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SPUR CORP.

PASSIONATE PEOPLE BUILDING GREAT BRANDS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND CASH DIVIDEND DECLARATION FOR THE YEAR ENDED 30 JUNE 2019 INDEPENDENTLY REVIEWED

Prepared under the supervision of the
chief financial officer, Phillip Matthee CA(SA)
Spur Corporation Ltd
(Registration number: 1998/000828/06)

OVERVIEW

RESTAURANT SALES

7.2%

COMPARABLE PROFIT BEFORE TAX

15.9%

COMPARABLE HEADLINE EARNINGS PER SHARE

16.6%

DIVIDEND PER SHARE

10.6%
to 136 cents

CONTENTS

RESULTS COMMENTARY

TRADING PERFORMANCE

Spur Corporation posted a resilient performance for the year to 30 June 2019 as total franchised restaurant sales across the local and international operations increased by 7.2% to R7.6 billion. Trading conditions continue to be challenging in the low growth domestic market while the group's international business was impacted by the weak economy and high operating costs in Australia.

Franchised restaurant sales in South Africa grew by 6.2% as the group's main middle-income customer base came under increasing pressure in the slowing economic climate.

The group's trading results reported in this commentary exclude the Captain DoRegos chain which was sold with effect from 1 March 2018.

In this constrained spending environment, management continues to focus on enhancing franchisee margins across the brands. Measures include expanding the range of "home-made" products manufactured in Spur restaurants, rationalising menu offerings in certain brands to promote efficiencies, renegotiating rentals and reducing the size of restaurants where appropriate. These factors are positively impacting franchisee margins and profitability, resulting in a more sustainable franchise business.

The group has embraced the call-and-collect and delivery models and experienced strong growth from third-party delivery services, such as Mr D Food and Uber Eats, across all brands.

After increasing local restaurant sales by 11.3% and 1.3% in the first and second quarters of the financial year respectively, the group reported growth of 7.5% in the third quarter and 6.0% in the fourth quarter.

Spur Steak Ranches increased restaurant sales by 5.4% for the year and by 4.2% in existing restaurants. Spur's loyal customer base of over 1.2 million active adult Spur Family Card members is a key driver of sales growth. Franchisees' commitment to the iconic Spur brand is evident in their investment of R80.2 million in new restaurants and the relocation or revamping of existing outlets over the past year. Thirteen new Spur restaurants were opened, including three of the smaller format Spur Grill & Go outlets.

Spur was ranked first in the *Sunday Times* Generation Next survey for the Coolest Eat Out Place for the 15th consecutive year and continues to be the largest retail brand in South Africa on Facebook and Twitter.

Restaurant sales in Pizza and Pasta, incorporating Panarottis and Casa Bella, grew by 0.9% as the Panarottis chain continued to be impacted by aggressive discounting by competitors in the takeaway pizza market. In this environment, management has shifted the brand's strategy away from discounting to focus on product quality and value. As anticipated by management, this had a negative impact on turnover in the short term.

Restaurant sales in RocoMamas grew by 7.5%. RocoMamas has been one of the fastest growing restaurant brands in the country's casual dining sector and has a national footprint of 72 restaurants, complemented by 13 international outlets. An increased investment in marketing, including the first brand television commercial, saw RocoMamas return to positive existing business growth in the second half of the year, following a decline in the first half. The first two outlets for RocoGo, a smaller on-the-go concept, were opened and an additional outlet is planned for the new year. Further potential sites are being actively pursued.

John Dory's increased restaurant sales by 4.6%, benefiting from the reopening of two major outlets which were temporarily closed due to shopping mall redevelopments.

The Hussar Grill's higher-income customers continue to be resilient in the economic downturn and the brand's restaurant sales grew by 13.4%. The Hussar Grill has strengthened its positioning as the premium steakhouse brand in the Western Cape and has successfully expanded its presence into Gauteng.

The group acquired a 51% shareholding in the Nikos Coalgrill Greek chain, which comprised six restaurants at the effective date of 1 August 2018. Three outlets have been opened post-acquisition in Gauteng, including a smaller format restaurant in Rosebank (Johannesburg). The chain contributed franchised restaurant sales of R65.9 million for the 11 months since acquisition.

