordinary resolution 1.3

It is RESOLVED that the appointment of A Maizey as a non-executive director of the company be and is hereby approved.

Ordinary resolution 1.4

It is RESOLVED that the appointment of N Siyotula as an independent non-executive director of the company be and is hereby approved.

Ordinary resolution 1.5

It is RESOLVED that the reappointment of G Pattison as an independent non-executive director of the company be and is hereby approved.

Brief biographies of the above directors are set out on pages 37 – 39.

Ordinary resolution 1.6

It is RESOLVED that the appointment of D Pienaar as an executive director of the company be and is hereby approved.

NOTICE OF ANNUAL GENERAL MEETING continued

February 2018

Ordinary resolution 2: Appointment of audit and risk committee

It is proposed that the following independent non-executive directors be appointed as members of the audit and risk committee.

Ordinary resolution 2.1

It is RESOLVED that N Siyotula be and is hereby appointed as a member and chairperson of the audit and risk committee of the company, subject to her re-election as a director pursuant to ordinary resolution 1.4, until the conclusion of the next annual general meeting of the company in 2019.

Ordinary resolution 2.2

It is RESOLVED that N Brimacombe be and is hereby appointed as a member of the audit and risk committee of the company, subject to his re-election as a director pursuant to ordinary resolution 1.1, until the conclusion of the next annual general meeting of the company in 2019.

Ordinary resolution 2.3

It is RESOLVED that L Chou be and is hereby appointed as a member of the audit and risk committee of the company, subject to his re-election as a director pursuant to ordinary resolution number 1.2, until the conclusion of the next annual general meeting of the company in 2019.

Brief biographies of the above directors are set out on pages 37 – 39.

Ordinary resolution 3: Appointment of auditors

It is RESOLVED, on recommendation of the audit and risk committee, that Grant Thornton be and is hereby appointed as independent auditors of the company, the individual designated auditor, Serena Ho, meeting the requirements of section 90 (2) of the Companies Act.

Ordinary resolution 4: Control of authorised but unissued ordinary shares

It is RESOLVED that the authorised but unissued ordinary shares in the capital of the company be and are hereby placed under the control and authority of the directors of the company and that the directors be and are hereby authorised to allot and issue at their discretion the unissued but authorised ordinary shares in the share capital of the company and/or grant options to subscribe for the unissued shares, to such person/s for such purposes and on such terms and conditions as they may in their discretion deem fit, subject to the provisions of the Listings Requirements of the JSE Limited ("JSE Listings Requirements"), sections 38 and 41 of the Companies Act and the Memorandum of Incorporation of the company and, shareholders hereby waive any pre-emptive rights thereto.

Ordinary resolution 5: Authority to issue shares for cash

It is RESOLVED that, in terms of the JSE Listings Requirements, the mandate given to the directors of the company in terms of a general authority to:

- allot and issue, or to issue any options in respect of, all or any of the authorised but unissued ordinary shares in the capital of the company; and/or
- sell or otherwise dispose of or transfer, or issue any options in respect of, ordinary shares in the capital of the company purchased by subsidiaries of the company, for cash, to such person/s on such terms and conditions and at such times as the directors may from time to time in their discretion deem fit, subject to the Companies Act, the Memorandum of Incorporation of the Company and its subsidiaries and the JSE Listings Requirements, from time to time.

The JSE Listings Requirements currently provide, inter alia, that:

- this authority shall only be valid until the next annual general meeting of the company but shall not extend beyond 15 months from the date of this meeting;
- the allotment and issue of the shares must be made to persons qualifying as public shareholders as defined in the JSE Listings Requirements;
- the shares which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such shares or rights that are convertible into a class already in issue;
- a paid press announcement giving full details, including the impact of the issue on net asset value, net tangible asset value, earnings and headline earnings per share and, if applicable, diluted earnings and diluted headline earnings per share, be published after any issue representing, on a cumulative basis within one financial year, 5% of the number of shares in issue prior to the issue concerned;
- the issues in aggregate in any one financial year must be less than 30% of the number of shares of the company's issued ordinary share capital (net of treasury shares) as at the date of this notice of annual general meeting, being 269 690 851 ordinary shares;
- in determining the price at which an issue of shares for cash will be made in terms of this authority, the maximum discount permitted shall be 10% of the weighted average traded price of the ordinary shares on the JSE, measured over the 30 business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities; and
- whenever the company wishes to use repurchased shares, held as treasury stock by a subsidiary of the company, such use must comply with the JSE Listings Requirements as if such use was a fresh issue of ordinary shares.

