



Unaudited condensed consolidated results  
for the six month ended 31 August 2016

leadership · respect · innovation



## SALIENT FEATURES AND HIGHLIGHTS

Core revenue

**↑ 15% to R519.3 million**  
(2015: R451.0 million)

System-wide sales

**↑ 7.25% to R858 million**  
(2015: R800 million)

Same-store sales in

**Luxury Goods  
Division ↑ 25%**

Core EBITDA

**(R10.0 million)**  
(2015: profit R17.5 million)

Core headline earnings per share

**↓ 6.2 cents** (2015: headline  
earnings per share 0.1 cents)

Converted further stores

**87 Domino's Pizza**  
trading to date

Net tangible asset value per share

**↑ 111 cents**  
(2015: 95 cents)

Successfully launched

**Starbucks Coffee** in April 2016  
**3 stores trading to date**

# COMMENTS FROM THE CEO

The last six months has seen some of the greatest gains made in our licensed brand strategy. Our Domino's business has started to settle down post conversion and we have seen average weekly sales rise 17% since March 2016. We launched Starbucks in April to unprecedented consumer interest and all three trading stores are trading well ahead of our original investment cases and forecasts. For the four months of trading during the current period, the first two stores generated a combined revenue of R18 million and are already producing positive four-wall EBITDA, despite the expected control challenges associated with a new business. Our Luxury Goods Division turned in same-store sales growth of 25%, driven by sales of globally leading licenced watch brands. An exceptional performance.

Our investment in executive capacity during the last 12 months is the driving force behind our ability to launch two globally leading food brands at almost the same time. The Starbucks launch has been lauded by Starbucks around the globe and, as South Africans, we can proudly say that we have already set some records within this globally admired brand. With such material outward improvements we are reminded that both Starbucks and Domino's are, combined, less than two years old in South Africa, and are essentially start-up businesses. While we are still on track to achieve an EBITDA breakeven in our Starbucks business by the fifth store - a remarkable achievement in itself - we acknowledge that our short term earnings will remain under pressure as we are committed to the growth potential of these globally leading brands in South Africa. We continue to focus inwardly to unlock the potential of these opportunities as these currently also represent the best available return on capital opportunities we see in the market.

## Group overview

The board of directors of Taste ("the Board") present the unaudited condensed consolidated financial results for the six months ended 31 August 2016 ("the current period"). Taste is a South African based management group that owns and licenses a portfolio of franchised and owned, category specialist and formula driven quick service restaurant ("QSR"), coffee and luxury retail brands housed within two divisions: Food and

Luxury Goods. The group is strategically focussed on licensing leading global brands; leveraging scale among its 'low cost' food brands; increasing ownership of corporate-owned stores across both divisions; and supporting this growth through a leveraged shared resources and vertically integration platform.

In the last six months the group made further advances against these strategies through: [1] successfully launching Starbucks Coffee in April, opening two stores that month; [2] finalising the conversion of Scooters Pizza and St Elmo's to Domino's Pizza to the extent that to date there remain just two more conversion opportunities; [3] extended the scale of our food distribution business by distributing all of the product utilised in our Starbucks business; [4] turning our locally owned business to positive same-store sales among all three brands during the current period; and [5] extending our market leading representation of luxury watch Swiss brands through an additional premium watch outlet in Mall of Africa and adding Cartier, IWC and Montblanc to our existing stable of luxury Swiss watch brands.

Group system-wide sales increased 7.25% to R858 million which translated into a core revenue increase of 15% to R519 million for the six month period. R18 million additional core gross profit was added, when compared to the prior period – representing a 10% increase. As expected during this start-up phase, the exceptional EBITDA performance by the Luxury Goods Division was counterbalanced by the investment in the Food Division – most obviously reflected in the increase in operating costs. The group recorded an expected core EBITDA loss of R10 million for the six month period. The group is focussed on building partner capacity for next year's expansion of Starbucks, and Domino's and on leveraging its market share gains in Luxury Goods Division in the past 12 months.

