TASTE HOLDINGS

Condensed reviewed consolidated results

For the year ended 28 February 2019

HIGHLIGHTS

- Starbucks and Domino's have commenced their **store expansion plans**.
- **R132 million Rights Offer** was concluded during the year to fund the expansion.
- Concluded a **group-wide restructure**.
- Concluded the **outsourcing of non-core operations**.
- **Group revenue** decreased by 7% to R960 million.
- **Headline loss per share** decreased by 39% to 25.6 cents. The per share improvement was a function of the increase in the weighted average number of shares in issue to 910 million shares (2018: 473 million shares) and the financial performance.

CONDENSED REVIEWED CONSOLIDATED RESULTS

for the year ended 28 February 2019

REVIEW CONCLUSION

The condensed consolidated financial information for the year ended 28 February 2019 has been reviewed by BDO South Africa Incorporated, who expressed an unmodified review conclusion. The auditor's review report does not necessarily report on all the information contained in this announcement of the financial results. Shareholders are therefore advised that, in order to obtain a full understanding of the engagement, they should obtain a copy of the auditor's review report together with the accompanying financial information from the issuer's registered office. A copy of the auditor's review report is available for inspection at the company's registered office together with the financial information identified in the auditor's review report.

COMMENTARY

Taste Holdings is pleased to report back on new management's first full year in control – a year of assessment and fundamental change for the group. The Domino's brand has been repositioned, Starbucks capex has been rationalized, financial discipline has been restored, the business backend has been restructured, and key appointments have been made. The business is now positioned to drive top line growth and realize attractive margins.

PLANNING AND EXECUTING TASTE'S TURNAROUND

The financial year started off with a new CEO (Tyrone Moodley) and COO (Dylan Pienaar) in place. The new executives were tasked by the board to understand the root cause of Taste's declining financial performance, develop and implement a turnaround strategy leading to sustainable positive financial performance.

The executives' approach was to commence a time-intensive and complex task of identifying, isolating and addressing the myriad of challenges hampering Taste's profitability, particularly within the Food Division.

Tyrone brought an investor's perspective into the core of the business, untainted by predetermined opinions on Quick Service Restaurant ("QSR") and retail. Dylan's background in global QSR brands enabled us to build the needed steps and criteria into the group's revised commercial strategy and business model.

It quickly became evident that Taste was being held back by a lack of focus, having taken on too much by introducing two global brands and a centralised distribution system, while still bedding down its Luxury Goods Division, all at the same time. In addition, there was a lack of accountability and responsibility within our brands because of a centralised executive function sitting above the brands, resulting in slow and in some instances incorrect decisions.

Focus had to be introduced into the group, which started with looking at how we defined what we are. Taste needed to pick one discipline which it was confident it could master. A fundamental shift was made in Taste's definition by moving away from being an integrated retail operator to simply being an operator and franchisor of retail operations.

As a result, parts of the group, being the food supply chain and jewellery manufacturing operations did not meet this definition.

While the Luxury Goods Division and Food Division brands are both retail operations, their similarities stop there. These brands operate in two very different segments of the retail markets. They are at different maturities in their life cycles with the Luxury brands being at a mature phase while the Food Division brands are in their start-up phase. As a result; each has vastly different capital requirements and significantly different risk profiles. Realising there were more differences than similarities between the brands, it was decided to split the group into two clear and distinctive business units being the Food Division and Luxury Goods Division. Each division manages its own functions and operations apart from information technology (IT), capital raising and strategy determination, which remain the responsibility of a scaled down Taste Support office. Functional responsibilities in the two divisions were split further into each individual brand, so that management focus is now allocated at the right level for each brand team to execute planning, track performance, evaluate outcomes and tweak where necessary in a continuous process of refinement specific to their brand nuances. Capital allocation and operational execution are clearly defined.

The Luxury Goods Division is a mature business with a well-established executive team in place. This team has been given the scope to pursue a swift return to consistent profitability. The board are entirely confident in the Luxury Goods Division's strategy, which is fundamental to Taste's turnaround drive.

At the same time, an evaluation of the businesses that did not fit into Taste's revised definition and those incurring unnecessary costs and management attention was undertaken. The three businesses identified were; the Food Division's supply chain operations, the Luxury Goods Division's jewellery manufacturing operations and the Zebro's chicken brand. The jewellery manufacturing operations were consequently outsourced to a leading manufacturer during the year, which has lowered production costs for jewellery. The process of outsourcing the Food Division's supply chain operations to a leading supply chain operator commenced during the year and it is expected that this function will be completely moved across by the second quarter of 2019.