NOTICE OF ANNUAL GENERAL MEETING continued

February 2018

Ordinary resolution 6: Advisory endorsement of the remuneration policy and implementation report

The King IV Report on Corporate Governance for South Africa, 2016 (“King IV”), recommends that the company’s remuneration policy and implementation report be tabled to shareholders for a non-binding advisory vote at each annual general meeting. Failure to pass one of these resolutions will not have legal consequences relating to existing arrangements. However, the board will take the outcome of the vote into consideration when assessing the company’s remuneration policy.

Ordinary resolution 6.1

To approve, as a non-binding advisory vote in terms of King IV, the company’s remuneration policy (excluding the remuneration of the non-executive directors for their services as directors and members of board committees) as set out in the Remuneration Report contained in the Integrated Report on page 48.

Ordinary resolution 6.2

To approve, as a non-binding advisory vote in terms of King IV, the company’s remuneration implementation report (excluding the remuneration of the non-executive directors for their services as directors and members of board committees) as set out in the Remuneration Report contained in the Integrated Report on page 48.

Ordinary resolution 7: Signing authority

It is RESOLVED that any one director or the secretary of the company be and is hereby authorised to do all such things and sign all such documents as are deemed necessary to implement the resolutions set out in the notice convening the annual general meeting at which this ordinary resolution will be considered and approved at such meeting.

Special resolution 1: Approval of non-executive directors’ remuneration

It is RESOLVED, as a special resolution:

- that the company be and is hereby authorised to pay remuneration to its non-executive directors for their services as non-executive directors, as contemplated in sections 66(8) and 66(9) of the Companies Act; and
- that the remuneration structure and amounts as set out below, be and are hereby approved until such time as rescinded or amended by shareholders by way of a special resolution:

Type of fee (annual fee)	Approved fee in	Proposed fee in
	2018	2019
	R	R
Board		
Chairman	365 700	365 700
Board member	175 960	175 960
Audit and Risk Committee		
Chairman	90 100	90 100
Member	75 260	75 260
Chairman of any other board committee	55 120	55 120
Member of any other board committee	38 160	38 160

Special resolution 2: General authority to repurchase shares

It is RESOLVED, as a special resolution, that the mandate given to the company in terms of its Memorandum of Incorporation (or one of its wholly owned subsidiaries) providing authorisation, by way of a general approval, to acquire the company’s own securities, upon such terms and conditions and in such amounts as the directors may from time to time decide, subject to the JSE Listings Requirements, section 48 and 46 of the Companies Act and the company’s Memorandum of Incorporation, be extended, subject to the following:

- this general authority be valid until the company’s next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution (whichever period is shorter);
- the repurchase being effected through the order book operated by the JSE trading system, without any prior understanding or arrangement between the company and the counterparty;
- repurchases may not be made at a price greater than 10% (ten percent) above the weighted average of the market value of the ordinary shares for the 5 (five) business days immediately preceding the date on which the transaction was effected;
- an announcement being published as soon as the company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the initial number of ordinary shares, and for each 3% (three percent) in aggregate of the initial number of ordinary shares repurchased thereafter, containing full details of such repurchases;
- the number of shares which may be acquired pursuant to this authority in any one financial year may not in the aggregate exceed 20% (twenty percent) of the company’s issued share capital as at the date of passing of this special resolution or 10% of the company’s issued share capital in the case of an acquisition of shares in the company by a subsidiary of the company;
- the company’s sponsor confirming the adequacy of the company’s working capital for purposes of undertaking the repurchase of ordinary shares in writing to the JSE prior to the company entering the market to proceed with the repurchase;

NOTICE OF ANNUAL GENERAL MEETING continued

February 2018

- the company and/or its subsidiaries not repurchasing securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements, unless it has in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed, and full details of the programme have been disclosed in an announcement published on SENS prior to the commencement of the prohibited period;
- at any point in time the company only appointing one agent to effect any repurchases on its behalf; and
- the board passing a resolution that they authorised the repurchase and that the company passed the solvency and liquidity test set out in section 4 of the Companies Act and that since the test was done there have been no material changes to the financial position of the group.

