TASTE HOLDINGS

Incorporated in the Republic of South Africa Registration number 2000/002239/06
JSE code: TAS ISIN: ZAE000081162 ("Taste" or "the company" or "the group")

Revenue ↑17% to R233.7 million

EBITDA ↑14% to R37.0 million

Operating profit ↑14% to R30.7 million

Headline earnings ↑15% to R18.2 million

Headline earnings per share ↑15% to R10.7 cents

System-wide sales ↑11% to R752 million

Net tangible asset value per share ↑34% to 28.6 cents

Maiden dividend of 3.0 cents per share

ten years of delivering

REVIEWED PROVISIONAL CONDENSED FINANCIAL RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	28 February 2011 Reviewed R'000	28 February 2010 Audited R'000
Revenue[1]	17	233 751	199 607
Gross profit[2]	15	121 904	105 862
Other income		771	720
Operating costs[3]	15	(91 907)	(79 655)
Operating profit	14	30 768	26 927
Negative goodwill		–	100
Fair value adjustment on derivative[4]		–	(263)
Share option IFRS 2 charge[5]		(176)	–
Interest income		615	699
Finance costs[6]		(5 925)	(6 186)
Profit before taxation	19	25 282	21 277
Taxation		(7 245)	(5 303)
Profit for the year	13	18 037	15 974
Other comprehensive income		–	–
Total comprehensive income for the year	13	18 037	15 974
Attributable to:			
Equity holders of the parent	13	18 037	15 974
Minority interests		–	–
Reconciliation of headline earnings:			
Earnings attributable to ordinary shareholders adjusted for:	13	18 037	15 974
Impairment losses		216	64
Negative goodwill arising on acquisition		–	(100)
Loss/(profit) on sale of property, plant and equipment		2	(64)
Headline earnings attributable to ordinary shareholders	15	18 255	15 874
Weighted average shares in issue ('000)		170 161	170 161
Fully diluted shares in issue ('000)[7]		179 815	170 161
Earnings per share (cents)	13	10.6	9.4
Fully diluted earnings per share (cents)	7	10.0	9.4
Headline earnings per share (cents)	15	10.7	9.3
Fully diluted headline earnings per share (cents)	10	10.2	9.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	28 February 2011 Reviewed R'000	28 February 2010 Audited R'000
ASSETS		
Non-current assets	102 182	93 706
Property, plant and equipment	11 813	11 649
Intangible assets[8]	67 570	64 366
Other financial assets[9]	3 150	–
Goodwill	18 654	16 321
Deferred tax	995	1 370
Non-current assets held for sale[10]	1 749	5 324
Current assets	112 553	89 676
Inventories[11]	62 221	55 096
Trade and other receivables[12]	33 493	19 585
Taxation	1 933	4 191
Advertising levies	755	3 524
Other financial assets	1 097	202
Cash and cash equivalents	13 054	7 078
Total assets	216 484	188 706
EQUITY AND LIABILITIES		
Capital and reserves	118 515	100 302
Issued capital	2	2
Distributable reserve	75 196	57 159
Share premium	43 141	43 141
Share option reserve[5]	176	–
Non-current liabilities	46 915	47 969
Borrowings	30 071	30 509
Long-term employee benefits	429	606
Deferred tax	16 415	16 854
Current liabilities	51 054	40 435
Provisions	250	70
Current tax payable	299	120
Trade and other payables[12]	30 852	19 426
Balances due to vendors[13]	–	6 446
Bank overdrafts	5 111	1 502
Derivative at fair value[4]	–	1 322
Current portion of borrowings[14]	14 542	11 549
Total equity and liabilities	216 484	188 706
Number of shares in issue ('000)	170 161	170 161
Net asset value per share (cents)	69.6	58.9
Net tangible asset value per share (cents)[15]	28.6	21.4

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Share premium R'000	Total share capital R'000	Share option reserve R'000	Retained income R'000	Total R'000
Balance 1 March 2009	2	43 141	43 143	–	41 185	84 328
Profit for year	–	–	–	–	15 974	15 974
Balance 1 March 2010	2	43 141	43 143	–	57 159	100 302
Share option reserve				176	–	176
Profit for year				–	18 037	18 037
Balance 28 February 2011	2	43 141	43 143	176	75 196	118 515