This will result in a lower cost to deliver products to store and will eliminate the losses that have been incurred by the supply chain operations. The divestment from the Zebro's brand and assets was due to their poor performance in the highly competitive chicken QSR category.

IT has been prioritised as a key enabler of Taste's revised business model, which is why it remains a support centre shared service. The group has barely scratched the surface of the intellectual property (IP) inherent in our Domino's Pizza and Starbucks licence partnerships. Leveraging this IP can potentially enhance the group's online offerings to levels unheard-of in southern Africa.

The world of commerce everywhere is being challenged by fast incoming technologies that are transforming how business is done. By embracing IT as a key business enabler through every level of the group, we can leverage Domino's and Starbucks IP to build our businesses through data driven decision-making and compelling service offerings to our customers. Our role will never encompass innovation but rather laser focused execution.

The restructure will result in a lower overall cost structure, but once-off costs impacted on this year's results. Although the restructure was largely concluded during the financial year, the effects of the cost reduction will only be seen at the end of the new financial year (FY 2020). Strong evidence of this operational turnaround has already emerged in the group's 2018/19 year-end financials, but a journey of a year or more remains for restoring Taste to sustainable profitability.

ROLLOUT OF STORES, PARTICULARLY DOMINO'S AND STARBUCKS

During this period, it was decided to identify the challenges hampering the profitability of the current store network before expanding the network further.

Identifying the problem areas and implementing solutions stipulated by the revised operating model was an arduous six-month exercise, but a new rollout plan based on substantially reduced setup costs and the reality of South Africa's current economic environment has been finalised. The mission is to execute these strategies and continuously track performance, evaluate outcomes and refine as necessary. This is a continuous and virtuous process of implementation and improvement.

The group receives a constant flow of enquiries from landlords wanting to launch a Domino's or Starbucks outlet on their properties and look forward to finally turning those requests into reality.

COLLABORATION WITH GLOBAL PARTNERS

Since the introduction of the new executives, the group has played open cards with its global partners on its financial position and were humbled by their overwhelmingly helpful responses and support. Teams from Domino's and Starbucks pointed out solutions already available in their corporate IP offerings, enabling us to concentrate on implementation rather than systems innovation. Taste also collaborated with licensees across the globe who shared their responses to similar situations they overcame in their respective histories.

These high-quality collaborations have informed much of our forward planning, as well as confirming our confidence in the future viability of Taste as a profitable custodian of global brands. Most importantly, Domino's and Starbucks fully support Taste's revised business and operating model.

REVIEW OF THE GROUP PERFORMANCE

- Group revenue decreased by 7% to R960 million (2018: R1.03 billion), driven by a 12% reduction in luxury goods sales and a 1% reduction in food sales;
- Gross profit decreased by 5% to R405 million (2018: R425 million) primarily due to lower luxury goods margins resulting from lower selling prices which was partially offset by improved food margins;
- Impairments and once-off restructuring costs totalled R102 million (2018: R24 million);
  - Excluding the impairments and once-off costs, group operating costs decreased by 4% or R23 million to R575 million (2018: R599 million);
  - Including the impairments and once-off costs, group operating costs increased by 9% or R54 million to R677 million (2018: R623 million);
  - Excluding the impairments and once-off costs, the group recorded an EBITDA loss of R116 million (2018: R130 million loss) representing a R14 million improvement;

- – Including the impairments and once-off costs, the group recorded and EBITDA loss of R217 million (2018: R153 million loss) representing an increase of R64 million.
- The group has no long-term debt. Our current finance costs are for working capital and overdraft facilities, which totalled R19 million at 28 February 2019 (of which R11 million was repaid subsequent to year end). Net finance costs accordingly decreased to R5 million (2018: R44 million);
- A depreciation and amortisation charge of R45 million (2018: R43 million) was largely unchanged from prior years as the existing store network were rationalised during the year;
- Headline loss per share decreased by 16.2 cents to 25.6 cents (2018: 41.8 cents loss). The per share improvement was a function of the increase in the weighted average number of shares in issue to 910 million shares (2018: 473 million shares) and the financial performance.