The directors of the company and its subsidiaries will only utilise the general authority to purchase the company's securities to the extent that they, having considered the effects of the maximum repurchase permitted, are of the opinion that for a period of 12 (twelve) months after the date of the notice of the annual general meeting and at the actual date of the repurchase:

- the company and the group will be able, in the ordinary course of business, to pay its debts;
- the working capital of the company and the group will be adequate for ordinary business purposes;
- the assets of the company and the group, fairly valued in accordance with International Financial Reporting Standards, will exceed the liabilities of the company and the group;
- the company's and the group's ordinary share capital and reserves will be adequate for ordinary business purposes; and
- the directors have passed a resolution authorising the repurchase, resolving that the company has satisfied the solvency and liquidity test as defined in the Companies Act and resolving that since the solvency and liquidity test had been applied, there have been no material changes to the financial position of the group.

Additional information

The following additional information, some of which may appear elsewhere in the integrated report, is provided in terms of the JSE Listings Requirements for purposes of the general authority to repurchase the company's securities set out in special resolution number 2 above:

- Major shareholders on page 104.
- Stated capital of the company on pages 87 – 88.

Directors' responsibility statement

The directors in office, whose names appear on page 56 of the integrated report, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 2 and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required by the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in the integrated report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the company's financial year-end and the date of signature of the integrated report.

Directors' intention regarding the general authority to repurchase the company's shares

The directors have no specific intention, at present, for the company to repurchase any of its securities but consider that such a general authority should be put in place should an opportunity present itself to do so during the year, which is in the best interests of the company and its shareholders.

Special resolution 3: Financial assistance to related and inter-related companies

It is RESOLVED, by way of a special resolution in terms of sections 44 and 45 of the Companies Act, that the directors of the company be and are hereby authorised to provide any direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation, and securing any debt or obligation) to all related and inter-related companies within the Taste group of companies, or to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or of a related or inter-related company, at such times and on such terms and conditions as the directors in their sole discretion deem fit and subject to all relevant statutory and regulatory requirements being met, such authority to remain in place for a period of two years or until rescinded by way of special resolution passed at a duly constituted annual general meeting of the company, provided that:

- (a) the board, from time to time, determines (i) the specific recipient or general category of potential recipients of such financial assistance; (ii) the form, nature and extent of such financial assistance; and (iii) the terms and conditions under which such financial assistance is provided; and
- (b) the board may not authorise the company to provide any financial assistance pursuant to this special resolution number 3 unless the board meets all those requirements of section 44 and 45 of the Companies Act which it is required to meet in order to authorise the company to provide such financial assistance.

NOTICE OF ANNUAL GENERAL MEETING continued

February 2018

Electronic participation

Should any shareholder of the company wish to participate in the annual general meeting by way of electronic participation, that shareholder shall be obliged to make application in writing (including details as to how the shareholder or its representative can be contacted) to so participate, to the company secretary at the applicable address set out below at least 5 (five) business days prior to the annual general meeting in order for the company secretary to arrange for the shareholder (and its representative) to provide reasonably satisfactory identification to the transfer secretaries for the purposes of section 63(1) of the Companies Act and for the company secretary to provide the shareholder (or its representative) with details as to how to access any electronic participation to be provided. The company reserves the right not to provide for electronic participation at the annual general meeting in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the company will be borne by the shareholder so accessing the electronic participation.

Proxies

Any shareholder holding shares in certificated form or recorded on the company's subregister in electronic dematerialised form in "own name" and entitled to attend, speak and vote at the meeting is entitled to appoint a proxy to attend, speak and, on a poll, vote in their stead. A proxy need not be a member of the company.

Proxy forms must be lodged at the offices of the transfer secretaries, Computershare Investor Services Proprietary Limited (Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg; PO Box 61051, Marshalltown, 2107), by no later than 10:00 on Monday, 30 July 2018. Thereafter, proxy forms may be delivered to the chairperson of the annual general meeting, at the annual general meeting, before voting on a particular resolution commences.

