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	System-wide sales	Headline earnings per share
55% to R176.3 million	47% to R20.6 million	54% to R16.4 million	65% to R8.8 million	54% to R641 million	45% to 4.5 cents

FULLY INTEGRATED THE FISH & CHIP CO. BUSINESS

ESTABLISHED TWO DISTRIBUTION DEPOTS SERVICING 450 FRANCHISEES

UNAUDITED CONDENSED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	6 months ended 31 August 2012 Unaudited R'000	6 months ended 31 August 2011 Unaudited R'000	12 months ended 29 February 2012 Audited R'000
Revenue(2)	55	**176 256**	113 416	265 293
Gross profit(3)	46	**85 713**	58 706	133 912
Other income		**529**	241	9
Operating costs(4)	45	**(69 797)**	(48 270)	(98 341)
Operating profit	54	**16 445**	10 677	35 580
Share option IFRS 2 charge(5)		**(367)**	(216)	(399)
Investment revenue		**1 114**	346	884
Finance costs(6)		**(3 752)**	(2 640)	(5 684)
Profit before taxation	65	**13 440**	8 167	30 381
Taxation		**(4 412)**	(2 819)	(9 310)
Profit for the period	69	**9 028**	5 348	21 071
Other comprehensive income		**–**	–	–
Total comprehensive income for the period	69	**9 028**	5 348	21 071
Attributable to:				
Equity holders of the parent	69	**9 028**	5 348	21 071
Non-controlling interests		**–**	–	–
Earnings per share attributable to equity holders of company				
Basic earnings per share (cents)(1)	52	**4.7**	3.1	12.2
Diluted earnings per share (cents)(1)	47	**4.4**	3.0	11.6
Dividends per share (cents)		**–**	–	4.0

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 August 2012 Unaudited R'000	31 August 2011 Unaudited R'000	29 February 2012 Audited R'000
ASSETS			
Non-current assets	**170 518**	98 353	167 414
Property, plant and equipment(7)	**16 420**	11 284	11 853
Intangible assets(8)	**86 366**	66 632	87 045
Goodwill(8)	**64 669**	18 654	64 669
Other financial assets(9)	**2 308**	581	3 092
Deferred tax	**755**	1 202	755
Non-current assets held for sale(10)	**1 258**	1 749	1 258
Current assets	**185 833**	118 928	168 693
Inventories(11)	**91 027**	69 428	70 576
Trade and other receivables(12)	**71 880**	32 524	56 606
Taxation	**6 408**	5 092	1 137
Advertising levies	**3 927**	2 190	1 435
Other financial assets(9)	**5 222**	6 476	3 631
Cash and cash equivalents	**7 369**	3 218	35 308
Total assets	**357 609**	219 030	337 365
EQUITY AND LIABILITIES			
Equity attributable to holders of parent	**173 469**	118 974	171 840
Share capital	**2**	2	2
Retained earnings	**92 424**	75 439	91 162
Share premium	**80 101**	43 141	80 101
Equity-settled share-based payment reserve	**942**	392	575
Non-current liabilities	**70 941**	38 425	76 320
Borrowings(13)	**49 316**	21 781	54 195
Long-term employee benefits	**126**	252	252
Deferred tax	**21 499**	16 392	21 873
Current liabilities	**113 199**	61 631	89 205
Provisions	**250**	250	250
Current tax payable	**4 215**	2 831	55
Trade and other payables(12)	**80 842**	27 373	66 707
Balances due to vendors	**1 000**	–	1 000
Bank overdrafts	**15 699**	14 963	9 770
Dividends payable	**41**	–	17
Borrowings(13)	**11 152**	16 214	11 406
Total equity and liabilities	**357 609**	219 030	337 365
Number of shares in issue ('000)(14)	**194 161**	170 161	194 161
Net asset value per share (cents)	**89.3**	69.9	88.5
Net tangible asset value per share (cents)(15)	**22.6**	29.4	21.6