New restaurant openings contributed to international restaurant sales increasing by 12.3% on a constant exchange rate basis and by 16.2% in Rand terms. Trading in Africa, Mauritius and the Middle East remains strong, although trading in certain African countries including Namibia, Kenya and Lesotho has been slower. At a constant exchange rate, restaurant sales in Africa grew by 18.3% (49 outlets (2018: 38 outlets)), Mauritius by 21.2% (13 outlets (2018: 11 outlets)) and the Middle East by 80.6% (four outlets (2018: two outlets)).

Restaurant trading conditions in Australia and New Zealand continue to be impacted by high operating costs, escalating rentals and declining disposable income, with sales in the region declining by 15.9% following the closure of three restaurants.

RESTAURANT EXPANSION

The group opened 59 restaurants across all brands. In South Africa, 39 outlets were opened in addition to the six Nikos restaurants that were acquired, while 15 closed during the year.

A record 20 international outlets were opened as the group continued to focus its international expansion strategy mainly on territories where the business has an established presence, in order to ultimately reach critical mass.

Eight Panarottis restaurants opened in Zambia, increasing the number of outlets in the country to 13. Other restaurants were opened in Mauritius (Panarottis and RocoMamas), Botswana (RocoMamas), Kenya (Panarottis), Namibia (Spur) and Saudi Arabia (RocoMamas). The group opened its first restaurants in India (Pune) and Cyprus (Nicosia) during the year, both being RocoMamas outlets. The Hussar Grill opened its first outlet in Saudi Arabia (Khobar).

Restaurant footprint at 30 June 2019

Franchise brand	South Africa	International	Total
Spur Steak Ranches	299	37	**336**
Pizza and Pasta	91	22	**113**
John Dory's Fish Grill Sushi	52	3	**55**
The Hussar Grill	20	2	**22**
RocoMamas	72	13	**85**
Nikos Coalgrill Greek	9	–	**9**
Total	543	77	**620**

FINANCIAL PERFORMANCE

Group revenue increased by 5.9% to R944.8 million. Revenue from the South African operations, which accounted for 95.6% of total group revenue, increased by 5.7% and international revenue by 10.3%.

Franchise revenue in Spur increased by 9.7%, Pizza and Pasta by 5.6%, John Dory's by 8.0%, The Hussar Grill by 10.8% and RocoMamas by 8.3%.

Local retail revenue, representing the group's interests in four The Hussar Grill restaurants and one RocoMamas outlet, grew by 0.3%. While The Hussar Grill outlets continued to perform well, turnover at the RocoMamas outlet in Green Point (Cape Town) was 24.4% lower for the period following the opening of a franchised RocoMamas in a nearby suburb.

The manufacturing and distribution division grew revenue by 8.4% as the group increased its standard recovery from franchisees on outsourced distribution volumes from 3% to 4% of sales through the distribution channel from January 2019.

Following the adoption of *IFRS 15 – Revenue from contracts with customers*, the marketing fund contributions paid by franchisees are now recognised as revenue on the same basis as franchise fee revenue. Marketing fund contributions were previously not recognised as revenue. Both the franchise fee and the marketing fund contributions are determined as a percentage of the franchised restaurants' sales. Revenue of R252.4 million (2018: R239.7 million), comprising R245.1 million (2018: R231.9 million) in South Africa and R7.3 million (2018: R7.8 million) internationally, has been recognised from marketing fund contributions. The group is contractually obliged to spend any cumulative surplus in the marketing funds on marketing activities for the benefit of franchisees, and such surplus will therefore not be distributed to the company's shareholders.

Profit before income tax in the South African operations increased by 15.4% and by 9.5% excluding the impact of the marketing funds, with good performances from the manufacturing and distribution segment (+20.2%), The Hussar Grill (+18.2%), RocoMamas (+13.5%), retail (company-owned restaurants) (+26.4%) and a continued recovery in Spur, which increased profit by 9.1%.