All beneficial owners whose shares have been dematerialised through a Central Securities Depository Participant (CSDP) or broker other than with "own name" registration, must provide the CSDP or broker with their voting instructions in terms of their custody agreement should they wish to vote at the annual general meeting. Alternatively, they may request the CSDP or broker to provide them with a letter of representation, in terms of their custody agreements, should they wish to attend the annual general meeting.

Shareholders and proxies of shareholders are advised that they will be required to present reasonably satisfactory identification in order to attend or participate in the annual general meeting as required in terms of section 63(1) of the Companies Act.

Voting thresholds

Ordinary resolutions 1 to 4 and ordinary resolution 7 are subject to a simple majority of votes.

In terms of the JSE Listings Requirements, the approval of a 75% majority of votes of all shareholders, present or represented by proxy, is required to approve ordinary resolution number 5.

In terms of King IV and the JSE Listings Requirements, should shareholders exercising 25% or more of the voting rights exercised, vote against ordinary resolutions 6.1 and 6.2, then the company is required to engage with those dissenting shareholders.

The special resolutions must be supported by 75% or more of the voting rights exercised.

Voting

In terms of the JSE Listings Requirements, any shares held by The Taste Share Incentive Scheme will not have its votes at the annual general meeting taken into account in determining the results of voting on ordinary resolution number 5 and special resolution number 2.

By order of the board



Claire Middlemiss
Company Secretary

ANNUAL GENERAL MEETING – EXPLANATORY NOTES

February 2018

Voting

A 75% majority of the votes cast by shareholders present or represented by proxy at the annual general meeting must be cast in favour of special resolutions for these to be approved. Ordinary resolutions are approved by more than 50% of the votes cast by shareholders present or represented by proxy, with exception of ordinary resolution number 5 which requires a 75% approval.

Presentation of annual financial statements

At the annual general meeting, the directors must present the annual financial statements for the year ended 28 February 2018 to shareholders, together with the reports of the directors, the audit and risk committee, and the auditors. These are contained within the integrated report.

Ordinary resolutions 1.1 to 1.6: Rotation and appointment of directors

In accordance with the company's Memorandum of Incorporation, one-third of the non-executive directors are required to retire at each annual general meeting and may offer themselves for re-election. In addition, any person appointed to the board following the previous annual general meeting is similarly required to retire and is eligible for re-election at the next annual general meeting.

The purpose of these resolutions is to elect, by way of separate resolutions, directors in the place of those retiring in accordance with the company's Memorandum of Incorporation. The appointments of Neil Brimacombe, Leo Chou, Adrian Maizey and Zukie Siyotula as non-executive directors, are to be ratified by shareholders as they were appointed subsequent to the previous annual general meeting.

Grant Pattison retires by rotation and offers himself for reappointment as an independent non-executive director.

Brief biographical details of each of the above directors and the remaining members of the Board are contained on pages 37 – 39 of the integrated report of which this notice forms part.

Ordinary resolutions 2.1 to 2.3: Appointment of audit and risk committee

In terms of section 94(2) of the Companies Act, a public company must at each annual general meeting elect an audit and risk committee comprising at least three members who are directors and who meet the criteria of section 94(4) of the Companies Act. Regulation 42 to the Companies Act specifies that one-third of the members of the audit and risk committee must have appropriate academic qualifications or experience in the areas as listed in the regulation.

The board is satisfied that the proposed members of the audit and risk committee meet all relevant requirements.

The purpose of these resolutions is to appoint, by way of separate resolutions, the following independent non-executive directors as members of the audit and risk committee:

- Nonzukiso Siyotula (*Chairperson*)*
- Neil Brimacombe **
- Leo Chou***

* Subject to the approval of ordinary resolution 1.4.

** Subject to the approval of ordinary resolution 1.1.

*** Subject to the approval of ordinary resolution 1.2.

Ordinary resolution 3: Appointment of auditors

Grant Thornton has indicated its willingness to be appointed in office, and resolution 3 proposes the appointment of that firm as the company's auditors with effect from 1 March 2018. Section 90 (3) of the Companies Act requires the designated auditor to meet the criteria as set out in section 90 (2) of the Companies Act.

The board is satisfied that both Grant Thornton and the individual designated auditor, being Serena Ho, meet the relevant requirements.

