

## **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")

### **AUDITED SUMMARISED CONSOLIDATED RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2017 AND NOTICE OF ANNUAL GENERAL MEETING**

#### **Salient features**

- Core revenue up 7% to R1.08 billion (2016: R1.01 billion)
- Core EBITDA loss of R20.8 million (2016: R47.2 million profit)
- Loss per share 26.8 cents per share (2016: -24.2 cents loss)
- Headline loss per share 25 cents per share (2016: -19.2 cents loss)
- Same-store sales in Luxury Goods Division up 5.4%
- Same-store sales in The Fish & Chip Co. up 5.8%
- Finalised Domino's Pizza conversion
- Successfully launched Starbucks coffee outlets

**CONDENSED GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		Year ended 28 February 2017 R'000	Year ended 29 February 2016 R'000
	% change		
Revenue	3%	1 097 614	1 062 829
Cost of sales		(671 237)	(652 865)
<b>Gross profit</b>	4%	<b>426 377</b>	409 964
Other income		1 047	30
Operating costs	10%	(538 127)	(488 697)
<b>Operating loss</b>	-41%	<b>(110 703)</b>	(78 703)
Investment revenue		16 298	14 597
Finance costs		(34 809)	(27 050)
<b>Loss before taxation</b>	-42%	<b>(129 214)</b>	(91 156)
Taxation		28 060	17 055
<b>Loss for the year</b>	-37%	<b>(101 154)</b>	(74 101)
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>	-37%	<b>(101 154)</b>	(74 101)
<b>Attributable to:</b>			
Equity holders of the company	33%	(100 818)	(75 806)
Non-controlling interest		(336)	1 705
	-37%	(101 154)	(74 101)
Loss per share (cents)	-11%	(26.8)	(24.2)
Diluted loss per share (cents)	-10%	(26.2)	(23.9)

**CONDENSED GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	28 February 2017 R'000	29 February 2016 R'000
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>560 478</b>	531 628
Property, plant and equipment <sup>(13)</sup>	191 751	159 767
Intangible assets <sup>(14)</sup>	103 774	117 180
Goodwill <sup>(15)</sup>	121 581	108 967
Net investment in Finance lease <sup>(16)</sup>	8 905	10 742
Other financial assets <sup>(17)</sup>	46 820	78 324
Deferred tax <sup>(18)</sup>	87 647	56 648
<b>Non-current assets held for sale</b> <sup>(19)</sup>	-	3 459
<b>Current assets</b>	<b>457 492</b>	593 319
Inventories <sup>(20)</sup>	341 424	289 245
Net investment in Finance lease <sup>(16)</sup>	522	459
Trade and other receivables	66 722	88 996
Current tax receivables	897	3 610
Advertising levies	3 416	5 444
Other financial assets <sup>(17)</sup>	11 720	2 921
Cash and cash equivalents	32 791	202 644
<b>Total assets</b>	<b>1 017 970</b>	1 128 406
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to holders of company</b>	<b>559 086</b>	654 652
Share capital	4	4
Retained earnings	(63 579)	37 239
Share premium	611 606	611 188
Equity-settled share-based payment reserve	11 055	6 221
<b>Non-controlling interest</b>	<b>(2 732)</b>	1 174
<b>Non-current liabilities</b>	<b>284 884</b>	295 802
Borrowings	246 916	248 906
Lease equalisation	11 025	6 517
Deferred tax	26 943	40 379
<b>Current liabilities</b>	<b>176 732</b>	176 778
Current tax payable	179	3 805
Bank overdrafts	48 259	32 148
Borrowings	13 543	6 984
Lease equalisation	1 164	4 495
Trade and other payables	113 587	129 346
<b>Total equity and liabilities</b>	<b>1 017 970</b>	1 128 406
Number of shares in issue ('000)	376 587	374 917
Net asset value per share (cents)	147.7	174.9
Net tangible asset value per share (cents) <sup>(21)</sup>	93.6	120.6

**CONDENSED GROUP CONSOLIDATED STATEMENT OF  
CHANGES IN EQUITY**

	Share capital R'000	Share premium R'000	Equity- settled share- based payment reserve R'000	Retained earnings R'000	Total attributable to equity holders of the group R'000	Non- controlling interest R'000	Total R'000
Balance at 1 March 2015	3	282 634	3 724	132 212	418 573	(531)	418 042
Share issue	1	325 207	-	-	325 208	-	325 208
Options exercised	-	3 347	-	-	3 347	-	3 347
Share based payment reserve	-	-	2 497	-	2 497	-	2 497
Comprehensive income for the year	-	-	-	(75 806)	(75 806)	1 705	(74 101)
Dividends paid	-	-	-	(19 167)	(19 167)	-	(19 167)
<b>Balance at 1 March 2016</b>	<b>4</b>	<b>611 188</b>	<b>6 221</b>	<b>37 239</b>	<b>654 652</b>	<b>1 174</b>	<b>655 826</b>
Share issue	-	-	-	-	-	-	-
Options exercised <sup>(12)</sup>	-	418	-	-	418	-	418
Dividends paid	-	-	-	-	-	-	-
Share based payment reserve	-	-	4 834	-	4 834	-	4 834
Acquired through a business combination	-	-	-	-	-	(3 570)	(3 570)
Comprehensive loss for the year	-	-	-	(100 818)	(100 818)	(336)	(101 154)
<b>Balance at 28 February 2017</b>	<b>4</b>	<b>611 606</b>	<b>11 055</b>	<b>(63 579)</b>	<b>559 086</b>	<b>(2 732)</b>	<b>556 354</b>

