GROWING BETTER BRANDS

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")

UNAUDITED CONDENSED CONSOLIDATED RESULTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2013

Revenue	EBITDA	Operating profit	System-wide sales	Earnings per share	Headline earnings	Headline earnings per share
↑ 24%	↑ 13%	↑ 11%	↑ 12%	↑ 23%	↑ 26%	↑ 27%
to R263.5 million	to R22.9 million	to R17.8 million	to R716 million	to 5.8 cents	to R11.1 million	to 5.7 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	Unaudited six months ended 31 August 2013 R'000	Unaudited six months ended 31 August 2012 R'000	Audited 12 months ended 28 February 2013 R'000
Revenue[2]	24%	**263 500**	212 921	506 431
Cost of sales		**(160 328)**	(127 208)	(311 367)
Gross profit[3]	20%	**103 172**	85 713	195 064
Other income		**189**	529	496
Operating costs[4]	22%	**(85 537)**	(70 164)	(152 668)
Operating profit[5]	11%	**17 824**	16 078	42 892
Investment revenue		**1 119**	1 114	1 956
Finance costs		**(3 248)**	(3 752)	(7 162)
Profit before taxation	17%	**15 695**	13 440	37 686
Taxation[6]		**(4 432)**	(4 412)	(12 911)
Profit for the period	25%	**11 263**	9 028	24 775
Other comprehensive income		**–**	–	–
Total comprehensive income for the period	25%	**11 263**	9 028	24 775
Attributable to:				
Equity holders of the company	25%	**11 263**	9 028	24 775
Earnings per share attributable to equity holders of the company				
Basic earnings per share (cents)	23%	**5.8**	4.7	12.8
Diluted earnings per share (cents)	27%	**5.6**	4.4	12.3
Dividends declared per share (cents)		**–**	–	5.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 August 2013 R'000	Unaudited 31 August 2012 R'000	Audited 28 February 2013 R'000
ASSETS			
Non-current assets	**185 923**	174 518	177 744
Property, plant and equipment[7]	**24 439**	16 420	17 063
Intangible assets	**81 131**	86 366	83 508
Goodwill[8]*	**72 235**	68 669	69 934
Other financial assets[9]	**6 941**	2 308	5 885
Deferred tax	**1 177**	755	1 354
Non-current assets held for sale[10]	**675**	1 258	675
Current assets	**223 880**	185 833	191 248
Inventories[11]	**102 801**	91 027	94 029
Trade and other receivables[12]	**83 852**	71 880	67 541
Current tax receivables	**8 959**	6 408	2 978
Advertising levies	**3 660**	3 927	1 939
Other financial assets[9]	**11 079**	5 222	4 430
Cash and cash equivalents	**13 529**	7 369	20 331
Total assets	**410 478**	361 609	369 667
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent	**190 824**	173 469	189 246
Share capital	**2**	2	2
Retained earnings	**109 507**	92 424	108 171
Share premium	**80 343**	80 101	80 101
Equity-settled share-based payment reserve	**972**	942	972
Non-current liabilities	**72 929**	70 941	66 763
Borrowings[13]	**51 711**	49 316	45 046
Long-term employee benefits	**–**	126	126
Deferred tax	**21 218**	21 499	21 591
Current liabilities	**146 725**	117 199	113 658
Provisions	**250**	250	250
Current tax payable	**4 612**	4 215	3
Trade and other payables[12]*	**111 584**	84 842	88 510
Balance due to vendors	**1 000**	1 000	1 000
Bank overdrafts	**15 858**	15 699	13 163
Dividends payable	**67**	41	38
Borrowings[13]	**13 354**	11 152	10 694
Total equity and liabilities	**410 478**	361 609	369 667
Number of shares in issue ('000)	**194 724**	194 161	194 161
Net asset value per share (cents)	**98.0**	89.3	97.5
Net tangible asset value per share (cents)[14]	**30.3**	22.6	29.7

