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")

GROWING BETTER BRANDS

Revenue	EBITDA	Operating profit	Headline earnings per share	System-wide sales	Dividend
13% to R265.3 million	14% to R42.1 million	16% to R35.6 million	16% to 12.4 cents	21% to R909 million	39% to 4.6 cents per share

REVIEWED PROVISIONAL CONDENSED FINANCIAL RESULTS FOR THE YEAR ENDED 29 FEBRUARY 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	29 February 2012 Reviewed R'000	28 February 2011 Audited R'000
Revenue[1]	13	265 293	233 751
Gross profit[2]	10	133 912	121 904
Other income		9	771
Operating costs[3]	7	(98 341)	(91 907)
Operating profit	16	35 580	30 768
Share option IFRS 2 charge[4]		(399)	(176)
Interest income		884	615
Finance costs[5]		(5 684)	(5 925)
Profit before taxation	20	30 381	25 282
Taxation[6]		(9 310)	(7 245)
Profit for the year	17	21 071	18 037
Other comprehensive income		–	–
Total comprehensive income for the year	17	21 071	18 037
Attributable to:			
Equity holders of the parent	17	21 071	18 037
Non-controlling interests		–	–
Reconciliation of headline earnings:			
Earnings attributable to ordinary shareholders adjusted for:	17	21 071	18 037
Impairment losses		491	300
Profit on sale of property, plant and equipment, non-current assets held for sale and retail stores		(165)	(86)
Tax effect on headline earnings adjustments		24	4
Headline earnings attributable to ordinary shareholders	17	21 421	18 255
Weighted average shares in issue ('000)[7]		172 850	170 161
Fully diluted shares in issue ('000)		182 785	179 815
Earnings per share (cents)	15	12.2	10.6
Fully diluted earnings per share (cents)	15	11.5	10.0
Headline earnings per share (cents)	16	12.4	10.7
Fully diluted headline earnings per share (cents)	15	11.7	10.2

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	29 February 2012 Reviewed R'000	28 February 2011 Audited R'000
ASSETS		
Non-current assets	167 414	100 652
Property, plant and equipment	11 853	11 813
Intangible assets[8]	87 045	67 570
Goodwill[8]	64 669	18 654
Other financial assets[9]	3 092	1 620
Deferred tax	755	995
Non-current assets held for sale[10]	1 258	1 749
Current assets	168 693	114 083
Inventories[11]	70 576	62 221
Trade and other receivables[12]	56 606	32 873
Taxation	1 137	1 933
Advertising levies	1 435	755
Other financial assets[9]	3 631	3 247
Cash and cash equivalents	35 308	13 054
Total assets	337 365	216 484
EQUITY AND LIABILITIES		
Capital and reserves	171 840	118 515
Issued capital	2	2
Distributable reserve	91 162	75 196
Share premium[7]	80 101	43 141
Share option reserve	575	176
Non-current liabilities	76 320	46 915
Borrowings[13]	54 195	30 071
Long-term employee benefits	252	429
Deferred tax	21 873	16 415
Current liabilities	89 205	51 054
Provisions	250	250
Current tax payable	55	299
Trade and other payables[12]	66 707	30 852
Balances due to vendors	1 000	–
Bank overdrafts	9 770	5 111
Dividends payable	17	–
Current portion of borrowings[13]	11 406	14 542
Total equity and liabilities	337 365	216 484
Number of shares in issue ('000)[7]	194 161	170 161
Net asset value per share (cents)	88.5	69.6
Net tangible asset value per share (cents)[14]	21.6	28.6