REVIEW OF THE DIVISIONAL PERFORMANCE

	28 Feb 19 R'000		28 Feb 18 R'000		Variance R'000	Variance %
Food	**469 530**		475 476		(5 946)	(1)
Jewellery	**489 980**		558 845		(68 865)	(12)
Group Revenue	**959 510**		1 034 321		(74 811)	(7)
Food	**218 923**	47%	209 742	44%	9 181	4
Jewellery	**186 484**	38%	215 593	39%	(29 109)	(14)
Group Gross Profit	**405 407**	42%	425 335	41%	(19 928)	(5)
Food	**(428 213)**		(387 775)		(40 438)	(10)
Jewellery	**(231 395)**		(202 678)		(28 717)	(14)
Corporate	**(17 363)**		(32 182)		14 819	46
Group Operating Cost	**(676 971)**		(622 635)		(54 336)	(9)
Food	**(166 423)**		(141 083)		(25 340)	(18)
Jewellery	**(32 653)**		23 074		(55 727)	(241)
Corporate	**(17 319)**		(32 182)		15 263	47
Group EBITDA	**(216 395)**		(150 591)		(65 804)	(44)
Food	**(199 233)**		(172 751)		(26 482)	(15)
Jewellery	**(42 963)**		13 240		(56 203)	(424)
Corporate	**(18 930)**		(34 198)		15 268	45
Group Operating loss	**(261 126)**		(193 709)		(67 417)	(35)

FOOD DIVISION

The Food Division revenue decreased by R6 million or 1% (after intersegment eliminations) to R470 million (2018: R475 million). This decrease emanated primarily from the closures of underperforming stores; specifically, Domino's (4 stores); Maxi's (8 stores) and The Fish & Chip Co (net reduction of 2 stores).

The Food Division's overall gross profit margin improved to 47% (2018: 44%) as result of the drive to reduce food costs and efficiencies. This initiative required paying close attention to supply chain operations, specifically procurement.

Operating costs increased by 1% to R370 million (2018: R367 million) excluding the impairments and once-off costs of R58 million (2018: R21 million).

The impairments and once-off restructuring costs totalled R45 million (2018: R16 million) and R13 million (2018: R5 million) respectively. Operating costs increased by R40 million to R428 million (2018: R388 million) when including the impairments and once-off costs.

Excluding the impairments and once-off costs, the Food Division's EBITDA loss decreased by R13 million to R110 million (2018: R123 million). Including the impairments and once-off costs, the Food Division's EBITDA loss increased by R25 million to R166 million (2018: R141 million) primarily due to these costs and lower aggregate sales as a result of the smaller store network.

Excluding the impairments and once-off costs, the operating loss decreased to R141 million (2018: R152 million), representing a R11 million improvement. Including the impairments and once-off costs the operating loss increased to R199 million (2018: R173 million) representing an increase of R26 million. The derecognition of deferred tax assets, another once-off non-cash item, being an additional contributor to the increase with depreciation and amortisation being largely unchanged at R35 million (2018: R34 million).

LUXURY GOODS DIVISION

System-wide sales in the Luxury Goods Division reduced by 14% to R506 million (2018: R589 million) as a result of store closures in both NWJ (8 corporate stores and 3 franchise stores) and Arthur Kaplan (1 store), the World's Finest Watches being closed for a month due to refurbishment and pressure on the retail sector given the economic conditions. Consumer disposable income is declining, and average selling prices are lower as consumers look for the best deals.

Against this backdrop, revenue decreased by R69 million or 12% to R490 million (2018: R559 million) as revenue in both brands, Arthur Kaplan and NWJ, were down.

Tough trading conditions that continuously exerted downward pressure on sales and margins required a rigorous drive to take costs out of the business. The divisional review concluded that we should restructure the Support office to reduce fixed costs and better manage variable costs, and outsource our manufacturing operations in order to ensure focus on retail operations and margin improvements.

Operating costs reduced by 6% to total R188 million (2018: R200 million), excluding once-off costs of R44 million (2018: R3 million), which include R40 million impairments (2018: R3 million) and once-off restructuring costs of R4 million for NWJ. Operating costs increased to R231 million (2018: R203 million) including the impairments and once-off costs.

Operating costs include the following noteworthy items:

- Impairments of R40 million (2018: R3 million). This amount includes R1 million for the restructuring and R39 million allocated to Arthur Kaplan goodwill.
- Depreciation and Amortisation of R10 million (2018: R10 million).
- Employee cost of R75 million (2018: R80 million). This includes R3.2 million for the human capital restructure and evidences the cost reductions attained.