** Prior year balances have changed due to the finalisation of the provisional purchase price allocation for the acquisition of The Fish & Chip Co. in 2012. There has been no effect on income as a result of these changes.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited six months ended 31 August 2013 R'000	Unaudited six months ended 31 August 2012 R'000	Audited 12 months ended 28 February 2013 R'000
Cash flows from operating activities	**3 691**	(20 055)	7 524
Cash generated by/(utilised in) operating activities	**21 718**	(3 779)	36 118
Investment revenue	**1 119**	1 114	1 956
Finance costs	**(3 248)**	(3 752)	(7 162)
Dividends paid	**(9 898)**	(7 742)	(7 745)
Taxation paid	**(6 000)**	(5 896)	(15 643)
Cash flows from investing activities	**(22 629)**	(8 554)	(15 907)
Acquisition of property, plant and equipment[7]	**(9 194)**	(6 446)	(8 600)
Proceeds of disposals of property, plant and equipment	**141**	351	322
Acquisition of business[15]	**(5 871)**	–	(2 133)
Net loans advanced	**(7 705)**	(806)	(3 657)
Acquisition of intangible assets	**–**	(1 653)	(1 839)
Cash flows from financing activities	**9 441**	(5 259)	(9 987)
Decrease in long-term employee benefits	**(126)**	(126)	(126)
Proceeds from issue of shares	**242**	–	–
Net loans raised/(repaid)	**9 325**	(5 133)	(9 861)
Change in cash and cash equivalents	**(9 497)**	(33 868)	(18 370)
Cash and cash equivalents at beginning of period	**7 168**	25 538	25 538
Cash and cash equivalents at end of period	**(2 329)**	(8 330)	7 168

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	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 R'000
Balance 1 September 2012	2	80 101	80 103	942	92 424	173 469
Share-based payment	–	–	–	30	–	30
Dividends paid	–	–	–	–	–	–
Comprehensive income for the period	–	–	–	–	15 747	15 747
Balance 1 March 2013	2	80 101	80 103	972	108 171	189 246
Share issue	**–**	**242**	**242**	**–**	**–**	**242**
Dividends paid	**–**	**–**	**–**	**–**	**(9 927)**	**(9 927)**
Comprehensive income for the period	**–**	**–**	**–**	**–**	**11 263**	**11 263**
Balance 31 August 2013	**2**	**80 343**	**80 345**	**972**	**109 507**	**190 824**

CONDENSED CONSOLIDATED SEGMENTAL REPORT

	% change	Unaudited six months ended 31 August 2013 R'000	Unaudited six months ended 31 August 2012 R'000	Audited 12 months ended 28 February 2013 R'000
Segment revenue				
Food[16]	29%	**175 827**	136 596	315 329
Franchise[17]		**62 294**	63 556	131 388
Food services		**113 533**	72 780	183 681
Retail		**–**	260	260
Jewellery[18][19]	16%	**92 325**	79 742	198 665
Franchise and wholesale		**50 282**	50 466	121 484
Retail		**42 043**	29 276	77 181
Corporate Services		**8 121**	5 935	12 360
Inter-segment revenues[20]		**(12 773)**	(9 352)	(19 923)
Group revenue	24%	**263 500**	212 921	506 431
Segment operating profit				
Food	10%	**18 146**	16 534	30 944
Franchise[17]		**14 891**	12 822	30 735
Food services[21]		**3 267**	3 995	893
Retail		**(12)**	(283)	(684)
Jewellery[22]	24%	**8 724**	7 033	28 655
Franchise and wholesale		**652**	2 027	10 404
Retail		**8 072**	5 006	18 251
Corporate services[23]	21%	**(9 046)**	(7 489)	(16 707)
Group operating profit	11%	**17 824**	16 078	42 892
Segment profit before taxation				
Food	12%	**16 703**	14 926	27 767
Franchise		**14 788**	12 244	29 752
Food services		**1 980**	3 014	(1 301)
Retail		**(65)**	(332)	(684)
Jewellery	30%	**7 753**	5 962	26 226
Franchise and wholesale		**(319)**	956	7 975
Retail		**8 072**	5 006	18 251
Corporate services	18%	**(8 761)**	(7 448)	(16 307)
Group profit before taxation	17%	**15 695**	13 440	37 686