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Share premium R'000	Total share capital R'000	Share option reserve R'000	Retained income R'000	Total R'000
Balance 1 March 2010	2	43 141	43 143	–	57 159	100 302
Share option reserve		–	–	176	–	176
Profit for year		–	–	–	18 037	18 037
Balance 1 March 2011	2	43 141	43 143	176	75 196	118 515
Share option reserve[4]		–	–	399	–	399
Share issue[7]		36 960	36 960	–	–	36 960
Dividends paid		–	–	–	(5 105)	(5 105)
Profit for the year		–	–	–	21 071	21 071
Balance 29 February 2012	**2**	**80 101**	**80 103**	**575**	**91 162**	**171 840**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	29 February 2012 Reviewed R'000	28 February 2011 Audited R'000
Cash flow from operating activities	20 412	21 658
Cash generated by operating activities	39 132	32 036
Interest income	884	615
Finance costs	(5 684)	(5 925)
Dividends paid	(5 088)	–
Taxation paid[15]	(8 832)	(5 068)
Cash flows from investing activities	(61 588)	(13 901)
Acquisition of property, plant and equipment	(2 954)	(1 755)
Acquisition of non-current assets held for sale	–	(60)
Proceeds of disposal of property, plant and equipment	11	515
Proceeds on disposal of non-current assets held for sale	21	3 212
Proceeds on disposal of retail store	1 150	–
Acquisition of business[16]	(56 000)	(9 461)
Loans advanced	(1 856)	(4 045)
Acquisition of intangible assets	(2 150)	(2 307)
Cash flows from financing activities	58 771	(5 390)
Decrease in long-term employee benefits	(177)	(177)
Proceeds from issue of shares[7]	36 960	–
Loans raised[17]	20 988	1 233
Loans raised/(repaid) to vendors	1 000	(6 446)
Change in cash and cash equivalents	17 595	2 367
Cash and cash equivalents at beginning of year	7 943	5 576
Cash and cash equivalents at end of year	25 538	7 943

CONDENSED CONSOLIDATED SEGMENTAL REPORT

	% change	29 February 2012 Reviewed R'000	28 February 2011 Audited R'000
Segment revenue			
Food[18]	52	96 229	63 160
Franchise[19]		46 073	37 688
Food services		47 679	14 680
Retail[20]		2 477	10 792
Jewellery[21]		170 793	171 611
Franchise and wholesale		113 867	116 056
Retail[22]		56 844	52 347
Concession retail		82	3 208
Eliminations[23]		(1 729)	(1 020)
Group revenue	13	265 293	233 751
Segment operating profit			
Food	44	25 428	17 712
Franchise[24]		22 479	17 810
Food services[25]		3 577	690
Retail[26]		(628)	(788)
Jewellery	(5)	23 097	24 248
Franchise and wholesale[27]		13 778	17 292
Retail[28]		9 333	7 265
Concession retail		(14)	(309)
Corporate services[29]	16	(12 945)	(11 192)
Group operating profit[30]	16	35 580	30 768
Segment assets			
Food		164 891	37 469
Franchise[31]		99 939	23 094
Food services[31]		63 553	12 462
Retail		1 399	1 913
Jewellery		99 511	92 879
Franchise and wholesale		62 919	56 348
Retail		36 592	34 352
Concession retail		–	2 179
Corporate services		72 963	86 136
Total group assets		337 365	216 484
Segment liabilities			
Food		103 307	27 696
Franchise[31]		68 953	24 219
Food services[31]		34 353	3 422
Retail		1	55
Jewellery		42 790	50 730
Franchise and wholesale		41 823	50 123
Retail		967	607
Concession retail		–	–
Corporate services		19 428	19 543
Total group liabilities		165 525	97 969

Notes to the financial information

1. Despite the sale of non-core retail food outlets and the discontinuance of the jewellery concession business, resulting in R11.5 million less revenue when compared to the year ended 29 February 2011 ("the prior period" or "2011"), revenue increased 13%. The largest contributor to this increase was the food segment, driven by increases in both the food services and franchise divisions.
2. The gross profit increase of 10% is lower than the revenue increase due to an expected decline in the gross margin from 52% in 2011 to 51% for the year ended 29 February 2012 ("the current period" or "2012"). This decline is due to the higher revenue and profit contribution from the food services division, which has a lower gross margin than the remainder of the group.
3. Operating costs continue to be well managed with operating costs as a percentage of revenue declining from 39% in the prior period to 37%. This is within the target range as communicated in August 2011.
4. The IFRS 2 charge relates to the Taste share option scheme.
5. These finance costs relate mainly to the loans for the acquisition of NWJ and St Elmo's.
6. The effective taxation percentage is 30.6% due mainly to the inclusion in the current period of secondary tax on companies ("STC") relating to the maiden dividend paid in July 2011.
7. The increase in the number of weighted average shares in issue is as a result of the issue of 24 million ordinary shares to Brimstone Investment Corporation Limited on 20 January 2012, to partially fund the acquisition of The Fish & Chip Co.
8. The increase in intangible assets and goodwill relates to the acquisition of The Fish & Chip Co. on 1 February 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 instalments; and
   - extended payment terms given by the brands 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, ownership of which is not a core strategy.
11. The 13% (R8.3 million) increase in group inventory relates largely to:
   - an increase of R5.8 million in jewellery inventory; and
   - an expected increase of R2.5 million in the Food Services division, proportionate to its revenue growth.
12. The changes in trade and other receivables and payables are due largely to the acquisition of The Fish & Chip Co.'s distribution and franchise business.
13. The increase in borrowings is as a result of the loan raised for the acquisition of The Fish & Chip Co. The decrease in the current portion of borrowings is as a result of the restructuring of the group's debt into one new loan, payable over five years from 1 February 2012.
14. Net tangible asset value is calculated by excluding goodwill, intangible assets, and the deferred taxation liability relating to intangible assets, from net asset value. The decline is due to the nature of the acquisition of The Fish & Chip Co. wherein the major portions of the assets acquired were classified as intangible.
15. The increase in taxation paid is due to:
   - a refund in the prior period, thereby lowering the 2011 amount; and
   - STC payable in the current period, with no comparable payment in the prior period.
16. On 1 February 2012 the group acquired the assets and certain liabilities of The Fish & Chip Co. The acquisition consisted of:
   - franchise agreements of 202 outlets, associated trademarks, goodwill and intellectual property;
   - a distribution facility; and
   - certain tangible assets and liabilities relating to the business, including, inter alia, stock, debtors and property plant and equipment.