In the international division, the operations in Africa, Mauritius, the Middle East, India and Cyprus collectively increased revenue by 28.8%. Revenue in Australasia was 33.7% lower.

Profitability in Australasia was negatively impacted by lower revenue and franchisee loan impairment losses of R12.0 million. This contributed to the international division posting a loss of R12.2 million for the year.

Profit before income tax increased by 13.9%. Excluding the marketing segments, profit before tax increased by 7.3%. This includes financial instrument impairment losses of R20.1 million (2018: R6.7 million), including an impairment of R6.7 million relating to the Grand Parade Investments Limited black economic empowerment transaction funding and franchisee loans of R13.4 million, R2.3 million relating to the settlement of a legal dispute with a former franchisee in Zambia (previously disclosed as a contingent liability) and R1.4 million in severance payments following a restructure in the group's décor manufacturing business. The previous year includes a R12.7 million fair value loss on the RocoMamas contingent consideration liability, a profit of R17.5 million on the disposal of the Braviz rib manufacturing facility, and a R4.8 million profit on the disposal of the Captain DoRegos business.

Comparable profit before income tax, excluding exceptional and one-off items, increased by 15.9%.

Headline earnings increased by 10.2% to R165.1 million, with diluted headline earnings per share 10.7% higher at 173.2 cents.

The total dividend has been increased by 10.6% to 136 cents per share.

PROSPECTS

The group expects trading conditions to remain constrained in the short to medium term against the background of low economic growth, the weak labour market, fragile consumer confidence and continued pressure on household budgets from rising food, fuel and utility costs.

In this environment, management will maintain its focus on tight cost management, excellent product quality and the profitability of franchisees.

Technology continues to disrupt our industry and we are pursuing several opportunities within our digital transformation strategy. In response to the significant demand by customers for cost-effective convenience, the group is planning to launch its own click-and-collect service in the year ahead to complement the services currently offered by third-party service providers. The group's model will be more cost-effective than outsourced channels as well as being more customer-centric, ensuring a better service to customers while maintaining a direct relationship between the group's brands and their customers.

The group plans to open at least 11 restaurants in South Africa in the year ahead across all brands.

Ten new international restaurants are planned for the new year. These include three RocoMamas outlets in Saudi Arabia, two additional restaurants in each of Kenya and Nigeria, and one outlet in each of Mauritius, Zambia and Zimbabwe.

While international expansion will continue to focus on countries where the group currently operates, new territories will be considered if the group is able to secure a local partner with the expertise, infrastructure and financial resources to open a set minimum number of franchised restaurants, and the local economic and political environment can support our presence.

Management continues to evaluate the operations in Australasia given the challenging trading conditions, high franchisee operating costs and financial losses being incurred in these countries.

CASH DIVIDEND

Shareholders are advised that the board of directors of the company has, on Wednesday, 11 September 2019, resolved to declare a final gross cash dividend for the year to 30 June 2019 of R79.191 million, which equates to 73 cents per share for each of the 108 480 926 shares in issue, subject to the applicable tax levied in terms of the Income Tax Act (Act No. 58 of 1962), as amended ("dividend withholding tax") of 20%.

The dividend has been declared from income reserves. The net dividend is 58.4 cents per share for shareholders liable to pay dividend withholding tax. The company's income tax reference number is 9695015033. The company has 108 480 926 shares in issue at the date of declaration.

In accordance with the provisions of Strate, the electronic settlement and custody system used by the JSE Limited, the relevant dates for the dividend are as follows:

Event	Date
Last day to trade 'cum dividend'	Tuesday, 1 October 2019
Shares commence trading 'ex dividend'	Wednesday, 2 October 2019
Record date	Friday, 4 October 2019
Payment date	Monday, 7 October 2019

Those shareholders of the company who are recorded in the company's register as at the record date will be entitled to the dividend.

Share certificates may not be dematerialised or rematerialised between Wednesday, 2 October 2019 and Friday, 4 October 2019, both days inclusive.