NOTES TO THE FINANCIAL INFORMATION

1. Reconciliation of headline earnings

	% change	Unaudited six months ended 31 August 2013 R'000	Unaudited six months ended 31 August 2012 R'000	Audited 12 months ended 28 February 2013 R'000
Earnings attributable to ordinary shareholders adjusted for:	25%	**11 263**	9 028	24 775
Impairment losses		**–**	–	1 226
Profit on sale of property, plant and equipment and non-current assets available for sale		**(141)**	(295)	(120)
Tax effect on headline earnings adjustments		**21**	83	18
Headline earnings attributable to ordinary shareholders	26%	**11 143**	8 816	25 899
Weighted average shares in issue ('000)		**194 279**	194 161	194 161
Diluted weighted average shares in issue ('000)		**202 028**	205 245	201 911
Basic earnings per share (cents)	23%	**5.8**	4.7	12.8
Diluted earnings per share (cents)	27%	**5.6**	4.4	12.3
Headline earnings per share (cents)	27%	**5.7**	4.5	13.3
Diluted headline earnings per share (cents)	28%	**5.5**	4.3	12.8

2. Both the food and jewellery segments contributed positively to the 24% increase in group revenue from 31 August 2012 ("the prior period" or "2012"). The jewellery segment increase was driven by outstanding same store-sales growth in excess of 12%; while the food segment increase was driven by the larger contribution of the food services division.

   Prior period revenue has been adjusted to include marketing contributions (R18.8 million) as well as development revenue (R17.8 million). Marketing contributions were previously accounted for as a reimbursement of expenditure included in operating costs. Development revenue was previously shown net of contributions from franchisees. Both these adjustments which have been made in terms of IFRS, are included in the 2013 Integrated Annual Report, and have no effect on 2012 earnings but have resulted in comparatively lower group margins.

3. The gross profit increase of 20% is lower than the revenue increase due to an expected decline in the gross profit margin as the contribution from the food services division increases. Despite this expected decline when compared to the prior period, the gross profit margin has increased since 28 February 2013 as efficiencies continue to improve in the food services division.

4. The increase in operating costs is due to a combination of:
   - owning/operating eight additional corporate jewellery outlets during the six months ended 31 August 2013 ("the current period") when compared to the prior period; and
   - costs associated with the food distribution business which was established during August 2012.

   A more effective measure of cost control is costs reflected as a percentage of revenue. When compared to the prior period this improved by 0.5 percentage points to 32.5%.

5. Included in operating costs is additional depreciation of approximately R0.7 million related to capital expenditure incurred in the second half of the 2013 financial year to acquire NWJ outlets and to establish the food distribution business. Excluding this additional depreciation, operating profit would have increased by 15.2%. The expected decline in operating margin from the prior period is due to the larger contribution of the food services division which operates at lower margins when compared to the rest of the group. Additionally, the group historically generates substantially larger revenues and profits in the second half of the year lifting operating profit margin from the current period.

6. The prior period taxation charge included secondary tax on companies ("STC") of R0.8 million.

7. The vast majority of the increase in property, plant and equipment is due to:
   - capital expenditure incurred in re-locating the sauce and spice manufacturing facility from Cape Town to Gauteng, thereby centralising manufacturing into one facility and providing savings on transportation and other efficiencies;
   - re-locating the Cape Town distribution depot to a new facility with increased capacity; and
   - the purchase of two vehicles used in the food distribution business.

   This capital expenditure was funded from external funding, in line with the group's stated intention.

8. Goodwill increased over the prior period as a result of the jewellery division acquiring additional corporate jewellery outlets since 31 August 2012.

9. Other financial assets consist of:
   - loans made to marketing funds of brands within the group. These loans attract interest, and are repayable in monthly installments; and
   - extended payment terms and/or financing provided to certain franchisees.

10. The decline in non-current assets held for sale is as a result of the impairment of one company-owned food outlet.

11. The increase of R11.8 million in inventories is due to:
    - an increase in NWJ inventories of R14.4 million, R7.2 million of which relates to owning/operating eight more corporate stores than in the prior period; and
    - a reduction of R2.6 million in inventory in the food services division, as inventory efficiencies continue to improve.

12. The increase in both trade and other receivables and payables is mainly as a result of the growth of both the food services and jewellery divisions.