Excluding the impairments and once-off cost, the Luxury Goods Division would have made an EBITDA profit of R11 million (2018: R26 million). Including the impairments and once-off costs, the division achieved an EBITDA loss of R33 million (2018: R23 million profit) largely attributable to a R14 million swing in profitability in NWJ and the R39 million Arthur Kaplan goodwill impairment.

Excluding the impairments and once-off costs of R44 million (2018: R3 million), the Luxury Goods Division achieved an operating profit of R1 million (2018: R16 million). Including the impairments and once-off costs, the division finished the year with an operating loss of R43 million (2018: R13 million operating profit).

LOOKING AHEAD

The executive team have a board-approved business plan that envisages a turnaround and resumed growth aligned to realistic milestones set for this year-end and through the next decade. This plan will focus on the following key areas over the upcoming year with the focal point being retail operations:

- **Starbucks –** will focus on expanding the corporate store network on a revised capex model and achieving the required return on investment for each new store;

- **Domino's Pizza –** will focus on getting its existing store network to EBITDA break-even. Domino's will then expand its corporate store network within a CAPEX model calculated to achieve the required investment returns;
- **Maxi's –** will continue to consolidate its franchise network and roll out its new brand image. The brand's key focus is to grow same-store sales and improve the overall network profitability;
- **The Fish & Chip Co –** will focus on expanding its franchise network while concurrently growing same-store sales;
- **NWJ –** Launching and rolling out a refreshed brand and store design, with the key focus on improving sales and returning to profitability. The first store has been refreshed and is open for trade in Canal Walk, Cape Town;
- **Arthur Kaplan –** a refreshed World's Finest Watches in the heart of Sandton City will be followed by the launching and rolling out of a refreshed brand, store design and new online store for Arthur Kaplan. The key focus is on improving watch sales and increasing jewellery's share of the sales mix; and
- **Taste Holdings –** will focus on ensuring that its retail store operations generate an EBITDA profit for the year. It will be resolute on capital allocation decisions to ensure that the required investment returns are achieved and where it does not make sense, walk away from subpar opportunities. Taste will continue to engage with various capital markets in order to secure further funding.

APPRECIATION

Taste wholeheartedly thank our shareholders for affording us this opportunity to steer Taste Holdings back onto the right track. We thank the board for their guidance and our global brand partners for their enthusiastic support and sharing of insights.

Most of all, we applaud the resilience of our managers, employees and partners for taking on this exciting challenge, restructuring and the host of changes implicit in a turnaround of this extent and complexity. You remain the heart of this business and none of this would be possible without your buy-in and determination to make it all work.

DIRECTORATE

The following changes were made to the board:

Resignations:

Mr. NG Brimacombe resigned as independent non-executive director effective 25 March 2019.

Appointments:

Mr. D Pienaar, change of duties to Chief Operating Officer on 14 January 2019, and change of duties to Chief Executive Officer on 25 March 2019.

Change of duties:

Mr. TC Moodley changed from Chief Executive Officer to non-executive director.

Mr. Hannes van Eeden was appointed as the Chief Financial Officer effective 14 January 2019.

EVENTS SUBSEQUENT TO YEAR-END

No significant events subsequent to year-end to which shareholders need to be informed of.

DIVIDEND TO SHAREHOLDERS

No dividend has been declared for the year ended 28 February 2019.

On behalf of the board

D Pienaar
Chief Executive Officer

H van Eeden
Chief Financial Officer

30 May 2019

CONDENSED REVIEWED CONSOLIDATED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February 2019

	% change	Reviewed 12 months ended 28 February 2019 R'000	Restated* Audited 12 months ended 28 February 2018 R'000
Revenue	(7)	**959 510**	1 034 321
Cost of sales		**(554 103)**	(608 986)
Gross profit	(5)	**405 407**	425 335
Other income		**10 438**	3 591
Operating costs	(10)	**(632 240)**	(579 517)
EBITDA	(44)	**(216 395)**	(150 591)
Amortisation and depreciation		**(44 731)**	(43 118)
Operating loss		**(261 126)**	(193 709)
Investment revenue		**10 192**	17 159
Finance costs		**(4 668)**	(43 857)
Loss before taxation	(16)	**(255 602)**	(220 407)
Taxation		**(62 032)**	12 122
Loss from continuing operations		**(317 634)**	(208 285)
Loss from discontinuing operations, net of tax		**(804)**	(32 707)
Total comprehensive loss for the year		**(318 438)**	(240 992)
Attributable to:			
Equity holders of the company	(32)	**(318 227)**	(241 202)
Non-controlling interest		**(211)**	210
		(318 438)	(240 992)
Loss per share (cents)	(31)	**(35.0)**	(51.0)
Diluted loss per share (cents)	(31)	**(35.0)**	(51.0)