**CONDENSED GROUP CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>28 February 2017 R'000</b>	29 February 2016 R'000
<b>Cash flows from operating activities</b>	<b>(99 559)</b>	(140 864)
Cash utilised by operating activities <sup>(22)</sup>	<b>(68 187)</b>	(93 479)
Investment revenue <sup>(8)</sup>	<b>16 298</b>	14 597
Finance costs <sup>(9)</sup>	<b>(34 809)</b>	(27 050)
Dividends paid	-	(19 142)
Taxation paid	<b>(12 861)</b>	(15 790)
<b>Cash flows from investing activities</b>	<b>(82 053)</b>	(183 408)
Acquisition of property, plant and equipment <sup>(13)</sup>	<b>(48 242)</b>	(77 865)
Proceeds of disposals of property, plant and equipment	<b>703</b>	382
Acquisition of non-current asset held for sale <sup>(19)</sup>	<b>(181)</b>	(4 587)
Disposal of non-current assets held for sale <sup>(19)</sup>	<b>3 659</b>	319
Acquisition of business <sup>(23)</sup>	<b>(15 882)</b>	(4 378)
Change in finance lease asset <sup>(16)</sup>	<b>(358)</b>	(11 201)
Loans advanced – Other financial assets <sup>(17)</sup>	<b>(28 527)</b>	(57 098)
Loans repaid – Other financial assets <sup>(17)</sup>	<b>13 211</b>	3 818
Acquisition of Intangibles	<b>(6 436)</b>	(32 798)
<b>Cash flows from financing activities</b>	<b>(5 439)</b>	450 119
Proceeds from issue of shares <sup>(12)</sup>	<b>418</b>	328 554
Loans raised – borrowings	<b>945</b>	119 000
Loans paid – borrowings	<b>(6 802)</b>	2 565
Change in cash and cash equivalents	<b>(187 051)</b>	125 847
Cash acquired from business acquisition	<b>1 087</b>	(92)
Cash and cash equivalents at beginning of the year	<b>170 496</b>	44 741
<b>Cash and cash equivalents at end of the year</b>	<b>(15 468)</b>	170 496

**CONDENSED GROUP CONSOLIDATED SEGMENTAL REPORT**

	Food Division R'000	Luxury Goods Division R'000	Corporate services R'000	Inter- Segment/ division revenues R'000	Total R'000
<b>year ended 28 February 2017</b>					
Revenue	551 099	622 116	8 500	(84 101)	1 097 614
EBITDA	(117 670)	60 917	(17 903)	-	(74 656)
Segment depreciation and amortisation	(26 014)	(8 407)	(1 626)	-	(36 047)
Operating profit/(loss)	(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 assets	529 023	462 388	26 559	-	1 017 970
Segment liabilities	118 888	238 488	104 280	-	461 616
Segment capital expenditure	31 994	16 152	84	-	48 230
<b>year ended 29 February 2016</b>					
Revenue	544 291	570 509	12 249	(64 220)	1 062 829
EBITDA	(90 126)	60 138	(19 595)	-	(49 583)
Segment depreciation and amortisation	(20 893)	(6 573)	(1 654)	-	(29 120)
Operating profit/(loss)	(111 019)	53 565	(21 249)	-	(78 703)
Investment revenue	5 693	657	35 595	(27 348)	14 597
Finance costs	(20 079)	(11 423)	(22 896)	27 348	(27 050)
Profit before taxation	(125 405)	42 800	(8 551)	-	(91 156)
Segment assets	497 017	416 219	215 170	-	1 128 406
Segment liabilities	129 434	212 378	130 768	-	472 580
Segment capital expenditure	67 064	11 652	40	-	78 756