For and on behalf of the board

MJ Bosman
Chairman

P van Tonder
Group chief executive officer

12 September 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

R'000	Reviewed year ended 30 June 2019	Restated year ended 30 June 2018*	% change
Revenue (refer note 4)	**944 779**	891 797	5.9
Gross profit	**736 901**	680 023	8.4
Operating profit before finance income^	**226 013**	197 521	14.4
Interest income$	**32 445**	29 995	
Interest expense	**(36)**	(90)	
Share of loss of equity-accounted investee (net of income tax) (refer note 9)	**(1 345)**	(1 813)	
Profit before income tax	**257 077**	225 613	13.9
Income tax expense	**(84 659)**	(66 589)	
Profit	**172 418**	159 024	8.4
Other comprehensive income#	**687**	3 433	
Foreign currency translation differences for foreign operations	**771**	3 617	
Foreign exchange loss on net investments in foreign operations	**(84)**	(184)	
Total comprehensive income	**173 105**	162 457	6.6
Profit attributable to:			
Owners of the company	**165 118**	154 662	6.8
Non-controlling interests	**7 300**	4 362	
Profit	**172 418**	159 024	8.4
Total comprehensive income attributable to:			
Owners of the company	**165 805**	158 095	4.9
Non-controlling interests	**7 300**	4 362	
Total comprehensive income	**173 105**	162 457	6.6
Earnings per share (cents)			
Basic earnings	**173.69**	161.81	7.3
Diluted earnings	**173.22**	161.51	7.3

* Refer note 3.1.
^ Includes total credit and impairment losses on financial instruments of R20.375 million (2018: R7.813 million) (refer note 5).
$ Interest income comprises interest revenue calculated using the effective interest method.
\# All items included in other comprehensive income are items that are, or may be, reclassified to profit or loss.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Reviewed as at 30 June 2019	Restated as at 30 June 2018*
ASSETS		
Non-current assets	**481 344**	595 433
Property, plant and equipment	**100 390**	101 094
Intangible assets and goodwill	**369 092**	362 709
Interest in equity-accounted investee (refer note 9)	**–**	3 461
Loans receivable (refer note 5)	**5 391**	118 483
Deferred tax	**3 085**	5 750
Leasing rights	**3 386**	3 936
Current assets	**557 494**	424 296
Inventories	**10 299**	15 702
Tax receivable	**36 939**	36 197
Trade and other receivables	**106 011**	99 997
Loans receivable (refer note 5)	**105 961**	12 505
Restricted cash (refer note 3.1)	**14 305**	6 796
Cash and cash equivalents	**283 979**	253 099
TOTAL ASSETS	**1 038 838**	1 019 729
EQUITY		
Total equity	**876 295**	852 105
Ordinary share capital	**1**	1
Share premium	**294 663**	294 663
Shares repurchased by subsidiaries	**(126 811)**	(107 202)
Foreign currency translation reserve	**30 369**	29 682
Share-based payments reserve (refer note 7.2)	**4 400**	3 731
Retained earnings	**663 093**	621 806
Total equity attributable to owners of the company	**865 715**	842 681
Non-controlling interests	**10 580**	9 424
LIABILITIES		
Non-current liabilities	**89 596**	86 956
Contingent consideration liability (refer note 6)	**1 011**	–
Contract liabilities (refer note 3.1)	**29 045**	27 813
Operating lease liability	**3 110**	3 919
Deferred tax	**56 430**	55 224
Current liabilities	**72 947**	80 668
Tax payable	**1 396**	1 067
Trade and other payables	**66 611**	74 438
Contract liabilities (refer note 3.1)	**4 226**	4 532
Shareholders for dividend	**714**	631
TOTAL EQUITY AND LIABILITIES	**1 038 838**	1 019 729