CONDENSED CONSOLIDATED 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 income R'000	Total R'000
Balance 1 September 2011	2	43 141	43 143	392	75 439	118 974
Share-based payment		–	–	183	–	183
Share issue(14)		36 960	36 960	–	–	36 960
Comprehensive income for the period		–	–	–	15 723	15 723
Balance 1 March 2012	2	80 101	80 103	575	91 162	171 840
Share-based payment(5)		**–**	**–**	**367**	**–**	**367**
Dividends paid		**–**	**–**	**–**	**(7 766)**	**(7 766)**
Comprehensive income for the period		**–**	**–**	**–**	**9 028**	**9 028**
Balance 31 August 2012	**2**	**80 101**	**80 103**	**942**	**92 424**	**173 469**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months ended 31 August 2012 Unaudited R'000	6 months ended 31 August 2011 Unaudited R'000	12 months ended 29 February 2012 Audited R'000
Cash flow from operating activities	**(20 055)**	(8 208)	20 412
Cash (utilised in)/generated by operating activities(16)	**(3 779)**	2 867	39 132
Investment revenue	**1 114**	346	884
Finance costs	**(3 752)**	(2 640)	(5 684)
Dividends paid	**(7 742)**	(5 105)	(5 088)
Taxation paid	**(5 896)**	(3 676)	(8 832)
Cash flows from investing activities	**(8 554)**	(4 685)	(61 588)
Acquisition of property, plant and equipment(7)	**(6 446)**	(1 073)	(2 954)
Proceeds of disposals of property, plant and equipment	**351**	10	11
Proceeds on disposal of non-current assets held for sale	**–**	–	211
Proceeds on disposal of retail store	**–**	–	1 150
Acquisition of business(17)	**–**	–	(56 000)
Loans advanced	**(806)**	(2 810)	(1 856)
Acquisition of intangible assets	**(1 653)**	(812)	(2 150)
Cash flows from financing activities	**(5 259)**	(6 795)	58 771
Decrease in long-term employee benefits	**(126)**	(177)	(177)
Proceeds from issue of shares(14)	**–**	–	36 960
Loans (repaid)/raised	**(5 133)**	(6 618)	20 988
Loans raised to vendors	**–**	–	1 000
Change in cash and cash equivalents	**(33 868)**	(19 688)	17 595
Cash and cash equivalents at beginning of period	**25 538**	7 943	7 943
Cash and cash equivalents at end of period	**(8 330)**	(11 745)	25 538

CONDENSED CONSOLIDATED SEGMENTAL REPORT

	% change	6 months ended 31 August 2012 Unaudited R'000	6 months ended 31 August 2011 Unaudited R'000	12 months ended 29 February 2012 Audited R'000
Segment revenue				
Food(18)	160	**106 346**	40 906	96 229
Franchise		**33 306**	21 858	46 073
Food services(19)		**72 780**	17 945	47 679
Retail(20)		**260**	1 103	2 477
Jewellery(21)	1	**73 327**	72 934	170 793
Franchise and wholesale(22)		**44 051**	48 466	113 867
Retail(23)		**29 276**	24 386	56 844
Concession retail(21)		**–**	82	82
Corporate services		**5 935**	4 825	10 827
Eliminations(24)		**(9 352)**	(5 249)	(12 556)
Group revenue	55	**176 256**	113 416	265 293
Segment operating profit				
Food	48	**16 534**	11 176	25 428
Franchise		**12 822**	10 073	22 479
Food services(25)		**3 995**	1 399	3 577
Retail		**(283)**	(296)	(628)
Jewellery	26	**7 033**	5 562	23 097
Franchise and wholesale		**2 027**	3 514	13 778
Retail(23)		**5 006**	2 088	9 333
Concession retail		**–**	(40)	(14)
Corporate services(26)	18	**(7 122)**	(6 061)	(12 945)
Group operating profit(27)	54	**16 445**	10 677	35 580