## Notes to the financial information

### 1. Reconciliation of headline loss

	%	28 February 2017 R'000	29 February 2016 R'000
	change		
<b>Reconciliation of headline loss:</b>			
Loss attributable to ordinary shareholders	-33%	(100 818)	(75 806)
Adjusted for:			
Impairment losses		5 260	14 812
Loss on sale of property, plant and equipment and non-current assets available for sale		2 062	1 259
Tax effect on headline loss adjustments		(385)	(235)
<b>Headline loss attributable to ordinary Shareholders</b>	<b>-57%</b>	<b>(93 881)</b>	<b>(59 970)</b>
Adjusted for:			
Legal fees <sup>(2)</sup>		-	2 869
Transaction costs and other once-off costs <sup>(2)</sup>		1 149	12 846
Once-off and upfront Domino's Pizza costs and Starbucks <sup>(2)</sup>		52 622	70 468
Tax effect on core loss adjustments		(15 056)	(21 473)
<b>Core headline (loss)/earnings</b>	<b>-1264%</b>	<b>(55 166)</b>	<b>4 740</b>
Weighted average shares in issue ('000)		375 927	312 615
Weighted average diluted shares in issue ('000)		384 379	316 766
Loss per share (cents)	-11%	(26.8)	(24.2)
Diluted loss per share (cents)	-10%	(26.2)	(23.9)
Headline loss per share (cents)	-30%	(25.0)	(19.2)
Diluted headline loss per share (cents)	-29%	(24.4)	(18.9)
Core headline (loss)/earnings	-1264%	(55 166)	4 740
Core headline (loss)/earnings per share (cents)	-1080%	(14.7)	1.5

Although added back for core earnings, the International Financial Reporting Standards ("IFRS") losses per share above include an exceptional non-cash after-tax expense of R26 million which equates to 7.0 cents per share. Excluding this the comprehensive loss for the year is R74.5 million (2016: R75.8 million loss) and the headline loss per share for the year is 18 cents (2016: -19.2 cents). This non-cash expense relates to a present value discount adjustment to the loan to the Domino's marketing fund and is more fully described in core earnings below.

### 2. Core earnings

As with previous years, the group discloses core/normalised earnings. In the current year the group launched the Starbucks Coffee brand and finalised its conversions of Domino's Pizza outlets and this is reflected in a core earnings adjustment in the current year. However, the prior year's core earnings adjustment was predominantly relating to the launch and conversion of Domino's Pizza. This has resulted in the core earnings adjustment being materially lower than the prior year.

As previously disclosed, now that the group has finalised the Domino's conversion and launched the Starbucks brand, the core earnings adjustment will in future be limited to pre-opening expenses of corporate owned stores, material, exceptional once-off costs or revenues and non-cash lease smoothing and IFRS 2 charges. The group has used this core earnings measure in the last three years in order to disclose more fully the costs associated with establishing and launching these global brands. As these brands are now established, future reporting will be comparable as any costs left in the business are continuing and are now simply part of the business.

The detail of the reconciliation to core earnings is disclosed with reference to this note 2, and the table below:

**SUMMARISED GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
RECONCILIATION TO CORE EARNINGS**

	Core earnings % change	Year ended 28 February 2017 R'000	Core earnings adjustment 2017 R'000	28 February Core earnings 2017 R'000	29 February Core earnings 2016 R'000
Revenue <sup>(3)</sup>	7%	1 097 614	(12 100)	1 085 514	1 010 729
Cost of sales		(671 237)	12 100	(659 137)	(600 765)
<b>Gross profit</b> <sup>(4)</sup>	4%	426 377	-	426 377	409 964
Other income		1 047	-	1 047	30
Operating costs <sup>(5)</sup>	24%	(502 080)	53 771	(448 309)	(362 723)
<b>EBITDA</b> <sup>(6)</sup>	-144%	(74 656)	53 771	(20 885)	47 271
Amortisation and depreciation <sup>(7)</sup>	31%	(36 047)	-	(36 047)	(27 472)
<b>Operating (loss)/profit</b>	-388%	(110 703)	53 771	(56 932)	19 799
Investment revenue <sup>(8)</sup>	12%	16 298	-	16 298	14 597
Finance costs <sup>(9)</sup>	47%	(34 809)	-	(34 809)	(23 675)
<b>(Loss)/profit before taxation</b>	-804%	(129 214)	53 771	(75 443)	10 721
Taxation <sup>(10)</sup>		28 060	(15 056)	13 004	(4 583)
<b>(Loss)/profit for the year</b>	-1117%	(101 154)	38 715	(62 439)	6 138
Other comprehensive income		-	-	-	-
Minority shareholders <sup>(11)</sup>		336	-	336	(1 705)
<b>Total comprehensive (loss)/income for the year</b>	-1501%	(100 818)	38 715	(62 103)	4 433
<b>Attributable to:</b>					
Equity holders of the company	-1501%	(100 818)	38 715	(62 103)	4 433
<b>(Loss)/earnings per share attributable to equity the company</b>					
(Loss)/earnings per share (cents)	-1279%	(26.8)	10.3	(16.5)	1.4
Diluted (loss)/earnings per share (cents)	-1257%	(26.2)	10.1	(16.2)	1.4
<b>Reconciliation of headline earnings:</b>					
(Loss)/earnings attributable to ordinary shareholders	-1501%	(100 818)	38 715	(62 103)	4 433
Adjusted for:					
Impairment losses		5 260	-	5 260	-
Loss on sale of property, plant and equipment and non-current assets available for sale		2 062	-	2 062	377
Tax effect on headline earnings adjustments		(385)	-	(385)	(70)
<b>Headline (loss)/earnings attributable to ordinary shareholders</b>	-1264%	(93 881)	38 715	(55 166)	4 740
Weighted average shares in issue ('000) <sup>(12)</sup>		375 927	375 927	375 927	312 615
Weighted average diluted shares in issue ('000)		384 379	384 379	384 379	316 766
(Loss)/earnings per share (cents)	-1200%	(26.8)	10.3	(16.5)	1.5
Diluted (loss)/earnings per share (cents)	-1257%	(26.2)	10.1	(16.2)	1.4
Headline (loss)/earnings per share (cents)	-1080%	(25.0)	10.3	(14.7)	1.5
Diluted headline (loss)/earnings per share (cents)	1060%	(24.4)	10.1	(14.4)	1.5