## Segmental overview

### Food

The Food Division licenses the world's leading coffee retailer and roaster – Starbucks Coffee; the world's largest pizza delivery chain - Domino's, and owns one of South Africa's leading fish take away brands (as voted by the Sunday Times readers awards) – The Fish & Chip Co; in addition to Zebro's Chicken and Maxi's. Taste's

## COMMENTS CONTINUED

food brands are spread across a diversified portfolio of the largest 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, initial launch promotions after conversion and relocations. In the interim, the group will disclose specific sales measures that are meaningful to shareholders. Same-store sales in Maxi's increased 3.0%, following on from a similar increase in the preceding six months. Pleasingly same-store sales in The Fish and Chip Co business have remained positive every month of the current period ending at 5.0% higher than the prior period. Zebro's continued to perform positively, albeit at a slower rate and ended the current period 1.5% above the prior period, lower than the 9.5% increase experienced for the same period one year ago.

Domino's ended the current period with 85 outlets, from 74 at the end of February 2016, and has added a further two outlets since the end of the current period. This brings the conversion largely to a conclusion, with two opportunities remaining. Of these outlets, 31 are corporate-owned at the end of the current period. The shift in focus from conversions to driving the existing business is starting to bear fruit, with sales in Domino's having increased steadily since March, and are currently 17% above that level.

The lessons learned in Domino's have been executed in our Starbucks business and the stores are already showing EBITDA profit at store level, despite the expected inefficiencies in operating standards on launch. We continue to estimate that the Starbucks business, including above store costs will reach an EBITDA breakeven at around five outlets. Our investment in the Starbucks Reserve® brand has continued in our third store which opened in September – our first in Pretoria. These three stores now join the less than 2% of Starbucks stores around the world that offer these rare micro-lot and exclusive coffees that are specifically roasted in Seattle in very limited quantities. Starbucks Reserve® presents coffee to a wide audience in a manner that is currently not

offered in South Africa. Our investment in partners and a training facility has already proved its worth. On the opening week in Menlyn Maine our partners processed just 3% less transactions than the opening week of Rosebank, with almost no queues. Already in all three stores we are transacting more than three times faster than when we launched. We are of the opinion that our free wi-fi offering is the fastest in the country and our customers are using some 140GB of data per day per store. We believe that this offering is inseparable from the Starbucks third place experience. Our expansion plan remains unchanged that we will open 12-15 stores in the first two years with the next stores currently scheduled for the first quarter of the next financial year.

### 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, 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).

The Luxury Goods Division is the only vertically integrated and partly franchised jewellery business in South Africa. It owns and operates approximately 65% of the total outlets. The franchise services are comparable to those of the Taste Food Franchise business 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 all the 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.

Same-store sales in the division increased an exceptional 25% over the prior period, which combined with new store growth resulted in a system-wide sales increase of 27% to R316 million. These increases come on the back of a 12 month same-store sales increase of 15% and the group is cautious as to whether this exceptional performance will be repeated. The Luxury Goods Division historically produced 70% to 75 % of full year profits in the second half of the year, which trend is expected to continue.

## Basis of preparation of the audited summarised results

### Statement of compliance

#### *Basis of preparation and accounting policies*

The unaudited condensed consolidated results have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (“IFRS”), the presentation and disclosure requirements of IAS 34 – *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the Listings Requirements of the JSE Limited and in the manner required by the South African Companies Act 71 of 2008, as amended.

Accounting policies, which comply with IFRS, have been applied consistently by all entities in the group and are consistent with those applied in the previous financial year except for amendments and interpretations that came in to effect during the current financial year that have no impact to the group.

The condensed consolidated results have not been reviewed or audited by the group’s auditors and were prepared under the supervision of Mr E Tsatsarolakis, the Chief Financial Officer of the group.

## Events subsequent to period end

Other than disclosed elsewhere in this report, the directors are not aware of any matters or circumstances arising since the current period end up to the date of this report.

## Directorate

Mr. Jay Currie, an executive director of Taste, resigned from the board with effect from 1 March 2016.

Mr. Sebastian Patel, a non-executive director of Taste, resigned from the board with effect from 30 May 2016.

Mr. Tyrone Moodley was appointed to the board as a non-executive director with effect from 10 October 2016.

## Dividend to shareholders

In line with previous years the group has not declared an interim dividend.