Ordinary resolutions 4 and 5: Control of and authority to issue authorised but unissued shares for cash

In terms of the Companies Act, directors are authorised to allot and issue the unissued shares of the company, unless otherwise provided in the company's Memorandum of Incorporation or in instances as listed in section 41 of the Companies Act. The JSE requires that the Memorandum of Incorporation should provide that shareholders in a general meeting may authorise the directors to issue unissued securities and/or grant options to subscribe for unissued securities as the directors in their discretion think fit, provided that such transaction(s) has/have been approved by the JSE and are subject to the JSE Listings Requirements. In the absence of the Memorandum of Incorporation as contemplated in the Companies Act, ordinary resolution 4 has been included to confirm directors' authority to issue shares. Directors confirm that there is no specific intention to issue any shares, other than as part of and in terms of the rules of the company's share incentive scheme, as at the date of this notice.

Also, in terms of the JSE Listings Requirements, the authority to issue shares for cash as set out in ordinary resolution 5 requires the approval of a 75% majority of the votes cast by shareholders present or represented by proxy at the annual general meeting for ordinary resolution number 5 to become effective.

ANNUAL GENERAL MEETING – EXPLANATORY NOTES continued

February 2018

Ordinary resolutions 6.1 and 6.2: Advisory endorsement of remuneration policy and implementation report

King IV recommends that the company's remuneration policy and implementation report be tabled to shareholders for a non-binding advisory vote at each annual general meeting to provide shareholders with an opportunity to indicate should they not be in support of the material provisions of the remuneration philosophy and policy of the company.

Ordinary resolution 7: Signing authority

Authority is required to do all such things and sign all documents and take all such action as necessary to implement the resolutions set out in the notice and approved at the annual general meeting. It is proposed that the company secretary and/or director be authorised accordingly.

Special resolution 1: Approval of non-executive directors' remuneration

In terms of sections 66(8) and 66(9) of the Companies Act, companies may pay remuneration to directors for their services as directors unless otherwise provided by the Memorandum of Incorporation and on approval of shareholders by way of a special resolution. Executive directors are not specifically remunerated for their services as directors but as employees of the company and as such, the resolution, as included in the notice, requests approval of the remuneration paid to non-executive directors for their services as directors of the company.

Special resolution 2: General authority to repurchase shares

Section 48 of the Companies Act authorises the board to approve the acquisition of its own shares subject to the provisions of sections 48 and 46 having been met. In order to ensure compliance with the requirements of the Companies Act, the JSE Listings Requirements and the provisions of the Memorandum of Incorporation of the company, a special resolution is proposed to provide authority to the company to repurchase its shares.

Special resolution 3: Financial assistance to related and inter-related companies

Sections 44(2) and 45(2) of the Companies Act, authorises the board to provide direct or indirect financial assistance to a related or inter-related company or to any person in connection with any securities issued or to be issued by the company or a related or inter-related company, subject to subsections (3) and (4) of section 45 of the Companies Act and unless otherwise provided in the company's Memorandum of Incorporation. In terms of section 45(3) of the Companies Act, a special resolution of shareholders is required in these instances.

The main purpose of the special resolution as set out in the notice of the meeting, is to approve the granting of inter-company loans, a recognised and well-known practice, details of which are also set out in the notes to the annual financial statements. In addition, the resolution will facilitate the granting of guarantees and security in connection with the borrowings by the Taste group of companies.

Special resolution number 3 will be effective only if and to the extent that such resolution is adopted by the shareholders of the company, and the provision of any such direct or indirect financial assistance by the company, pursuant to such resolution, will always be subject to the board being satisfied that (i) immediately after providing such financial assistance, the company will satisfy the solvency and liquidity test as referred to in sections 44(3)(b)(i) and 45(3)(b)(i) of the Companies Act, and (ii) the terms under which such financial assistance is to be given are fair and reasonable to the company as referred to in sections 44(3)(b)(ii) and 45(3)(b)(ii) of the Companies Act.

General

Shareholders and proxies attending the annual general meeting on behalf of shareholders are reminded that section 63(1) of the Companies Act requires that reasonably satisfactory identification be presented in order for such shareholder or proxy to be allowed to attend or participate in the meeting.

Summary of the rights established in terms of section 58 of the Companies Act as required by section 58(7)(b)

For purposes of this summary, "shareholder" shall have the meaning ascribed thereto in the Companies Act.