**CONDENSED GROUP CONSOLIDATED SEGMENTAL REPORT OF CORE EARNINGS**

		Year ended 28 February 2017 R'000	Year ended 29 February 2016 R'000
	%		
	change		
<b>Core revenue</b>			
Food (net of eliminations) <sup>(3)</sup>	5%	463 398	440 220
Luxury Goods <sup>(3)</sup>	9%	622 116	570 509
Corporate Services	-31%	8 500	12 249
Inter-segment revenues	31%	(8 500)	(12 249)
<b>Group core revenue</b>	<b>7%</b>	<b>1 085 514</b>	<b>1 010 729</b>
<b>Core EBITDA</b>			
Food <sup>(6)</sup>	-1299%	(64 053)	(4 578)
Luxury Goods <sup>(6)</sup>	-12%	61 071	69 600
Corporate Services	1%	(17 903)	(17 750)
<b>Group core EBITDA</b>	<b>-144%</b>	<b>(20 885)</b>	<b>47 272</b>
<b>Core operating profit</b>			
Food	-278%	(90 067)	(23 823)
Luxury Goods	-16%	52 664	63 027
Corporate Services	1%	(19 529)	(19 404)
<b>Group core operating profit</b>	<b>-388%</b>	<b>(56 932)</b>	<b>19 800</b>

Core revenue and cost of sales exclude the contribution made to franchisees for the conversion of their stores to Domino's. The current year exclusion of R12 million is substantially less than the prior year as the majority of the store conversions were completed in 2016. The tax on the core earnings adjustment is calculated only on expenses that are deductible for taxation purposes.

The operating cost core adjustment is made up as follows:

<b>Domino's Pizza</b>	<b>2017</b>	<b>2016</b>
	<b>R'000</b>	<b>R'000</b>
Establishing specialised national training teams	1 913	9 836
Pre-opening expenses (new corporate stores)	-	2 779
Project management fees and other non-recurring costs	1 220	8 317
Temporary ingredient subsidy. This subsidy is no longer in place	-	12 322
Lost income as stores close for conversion	173	2 932
Upfront conservative provision for bad debts made against the contribution made to franchisees to convert their Scooters and St Elmo's stores to Domino's	-	15 175
Impairments to the Scooters and St Elmo's marketing funds as the Scooters and St Elmo's brands are converted to Domino's stores and the brands are discontinued	3 447	5 751
Impairment of Scooters Pizza and St Elmo's intangible assets and goodwill	-	5 566
Present value discount adjustment of Domino's marketing loan (see note 17)	36 492	-
<b>Total Domino's Pizza costs</b>	<b>43 245</b>	<b>62 678</b>

<b>Starbucks once-off costs</b>	<b>2017</b>	<b>2016</b>
	<b>R'000</b>	<b>R'000</b>
Travel expenses relating to training of Starbucks partners prior to opening	250	2 829
Marketing expenses to launch the brand (including pre-opening marketing)	5 674	-
Pre-opening expenses (people, travel etc)	3 453	4 333
Other costs	-	1 172
<b>Total Starbucks once-off costs</b>	<b>9 377</b>	<b>8 334</b>

<b>Other once-off costs</b>	<b>2017</b>	<b>2016</b>
	<b>R'000</b>	<b>R'000</b>
Legal fees pertaining to the Fish & Chip Co litigation	-	2 869
Additional purchase consideration for Arthur Kaplan and other transaction costs	-	4 615
Lease smoothing	1 149	8 231
Exit of corporate stores in the local food division	-	10 128
<b>Total other once-off costs</b>	<b>1 149</b>	<b>25 843</b>

3. Both divisions contributed to the 7% increase in group core revenue for the year ended 28 February 2017 ("the current year" or "2017").
  - The 9% increase in core revenue in the Luxury Goods division is consequent to this division achieving a 8% system-wide sales increase over the prior financial year ("prior year" or "2016") as well as owning 5 more corporate stores in the current year (2016: 60 stores).
  - Food division revenue increased 5% after inter-segment eliminations. This increase is due mainly to the increase in corporate store ownership. The division owned and operated 52 stores (49 Domino's Pizza and 3 Starbucks) at the end of 2017 (2016: 35 stores).
4. Core gross profit increased by R16 million or 4% over 2016. However core gross profit margin decreased to 39.3% (2016: 40.6%). This decrease is attributable to 1] a slight decrease in luxury goods margin as the sales mix changed to more watch sales than the prior year; and 2] a similar small decrease in food margin due mainly to the reduction of input pricing from food distribution to Domino's franchisees as their in-store gross profit margins improved.
5. Both divisions contributed to the 24% increase in core operating costs. Core group operating costs as a percentage of revenue increased to 41.3% (2016: 35.9%), due mainly to an increase in costs in the Food division. This increase amounts to R65 million and is mainly made up as follows:

- R26 million of these costs relate to the division owning more corporate stores than the prior year and due to the majority of these stores not trading for a full 12 months in the prior year.
- R25 million relates to costs incurred in the Starbucks brand over and above store related costs. Although stores are individually profitable, the brand is projected to start to break-even at a core level only after the 5<sup>th</sup> store has been opened.

As a result, the operating costs as a percentage of revenue in the Food division increased to 44.9% (2016: 36.1%) reflecting the infrastructure and executive capacity required to launch and run the Domino's and Starbucks brands. These executive costs are largely in place and should escalate in line with inflation in future years.

The increase in operating costs of the Luxury Goods division over the prior year amounts to R20 million or 11.9% and is attributable to the division owning more corporate stores than the prior year. The Luxury Goods division operating costs as a percentage revenue increased slightly to 30.1% (2016: 29.3%).

- The company uses core earnings before interest, taxation, depreciation and amortisation ("EBITDA") as a key internal measure to evaluate performance; for peer group comparisons; for performance targets and to determine long-range planning. As expected, the core EBITDA loss for the current year is R21 million (2016: R47.2 million profit), attributable wholly to the Food division as it establishes Starbucks and Domino's. The Luxury Goods division reported a core EBITDA profit of R61 million, albeit 12% lower than that of the prior year.
- The increase of R8.6 million in depreciation and amortisation is due to the increased number of corporate owned stores in both divisions 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 includes R3.6 million notional interest charged, in terms of IFRS, on contributions made to pizza franchisees for the conversion of their Scooters Pizza and/or St Elmo's stores to Domino's Pizza stores. Although notional this is a cash inflow.
- The increase in finance costs is due to a combination of R119 million debt that was not in issue for a complete 12 months in the prior year, and a higher cost of borrowing. As the group continues to invest in its Food division and has reported an EBITDA loss, the group's net leverage ratio for the year ended 28 February 2017 exceeded three and this has resulted in the group consequently paying a higher interest rate than it previously did on its debt facilities. As a consequence of the group's announcement of its intention to sell its Luxury Goods business the group has agreed with lenders that the proceeds from a sale of the Luxury Goods business will first be applied to settling existing debt and to the introduction of an interim financial covenant whereby the groups consolidated net cash at each month-end should exceed R30 million.
- The group's core effective tax rate for the current year is 17% due to once-off capital expenses during the year as well as continuing non-deductible expenses such as intangible amortisation and IFRS 2 share based payment expenses.
- This relates to a shareholding by the Luxury Goods division of 58% in a company that owns three NWJ stores and a recently acquired 80% share by the Food division in a company that owned and operated 15 Domino's stores (see note 23).
- The change in the weighted average number of shares in issue is as a result of 1.6 million share options exercised by participants of the Taste Holdings Limited share option scheme during the year, as well as shares issued in the prior year as follows:
  - 31 073 773 shares issued in April 2015.
  - 1 726 727 shares issued to the Arthur Kaplan vendors as part payment of the additional purchase price consideration in terms of the purchase and sale agreement in August 2015.
  - 75 464 476 shares issued in November 2015.
- The increase in property, plant and equipment over the prior year relates to the acquisition and construction of corporate stores opened in the Food and Luxury Goods divisions.
- The decrease in intangible assets mainly relates to the reclassification of certain intangibles to property, plant and equipment and to goodwill when stores are acquired from franchisees.
- The increase in goodwill from the prior year is attributable to the acquisition of stores from franchisees per note 23.
- This amount represents the value of ovens and other pizza equipment being leased to franchisees that have converted their stores to Domino's Pizza.
- Other financial assets consist of:
  - 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.
  - Conversion loans provided to Scooters and St Elmo's franchisees for the conversion of their stores to Domino's.

- Extended payment terms given to franchisees of the group.
- 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 for R9.5 million.

During the year, the loan to the Domino's marketing fund was assessed and a decision was made to not charge interest on this loan in order to ensure that more funds are available for future brand marketing. A present value discount adjustment was made to reflect the loan at its present value. This adjustment amounts to R36 million, is non-cash, and is the primary reason for the year-on-year decrease in other financial assets.