*On behalf of the Board*



**C F Gonzaga**  
*Chief Executive Officer*



**E Tsatsarolakis**  
*Chief Financial Officer*

12 October 2016

# CONDENSED GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 August 2016

	Unaudited 31 August 2016 R'000	Unaudited 31 August 2015 R'000	Audited 29 February 2016 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>585 421</b>	453 213	531 628
Property, plant and equipment <sup>(13)</sup>	185 551	146 513	159 767
Intangible assets <sup>(14)</sup>	117 771	98 112	117 180
Goodwill	112 927	112 090	108 967
Net investment in finance lease <sup>(15)</sup>	11 122	–	10 742
Other financial assets <sup>(16)</sup>	86 019	82 851	78 324
Deferred tax <sup>(17)</sup>	72 031	13 647	56 648
<b>Non-current assets held for sale <sup>(18)</sup></b>	<b>181</b>	9 989	3 459
<b>Current assets</b>	<b>526 520</b>	468 395	593 319
Inventories <sup>(19)</sup>	344 379	272 980	289 245
Net investment in finance lease <sup>(15)</sup>	495	–	459
Trade and other receivables	78 118	90 559	88 996
Current tax receivables	4 258	426	3 610
Advertising levies	7 395	10 255	5 444
Other financial assets <sup>(16)</sup>	2 520	3 957	2 921
Cash and cash equivalents	89 355	90 218	202 644
<b>Total assets</b>	<b>1 112 122</b>	931 597	1 128 406
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to holders of company</b>	<b>624 260</b>	475 089	654 652
Share capital	4	3	4
Retained earnings	2 825	83 342	37 239
Share premium <sup>(20)</sup>	611 777	387 192	611 188
Equity-settled share-based payment reserve	9 654	4 552	6 221
<b>Non-controlling interest</b>	<b>1 226</b>	(744)	1 174
<b>Non-current liabilities</b>	<b>297 863</b>	249 326	295 802
Borrowings <sup>(21)</sup>	253 499	225 415	248 906
Lease equalisation <sup>(22)</sup>	6 517	2 117	6 517
Deferred tax	37 847	21 794	40 379
<b>Current liabilities</b>	<b>188 773</b>	207 926	176 778
Current tax payable	4 216	3 241	3 805
Bank overdrafts	45 856	18 917	32 148
Borrowings <sup>(21)</sup>	5 552	5 315	6 984
Lease equalisation <sup>(22)</sup>	5 798	3 819	4 495
Other financial liabilities <sup>(23)</sup>	–	11 754	–
Trade and other payables	127 351	164 880	129 346
<b>Total equity and liabilities</b>	<b>1 112 122</b>	931 597	1 128 406
Number of shares in issue ('000)	375 189	301 858	374 917
Net asset value per share (cents)	166.7	157.1	174.9
Net tangible asset value per share (cents) <sup>(24)</sup>	111.1	95.2	120.6

# CONDENSED GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 August 2016

	%	Unaudited six months ended 31 August 2016 R'000	Unaudited six months ended 31 August 2015 R'000	Audited 12 months ended 29 February 2016 R'000
	change			
Revenue <sup>(3)</sup>	9	529 175	485 530	1 062 829
Cost of sales		(328 580)	(303 117)	(652 865)
<b>Gross profit</b>	10	<b>200 595</b>	182 413	409 964
Other income		415	57	30
Operating costs	13	(242 172)	(213 576)	(488 697)
<b>Operating loss</b>	(32)	<b>(41 162)</b>	(31 106)	(78 703)
Investment revenue		11 762	4 721	14 597
Finance costs		(16 104)	(12 390)	(27 050)
<b>Loss before taxation</b>	(17)	<b>(45 504)</b>	(38 775)	(91 156)
Taxation		11 142	9 072	17 055
<b>Loss for the period</b>	(16)	<b>(34 362)</b>	(29 703)	(74 101)
Other comprehensive income		-	-	-
Non-controlling interest		(52)	(213)	(1 705)
<b>Total comprehensive loss for the period</b>	(15)	<b>(34 414)</b>	(29 916)	(75 806)
<b>Attributable to:</b>				
Equity holders of the company	(15)	<b>(34 414)</b>	(29 916)	(75 806)
<b>Loss per share attributable to equity holders of the company</b>				
Loss per share (cents)	13	<b>(9.2)</b>	(10.6)	(24.2)
Diluted loss per share (cents)	15	<b>(9.0)</b>	(10.6)	(23.9)
Dividends declared per share (cents)		-	-	-