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	28 February 2011 Reviewed R'000	28 February 2010 Audited R'000
Cash flow from operating activities	21 658	21 684
Cash generated by operating activities[16]	32 036	34 429
Interest income	615	699
Finance costs	(5 925)	(6 449)
Taxation paid	(5 068)	(6 995)
Cash flows from investing activities	(13 901)	(7 136)
Acquisition of property, plant and equipment	(1 755)	(6 384)
Acquisition of non-current assets held for sale	(60)	(4 727)
Proceeds of disposal of property, plant and equipment	515	710
Proceeds on disposal of non-current assets held for sale	3 212	1 182
Acquisition of subsidiary[17]	(9 461)	–
Loans (advanced)/repaid	(4 045)	2 655
Acquisition of goodwill	–	(219)
Acquisition of intangible assets	(2 307)	(353)
Cash flows from financing activities	(5 390)	(12 725)
Decrease in long-term employee benefits	(177)	(52)
Loans raised/(repaid)[18]	1 233	(9 119)
Loans repaid to vendors	(6 446)	(3 554)
Change in cash and cash equivalents	2 367	1 823
Cash and cash equivalents at beginning of year	5 576	3 753
Cash and cash equivalents at end of year	7 943	5 576

CONDENSED CONSOLIDATED SEGMENTAL REPORT

	% change	28 February 2011 Reviewed R'000	28 February 2010 Audited R'000
Segment revenue			
Food[19]	42	63 160	44 339
Franchise		37 688	32 387
Manufacturing		14 680	894
Retail[20]		10 792	11 058
Jewellery[21]	10	171 611	155 952
Franchise and wholesale		116 056	103 159
Retail[22]		52 347	52 793
Concession retail		3 208	–
Eliminations[23]		(1 020)	(684)
Group revenue	17	233 751	199 607
Segment operating profit			
Food	10	17 712	16 111
Franchise[24]		17 810	17 194
Manufacturing[25]		690	(156)
Retail		(788)	(927)
Jewellery	11	24 248	21 867
Franchise and wholesale		17 292	13 376
Retail[26]		7 265	8 491
Concession retail		(309)	–
Corporate services[27]	1	(11 192)	(11 051)
Group operating profit	14	30 768	26 927
Segment assets			
Food		37 469	23 248
Franchise		23 094	17 686
Manufacturing		12 462	–
Retail		1 913	5 562
Jewellery		92 879	83 796
Franchise and wholesale		56 348	47 910
Retail		34 352	35 886
Concession retail		2 179	–
Corporate services		86 136	81 662
Total group assets		216 484	188 706

Notes to the financial information

1. Of the R34.1 million increase in revenue, the food segment increase contributed R18.4 million (a 42% increase over 2010) and the jewellery segment contributed R15.7 million (an increase of 10% over 2010).
2. The gross profit increase of 15% is lower than the revenue increase due to an expected decline in the gross margin from 53% in 2010 to 52% in 2011. This decline is due to the higher contribution of the food manufacturing segment, which has a lower gross margin than the group currently.
3. Included in operating costs are non-recurring and non-comparable costs as outlined below:
   - R0.6 million in transaction fees in respect of the acquisition of the St Elmo's Woodfired Pizza brand ("St Elmo's") in November 2010, which will not recur; and
   - R1.1 million in respect of cash incentives across the group, compared to nil expense in the previous period.