- The increase in the deferred tax asset is due to the IFRS loss before tax reported by the Food division. 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.
- Periodically the group operates outlets where the short-term intention is to sell them to franchisees. The balance in the prior year consists of one Maxi's and six The Fish & Chip Co stores outlets that were sold or closed in the current year.
- The change in inventories is due to a R54 million increase in the Luxury Goods division and a R2 million decrease in inventory of the Food division to R36 million.
- Net tangible asset value per share is calculated by excluding goodwill, intangible assets and the deferred taxation liability relating to intangible assets, from net asset value.
- Of the R68 million utilised in operating activities R42 million pertains to a net working capital investment comprising of jewellery stock. The working capital investment in the Luxury goods division was R52 million for the year (2016: R45 million) while the food division generated working capital of R10 million (2016: R19 million investment in working capital).
- During the year the group concluded the following acquisitions. None of the goodwill recognised in these acquisitions is expected to be deductible for income tax purposes. The purchase price allocations have been disclosed as provisional, as permitted by IFRS3 Business Combinations and will be finalised within 12 months of acquisition date:

Acquisition of NWJ stores

Goodwill arose on the acquisition of the business of four NWJ stores between March 2016 and April 2016. 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:

	<b>R'000</b>
Property, plant and equipment	535
Inventory	5,468
Fair value of assets acquired	6,003
Consideration paid	(7,617)
In cash	(3,985)
Balance owed by vendors	(3,632)
Goodwill acquired	(1,614)

During the period that these stores were owned they contributed R12.8 million to revenue and R3.4 million to operating profit. The revenue and operating profit 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.

Acquisition of Domino's Pizza stores

During the year the Food division acquired the business of five Domino's Pizza outlets in order to expand its corporate store footprint.

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

	<b>R'000</b>
Property, plant and equipment	5,598
Inventories	20
Fair value of assets acquired	5,618
Consideration paid	(8,264)
Balance owed by vendors	(8,264)
Goodwill acquired	(2,646)

During the period that these stores were owned they contributed R10.3 million to revenue and an EBITDA loss of 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.

#### Acquisition of Domino's Pizza stores

In December 2016, the Food division acquired an 80% share in Aloysius Trading (Pty) Ltd ("Aloysius"), 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 (Pty) Ltd ("Fiamme") as well as 100% of the claims held by Fiamme in Aloysius. The Food division also subscribed for a further 200 ordinary shares in Aloysius, resulting in a total shareholding of 80% in the company. Shareholders are referred to the SENS announcement released on 20 December 2016 for further details regarding this acquisition.

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 the business recognised at date of acquisition. The fair value of assets and liabilities acquired is set out below:

	<b>R'000</b>
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 assets	(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 these stores were owned/operated by the Food division, they contributed R13.7 million to revenue and R0.6 million to EBITDA.

## COMMENTS FROM THE CEO

Although not reflected in our group short term earnings, last year was a reasonably good year from a strategic perspective. The Domino's business is materially different from the prior year: we have a better grasp of the levers driving sales; we have 12 months more experience which is being seen in improving efficiencies; and our digital flywheel is gaining momentum with online orders set to become the majority of our business in the next 24 months. These improvements have led new store investment cases comfortably exceeding our 25% IRR hurdle and we're now into the growth phase of the brand, post the focus on conversion.

With the launch of Starbucks under our belt we now have an evidence-based view of the potential of the business, both in operating metrics and as an investment case. In the long run the investment case is attractive enough, that it, combined with the Domino's improvements, caused us to review the divisional structure of the business. This review, with the new information at hand, has led us to the strategic decision to sell the luxury goods business in order to singularly focus on food and the long runway of opportunities that exist.

Our Luxury Goods division has had an exceptional two years of financial performance. Being cyclical it follows consumer sentiment and disposable income trends reasonably predictably and is once again facing those challenges. Such is the nature of being invested in a cyclical business. I am also reminded that it is the leading brands, like Arthur Kaplan and NWJ that typically come out stronger at the end of these down cycles.

As you've heard us increasingly say – "we're a start-up with 16 years' experience". To many the idea of chasing that first rand of profit and eschewing all the little comforts of a profitable business may not be their proverbial "cup of tea". To most of us in the Taste business it's in our DNA. It's proving to be tangibly inspiring among our food team. This is important as, in my experience, a large part of the success of a new venture lies in the persistence required to push through to that first rand of profit.

In the event that we do sell our luxury goods business this year we will be required to pivot nimbly into that mode of growing store numbers aggressively, but with disciplined investment rationale. The five year potential of the food business is hugely attractive, but that objective should not in any way 'rose tint' the many hurdles that will need to be scaled in this journey. There will be set-backs and enormous successes. It will take 12 – 24 months to reach real profitability. In any journey success or failure is influenced largely by one's travelling companions. We have strong aligned anchor shareholders, a really experienced management team and the support of the best brands on the planet, which, to me, feels like the right team for this journey.

## GROUP OVERVIEW

The board of directors of Taste ("the Board") present the audited summarised financial results for the year ended 28 February 2017 ("2017" or "the current year"). Taste is a South African based management group that owns and licenses a portfolio of franchised and owned, category specialist and formula driven QSR, coffee and luxury retail brands currently housed within two divisions: food and luxury goods. The group is strategically focussed on [1] licensing leading global brands; [2] leveraging our scale among our 'low cost' food brands, [3] increasing ownership of corporate owned stores across both divisions; and [4] supporting this growth through a leveraged shared resources and vertically integrated platform.