NOTES TO THE FINANCIAL INFORMATION

1. Reconciliation of headline earnings

	% change	6 months ended 31 August 2012 Unaudited R'000	6 months ended 31 August 2011 Unaudited R'000	12 months ended 29 February 2012 Audited R'000
Reconciliation of headline earnings:				
Earnings attributable to equity holders of company adjusted for:	69	**9 028**	5 348	21 071
Impairment losses		**–**	–	491
Profit on sale of property, plant and equipment		**(295)**	(5)	(165)
Tax effect on headline earnings adjustments		**83**	–	24
Headline earnings attributable to ordinary shareholders	65	**8 816**	5 343	21 421
Weighted average shares in issue ('000)(14)		**194 161**	170 161	172 850
Diluted weighted average shares in issue ('000)		**205 245**	179 815	182 285
Basic earnings per share (cents)	52	**4.7**	3.1	12.2
Diluted earnings per share (cents)	47	**4.4**	3.0	11.6
Headline earnings per share (cents)	45	**4.5**	3.1	12.4
Diluted headline earnings per share (cents)	43	**4.3**	3.0	11.8

2. The revenue increase from 31 August 2011 ("the prior period" or "2011") is due primarily to the continued growth of the food services division and the acquisition of the The Fish & Chip Co. business on 1 February 2012.
3. In line with expectations, the gross profit increase of 46% is lower than the revenue increase due to the higher contribution of the food services division, which has a lower gross profit margin than the rest of the group. Therefore, the gross margin has declined from 52% in the prior period to 49% for the six months ended 31 August 2012 ("the current period" or "2012").
4. Group operating costs as a percentage of revenue, a key measure for the group, declined for the fourth consecutive reporting period to 39.6% (2011: 42.6%).
5. The IFRS 2 charge relates to the Taste share option scheme.
6. The increase in finance costs is as a result of the loan raised for the acquisition of The Fish & Chip Co. and the restructuring of the group's total long-term debt into one new loan, payable over five years from 1 February 2012, at a lower interest rate.
7. The vast majority of the increase in property, plant and equipment is due to the capital expenditure incurred for the commissioning of the Cape Town and Gauteng distribution depots within the food services division, which expenditure was funded from internal cash resources.
8. The increase in intangible assets and goodwill relates to the acquisition of The Fish & Chip Co. on 1 February 2012. Shareholders are referred to the 2012 annual report for details of the transaction.
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 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 increase in inventories is mainly due to:
    - an increase of R11.7 million in the jewellery segment as a result of seasonal inventory buy-in for the December trading period and inventory located in additional corporate stores, when compared to the prior period; and
    - an increase of R8.8 million in the food services division as a result of the establishment of two distribution depots in Cape Town and Gauteng servicing some 450 franchised food outlets.
12. The change in trade and other receivables and payables from the prior period is due to:
    - The acquisition of The Fish & Chip Co. on 1 February 2012; and
    - the growth of the food services division, in particular, the establishment of the two distribution depots during August 2012, supplying stock to some 450 franchised food outlets.
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. The increase in the number 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.
15. 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. 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.
16. The cash utilised in operations is as a result of the additional inventory and trade receivables more fully detailed in notes 11 and 12 above.
17. On 1 February 2012, the group acquired The Fish & Chip Co. Shareholders are referred to the 2012 annual report for details of the transaction.
18. The food segment consists of the 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 to franchisees. The ownership of corporate-owned stores is not a core strategy in this segment.
19. The revenue in this division is not comparable as it did not distribute stock to franchisees in the prior period. The revenue in the current period includes six months of distribution to Fish & Chip Co. outlets and less than one month of distribution to outlets of Scooters Pizza, Maxi's and St Elmo's.
20. The significant decrease in revenue of retail outlets is due to the sale or closure of corporate-owned stores during the current period.
21. The jewellery segment consists of two core divisions: 22 corporate-owned stores ("Retail"); and franchise and wholesale. The latter division manufactures, sources and distributes stock to franchisees and earns new-store and annuity royalty revenue. Concession retail relates to two pilot projects discontinued in April 2011.
22. The decline in revenue from the prior period in the franchise and wholesale division is due to a combination of negative same-stores sales of 1.5% for franchisee-owned stores; and fewer stores as a result of four franchise stores which were previously accounted for in this division now being accounted for within the retail division.
23. The increase in revenue is especially significant as same-store sales growth for the 22 corporate-owned outlets was 13.4% for the period under review. The increase in operating margin from 8.6% in 2011 to 17.1% in 2012 is a combination of outstanding same-store sales growth, improved gross margins and reduced costs.
24. This refers to interdivisional revenues in the food and corporate services segments that are eliminated on consolidation.
25. The operating profit includes once-off and establishment costs of R2.0 million associated with the establishment of the two distribution depots in Cape Town and Gauteng during August 2012. Excluding these costs the operating margin would have remained the same as the prior period.
26. The 18% increase in corporate services costs includes costs associated with the integration of The Fish & Chip Co. acquisition.
27. Group operating margin remained unchanged for the period at 9.3%. The seasonal nature of the group's jewellery segment results in the group generating substantially higher revenues and profits during the second half of the financial year.