1. At any time, a shareholder of a company is entitled to appoint any individual, including an individual who is not a shareholder of that company, as a proxy, to participate in, speak and vote at a shareholders' meeting on behalf of the shareholder or give or withhold written consent on behalf of such shareholder in relation to a decision contemplated in section 60 of the Companies Act.
2. A proxy appointment must be in writing, dated and signed by the relevant shareholder, and such proxy appointment remains valid for one year after the date upon which the proxy was signed or any longer or shorter period expressly set out in the appointment, unless it is revoked in a manner contemplated in section 58(4)(c) of the Companies Act or expires earlier as contemplated in section 58(8)(d) of the Companies Act.

ANNUAL GENERAL MEETING – EXPLANATORY NOTES continued

February 2018

3. Except to the extent that the Memorandum of Incorporation of a company provides otherwise:
 - 3.1 a shareholder of the relevant company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by such shareholder;
 - 3.2 a proxy may delegate his/her authority to act on behalf of a shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
 - 3.3 a copy of the instrument appointing a proxy must be delivered to the company or to any other person on behalf of the relevant company before the proxy exercises any rights of the shareholder at a shareholders' meeting.
4. Irrespective of the form of instrument used to appoint a proxy, the appointment of the proxy is suspended at any time and to the extent that the shareholder who appointed that proxy chooses to act directly and in person in the exercise of any rights as a shareholder of the relevant company.
5. Unless the proxy appointment expressly states otherwise, the appointment of a proxy is revocable. If the appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by cancelling it in writing or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and the company.
6. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date: (a) stated in the revocation instrument, if any; or (b) upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4) (c)(ii) of the Companies Act.
7. If the instrument appointing a proxy or proxies has been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant company's Memorandum of Incorporation to be delivered by such company to the shareholder, must be delivered by such company to the shareholder or to the proxy or proxies, if the shareholder has directed the relevant company to do so in writing and paid any reasonable fee charged by the company for doing so.
8. A proxy is entitled to exercise or abstain from exercising any voting right of the relevant shareholder without direction, except to the extent that the Memorandum of Incorporation or the instrument appointing the proxy provides otherwise.
9. If a company issues an invitation to shareholders to appoint one or more persons named by such company as a proxy or supplies a form of instrument for appointing a proxy:
 - 9.1 such invitation must be sent to every shareholder who is entitled to notice of the meeting at which the proxy is intended to be exercised;
 - 9.2 the invitation or form of instrument supplied by the relevant company must: (a) bear a reasonably prominent summary of the rights established in section 58 of the Companies Act; (b) contain adequate blank space, immediately preceding the name or names of any person or persons named in it, to enable a shareholder to write in the name and, if so desired, an alternative name of a proxy chosen by such shareholder; and (c) provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour or against the applicable resolution/s to be put at the relevant meeting, or is to abstain from voting;
 - 9.3 the company must not require that the proxy appointment be made irrevocable; and
 - 9.4 the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in section 58(5) of the Companies Act.

Salient dates

Last day to trade in order to be recorded in the register	Tuesday, 17 July 2018
Record date for determining those shareholders entitled to vote at the annual general meeting	Friday, 20 July 2018
Last day to lodge forms of proxy for the annual general meeting	By 10:00 on Monday, 30 July 2018

FORM OF PROXY



TASTE HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2000/002239/06)

JSE code: TAS ISIN: ZAE000081162

("Taste" or "the company")

For use only by:

- holders of certificated ordinary shares in the company; or
- holders of dematerialised ordinary shares in the company ("dematerialised shareholders") held through a Central Securities Depository Participant (CSDP) or broker and who have selected "own-name" registration,

at the annual general meeting (AGM) of shareholders of the Company to be held at 10:00 on Tuesday, 31 July 2018 at the registered office of Taste, 12 Gemini Street, Linbro Business Park, Sandton, 2065.

Dematerialised shareholders holding shares in the Company other than with "own-name" registration, who wish to attend the AGM must inform their CSDP or broker of their intention to attend the AGM and request their CSDP or broker to issue them with the relevant letter of representation to attend the AGM in person or by proxy and vote. If they do not wish to attend the AGM in person or by proxy, they must provide their CSDP or broker with their voting instructions in terms of the relevant Custody Agreement entered into between them and the CSDP or broker. **These shareholders must not use this form of proxy.**

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the Company) to attend, speak and vote in place of that shareholder at the AGM. A proxy need not be a shareholder of the Company.