Reconciliation of headline loss

	% change	Reviewed 12 months ended 28 February 2019 R'000	Restated* Audited 12 months ended 28 February 2018 R'000
Loss attributable to ordinary shareholders	(32)	**(318 227)**	(241 203)
Adjusted for:			
Impairment losses		**85 380**	42 053
Loss on sale of property, plant and equipment		**(610)**	4 839
Tax effect on headline loss adjustments		**137**	(3 274)
Headline loss attributable to ordinary shareholders	(18)	**(233 320)**	(197 585)
Weighted average shares in issue ('000)		**909 819**	473 060
Weighted average diluted shares in issue ('000)		**927 195**	489 130
Loss per share (cents)	(31)	**(35.0)**	(51.0)
Diluted loss per share (cents)	(31)	**(35.0)**	(51.0)
Headline loss per share (cents)	(39)	**(25.6)**	(41.8)
Diluted headline loss per share (cents)	(39)	**(25.6)**	(41.8)

** Restated due to Zebro's chicken being classified as a discontinued operation.*

CONDENSED REVIEWED CONSOLIDATED GROUP STATEMENT OF FINANCIAL POSITION

as at 28 February 2019

	Reviewed 28 February 2019 R'000	Audited 28 February 2018 R'000
Assets		
Non-current assets	**328 747**	513 399
Property, plant and equipment	**168 454**	186 920
Intangible assets	**82 501**	86 027
Goodwill	**40 165**	121 348
Net investment in Finance lease	**849**	4 919
Other financial assets	**6 484**	25 345
Deferred tax	**30 294**	88 840
Current assets	**456 167**	479 053
Inventories	**233 276**	296 017
Net investment in Finance lease	**849**	450
Trade and other receivables	**67 278**	56 059
Current tax receivables	**1 590**	1 911
Advertising levies	**2 507**	2 914
Other financial assets	**1 775**	5 281
Cash and cash equivalents	**148 892**	116 421
Total assets	**784 914**	992 452
Equity and liabilities		
Equity attributable to holders of the company	**621 000**	813 942
Share capital	**8**	8
Retained earnings	**(627 033)**	(308 806)
Share premium	**1 238 757**	1 112 154
Equity-settled share-based payment reserve	**9 268**	10 586
Non-controlling interest	**1 292**	1 503
Non-current liabilities	**27 358**	26 031
Borrowings	**–**	1 109
Lease equalisation	**11 833**	11 270
Deferred tax	**15 525**	13 652
Current liabilities	**135 264**	150 976
Current tax payable	**1 277**	–
Bank overdrafts	**6 978**	20 179
Borrowings	**12 353**	2 662
Lease equalisation	**2 607**	2 755
Trade and other payables	**112 049**	125 380
Total equity and liabilities	**784 914**	992 452
Number of shares in issue ('000)	**2 218 970**	898 970
Net asset value per share (cents)	**28.0**	90.7
Net tangible asset value per share (cents)	**23.1**	69.6

CONDENSED REVIEWED CONSOLIDATED GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2019

Group	Share capital R'000	Share premium R'000	Total share capital R'000	Equity-settled share-based payment reserve R'000	Accu-mulated loss R'000	Total attributable to equity holders of the group R'000	Non-controlling interest R'000	Total equity R'000
Balance at 1 March 2017	4	611 606	611 610	11 055	(63 579)	559 086	(2 732)	556 354
Share issue	4	500 065	500 069	–	–	500 069	–	500 069
Options exercised	–	483	483	–	–	483	–	483
Share-based payment reserve	–	–	–	(469)	–	(469)	–	(469)
Minority interest acquired					(4 025)	(4 025)	4 025	–
Comprehensive income for the period	–	–	–	–	(241 202)	(241 202)	210	(240 992)
Balance at 1 March 2018	8	1 112 154	1 112 162	10 586	(308 806)	813 942	1 503	815 445
Share issue	**–**	**126 603**	**126 603**	**–**	**–**	**126 603**	**–**	**126 603**
Share-based payment reserve	**–**	**–**	**–**	**(1 318)**	**–**	**(1 318)**	**–**	**(1 318)**
Comprehensive loss for the period	**–**	**–**	**–**	**–**	**(318 227)**	**(318 227)**	**(211)**	**(318 438)**
Balance at 28 February 2019	**8**	**1 238 757**	**1 238 765**	**9 268**	**(627 033)**	**621 000**	**1 292**	**622 292**