# CONDENSED GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 August 2016

	Share capital R'000	Share premium R'000	Total share capital 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 31 August 2015	3	387 192	387 195	4 552	83 342	475 089	(744)	474 345
Shares issue <sup>(20)</sup>	1	223 830	223 831	–	–	223 831	–	223 831
Options exercised	–	166	166	–	–	166	–	166
Share-based payment reserve	–	–	–	1 669	–	1 669	–	1 669
Comprehensive income for the period	–	–	–	–	(46 103)	(46 103)	1 918	(44 185)
<b>Balance at 1 March 2016</b>	<b>4</b>	<b>611 188</b>	<b>611 192</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	–	589	589	–	–	589	–	589
Dividends paid	–	–	–	–	–	–	–	–
Share-based payment reserve	–	–	–	3 433	–	3 433	–	3 433
Comprehensive loss for the period	–	–	–	–	(34 414)	(34 414)	52	(34 362)
<b>Balance at 31 August 2016</b>	<b>4</b>	<b>611 777</b>	<b>611 781</b>	<b>9 654</b>	<b>2 825</b>	<b>624 260</b>	<b>1 226</b>	<b>625 486</b>



# CONDENSED GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 August 2016

	Unaudited six months ended 31 August 2016 R'000	Unaudited six months ended 31 August 2015 R'000	Audited 12 months ended 29 February 2016 R'000
<b>Cash flows from operating activities</b>	<b>(73 420)</b>	(49 906)	(140 864)
Cash utilised by operating activities <sup>(25)</sup>	<b>(62 068)</b>	(26 331)	(93 479)
Investment revenue	<b>11 762</b>	4 721	14 597
Finance costs	<b>(16 104)</b>	(12 390)	(27 050)
Dividends paid	<b>–</b>	(19 133)	(19 142)
Taxation paid	<b>(7 010)</b>	3 227	(15 790)
<b>Cash flows from investing activities</b>	<b>(57 327)</b>	(124 496)	(183 408)
Acquisition of property, plant and equipment <sup>(26)</sup>	<b>(33 978)</b>	(51 992)	(77 865)
Proceeds of disposals of property, plant and equipment	<b>249</b>	13	382
Acquisition of non-current assets held-for-sale	<b>(181)</b>	(2 811)	(4 587)
Disposal of non-current assets held-for-sale <sup>(18)</sup>	<b>3 459</b>	–	319
Acquisition of business <sup>(27)</sup>	<b>(13 709)</b>	(1 721)	(4 378)
Investment in finance lease <sup>(15)</sup>	<b>(416)</b>	–	(11 201)
Loans advanced <sup>(16)</sup>	<b>(7 293)</b>	(58 840)	(57 098)
Loans repaid	<b>–</b>	–	3 818
Acquisition of intangible assets <sup>(14)</sup>	<b>(5 458)</b>	(9 145)	(32 798)
<b>Cash flows from financing activities</b>	<b>3 750</b>	200 962	450 119
Proceeds from issue of shares <sup>(20)</sup>	<b>589</b>	104 558	328 554
Loans raised	<b>–</b>	98 122	119 000
Loans paid	<b>3 161</b>	(1 718)	2 565
Change in cash and cash equivalents	<b>(126 997)</b>	26 560	125 847
Cash acquired from business acquisition	<b>–</b>	–	(92)
Cash and cash equivalents at beginning of the period	<b>170 496</b>	44 741	44 741
<b>Cash and cash equivalents at end of the period</b>	<b>43 499</b>	71 301	170 496