I/We (full name/s in block letters)

of (address)

Telephone work ()

Telephone home ()

Cellphone number

Email address

being the holder/custodian of

ordinary shares in the Company, hereby appoint (see note)

1. or failing him/her

2. or failing him/her

3. the chairperson of the annual general meeting,

as my/our proxy to attend and act for me/us on my/our behalf at the annual general meeting convened for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment or postponement thereof, and to vote for and/or against such resolutions, and/or to abstain from voting for and/or against the resolutions, in respect of the shares in the issued share capital of the company registered in my/our name in accordance with the following instructions:

		For	Against	Abstain
Ordinary resolution 1.1	Appointment of N Brimacombe as an independent non-executive director of the company			
Ordinary resolution 1.2	Appointment of L Chou as an independent non-executive director of the company			
Ordinary resolution 1.3	Appointment of A Maizey as a non-executive director of the company			
Ordinary resolution 1.4	Appointment of N Siyotula as an independent non-executive director of the company			
Ordinary resolution 1.5	Reappointment of G Pattison as an independent non-executive director of the company			
Ordinary resolution 1.6	Appointment of D Pienaar as an executive director of the company			
Ordinary resolution 2.1	Appointment of N Siyotula as a member and chairperson of the audit and risk committee of the company* * Subject to re-election as a director pursuant to ordinary resolution number 1.4			
Ordinary resolution 2.2	Appointment of N Brimacombe as a member of the audit and risk committee of the company** **Subject to re-election as a director pursuant to ordinary resolution number 1.1			
Ordinary resolution 2.3	Appointment of L Chou as a member of the audit and risk committee of the company*** ***Subject to re-election as a director pursuant to ordinary resolution number 1.2			
Ordinary resolution 3	Appointment of Grant Thornton as external auditors			
Ordinary resolution 4	Control of authorised but unissued ordinary shares			
Ordinary resolution 5	Authority to issue shares for cash			
Ordinary resolution 6.1	Advisory endorsement of the remuneration policy			
Ordinary resolution 6.2	Advisory endorsement of the remuneration implementation report			
Ordinary resolution 7	Signing authority			
Special resolution 1	Approval of non-executive directors' remuneration			
Special resolution 2	General authority to repurchase shares			
Special resolution 3	Financial assistance to related and inter-related companies			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If no directions are given, the holder of the proxy will be entitled to vote or abstain from voting as that proxy deems fit. This proxy shall be valid only for the annual general meeting of shareholders of the company to be held on Tuesday, 31 July 2018 and any adjournment or postponement thereof.

Signature

Signed at _____ on _____

2018

Assisted by (where applicable) _____

Please read the notes on the reverse side hereof.

NOTES TO THE FORM OF PROXY

- Summary of rights contained in section 58 of the Companies Act, 2008 (Act 71 of 2008), as amended ("Companies Act")