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

	R'000
Property, plant and equipment	566
Intangible assets	20 624
Trade and other receivables	33 129
Inventory	1 000
Non-current assets held for sale	200
Advertising levies	(960)
Trade and other payables	(39 018)
Deferred tax	(5 775)
Fair value of assets acquired	9 766
Consideration paid	(56 000)
Goodwill acquired	46 234

   The purchase consideration was discharged in cash. The purchase price allocation has been provisionally accounted for, as permitted by IFRS 3 Business Combinations, and will be finalised within the next 12 months. Any resulting material fair value adjustments to assets, liabilities and the recognition of intangible assets will be accounted for accordingly.

   During the month for which The Fish & Chip Co.'s results were included in these results, it contributed R10.3 million to revenue and R2.4 million to operating profit. This profit excludes costs of approximately R1.0 million, which would not have been incurred were it not for the acquisition. Shareholders are referred to the announcement made on SENS on 8 December 2011 regarding the pro-forma financial effects of the acquisition.
17. The loan raised relates to the acquisition of The Fish & Chip Co.
18. The Food division 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 ownership of corporate-owned retail stores is not a core strategy of this division.
19. Revenue in the Food Franchise division would have increased 16%, excluding the revenue of one month of The Fish & Chip Co.
20. The decrease in revenue in retail outlets is due to the sale or closure of corporate-owned stores during the period.
21. The Jewellery division consists of two core divisions: 17 corporate-owned stores ("Retail"); and franchise and wholesale. The latter division manufactures, sources, and distributes stock to franchisees, as well as earning new-store and annuity royalty revenue. Concession retail relates to two pilot projects that were conducted until April 2011. These have since been discontinued.
22. The increase in revenue is significant in that the number of stores contributing to this increase declined from 20 to 17 during the year. The salient performance measure, same-store sales for those 17 stores, increased 14.7% for the year. It remains a core strategy to own retail outlets within the Jewellery division.
23. This refers to inter-divisional revenues in the Food division which are eliminated on consolidation.
24. Operating margin increased from 47.2% in 2011 to 48.8% in the current period, due to an improved cost to revenue ratio as a result of the economies of scale as the division grows.
25. Operating margin increased from 4.7% in 2011 to 7.5% in the current period. It should, however, be noted that the prior year included a loss of R0.4 million.
26. The stores that contributed to these losses have been sold or closed subsequent to year-end.
27. The decline in operating profit is a combination of eight fewer new stores being opened compared to the prior year, and sales of stock to franchisees remaining flat. Costs as a percentage of revenue remained unchanged from the prior year at 22%.
28. The increase in operating margin from 13.8% in 2011 to 16.4% in 2012 is a combination of outstanding same-store sales, improved gross margins and improved costs.
29. The 15.7% increase in corporate services includes costs associated with the acquisition and integration of The Fish & Chip Co. Excluding these costs corporate services would have increased 6.7%.
30. Group operating margin increased marginally to 13.4% (2011: 13.2%).
31. The significant increase is due to the acquisition of The Fish & Chip Co.

Group overview

The directors of Taste present the reviewed provisional condensed results for the year ended 29 February 2012 ("2012" or "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 over 550 locations throughout Southern Africa.