# CONDENSED GROUP CONSOLIDATED SEGMENTAL REPORT

for the six months ended 31 August 2016

	Food division R'000	Jewellery division R'000	Corporate services R'000	Inter- segment divisional revenues R'000	Total R'000
<b>Unaudited six months ended 31 August 2016</b>					
Revenue	265 783	296 483	10 000	(43 091)	529 175
EBITDA	(41 446)	25 626	(8 900)	–	(24 720)
Segment depreciation and amortisation	(11 774)	(3 851)	(817)	–	(16 442)
Operating (loss)/profit	(53 220)	21 775	(9 717)	–	(41 162)
Investment revenue	5 904	275	27 872	(22 289)	11 762
Finance costs	(17 100)	(7 601)	(13 692)	22 289	(16 104)
Profit before taxation	(64 416)	14 449	4 463	–	(45 504)
Segment assets	541 363	468 835	101 924	–	1 112 122
Segment liabilities	130 795	258 754	97 086	–	486 635
Segment capital expenditure	23 100	11 328	84	–	34 512
<b>Unaudited six months ended 31 August 2015</b>					
Revenue	283 613	229 883	10 500	(38 466)	485 530
EBITDA	(21 060)	13 858	(10 290)	–	(17 492)
Segment depreciation and amortisation	(9 600)	(3 175)	(839)	–	(13 614)
Operating profit/(loss)	(30 660)	10 683	(11 129)	–	(31 106)
Investment revenue	1 681	248	17 461	(14 669)	4 721
Finance costs	(11 023)	(5 675)	(10 361)	14 669	(12 390)
Profit before taxation	(40 002)	5 256	(4 029)	–	(38 775)
Segment assets	438 247	389 363	103 987	–	931 597
Segment liabilities	127 310	212 042	117 900	–	457 252
Segment capital expenditure	46 131	6 051	10	–	52 192
<b>Audited 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	658	35 594	(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

for the six months ended 31 August 2016

## 1. Reconciliation of headline earnings

		31 August 2016 R'000	31 August 2015 R'000	29 February 2016 R'000
<b>Reconciliation of headline loss:</b>				
Loss attributable to ordinary shareholders	(15)	(34 414)	(29 916)	(75 806)
Adjusted for:				
Impairment losses		705	–	14 812
(Profit)/loss on sale of property, plant and equipment and non-current assets available for sale		(55)	200	1 259
Tax effect on headline loss adjustments		10	(37)	(235)
<b>Headline loss attributable to ordinary shareholders</b>	<b>(13)</b>	<b>(33 754)</b>	<b>(29 753)</b>	<b>(59 970)</b>
Adjusted for:				
Legal fees		–	2 856	2 869
Transaction and other once-off costs <sup>(2)</sup>		694	8 769	12 846
Once-off and upfront Domino's Pizza and Starbucks costs <sup>(2)</sup>		13 986	27 433	70 468
Tax effect on core earnings adjustments		(4 110)	(9 100)	(21 473)
<b>Core headline (loss)/earnings</b>		<b>(23 184)</b>	<b>205</b>	<b>4 740</b>
Weighted average shares in issue ('000) <sup>(12)</sup>		375 981	282 952	312 615
Weighted average diluted shares in issue ('000)		381 618	283 312	316 766
Loss per share (cents)	13	(9.2)	(10.6)	(24.2)
Diluted loss per share (cents)	15	(9.0)	(10.6)	(23.9)
Headline loss per share (cents)	14	(9.0)	(10.5)	(19.2)
Diluted headline loss per share (cents)	16	(8.8)	(10.5)	(18.9)
Core headline (loss)/earnings		(23 184)	205	4 740
<b>Core headline (loss)/earnings per share (cents)</b>		<b>(6.2)</b>	<b>0.1</b>	<b>1.5</b>

## 2. Core earnings

As with previous periods the group discloses core/normalised earnings. The company uses this core earnings measure to internally evaluate operating performance, to evaluate itself against its peers, and to determine future performance targets and long-range planning. Additionally, the company believes that stakeholders covering the company's performance also utilise a similar measure. Taste will disclose this financial measure for as long as it is relevant to stakeholders.

Core earnings exclude Domino's and Starbucks costs, as well as other once-off costs and revenues. Domino's costs include upfront costs relating to the

launching of the Domino's brand, the establishment of dough production and distribution facilities (including the temporary Domino's ingredient subsidy as ingredient suppliers and specifications are localised) and the conversion of the Scooters Pizza and St Elmo's stores to Domino's stores which includes opening corporate-owned training stores required for the conversion and the interest thereon. Starbucks costs include costs incurred with regards to establishing the Starbucks brand in South Africa such as, initial training and travel; employment costs of a dedicated Starbucks team well in advance of the first store opening; pre-opening marketing and market research; and establishing IT and other infrastructure.

# NOTES TO THE FINANCIAL INFORMATION CONTINUED

for the six months ended 31 August 2016

The core adjustment for the current period mainly comprises of:

1. Starbucks pre-opening people costs (including travel) of R3.3 million (2015: R1.3 million) and Starbucks marketing and launch related costs of R4.9 million (2015: Rnil).
2. Domino's costs relating to the conversion of further stores during the current period of R2.3 million (2015: R23.4 million) and a final 'sun-setting' write-off relating to St Elmo's and Scooters Pizza of R3.4 million (2015: Rnil).