   Group operating costs excluding these non-recurring and non-comparable costs increased 13.3% to R90.2 million (2010: R79.6 million), while operating profit margin increased to 13.9% (2010: 13.5%).
4. The fair value adjustment on derivative in 2010 relates to the fair value charge arising out of an agreement to fix the interest rate on the loan with Rand Merchant Bank ("RMB") for the acquisition of the NWJ business ("NWJ"). This agreement ended 30 November 2010.
5. The IFRS 2 charge relates to the share incentive scheme detailed in note 7 below. This charge will continue for the duration of the scheme and will not materially change in future years.
6. Finance costs have remained largely unchanged from the prior year as additional funding was obtained for the acquisition of St Elmo's in November 2010.
7. Fully diluted shares in issue include 9 654 000 shares that may be issued and vest between 27 May 2010 and 27 May 2018 in terms of the share options granted to selected individuals, as announced on 27 May 2010. Vesting of tranche 1 will be triggered by the first achievement, tranche 2 by the second achievement, and tranche 3 by the third achievement by Taste of a 25% increase in headline earnings per share ("HEPS") in any three financial years from 2011 to 2015. Once vesting of a tranche has been triggered, a third of the options within the tranche will vest one year after vesting was triggered, a third two years after vesting was triggered, and a third three years after vesting was triggered. The options must be exercised within 5 years of vesting having been triggered and any unvested shares will be forfeited if the employee is no longer employed by Taste.
8. The increase in intangible assets as well as in goodwill is due to a combination of the acquisition of 4 Galaxy jewellery outlets and St Elmo's in November 2010.
9. Other financial assets consist of loans made by Taste to marketing funds of brands within the group. These loans attract interest, and are repayable in monthly instalments over two years.
10. The decline in non-current assets held for sale is as a result of the sale of company-owned food outlets, ownership of which is not a core strategy.
11. The 13% (R7.1 million) increase in group inventory relates to:
    - R2.1 million of inventories held for the jewellery concession venture, which was sold subsequent to 28 February 2011 as the pilot has been discontinued;
    - an increase of R1.2 million in inventories held within the food manufacturing division, being start-up inventory; and
    - the balance of the change is due to normal increases associated with the system-wide sales growth in the NWJ brand during the year.
12. The change in trade and other receivables and payables is due largely to the acquisition of St Elmo's and the growth of the food manufacturing and distribution business, when compared to the prior period.
13. The amount due to vendors of NWJ in the prior year was settled in full during the 2011 financial year in terms of the sale agreement.
14. The increase in the current portion of borrowings is due to the acquisition finance raised for the acquisition of St Elmo's.
15. Net tangible asset value is calculated by excluding goodwill, intangible assets, and the deferred taxation liability relating to intangible assets from net asset value.
16. The decline in cash generated from operations is primarily due to the change in inventory as detailed in note 11 above. The net change in trade receivables and payables was R2.5 million (see note 12 above).
17. On 1 November 2010, the food division acquired St Elmo's. The acquisition consisted of:
    - franchise agreements of 40 pizza outlets, associated trademarks, and intellectual property;
    - a food manufacturing and distribution facility with HACCP accreditation, together with all recipes and associated intellectual property; and
    - certain tangible assets relating to the business including, inter alia, stock, debtors and fixed assets.

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

	R'000
Tangible assets	3 481
Intangible assets	6 533
Liabilities	(553)
Total purchase consideration	9 461

    The purchase consideration was discharged in cash. During the 4 months for which St Elmo's results were included in these results, St Elmo's contributed R5.8 million to revenue and R0.8 million to operating profit. Shareholders are referred to the announcement made on SENS on 27 October 2010 regarding the pro-forma financial effects of the acquisition.
18. These payments are in respect of the RMB loan pursuant to the acquisition of NWJ and St Elmo's.
19. The food division consists of the core franchising division into which new store and annuity income is generated; a retail division in which corporate-owned stores are accounted for; and a food services division which manufactures food products for the food division. The ownership of corporate-owned stores is not a core strategy in this division.
20. The decrease in revenue in retail outlets is due to the sale or closure of corporate-owned stores during the period.
21. The jewellery division consists of two core divisions: 20 corporate-owned stores ("Retail"); and franchise and wholesale. The latter division manufactures, sources, and distributes stock to franchisees; as well as earning new-store and annuity revenue. Concession retail relates to two pilot projects that were conducted until April 2011. These have since been discontinued.
22. The decline in jewellery retail growth is partly due to the group having 22 stores during 2010 and only 20 during 2011. It is a core strategy to own retail outlets within the jewellery division.
23. This refers to inter-divisional revenues in the food division which are eliminated on consolidation.
24. The operating profits, and consequently operating profit margins, are not comparable to the prior period due to the reallocation of operating costs previously reflected in corporate services in the 2010 period, directly to the food division in the current period. This change was due to restructuring of the group at the beginning of the year to better reflect its divisional nature. These costs totalled R1.96 million in the food franchising division. On a comparable basis the financial results are as follows for the core food franchising division:
    - operating profit increased 15% to R19.8 million (2010: R17.2 million);
    - operating profit margin declined marginally to 52% (2010: 53%); and
    - operating costs as a percentage of revenue remained unchanged.
25. The full year operating profit is net of a loss of R0.4 million incurred in the first 6 months of the financial year as a result of the division having start-up costs in that period.
26. R1.7 million of the decline in retail operating profit was isolated to two flagship stores in the first half of the 2011 year. The external factors that contributed to these declines have since been mitigated and the operating profit in the second half of the year increased 6% over the comparable period, despite fewer company stores.
27. Excluding the costs in note 3 above, and adding back the reallocation of costs as described in note 24, corporate service costs increased 3.6%.