CONDENSED REVIEWED CONSOLIDATED GROUP STATEMENT OF CASH FLOWS

for the year ended 28 February 2019

	Reviewed 12 months ended 28 February 2019 R'000	Restated* Audited 12 months ended 28 February 2018 R'000
Cash flows from operating activities	**(65 060)**	(101 074)
Cash utilised by operating activities	**(70 915)**	(73 580)
Investment revenue	**10 192**	17 159
Finance costs	**(4 668)**	(43 857)
Taxation (paid) refund	**331**	(796)
Cash flows from investing activities	**(24 453)**	(31 080)
Acquisition of property, plant and equipment	**(24 722)**	(53 879)
Proceeds of disposals of property, plant and equipment	**2 953**	28 875
Disposal of intangible asset	**–**	5 042
Acquisition of business	**–**	(24 173)
Disposal of discontinued operations, net of cash	**66**	(54)
Investment in finance lease	**3 671**	4 058
Loans paid/(advanced)	**1 772**	15 501
Net acquisition of Intangibles	**(8 193)**	(6 450)
Cash flows from financing activities	**135 185**	243 864
Proceeds from issue of shares	**126 603**	500 552
Disposal of discontinued operations, net of cash	**(2 012)**	24 510
Loans raised/(paid)	**10 594**	(281 198)
Change in cash and cash equivalents	**45 672**	111 710
Cash and cash equivalents at beginning of the period	**96 242**	(15 468)
Cash and cash equivalents at end of the period	**141 914**	96 242

CONDENSED REVIEWED CONSOLIDATED GROUP SEGMENTAL REPORT

for the year ended 28 February 2019

Reviewed **12 months ended 28 February**	**Food division R'000**	**Jewellery division R'000**	**Corporate services R'000**	**Inter-segment division revenues R'000**	**Total R'000**
Revenue	**601 295**	**489 980**	**16 755**	**(148 520)**	**959 510**
EBITDA	**(166 423)**	**(32 653)**	**(17 319)**	**–**	**(216 395)**
Segment depreciation and amortisation	**(32 809)**	**(10 310)**	**(1 612)**	**–**	**(44 732)**
Operating loss	**(199 233)**	**(42 963)**	**(18 930)**	**–**	**(261 126)**
Investment revenue	**6 128**	**1 756**	**2 308**	**–**	**10 192**
Finance costs	**(386)**	**(2 618)**	**(1 664)**	**–**	**(4 668)**
Loss before taxation	**(193 491)**	**(43 825)**	**(18 286)**	**–**	**(255 602)**
Loss from discontinued operation, net of tax	**(804)**	**–**	**–**	**–**	**(804)**
Segment assets	**327 102**	**345 266**	**112 546**	**–**	**784 914**
Segment liabilities	**83 751**	**61 050**	**17 821**	**–**	**162 622**
Segment capital expenditure	**14 486**	**10 204**	**32**	**–**	**24 722**
Restated* Audited year ended 28 February 2018					
Revenue	595 446	558 845	26 000	(145 970)	1 034 321
EBITDA	(141 083)	23 074	(32 582)	–	(150 591)
Segment depreciation and amortisation	(31 668)	(9 834)	(1 616)	–	(43 118)
Operating profit/(loss)	(172 751)	13 240	(34 198)	–	(193 709)
Investment revenue	8 278	3 752	40 136	(35 007)	17 159
Finance costs	(24 471)	(18 883)	(35 510)	35 007	(43 857)
Loss before taxation	(188 944)	(1 891)	(29 572)	–	(220 407)
Loss from discontinued operation, net of tax	(32 707)	–	–	–	(32 707)
Segment assets	463 432	424 748	104 272	–	992 452
Segment liabilities	100 364	66 913	9 730	–	177 007
Segment capital expenditure	48 377	5 386	116	–	53 879

NOTES TO THE CONDENSED REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 28 February 2019

Taste Holdings Limited ("the company") is a South African registered company. The summarised consolidated financial statements of the company comprise the company and its subsidiaries (together referred to as the group).