3. Lease smoothing of R0.5 million (2015: R2.1 million).

The group anticipates that the future core adjustments will consist predominantly of pre-opening or other expenses relating to corporate-owned stores in the group; lease smoothing; and other material once-off costs or revenues should they arise.

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

## CONDENSED GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME RECONCILIATION TO CORE EARNINGS

	Core earnings % change	Unaudited six months ended 31 August 2016 R'000	Core earnings adjustment 2016 R'000	Unaudited six months ended 31 August Core earnings 2016 R'000	Unaudited six months ended 31 August Core earnings 2015 R'000
Revenue <sup>(2)(3)(4)</sup>	15	529 175	(9 900)	519 275	451 030
Cost of sales		(328 580)	9 900	(318 680)	(268 617)
<b>Gross profit</b> <sup>(5)</sup>	10	<b>200 595</b>	<b>-</b>	<b>200 595</b>	182 413
Other income		415	-	415	57
Operating costs <sup>(2)(6)</sup>	28	(225 730)	14 680	(211 050)	(164 906)
<b>EBITDA</b> <sup>(7)</sup>	(157)	<b>(24 720)</b>	<b>14 680</b>	<b>(10 040)</b>	17 564
Amortisation and depreciation <sup>(8)</sup>		(16 442)	-	(16 442)	(12 245)
<b>Operating (loss)/profit</b>	(598)	<b>(41 162)</b>	<b>14 680</b>	<b>(26 482)</b>	5 319
Investment revenue <sup>(9)</sup>	149	11 762	-	11 762	4 721
Finance costs <sup>(10)</sup>	65	(16 104)	-	(16 104)	(9 757)
<b>(Loss)/profit before taxation</b>		<b>(45 504)</b>	<b>14 680</b>	<b>(30 824)</b>	283
Taxation		11 142	(4 110)	7 032	(27)
<b>(Loss)/profit for the period</b>		<b>(34 362)</b>	<b>10 570</b>	<b>(23 792)</b>	256
Other comprehensive income		-	-	-	-
Minority shareholders <sup>(11)</sup>		(52)	-	(52)	(213)
<b>Total comprehensive (loss)/income for the period</b>		<b>(34 414)</b>	<b>10 570</b>	<b>(23 844)</b>	43
<b>Attributable to:</b>					
Equity holders of the company		(34 414)	10 570	(23 844)	43
<b>(Loss)/earnings per share attributable to equity the company</b>					
(Loss)/earnings per share (cents)		(9.2)	2.8	(6.3)	0.0
Diluted (loss)/earnings per share (cents)		(9.0)	2.8	(6.2)	0.0
Dividends declared per share (cents)		-	-	-	-

	Core earnings % change	Unaudited six months ended 31 August 2016 R'000	Core earnings adjustment 2016 R'000	Unaudited six months ended 31 August Core earnings 2016 R'000	Unaudited six months ended 31 August Core earnings 2015 R'000
<b>RECONCILIATION OF HEADLINE EARNINGS</b>					
(Loss)/earnings attributable to ordinary shareholders		(34 414)	10 570	(23 844)	43
Adjusted for:					
Impairment losses		705	–	705	
(Profit)/loss on sale of property, plant and equipment and non-current assets available for sale		(55)	–	(55)	200
Tax effect on headline earnings adjustments		10	–	10	(37)
<b>Headline (loss)/earnings attributable to ordinary shareholders</b>		<b>(33 754)</b>	<b>10 570</b>	<b>(23 184)</b>	<b>205</b>
Weighted average shares in issue ('000) <sup>(12)</sup>		375 981	375 981	375 981	282 952
Weighted average diluted shares in issue ('000)		381 618	381 618	381 618	283 312
(Loss)/earnings per share (cents)		(9.2)	2.8	(6.3)	0.0
Diluted (loss)/earnings per share (cents)		(9.0)	2.8	(6.2)	0.0
Headline (loss)/earnings per share (cents)		(9.0)	2.8	(6.2)	0.1
Diluted headline (loss)/earnings per share (cents)		(8.8)	2.8	(6.1)	0.1