Group overview

The directors of Taste present the reviewed condensed provisional results for the year ended 28 February 2011 ("the 2011 year" or "2011"). Taste is a South African-based management group, invested in a portfolio of mostly franchised, category specialist, restaurant and retail brands, represented in over 320 locations throughout South Africa.

Despite the continued financial pressure that consumers found themselves under during the 2011 year, the group increased system-wide sales 11%, exceeding R750 million for the first time. During the year the group acquired the St Elmo's Woodfired Pizza brand; NWJ became the 3rd largest jewellery chain by store numbers and system-wide sales; and the group made substantial forward strides in its strategy of vertically integrating its food division. Consequently, group revenue increased 17% to R234 million. Despite slightly lower comparable gross profits due to the increased weighting of the food manufacturing division, operating profit margin remained largely unchanged and headline earnings increased by 15% to R18.2 million. Headline earnings per share ("HEPS") similarly increased 15% to 10.7 cents.

The directors are furthermore pleased to announce that 10 years after the inception of Scooters Pizza, the founding entity of Taste, that a maiden dividend of 3.0 cents per share has been declared. The conservative dividend cover of 3.6 times takes into account the group's strategy to grow by acquisition as well as organically; and is sustainable in the future given the group's cash generative business model.

Divisional overview

Food

The food division consists of the Maxi's, Scooters Pizza and St Elmo's Woodfired Pizza brands, as well as the new food services division which manufactures and distributes selected products to its food brands. All three brands target consumers in the broad middle market and are underpinned by strong value-for-money propositions; contemporary store designs; and convenience through either service offerings or locations.

During the year the division made substantial strides against both its vertical integration and brand portfolio strategies through the acquisition of the 23-year old St Elmo's Woodfired Pizza brand and the development of a sauce and spice mixing capability, to complement its existing manufacturing capacity.

The division ended the year with 242 outlets and system-wide sales of R506 million (2010: R443 million), an increase of 14%. Although same-store sales were modest in the first half of the year these accelerated in the second half, especially in the pizza division, with same-store sales increasing 7.8%, a trend which has continued in 2011. The re-imaging of Scooters Pizza continued with 19 outlets revamped during the year. On average, these outlets trade at double the year-on-year sales of the group. Maxi's and Scooters Pizza piloted 2 combo stores in petroleum forecourts and the initial positive performance has meant that this format will be pursued in the future. Scooters Pizza also opened its first non-delivery outlet located within a mall and this pilot will continue during the ensuing year, during which time the offering will be refined. The St Elmo's brand has undergone a strategic positioning review and the re-imaging of the first stores will take place from June 2011.

The food services division, which during the year manufactured a small portion of the basket of goods for the food brands, will continue its focus on providing consistent and good quality products to the group's franchisees, as well as increasing the basket size. New capacity and capability was added towards the end of the year and the division will, by the end of August 2011 produce all the sauce and spice requirements for all three food brands; all the pizza toppings for the pizza division; and will continue to pilot a warehousing and distribution depot regionally.

Jewellery

NWJ is the third-largest jewellery brand in South Africa, with 87 outlets located nationally. As the only vertically-integrated franchise jewellery chain in South Africa, it owns and operates approximately 23% of the total outlets; provides franchising and merchandising services to its franchise network; manufactures certain products sold by the NWJ outlets; and sources and distributes the items not manufactured by its manufacturing facility. The franchise services are comparable to the food franchise division of Taste in that they offer their franchisees operational and marketing support, project management, new site growth and development, and national brand-building strategies in return for a royalty. The distribution division distributes all of the goods sold through the NWJ outlets. Of these goods sold, approximately 40% is manufactured by the manufacturing facility in Durban, 22% is imported, and the remaining 38% sourced locally. This model provides in-house innovation capacity, fast routes to market, and reduces input costs to franchisees 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.