Group core revenue increased 7% to R1.1 billion (2016: R1.01 billion), driven by increased corporate store ownership in its food division and improved sales in the luxury goods division. The group now owns 117 corporate stores, 65 of which are in the luxury goods division. A slight sales mix change to more watch sales saw gross profit increase 4% to R426 million (2016: R409 million) and the margin return to 2015 levels at 39.3% (2016: 40.6%).

Core operating costs increased 24%, or R85 million, over the prior period. This increase can be seen from three perspectives. First, the increase in the luxury goods division was broadly in line with revenue and these costs reflected as a percentage of luxury goods revenue increased slightly to 30.1% (2016 29.3%). Corporate services cost remained unchanged from the prior year at R17.9 million. Second, the increase in the food division is attributable to new corporate stores and to the support structure both in the supply chain and in human capital that is required to establish the Starbucks and Domino's brands. Not all these costs can be adjusted from core expenses and represent the start-up nature of the food business. Third, at an IFRS level (i.e. costs before core adjustments), operating costs

increased 10% to R538 million (2016: R488 million). Included in these costs is a R36 million pre-tax present value discount adjustment as described in note 17, without which the IFRS headline loss would have been unchanged from the prior year at R75 million.

The building of new corporate stores, infrastructure and investment in human capacity saw depreciation and finance costs increase 31% and 47% respectively as borrowings increased. An increase in equity raised the weighted average number of shares in issue to 384 million shares (2016: 316 million). This resulted in a core HEPS profit per share of 1.5 cents in the prior year declining to a core HEPS loss of 14.7 cents for the period.

## **SEGMENTAL OVERVIEW**

### **FOOD**

The Food division licences the world's leading coffee retailer and roaster - Starbucks, the world's largest pizza delivery chain - Domino's, and owns The Fish & Chip Co., Zebro's Chicken and Maxi's brands. Taste's food brands are spread across a diversified portfolio of product categories (coffee, chicken, pizza, fish, burgers and breakfasts) that 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).

During the period of conversion to Domino's, sales in the Food division are not directly comparable due to stores being closed during the conversion to Domino's, initial launch promotions after conversion, and relocations. In the interim the group will disclose specific sales measures that are meaningful to shareholders. Our owned food brands have had a year of mixed fortunes. Our Zebro's business, after two years of positive same-store sales growth, experienced a really tough last six months in terms of same-store sales, ending the year at -14%, but still increased total system sales by 9.1%. Maxi's posted same store sales of -0.5% for the full year. The Fish & Chip Co. continued to have a pleasing turnaround year, as reported previously. While we lost a net number of stores ending the year at 164 stores, same-store sales increased consistently throughout the year to end at 5.8% up on last year. Average store sales across all stores have increased 27% from a year ago, reflecting the closure of poorer performing stores and sales increases in existing stores. Stores that have undergone a revamp have together shown a total same-store increase of 33% compared to sales prior to revamp. All three brands showed a slow-down in the second half of the year, which has extended into the start of this year.

#### **Domino's Pizza**

On balance it was a reasonable year for Domino's. We finalised the conversions and turned our focus to the existing business which has yielded results positive enough that we will invest in new corporate stores during the coming year. The team now has 12 months more experience, staff turnover in stores has dropped from 127% to 76% and operational metrics are consistently getting better. Store margin has improved to our target of 59% and same-store sales for March and April this year were up 7.8% and 13.4% respectively. We still need to grow to 120 outlets for the business to contribute to profit and we currently foresee ending this year with approximately 105 outlets.

#### **Starbucks**

The early response to the launch was expected but more pleasing is the natural rhythm of people you will see in our stores. Customer response to Starbucks Rewards® has been well ahead of expectations with 9% of transactions already being paid with using Starbucks Rewards®. Our industry leading free wi-fi continues to highlight the demand for quality connectivity and our customers are using 150GB of data every day in each store. Customer reaction to product launches has always exceeded expectations, providing a major challenge to our supply chain and unfortunately has seen inventory being depleted quicker than we planned. We recently introduced Nespresso® compatible pods and the uptake has too exceeded our expectations, underlining Starbucks' commanding position when it comes to coffee authority. Our Reserve® offering is also increasing as customers become familiar with the rare and exclusive micro-lot coffees which they can experience through multiple, and unique, brewing methods. We plan on opening eight to ten outlets this year, including expansion to Cape Town and Durban, a format located in a corporate office and ideally a drive thru format as well.

## **LUXURY GOODS**

The 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, Cartier, IWC, Omega, Breitling, Hublot, Montblanc, TAG Heuer, Longines and Rado, among its custodian brands. Its brands appeal to a diversified customer base ranging from premium watch and jewellery buyers (Arthur Kaplan and World's Finest Watches) to entry level jewellery and fashion watch buyers (NWJ).