In terms of section 58 of the Companies Act:-

 - a shareholder may, at any time and in accordance with the provisions of section 58 of the Companies Act, appoint any individual (including an individual who is not a shareholder) as a proxy to participate in, and speak and vote at, a shareholders meeting on behalf of such shareholder;
 - a proxy appointment must be in writing, dated and signed by the shareholder;
 - except to the extent that the memorandum of incorporation of a company provides otherwise, a shareholder of that company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to the different securities held by the shareholder;
 - except to the extent that the memorandum of incorporation of the company provides otherwise, a proxy may delegate her or his authority to act on behalf of a shareholder to another person, subject to any restriction set out in the instrument appointing such proxy;
 - except to the extent that the memorandum of incorporation of the company provides otherwise, a copy of the instrument appointing a proxy must be delivered to the company, or to any other person on behalf of the company, before the proxy exercises any rights of the shareholder at a shareholders' meeting;
 - irrespective of the form of instrument used to appoint a proxy, the appointment of a proxy is suspended at any time and to the extent that the relevant shareholder chooses to act directly and in person in the exercise of any of such shareholder's rights as a shareholder;
 - irrespective of the form of instrument used to appoint a proxy, any appointment by a shareholder of a proxy is revocable, unless the form of instrument used to appoint such proxy states otherwise;
 - if an appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by: (i) cancelling it in writing, or making a later inconsistent appointment of a proxy and (ii) delivering a copy of the revocation instrument to the proxy and to the company;
 - the revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of the date (i) stated in a revocation instrument, if any; or (ii) upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Companies Act;
 - if the instrument appointing a proxy or proxies has been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant company's memorandum of incorporation to be delivered by such company to the shareholder must be delivered by such company to the shareholder or the proxy or proxies, if the shareholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the company for doing so;
 - a proxy appointed by a shareholder is entitled to exercise, or abstain from exercising, any voting right of such shareholder without direction, except to the extent that the relevant company's memorandum of incorporation, or the instrument appointing the proxy, provides otherwise (see note 5);
 - if a company issues an invitation to shareholders to one or more persons named by such company as a proxy, or supplies a form of instrument for appointing a proxy:
 - such invitation must be sent to every shareholder who is entitled to receive notice of the meeting at which the proxy is intended to be exercised;
 - the invitation or form of proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, contain adequate space to enable a shareholder to write in the name, and if so desired an alternative name, of a proxy chosen by the shareholder and provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour of or against any resolution or resolutions to be put at the meeting, or abstain from voting;
 - the company must not require that the proxy appointment be made irrevocable; and
 - the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in section 58(5) of the Companies Act.
- The form of proxy must only be used by shareholders who hold shares in certificated form or who are recorded on the subregister in electronic form in "own name".
- All other beneficial owners who hold dematerialised shares through a CSDP or broker and wish to attend the annual general meeting must provide the CSDP or broker with their voting instructions in terms of the relevant Custody Agreement entered into between them and the CSDP or broker.
- A shareholder entitled to attend and vote at the annual general meeting may insert the name of a proxy or the names of two alternate proxies of the shareholder's choice in the space provided, with or without deleting "the chairperson of the annual general meeting". The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of such proxy (ies) whose names follow.
- A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary share held. A shareholder's instructions to the proxy must be indicated by the insertion of an "X" in the appropriate space provided. If an "X" has been inserted in one of the blocks to a particular resolution, it will indicate the voting of all the shares held by the shareholder concerned. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
- A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting, notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the proxy is given, unless notice as to any of the aforementioned matters shall have been received by the Company's Transfer Secretaries, Computershare Investor Services Proprietary Limited ("transfer secretaries"), not less than 48 (forty-eight) hours before the commencement of the annual general meeting.
- If a shareholder does not indicate on this form of proxy that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the annual general meeting be proposed, such proxy shall be entitled to vote as he/she thinks fit.
- A shareholder's authorisation to the proxy including the chairperson of the annual general meeting, to vote on such shareholder's behalf, shall be deemed to include the authority to vote on procedural matters at the annual general meeting.
- The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
- Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the Transfer Secretaries or is waived by the Chairperson of the annual general meeting.
- A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the Transfer Secretaries.
- Where there are joint holders of shares:
 - any one holder may sign the form of proxy;
 - the vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of shareholder appear in the Company's register of ordinary shareholders) who tender a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
- Forms of proxy should be lodged with or mailed to the transfer secretaries:

Hand deliveries to:
Computershare Investor Services Proprietary Limited (Registration number 2004/003647/07)
Rosebank Towers, 15 Biermann Ave Rosebank, Johannesburg, 2196

Postal deliveries to:
Computershare Investor Services Proprietary Limited PO Box 61051, Marshalltown, 2107

to be received by no later than 10:00 on Monday, 30 July 2018. Thereafter, proxy forms may be delivered to the chairperson of the annual general meeting, at the annual general meeting, before voting on a particular resolution commences or before any adjournment of the annual general meeting which date, if necessary, will be notified on the Stock Exchange News Service of the JSE Limited) or may be handed to the chairperson of the annual general meeting immediately before the appointed proxy exercises any of the shareholder's votes at the annual general meeting.
- A deletion of any printed matter and the completion of any blank space need not be signed or initialled. Any alteration or correction must be signed and not merely initialled.
- The proxy appointment remains valid only for the annual general meeting at which it is intended to be used and any adjournment or postponement thereof, subject to paragraph 1 above.