13. The increase in borrowings from 28 February 2013 is as a result of external funding obtained for the capital expenditure and acquisitions as detailed in notes 7 and 15 respectively.

14. 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.

15. Between April 2013 and July 2013, the jewellery division acquired the assets of four franchised NWJ stores as these stores were located in key strategic sites. The acquisition consisted of inventory and property, plant and equipment.

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

	R'000
Property, plant and equipment	901
Inventory	2 669
Fair value of assets acquired	3 570
Consideration paid	(5 871)
In cash	(3 897)
Balance owed by vendors	(1 974)
Goodwill acquired	2 301

    The purchase consideration was discharged in cash. During the period that these four stores were owned/operated by the jewellery division, they contributed R2.4 million to revenue and R0.4 million to operating profit. The revenue and operating profit as if these stores were owned for the full year cannot be disclosed, as complete and compliant financial records of these stores prior to the dates that the jewellery division acquired control of these stores could not be obtained. None of the goodwill recognised is expected to be deductible for income tax purposes.

16. The food segment consists of the core franchising division from 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 and distributes food products for the food division. The revenue increase is attributable to the food distribution business which revenue is not comparable to the prior period as this business was established in August 2012.

17. Despite revenue in the food franchise division being marginally lower when compared to the prior period, operating profit increased 16% and operating profit margin improved from 20% to 24%.

18. The jewellery segment consists of two core divisions: 29 corporate-owned/operated stores ("retail"); and "franchise and wholesale". The latter division manufactures, sources, and distributes stock to franchisees as well as corporate stores, and earns new-store and annuity royalty revenue. At the end of the current period the retail division owned/operated eight more corporate stores than at the end of the prior period. As these stores are accounted for under the "retail" division (and no longer under the "franchise and warehouse" division), the revenue and operating profit should be compared at the jewellery segment level.

19. Despite the total number of stores having declined from 79 at 31 August 2012 to 74 at the end of the current period, revenue increased as a result of system-wide sales increase of 11%, driven by a same-store sales increase of 12.4% for the current period.

20. This refers to interdivisional revenues in the food and corporate services segments that are eliminated on consolidation.

21. The operating profit and operating profit margin in the food services division is not comparable to the prior period due to the significant change in the business activity of the division as a result of establishing the food distribution business in the latter half of the 2013 financial year. The significant improvement in operating profit from 28 February 2013 is as a result of the continued improvement in efficiencies and substantially less once-off costs associated with the distribution business. These efficiencies continue to improve as the business establishes itself.

22. The increase in operating profit in the jewellery segment as a whole is due to the sustained same-store sales increases and owning/operating eight more corporate stores than during the prior period. Historically, the jewellery segment has produced between 70% and 75% of its full-year operating profit in the second half of the financial year.

23. The change in corporate services from the prior period is due to additional legal fees and costs related to personnel.

COMMENTARY

Group overview

The board of directors ("the board") of Taste have pleasure in presenting the unaudited condensed consolidated financial results for the six months ended 31 August 2013 ("the current period"). Taste is a South African-based management group, invested in a portfolio of mostly franchised, category specialist, restaurant and retail brands, currently represented in more than 600 locations throughout Southern Africa.

When compared to the six months ended 31 August 2012 ("the prior period" or "2012") the group:

- continued to grow its store footprint;
- increased the number of NWJ corporate-owned/operated outlets; and
- made substantial strides against its vertical integration strategy of its food segment through the establishment of two food distribution depots in August 2012; centralised food manufacturing in Gauteng in August 2013; and commenced the relocation to an increased capacity food distribution depot in Cape Town.

The fruits of these initiatives are reflected in the group system-wide sales increase of 12% to R716 million (2012: R641 million) which translated into the revenue increase of 24% to R264 million (2012: R212 million) and a consequent rise in headline earnings per share of 27% to 5.7 cents (2012: 4.5 cents). The jewellery segment continued its stellar performance, and while profit was boosted by the addition of eight new corporate-owned/operated outlets, same store sales jumped 12.4% from the prior period, reflective of the strong value proposition of the NWJ brand. Of particular significance in these results is the relatively short period of time it has taken for the newly established food distribution business to reverse its start-up losses and become profitable. Completing the all-round strong performance was an increase in operating profit in the food franchise division of 16%, driven by an increase in system-wide sales of 11.8% to R597 million (2012: R534 million).