A combination of same-store sales and new store openings saw system-wide sales across the group increase by 21% to R909 million (2011: R752 million). This contributed to a revenue increase of 13% to R265 million (2011: R234 million). Despite a lower gross-profit margin due to the increased contribution of the lower-margin food services business, profit before tax increased 20% to R30.4 million. Costs as a percentage of revenue improved for the third consecutive year, declining from 39% to 37% in the current year, within the target range. During the year, the group made further gains to vertically integrate its food division; it launched the repositioned St Elmo's restaurant concept; and acquired the 202 store Fish & Chip Co. brand. Operating profit margin increased from the prior year to 13.4% while headline earnings per share ("HEPS") increased 16% to 12.4 cents.

The directors are furthermore pleased to announce that a dividend of 4.6353 cents per share has been declared, a 39% increase over the maiden dividend declared last year. The dividend cover of 3.1 times is lower than the 3.6 times cover last year, and while conservative, takes into account the groups' strategy to grow by acquisition as well as organically and is sustainable in the future given the groups' cash generative business model.

Divisional overview

Food

The Food division consists of the Maxi's, Scooters Pizza, St Elmo's Woodfired Pizza and The Fish & Chip Co. brands, as well as the food services division which manufactures and distributes selected products to its food brands. With the acquisition of The Fish & Chip Co. the division now has a portfolio of brands offering value to consumers in the lower living standard measures ("LSMs") as well as the broader middle market. Additionally the repositioned St Elmo's brand caters for the casual-dining sit-down market. Each of the brands is underpinned by strong value-for-money propositions; contemporary store designs and convenience, through either service offerings or locations.

During the year the food services division made further progress against its vertical integration strategy. It now produces all the sauces, spices and dough pre-mixes for Maxi's, Scooters Pizza and St Elmo's. Production of sauces and spices for the The Fish & Chip Co. will be internalised during the year. The acquisition in February 2012 of The Fish & Chip Co. included a distribution capability which will be leveraged during the current year to include distribution and warehousing for the other brands in this division.

The division ended the year with 462 outlets (2011: 242 outlets) and system-wide sales of R660 million (2011: R506 million), an increase of 30%. Excluding the system-wide sales of one month of The Fish & Chip Co., the increase would have been 25% over the prior year. Same-store sales in the division remained positive throughout the year, ending at 5.8%. Although the division opened a net positive number of stores, financial pressure on franchisee profitability continued, due mainly to rising energy costs and restrained consumer spending in the latter half of the year. This contributed to 24 store closures across all brands in the division. At the annual Franchise Association of Southern Africa ("FASA") prestigious franchise awards, Scooters Pizza won the Brand Builder of the Year Award for the fourth time since its inception in 2000, and was a finalist in the Franchisor of the Year Award, an award which Maxi's won in 2010.

Notwithstanding the positive outlook for the division due to the acceleration of the vertical integration strategy, the acquisition of The Fish & Chip Co., and the positive effects of the repositioned St Elmo's brand, the division is mindful of the restrained consumer spending patterns currently being experienced.

Jewellery

NWJ is the third-largest jewellery brand in South Africa, with 81 outlets located nationally. As the only vertically integrated franchise jewellery chain in South Africa, it owns and operates approximately 21% of the total outlets; provides franchising and merchandising services to its franchise network; manufactures certain products sold by the NWJ outlets; and sources and distributes the items not manufactured by its manufacturing facility. The franchise services are comparable to the food franchise division of Taste in that they offer their franchisees operational and marketing support, project management, new site growth and development, and national brand-building strategies in return for a royalty. The distribution division distributes all of the goods sold through the NWJ outlets. Of these goods sold, approximately 40% is manufactured by the manufacturing facility in Durban, 22% is imported and the remaining 38% sourced locally. This model provides in-house innovation capacity, fast routes to market and reduces input costs to franchisees through purchasing economies of scale. A further benefit of owning the manufacturing facility is that slow-moving or returned stock can be either re-worked with negligible yield loss or transferred to another location where there is known demand for the item.

Despite closing eight non-performing outlets during the year, system-wide sales increased 2.4% to R249 million (2011: R243 million), with same-store sales across both franchise and corporate stores increasing 2.6%. Operating profit in the jewellery segment declined 5% and, consequently, operating profit margin declined to 13.5% (2011: 14.1%). Costs as percentage of revenue remained unchanged from the prior year at 22%. Franchisee same-store sales were unchanged (-0.7%) for the year, as franchisees struggled to re-invest in an inflationary commodity market, which negatively impacted the Franchise and Wholesale division as it sells stock to franchisees. Combined with eight fewer store openings when compared to 2011, profitability in this division, although improved from August 2011, declined.