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

	% change	Unaudited six months ended 31 August 2016 R'000	Unaudited six months ended 31 August 2015 R'000	Audited 12 months ended 29 February 2016 R'000
<b>Core revenue</b>				
Food	3	255 883	249 113	492 191
Jewellery	29	296 483	229 883	570 509
Corporate Services <sup>(29)</sup>	(5)	10 000	10 500	12 249
Inter-segment revenues <sup>(28)</sup>	12	(43 091)	(38 466)	(64 220)
<b>Group core revenue</b>	<b>15</b>	<b>519 275</b>	<b>451 030</b>	<b>1 010 729</b>
<b>Core EBITDA</b>				
Food	(437)	(26 445)	7 837	(4 578)
Jewellery	32	25 306	19 199	69 600
Corporate Services <sup>(29)</sup>	(6)	(8 901)	(9 472)	(17 750)
<b>Group core EBITDA</b>	<b>(157)</b>	<b>(10 040)</b>	<b>17 564</b>	<b>47 272</b>
<b>Core operating profit</b>				
Food	(9 600)	(38 219)	(394)	(23 823)
Jewellery	34	21 455	16 024	63 027
Corporate Services <sup>(29)</sup>	6	(9 718)	(10 311)	(19 404)
<b>Group core operating (loss)/profit</b>	<b>(598)</b>	<b>(26 482)</b>	<b>5 319</b>	<b>19 800</b>

# NOTES TO THE FINANCIAL INFORMATION CONTINUED

for the six months ended 31 August 2016

3. The prior period ("2015") revenue and cost of sales have been reduced by R4.8 million respectively, which represents the marketing royalties in corporate-owned stores that were not eliminated from revenue and cost of sales respectively. This restatement has no impact on the 2015 profit.
4. The 15% increase in group core revenue for the period ended 31 August 2016 ("the current period" or "2016") is attributable mainly to the stellar same-store sales increase in luxury goods of 25% over the prior period.
5. Core gross profit increased by 10% over 2015, despite the margin declining from 40.4% in the prior period to 38.6% in the current period. This decrease is due to lower margins achieved in the Luxury Goods Division in order to attract higher sales, and a lower margin in the Food Division primarily as a result of margin absorption by the food distribution business.
6. Both divisions contributed to the nominal increase in core operating costs. Core group operating costs as a percentage of revenue increased to 40.2% (2015: 36.5%), due to an increase in costs in the Food Division. The Luxury Goods Division continued its stellar performance, with costs as a percentage of its revenue improving 1.7 percentage points to 30.7% (2015: 32.4%). Operating costs as a percentage of revenue in the Food Division increased to 49.9% (2015: 36.6%). Within the Food Division the corporate store operating cost margin improved markedly over the prior period and the distribution operating cost margin was unchanged. The margin increase is therefore attributable to costs in the franchise business that are related to building the senior teams in order to establishing Starbucks and Domino's.
7. 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 period was (R10 million) (2015: profit R17.5 million), attributable wholly to the Food Division as it establishes Starbucks and Domino's.
8. The increase of R4.2 million in depreciation and amortisation is due to the increased number of corporate-owned stores compared to the prior year, including the two Starbucks stores opened in the current period.
9. The increase in investment revenue is consequent to:
  - R226 million raised through a fully subscribed rights offer in November 2015;
  - R25 million notes issued on 8 September 2015 in terms of the groups Domestic Medium Term Note ("DMTN") programme; and
  - 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.
10. The difference in the finance cost is mainly attributable to the additional R100 million notes that were issued during the financial year ended 28 February 2016.
11. This relates to a shareholding by the Luxury Goods Division of 58% in a company that owns four NJW stores.
12. The change in the weighted average number of shares in issue is as a result of:
  - 31073 773 shares issued in April 2015. Shareholders are referred to the SENS announcement released on 21 April 2015 for further details;
  - 1 726 727 shares issued to the Arthur Kaplan vendors in the prior period as part payment of the additional purchase price consideration in terms of the purchase and sale agreement;
  - Share options exercised by participants of the Taste Holdings Limited share option scheme; and
  - 75 464 476 shares issued in November 2015. Shareholders are referred to the SENS announcement released on 13 October 2015 for further details.
13. The increase in property, plant and equipment over the prior period relates to the following capital expenditures:
  - acquisition and construction of corporate stores opened in the Food and Luxury Goods Divisions; and
  - acquisition of the property in Midrand where the dough manufacturing and food distribution facilities are located.