Operating profit for the year in this division increased 11% from the prior year to R24.2 million (2010: R21.8 million), with operating profit margin remaining unchanged at 14%. The second half of the year was particularly robust with operating profit increasing 21% from the comparable 6 months in the 2010 year. The franchise and wholesale division increased operating profit by 29% over the prior year, on the back of a 13% increase in revenue. This operating margin increase from 12.9% to 14.9% was due to a combination of a decrease in nominal costs within the division, as well as an increase in gross profit margin. As a result of consumers seeking more value, the demand for silver increased. Silver carries higher gross margins and increased transactions at store level, thereby increasing the units manufactured and distributed by this division.

Consumer purchasing patterns have been unpredictable in the last two years and continued in this vein in the year under review. Although operating profit for the year declined 14% in the retail division, the second half of the year saw the division increase operating profit by 6% over the comparable 6 months in the 2010 year, and producing nearly 4 times the operating profit of the first 6 months. System-wide sales increased 4.5% to R243 million (2010: R233 million), despite same-store sales declining by 2.6% for the 12 months. The second half of the year saw same-store sales improve to -1.4%. NWJ developed 10 new outlets during the year, and did not renew lease options on 2 outlets.

During the 2011 year the brand piloted two concession opportunities which have subsequently been discontinued.

The NWJ brand continued the brand re-positioning which started in 2009 and currently has 17 outlets in the new image, with 12 revamps planned in the coming year. Year-on-year sales increases in revamped stores are currently exceeding 12%. The brand won the Daily News Readers' Choice "Best place to buy Jewellery" award and increased its ad-spend for the fourth year in a row, making it the second largest advertiser in the category. The brand plans to open no fewer than 5 new stores during the year.

More recently, the brand has experienced an upward trend in spend per transaction from the low levels in 2009 and 2010 with the result that same-store sales at corporate stores have increased 11% for the 4 months since January 2011.

Basis of preparation of the reviewed results

Statement of compliance

The provisional condensed financial statements have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") and the presentation and disclosure requirements of IAS 34, the AC500 standards, as issued by the Accounting Practices Board or its successor, the JSE Listings Requirements and the South African Companies Act.

The accounting policies applied in the preparation of the provisional condensed financial statements have been prepared in accordance with accounting policies of the company that comply with IFRS and are consistent with the prior comparative year except for statements, amendments and interpretations that came into effect this year, and which have had no impact on the group.

Auditors' report

BDO South Africa Inc., the group's independent auditor, has reviewed the provisional condensed financial results contained in this provisional report, and has expressed an unmodified report on the provisional financial statements. Their review report is available for inspection at the company's registered office.

Prospects

Current positive sales trends in all the group's brands indicate that the gap between inflation and the recent median salary increases of approximately 7%, combined with two years of lowering interest rates, may finally have created some headroom for cash-strapped consumers. In the longer term, all the group's brands are in the early stages of brand re-imaging which will provide forward momentum for system-wide and same-store sales growth into the future. Similarly, the opportunities within the food services division to manufacture more of the basket of goods for its brands, as well as to distribute directly to outlets will unlock substantial value from within the system.

Taste remains committed to being a diversified franchisor invested in retail and restaurant brands within southern Africa. The group will continue to assess opportunities in line with its strategy and is focused in the short term on growing its jewellery division organically; growing its portfolio of brands; and increasing the contribution from the food services division.

Dividend to shareholders

Notice is hereby given that a maiden dividend of 3.0 cents per ordinary share, payable out of income, has been declared in respect of the year ended 28 February 2011.

The salient dates are:

Last day to trade cum-dividend	Friday, 1 July 2011
Shares commence trading ex-dividend	Monday, 4 July 2011
Record date	Friday, 8 July 2011
Payment of dividend	Monday, 11 July 2011

Share certificates may not be dematerialised or rematerialised between Monday, 4 July 2011 and Friday, 8 July 2011, both dates inclusive.

On behalf of the board

C F Gonzaga
Chief Executive Officer
24 May 2011

E Tsatsarolakis
Financial Director

These results and an overview of Taste are available at:
www.tasteholdings.co.za

Corporate information

Non-executive directors: R L Daly *(Chairperson)*, K Utian, J B Currie, A Berman, H Rabinowitz
Executive directors: C F Gonzaga *(CEO)*, D J Crosson, L Gonzaga, E Tsatsarolakis *(FD)*
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Company secretary: E Tsatsarolakis
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Transfer secretaries: Computershare Investor Services (Pty) Limited
Designated adviser: Vunani Corporate Finance

Midnight Star