Same-store sales in the 17 corporate owned retail outlets continued their stellar performance, ending the year 14.7% above the prior year. Combined with strong cost controls, operating profit grew 28% in this division with operating margin increasing from 13.8% to 16.4%.

Consumer purchasing patterns continue to evolve and the year-long sustained strong performance of the company-owned outlets is indicative of the strength of the NWJ brand and its ability to offer consumers value. The division is focused on improving franchisees' ability to mimic corporate store performance, and will consider acquiring stores from existing franchisees if the opportunity arises.

Basis of preparation of the reviewed results

Statement of compliance

Basis of preparation and accounting policies

The reviewed provisional condensed consolidated financial results are 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 AC500 series issued by the Accounting Practices Board, the Listings Requirements of the JSE Limited and in the manner required by the South African Companies Act 71 of 2008. 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. The preparation of these reviewed condensed consolidated financial results for the year ended 29 February 2012 was supervised by the Financial Director, Mr E Tsatsarolakis CA(SA).

The reviewed provisional condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated annual financial statements for the year ended 28 February 2011.

Auditors' report

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

Prospects

The acquisition of The Fish & Chip Co. has added significant critical mass to the group and the Food division, accelerating its vertical integration strategy as well as providing a beachhead into servicing lower LSM consumers. The group anticipates opening approximately 50 new Fish & Chip Co. outlets during the next six months, extending its market leader advantage.

Notwithstanding the new-store growth and step-change increase in the Food Services division, the group is cautious with regard to recent trends in consumer spending, across all brands.

Taste remains committed to being a diversified franchisor invested in retail and restaurant brands within Southern Africa. The group will continue to assess opportunities in line with its strategy and is focused in the short term on growing its jewellery division organically and integrating The Fish & Chip Co. acquisition in order to unlock value within the food services division.

Dividend to shareholders

Notice is hereby given that a final gross cash dividend of 4,6353 cents per ordinary share, payable out of income in respect of the year ended 29 February 2012 has been declared by the directors. The total STC credits utilised as part of this declaration amount to R783 525,16. The number of ordinary shares in issue at the date of this declaration is 195 881 291 and consequently the STC credits utilised amount to 0,4 cents per share. There are no further STC credits to carry forward. The local dividend tax rate is 15%. The net dividend amount is 4,0 cents per share for shareholders not exempt from paying dividends tax. In compliance with the requirements of Strate, the electronic and custody system used by the JSE, the following dates are applicable:

Last day to trade cum-dividend	Friday, 29 June 2012
Shares commence trading ex-dividend	Monday, 2 July 2012
Record date Friday	Friday, 6 July 2012
Payment of dividend	Monday, 9 July 2012

Share certificates may not be dematerialised or rematerialised between Monday 2 July 2012 and Friday 6 July 2012, both dates inclusive.

On Monday, 9 July 2012 the cash dividend will be electronically transferred to the bank accounts of all certificated shareholders where this facility is available. Where electronic fund transfer is not available or desired, cheques dated 9 July 2012 will be posted on that date. Dematerialised shareholders' accounts with their CSDP or broker will be credited on Monday, 9 July 2012.

On behalf of the board

C F Gonzaga
Chief Executive Officer

E Tsatsarolakis
Financial Director

23 May 2012

Corporate information

Non-executive directors: R L Daly (*Chairperson*), K Utian, J B Currie, A Berman, H R Rabinowitz, S Patel, W P van der Merwe
Executive directors: C F Gonzaga (*CEO*), D J Crosson, L Gonzaga, E Tsatsarolakis (*FD*)
Registration number: 2000/002239/06
Registered address: 2nd Floor, The Wanderers, The Campus, 57 Sloane Street, Bryanston
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Telephone: (011) 608 1999 **Facsimile:** 086 696 1270
Transfer secretaries: Computershare Investor Services (Pty) Ltd
Designated adviser: Vunani Corporate Finance

MAXI'S More than just a meal | SCOOTERS pizza We deliver. Hot. Tasty. Fast. | Fish & Chip | BUON GUSTO food services | NWJ JEWELLERY | St Elmo's WOODFIRED PIZZA

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

Midnight Star