BASIS OF PREPARATION OF THE CONDENSED REVIEWED RESULTS

Statement of compliance

The reviewed condensed consolidated financial results are prepared in accordance with the Listings Requirements of the JSE Limited ("the JSE Listings Requirements") for provisional reports, and the requirements of the Companies Act, 2008 (Act 71 of 2008), as amended ("the Companies Act"). The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and Financial Reporting 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. The accounting policies applied in the preparation of the reviewed condensed consolidated financial statements are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for the adoption of IFRS9 Financial Instruments and IFRS15 Revenue from Contracts with Customers. Required by the JSE Listing Requirements, the group reposts headline earnings in accordance with Circular 4/2018: Headline Earnings as issued by SAICA. This report was compiled under the supervision of Mr. H van Eeden CA(SA), Chief Financial Officer.

Operating performance commentary

Group revenue decreased by 7% to R960 million (2018: R1.03 billion), driven mainly by:

- The Food Division's revenue decreased by R6 million or 1% (after intersegment eliminations) to R470 million (2018: R476 million). Sales were under pressure, as evident from the system-wide sales, and there were a number of store closures across the brands.
- The Luxury Goods Division's revenue decreased by R69 million or 12% to R490 million (2018: R559 million). Luxury goods are cyclical and negatively influenced by macro-economic uncertainty in the country, relative rand strength and disposable income which all impact on revenue. Network consolidation resulted in both NWJ and Arthur Kaplan closing stores, while our World's Finest Watches store was closed for a month for refurbishment.

Group gross profit decreased by 5% to R405 million (2018: R425 million) as result of the reduced revenue.

Margin improvement initiatives helped to improve the gross profit margin % to 42% (2018: 41%).

- The Food Division overall gross profit margin improved by 3% to 47% (2018:44%) as a result of our drive to reduce food costs and efficiencies. This initiative included paying significant attention to supply chain operations such as procurement, warehousing and logistics areas.
- The reduction in the Luxury Goods Division's gross profit percentage was due to lower average selling prices caused by consumers seeking out deals and discounts.

Total group operating costs increased by R54 million (9%) to R677 million (2018: R623 million). This increase resulted primarily from a deep dive into the business model and operating costs, which resulted in a restructure of the Food Division and Corporate Head Office to position the group and its various brands for the future.

Included in operating costs are impairments and once-off costs totalling R102 million (2018: R24 million) of which R58 million is attributable to the Food Division and R44 million to the Luxury Goods Division. The costs consisted mainly of impairments of R85 million (2018: R19 million) and once-off restructuring and retrenchment costs of R17 million (2018: R5 million).

Excluding the impairments and once-off costs, operating costs decreased by R23 million (4%) to total R575 million (2018: R599 million) which is mainly due to store closures and the restructuring in both the Food and Luxury Goods Divisions.

As a consequence of the decrease in sales, increased impairments and once-off costs incurred, the group recorded an EBITDA loss of R216 million (2018: R151 million), representing an increase in the EBITDA loss of R65 million.

The operating loss increased to R261 million (2018: R194 million) representing an increase in the operating loss of R67 million with depreciation and amortisation being largely unchanged at R45 million (2018: R43 million).

Investment revenue relates primarily to the Food Division and comprises interest charged to franchisees on conversion loans of R4 million and interest received on positive cash balances of R6 million, totalling R10 million (2018: R17 million).

Net finance costs decreased to R4.6 million (2018: R43.8 million) as the long-term debt was paid down in February 2018, the prior financial year, from the rights issue proceeds. Our current finance costs are for the trade facilities we have with our bankers and for utilisation of overdraft facilities.

The group's tax charge movements are due to deferred tax movements resulting from several group companies being in assessed loss positions. The deferred tax assets consist of temporary differences, that are mainly assessed losses recognised in prior periods based on the future outlook, specifically the generation of future taxable income. Although we believe in our brands and its rebound into profitability, we prudently decided to derecognise certain deferred tax assets relating to the Food Division as the required profitability and taxable income to support these assets will likely not be generated in the short term. We assess this status frequently and will recognise the assessed losses in the future as more certainty regarding the timing of taxable income becomes apparent.