Group overview

The directors of Taste present the unaudited financial results for the six months ended 31 August 2012 ("the current period" or "2012"). 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.

When compared to the six months ended 31 August 2011 ("the prior period" or "2011"), the group acquired and commenced integrating the business of The Fish & Chip Co.; made substantial progress against its vertical integration strategy through the establishment of two distribution depots in Cape Town and Gauteng servicing some 450 of its more than 500 food franchisees; and continued the stellar same-store sales growth in its corporate-owned jewellery outlets.

System-wide sales for the group increased 54% to R641 million (2011: R416 million). Continued focus on leveraging the group's economies of scale as it grows, saw costs as a percentage of revenue decline for the fourth consecutive reporting period from 42.6% to 39.6%. Consequently, the revenue increase of 55% to R176 million (2011: R113 million) translated into a 65% increase in profit before tax to R13.4 million (2011: R8.2 million), despite the expected decline in gross margin due the larger contribution of the lower-margin food services division.

The acquisition and integration of The Fish & Chip Co. and the establishment of two distribution depots during the period has created long-run growth paths within the food segment.

The introduction of the NWJ branded credit card in June 2012 has had a significant initial uptake and credit sales as a percentage of total sales have increased from 2% previously to 8% in just two months. The card is underwritten by a third party, enabling NWJ to focus on the customer proposition and not exposing it to bad debt risk. Given the historical cash nature of the NWJ consumer this will give credit-based consumers access to the brand.

Notwithstanding a sound set of financial results and solid growth platforms, the group is acutely focused on improving franchisee profitability in both segments and bedding down its warehousing and distribution business in the next six months.

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 specialised sauces, spices, dough premixes and added value meat products for the group's food brands.

The four consumer brands are underpinned by strong value-for-money propositions within their target consumer market. The inclusion of The Fish & Chip Co. from 1 February 2012 has extended the group's consumer reach from the more traditional LSM 7-10 consumer focus to a much larger and diverse universe of LSM 4-10 consumers.

The food franchise division ended the period with 498 outlets (2011: 246 outlets). Significantly, The Fish & Chip Co. brand opened 54 new outlets in the six months under review, in line with the communicated target on acquisition of the business. System-wide sales for the division soared 74% to R534 million (2011: R307 million). Comparable store openings in the other three brands were lower than the prior period due to a higher-than-normal number of new stores in the first half of the prior period. The division plans to open approximately 60 new outlets in the second half of the financial year.

In line with the group's stated vertical integration strategy, the food division terminated its distribution contract with its third-party distributor in August 2012. Consequent to this, the division established distribution depots in Gauteng and Cape Town, which distribute directly to some 450 food outlets. A KwaZulu-Natal ("KZN") depot is being commissioned and will become operational during March 2013. The group has entered into a management contract whereby it does not own the delivery vehicles, thereby mitigating the capital expenditure and management requirements during this set-up phase of the distribution project. Included in these interim results are once-off costs of R2.0 million relating to the commissioning of the distribution depots. Set-up costs of a further R1.5 million are estimated during the next six months. The capital expenditure to date for the establishment of the depots has been approximately R5 million, which has been funded from internal cash resources.

The focus in the near term is on rolling out the re-branded Scooters Pizza image; capitalising on the growth in the The Fish & Chip Co.; and bedding down the distribution business. These three focal areas offer substantial opportunity for growth for this segment.

Jewellery

NWJ is the third-largest jewellery brand in South Africa, with 79 outlets nationally. As the only vertically-integrated franchise jewellery chain in South Africa, it owns and operates approximately 28% 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 Taste food franchise division 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.