Segmental overview

Food

The food segment consists of the Maxi's, Scooters Pizza, St Elmo's Woodfired Pizza and The Fish & Chip Co. brands, as well as Buon Gusto food services. The latter manufactures sauces, spices, dough premixes and added value meat products for the group's food brands and distributes the majority of products used by its food brands. All four consumer brands are underpinned by strong value-for-money propositions within their target consumer market, which are appropriately diversified across the income ranges, catering for the lower as well as upper LSMs (Living Standards Measures).

System-wide sales in this division increased 11.8% to R597 million (2012: R534 million), due, in the main, to new store developments, as same-store sales were flat for the period. In an industry first Taste signed a tripartite funding arrangement with Nedbank and Brimstone Investment Corporation Ltd giving preferential funding to 50 new and existing franchisees of the The Fish & Chip Co. This funding will contribute to the divisions' objective of opening 100 new outlets in the year. The food distribution business reversed the start-up losses and reported a profit for the period as delivery efficiencies continue to improve. During the current period the food manufacturing facility in Cape Town was closed and relocated to Gauteng, centralising manufacturing in one facility and creating further opportunities for improvement in efficiencies. The move included increasing sauce and pre-mix production capacity anticipating future growth in the division. As a consequence of this centralisation, the Cape Town distribution facility has moved to larger premises also accommodating future anticipated growth in that region.

Jewellery

NWJ is the third-largest jewellery brand in South Africa, with 74 outlets nationally. As the only vertically-integrated franchise jewellery chain in South Africa, it owns and operates 29 outlets. The franchise services are comparable to the Taste food franchise division in that they offer 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 NWJ outlets. Of these, 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 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.

The segment ended the period with 74 outlets (2012: 79 outlets). Despite ending the period with five fewer outlets than the prior period, system-wide sales increased 11% to R119 million (2012: R107 million). Same-store sales continued their outstanding performance and increased 12.4% over the prior period. Since 31 August 2012 the group acquired or took operational control of eight more corporate outlets. The group will continue to assess acquiring outlets from franchisees in order to retain key sites. It is however not the intention to deviate materially from its hybrid ownership model. As these stores are accounted for under "retail" (and no longer under "franchise and wholesale") the performance of the segment must be reviewed as a whole. Segment operating profit increased 24% to R8.7 million (2012: R7.0 million). It should be noted that historically the jewellery division produces 70% to 75% of its annual operating profit in the second half of the financial year.

Basis of preparation

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 the accounting treatment of the marketing royalties which are now reported as part of revenue and cost of sales, as well as the statements, 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.

Prospects

Due to the multiple sources of profit in a vertically integrated business model and through the group's exposure to a diversified consumer base and mix of product categories through its portfolio of brands and formats, the board is confident that Taste is relatively well balanced in its exposure to both upward and downward periods in the business cycle. The board has historically been cautious in its future outlook, and such sentiment remains unchanged for the next six months of trading. Notwithstanding this, the new business pipeline is on track to achieve the 100 new store openings forecast at the start of the year and the food distribution business improves in its service levels and efficiencies with each passing month. The jewellery segment has turned in yet another unparalleled performance in all respects, and while the board is confident in its strong value proposition, anniversarying such strong a sales performance will continue to be a challenge.

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 improving same-store sales in the food franchise division; assessing acquisition opportunities across the group; and unlocking value to both shareholders and franchisees through its vertical integration in the food segment.

Dividend to shareholders

In line with previous years the group has only paid a final dividend. As such no interim dividend is declared for the current period.

On behalf of the board

C F Gonzaga
Chief Executive Officer

E Tsatsarolakis
Chief Financial Officer

15 October 2013

Corporate information

Non-executive directors: R L Daly *(Chairperson)*, K Utian, A Berman, H Rabinowitz, S Patel, W P van der Merwe
Executive directors: C F Gonzaga *(CEO)*, D J Crosson, L Gonzaga, E Tsatsarolakis *(CFO)*, J B Currie
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Sponsor: Merchantec Capital

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Midnight Star