The Luxury Goods division is the only vertically integrated and partly franchised jewellery business in South Africa. It owns and operates approximately 77% of the total outlets. Approximately 40% of NWJ jewellery is manufactured by the group, with the remainder sourced through a combination of local and global supply chains. This model provides in-house innovation capacity, fast routes to market and reduces input costs through purchasing economies of scale. A further benefit of owning the manufacturing facility is that slow-moving or returned stock can be either re-worked with negligible yield loss or transferred to another location where there is known demand for the item.

After posting a same-store sales increase of 15% for the full year ended February 2016 and then a further 25% increase in same-stores sales for the six months ended August 2016, the division posted a further full year same-store sales increase of 5.4% for the 12 months ended February 2017. A pleasing performance in the current environment and testament to the brands' strong market positions. The division invested materially in store revamps in order to secure new brands and align the stores with the premium Arthur Kaplan positioning as well as NWJ remodelling of existing stores. We added a new outlet representing Rolex and also were awarded the rights to represent Cartier, IWC and Montblanc in select outlets, further building on the position as the leading retailer of luxury Swiss watches in the region.

## **BASIS OF PREPARATION OF THE AUDITED SUMMARISED RESULTS**

### **Statement of compliance**

The audited summarised consolidated financial results are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act of South Africa applicable to summarised financial statements. The Listings Requirements require summary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. This announcement does not include the information required pursuant to paragraph 16A(j) of IAS 34. The accounting policies applied in the preparation of the consolidated financial statements from which the audited summarised financial statements were derived are in terms of International Financial Reporting Standards (IFRS) and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for the adoption of new, improved and revised standards and interpretations, which had no material effect on the financial results. This report was compiled under the supervision of Mr. E Tsatsarolakis, Chief Financial Officer.

This abridged report is extracted from audited information but is itself not audited. The annual consolidated financial statements were audited by BDO South Africa Inc., who expressed an unmodified opinion thereon. The audited annual consolidated financial statements and the auditor's report thereon are available for inspection on the company's website or at the company's registered office. The directors of Taste take full responsibility for the preparation of this abridged report and that the financial information has been correctly extracted from the underlying audited consolidated financial statements.

## EVENTS SUBSEQUENT TO YEAR END

### Sale of Luxury goods division

Shareholders are referred to the announcement on SENS on 4 April 2017 wherein Taste announced its intention to focus on its food division in the future and consequently its intention to sell its luxury goods business.

### Equity raise of R120 million

Shareholders are referred to the Declaration Announcement on SENS on 19 May 2017 wherein R120 million equity will be raised through a fully subscribed claw-back fully rights offer to shareholders of 80 million Taste shares at R1.50 per share. The funds from the claw-back offer will be applied to funding the future capital and operational requirements of the food business.

### Disposal of Midrand property

In April 2017 Buon Gusto (Pty) Ltd 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 will become effective in the new financial year.

## DIRECTORATE

Mr. Bill Daly resigned as independent non-executive director with effect from 28 February 2017.  
Mr. Sebastian Patel resigned as an independent non-executive director with effect from 30 May 2016.  
Mr. Tyrone Moodley was appointed as an independent non-executive director with effect from 10 October 2016.

## DIVIDEND TO SHAREHOLDERS

No dividend has been declared for the year ended 28 February 2017.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of shareholders of Taste will be held at 10:00 on Tuesday, 4 July 2017 at 12 Gemini Street Linbro Business Park, Frankenwald, Sandton, to conduct the business stated in the notice of annual general meeting, which is contained in the annual report.

The Board has determined that, in terms of section 62(3)(a), as read with section 59 of the Companies Act, 2008 (Act 71 of 2008), as amended, the record date for the purposes of determining which shareholders of the Company are entitled to participate in and vote at the annual general meeting is Friday, 23 June 2017. Accordingly, the last day to trade Taste shares in order to be recorded in the Register to be entitled to vote will be Tuesday, 20 June 2017.

On behalf of the Board

**C F Gonzaga**  
**Chief Executive Officer**  
29 May 2017

**E Tsatsarolakis**  
**Chief Financial Officer**

## CORPORATE INFORMATION

**Non-executive directors:** G M Pattison\* (Chairperson), KM Utian\*, A Berman\*, H R Rabinowitz, T Moodley, W P van der Merwe\*

*\*Independent*

**Executive directors:** C F Gonzaga (CEO), D J Crosson, E Tsatsarolakis (CFO)

**Registration number:** 2000/002239/06

**Registered address:** 12 Gemini Street, Linbro Business Park, Sandton 2065

**Postal address:** PO Box 1125, Ferndale, Randburg, 2160

**Company secretary:** iThemba Corporate Governance and Statutory Solutions Proprietary Limited

**Telephone:** (011) 608 1999

**Facsimile:** 086 696 1270

**Transfer secretaries:** Computershare Investor Services Proprietary Limited

**Sponsor:** Merchantec Capital

These results and an overview of Taste are available at [www.tasteholdings.co.za](http://www.tasteholdings.co.za)