14. The increase in intangible assets over the prior period relates to contributions made to Scooters and St Elmo's franchisees for the conversion of their stores to Domino's, as well as investments made in Domino's online ordering and My Starbucks Rewards, still to launch.
15. This amount represents the value of ovens and other pizza equipment being leased to franchisees that have converted their store to Domino's Pizza.
16. 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. These loans attract interest and are repayable; and
  - extended payment terms given to franchisees of the group, including the majority of the contributions made to Scooters and St Elmo's franchisees for the conversion of their stores to Domino's. In terms of IFRS the remaining portion of these contributions is disclosed under intangible assets.
17. The increase in the deferred tax asset over the prior period is due to the recognition of additional tax losses incurred by the Food Division, which will be available for offset against future profits.
18. Periodically the group operates outlets where the short term intention is to sell them to franchisees. The decrease in this balance from the prior period is consequent to the decision made to exit corporate store ownership in Maxi's and The Fish & Chip Co in order to focus exclusively on Domino's and Starbucks corporate stores. These stores have either been closed or sold.
19. The increase of R71.3 million in inventories comprises almost entirely (R69.7 million) of an increase in inventory in the Luxury Goods Division pursuant to the increase in sales in that division.
20. The increase in share premium from the prior period is consequent to the shares issued per note 12.
21. The increase in borrowings from the prior period is due to the additional notes issued under the DMTN programme (see note 9).
22. With the substantial increase in additional corporate store ownership across both divisions, lease rentals are now a material expense to the group and the lease smoothing charge in terms of IAS17 is disclosed separately. This is a non-cash item and is excluded from core earnings.
23. The amount in the prior period represents the remaining obligation to the vendors in terms of the purchase and sale agreement relating to Arthur Kaplan which was extinguished in September 2015.
24. 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.
25. Cash utilised in operating activities for the current period includes the costs and working capital associated thereto in terms of the core adjustment (see note 2).
26. Property, plant and equipment purchased during the current period pertains mainly to additional corporate-owned stores in the Food Division (including Starbucks outlets) to the value of R18.7 million as well as the Luxury Goods Division of R10.7 million.
- 27. Acquisition of NWJ stores**
- Goodwill arose on the acquisition of the assets 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:

	R'000
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	(3 631)
Goodwill acquired	1 614

# NOTES TO THE FINANCIAL INFORMATION CONTINUED

for the six months ended 31 August 2016

During the period that these stores were owned they contributed R4.81 million to revenue and R0.8 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. None of the goodwill acquired is expected to be deductible for income tax purposes. The purchase price allocation has been disclosed as provisional, as permitted by IFRS3 *Business Combinations* and will be finalised within 12 months of acquisition date.

## Acquisition of Domino's Pizza stores

During the current period the Food Division acquired the assets of four Domino's Pizza outlets in order to expand its corporate store footprint.

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

	R'000
Property, plant and equipment	3 738
Fair value of assets acquired	3 738
Consideration paid	(6 092)
Balance owed by vendors	(6 092)
Goodwill acquired	2 354

During the period that these stores were owned they contributed R4.1 million to revenue and R0.1 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. None of the goodwill acquired is expected to be deductible for income tax purposes. The purchase price allocation has been disclosed as provisional, as permitted by IFRS3 *Business Combinations* and will be finalised within 12 months of acquisition date.

28. This refers to interdivisional revenues in the Food and Corporate Services divisions that are eliminated on consolidation.
29. Corporate Services includes costs associated with JSE compliance, corporate activity, fund raising, non-executive fees, group CSI activities and salaries of the CEO, CFO, Group Commercial Executive with ancillary payroll costs.



# CORPORATE INFORMATION

## 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")

## Non-executive directors

G M Pattison\* (*Chairperson*)\*, K M Utian\*, A Berman\*, H R Rabinowitz, W P van der Merwe\*,  
R L Daly\*, T C Moodley  
\* *Independent*

## Executive directors

C F Gonzaga (*CEO*), D J Crosson, J B Currie, E Tsatsarolakis (*CFO*)

## Registration number

2000/002239/06

## Registered address

12 Gemini Street, Linbro Business Park, Sandton 2065  
Telephone: (011) 608 1999  
Facsimile: 086 696 1270

## Postal address

PO Box 1125, Ferndale, Randburg, 2160

## Company secretary

iThemba Corporate Governance and Statutory Solutions Proprietary Limited

## 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)