Non-Controlling interest relates to a shareholding by the Luxury Goods Division of 58% in a company that owns three NWJ stores.

Financial position commentary

Property, plant and equipment decreased as there was a pause on the opening of new stores whilst uneconomical stores were closed. This resulted in an overall net decrease in the corporate-store count and lower capital expenditure with the remaining stores being depreciated over the expected useful lives.

Impairments of R85 million (2018: R42 million) of which R45 million (2018: R39 million) relates to the Food Division and R40 million (2018: R3 million) to the Luxury Goods Division.

- Food Division impairment details (R45 million):
  - **Maxis** – R15 million. Goodwill was fully impaired due to changing market conditions, but the brand is growing and showing promise for the future.
  - **The Fish & Chip Co** – R21 million. Goodwill related to the supply chain was impaired due to the outsourcing of our group supply chain activities.
  - **Domino's Pizza company owned stores** – R5 million. Goodwill was impaired due to the lower profitability of the acquired stores.
  - **Domino's Pizza franchise contributio**n – R3.8 million. Goodwill impaired due to the lower profitability of the stores acquired.
  - Domino's Pizza joining fee – R0.4 million. Goodwill impaired due to the lower profitability of the stores acquired.
- Luxury Goods Division impairment details (R40 million):
  - **Arthur Kaplan** – R39 million. Impaired due to the re-baselining of profitability and growth expectation for current market conditions.
  - **NWJ** – R1 million. Impaired due to closure of stores.

The intangible assets decrease is mainly for additional impairments in Domino's, specifically the franchisee conversion loans.

The deferred tax assets consist of temporary differences, that are mainly assessed losses recognised in prior periods based on the future outlook, specifically the generation of future taxable income. Although we believe in our brands and its rebound into profitability, we prudently decided to derecognise certain deferred tax assets relating to the Food Division as the required profitability and taxable income to support these assets will likely not be generated in the short term. We assess this status frequently and will recognise the assessed losses in the future as more certainty regarding the timing of taxable income becomes apparent.

Group current assets, excluding cash and cash equivalents, decreased R56 million due to improved working capital management.

Group inventories reduced by R63 million, which is largely attributable to the Luxury Goods Division's inventory being decreased by R57 million due to continued efforts to manage stockholding optimally.

Discontinued Operations

The Zebro's chicken business was disposed of, effective 1 June 2018 due to it being evaluated as non-core to the future direction and sustainability of our Food Division. The transaction is disclosed as discontinued operations with the loss from discontinued operations being R0.8 million (2018: R32.7 million loss).

Equity commentary

Changes in authorised and stated capital from 2018 is as follows:

- Authorised ordinary share capital increased by 2 000 000 000 to 4 000 000 000 – approved on 18 January 2019; and
- Rights issue of 1 320 000 000 shares at R0.10 – effective 25 February 2019.

Borrowings

The group has no long-term debt. Increases in borrowings were derived mainly from the bridging facility received from RVF, our major shareholder, whilst the rights offer process was in progress. The Borrowings were repaid after year-end.

Cash flow commentary

Cash and cash equivalents at the end of the financial year totalled R142 million (2018: R96 million).

- During the year the drain on cash utilised to fund operational activities was reduced by R36 million. Cash required to fund operating activities totalled R65 million (2018: R101 million).
- Cash utilised in investment activities reduced to R24 million (2018: R31 million), mainly attributable to our re-evaluation of the Food Division business model. Only two new Starbucks stores were opened in this period while we halted further expansion to focus on maintaining the existing network.
- A successful Rights Offer during the year raised R132 million which was primarily allocated to the Food Division's operation and expansion plans.

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

GM Pattison* (*Chairperson*), LCH Chou*, N Siyotula*, AJ Maizey, TC Moodley
** Independent*

Executive directors

D Pienaar (*CEO*), DJ Crosson, H van Eeden (*CFO*)

Registration number

2000/002239/06

Registered address

12 Gemini Street, Linbro Business Park, Sandton, 2065

Postal address

PO Box 1125, Ferndale, Randburg, 2160

Telephone: (011) 608 1999
Facsimile: 086 696 1270

Company secretary

Fluidrock CoSec (Pty) Ltd

Transfer secretaries

Computershare Investor Services Proprietary Limited

Sponsor

PSG Capital

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