Same-store sales across all NWJ outlets increased 2.2% compared to the prior period. Same-store sales in corporate-owned stores increased a stellar 13.4%. Significantly, this increase is on the back of a 14% increase between 2010 and 2011. While franchise stores declined 1.5% from the prior period, the initiatives to replicate corporate performance in the franchise stores has gained traction in the latter part of the current period with same-stores sales in these stores increasing 7.5% and 25% in August and September respectively. The division ended the period with three fewer stores than at 28 February 2012, with total system-wide sales consequently being comparable to the prior period at R107 million.

As expected, the segment assumed management control of four franchise outlets during the period. These four outlets contributed positively to operating profit in the current period and have seen same-store sales increase over 50% subsequent to our management thereof. As these stores are accounted for under the "retail" division (and no longer under the "franchise and warehouse" division), the operating profit for the segment as whole should be compared to the prior period. Operating profit increased 26%, driven by the continued strong sales performance of the corporate-owned outlets; a cost increase of just 6.2%; and sales mix management yielding improved gross margins. Consequently operating margin increased from 7.6% to 9.6%.

During June 2012 NWJ launched an NWJ-branded credit offering. As NWJ has historically not had a robust credit offering, the brand is experiencing new customer attraction and substantially higher spend per transaction than in its existing cash business. As the credit is underwritten by a third party NWJ does not have any exposure to default or to the administration thereof. It is anticipated that this will provide a low risk but robust growth path for NWJ in the medium term. Combined with a demonstrated strong customer value proposition the segment is well poised for the December trading period.

Basis of preparation of the interim results

Statement of compliance

The condensed financial statements have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") and the presentation and disclosure requirements of IAS 34, Interim Financial Reporting, the AC 500 standards as issued by the Accounting Practices Board, or its successor, the JSE Listings Requirements and the South African Companies Act.

The accounting policies and standards applied in the preparation of these interim results comply with IFRS and are consistent with those applied in the prior comparative period, except for statements, amendments and interpretations that came into effect during this financial year that have no impact on the group.

Legal dispute

Shareholders are referred to the SENS announcement dated 8 August 2012 wherein shareholders were advised that a dispute had arisen between a wholly-owned subsidiary of Taste, Buon Gusto Cuisine (Pty) Ltd, and the sellers of The Fish & Chip Co. business ("the sellers"). In that announcement and thereafter in the press it was noted by Taste that the claims made by the sellers were unsubstantiated. In particular we refer to the sellers public claims that certain of the suspensive conditions of the agreement were not fulfilled, in that:
- the board of Taste did not grant approval for the acquisition;
- shareholder approval was not received; and
- that Competition Commission approval was not obtained.

The board confirms that it did approve the acquisition, in writing by way of a resolution timeously, which approval was communicated, in writing, to the sellers. The agreement further provided for approval from the majority of shareholders, which approval was also received timeously and in writing, which approval was also communicated in writing to the sellers. Furthermore, the agreement required the transaction to be approved of by the competition authorities only to the extent necessary, and since the transaction fell well below the thresholds set by the Competition Act no. 89 of 1998, no such approval was required. This was confirmed in writing by the parties timeously.

As regards the sellers baseless claim that Taste has repudiated the agreement, such claim is being defended by Taste and Taste continues, as has always been the case, to do all such things as may be required to enforce the agreement, and implement the transaction, as intended by the parties. Taste is in the process of launching various applications against the sellers with a view to protecting its rights and will, as and when appropriate, file its reply to the sellers claims, together with a counter-claim.

Prospects

The more recent violent strike action and its negative effects on, among others, consumer confidence and exchange rates, has exacerbated a sustained period of uncertainty in consumer spending. This, with forecast rising food inflation, will ensure that the next trading period remains as challenging as previous trading periods. Notwithstanding this, all the group's brands have enjoyed recent positive same-store sales growth, highlighting the strength of brands based on strong value propositions.

With respect to the group, the accelerating performance of NWJ and its credit offering, combined with the aggressive new store rollout of the food division should result in growth for the group. While the costs of bedding down the two distribution depots and establishing the KZN depot may off-set some of this growth in the next six months, it should lay a platform for growth in the future.

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
16 October 2012

E Tsatsarolakis
Financial Director

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*)
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Sponsor: Vunani Corporate Finance

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

Midnight Star