* Refer note 3.1.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Ordinary share capital and share premium (net of treasury shares)	Retained earnings and other reserves	Non-controlling interests	Total
Balance at 30 June 2017 (audited)	191 708	633 449	12 019	837 176
IFRS 15 change in accounting policy (refer note 3.1)	–	(20 164)	(1 167)	(21 331)
Restated balance at 1 July 2017	191 708	613 285	10 852	815 845
Restated total comprehensive income	–	158 095	4 362	162 457
Profit	–	154 662	4 362	159 024
Other comprehensive income	–	3 433	–	3 433
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners	(4 246)	(116 161)	(5 790)	(126 197)
Equity-settled share-based payment (refer note 7.2)	–	2 387	–	2 387
Purchase of treasury shares	(4 246)	–	–	(4 246)
Dividends	–	(118 548)	(5 790)	(124 338)
Balance at 30 June 2018	**187 462**	**655 219**	**9 424**	**852 105**
IFRS 9 adjustment on initial application (refer note 3.2)	**–**	**(8 855)**	**(21)**	**(8 876)**
Adjusted balance at 1 July 2018	**187 462**	**646 364**	**9 403**	**843 229**
Total comprehensive income	**–**	**165 805**	**7 300**	**173 105**
Profit	**–**	**165 118**	**7 300**	**172 418**
Other comprehensive income	**–**	**687**	**–**	**687**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners	**(19 609)**	**(114 307)**	**(6 840)**	**(140 756)**
Equity-settled share-based payment (refer note 7.2)	**–**	**3 372**	**–**	**3 372**
Indirect costs arising on intra-group sale of shares related to equity-settled share-based payment (refer note 7.2)	**–**	**(610)**	**–**	**(610)**
Purchase of treasury shares	**(19 609)**	**–**	**–**	**(19 609)**
Dividends	**–**	**(117 069)**	**(6 840)**	**(123 909)**
Changes in ownership interests in subsidiaries	**–**	**–**	**717**	**717**
Acquisition of controlling interest in business (refer note 6)	**–**	**–**	**717**	**717**
Balance at 30 June 2019	**167 853**	**697 862**	**10 580**	**876 295**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	**Reviewed year ended 30 June 2019**	Restated year ended 30 June 2018*
Operating profit before working capital changes	**260 804**	221 062
Working capital changes	**(15 885)**	(19 527)
Cash generated from operations	**244 919**	201 535
Interest income received	**22 014**	21 244
Interest expense paid	**(36)**	(90)
Tax paid	**(81 408)**	(60 646)
Dividends paid	**(123 826)**	(124 250)
Net cash flow from operating activities	**61 663**	37 793
Cash flow from investing activities		
Additions of intangible assets	**(1 513)**	(1 924)
Additions of property, plant and equipment	**(9 320)**	(10 291)
Cash outflow from share-based payment hedge (refer note 7.1)	**–**	(13 740)
Loans receivable advanced	**(3 648)**	(11 188)
Proceeds from disposal of associate (refer note 10)	**–**	17 500
Proceeds from disposal of property, plant and equipment	**66**	302
Repayment of loans receivable	**9 490**	7 386
Increase in investment in associate (refer note 9)	**(1 241)**	(5 274)
Acquisition of business (refer note 6)	**(5 012)**	–
Net cash flow from investing activities	**(11 178)**	(17 229)
Cash flow from financing activities		
Acquisition of treasury shares	**(19 609)**	(4 246)
Settlement of contingent consideration (refer note 12)	**–**	(18 542)
Net cash flow from financing activities	**(19 609)**	(22 788)
Net movement in cash and cash equivalents	**30 876**	(2 224)
Effect of foreign exchange fluctuations	**4**	(192)
Net cash and cash equivalents at beginning of year	**253 099**	255 515
Net cash and cash equivalents at end of year	**283 979**	253 099

* Refer note 3.1.

Note

Total depreciation and amortisation included in profit before income tax for the year is R10.853 million (2018: R10.687 million).

RECONCILIATION OF HEADLINE EARNINGS

R'000	Reviewed year ended 30 June 2019	Restated year ended 30 June 2018*	% change
Profit attributable to owners of the company	**165 118**	154 662	6.8
Headline earnings adjustments:			
Profit on disposal of intangible assets (refer note 11)	**–**	(4 750)	
Profit on disposal of property, plant and equipment	**(11)**	(156)	
Income tax impact of above adjustments	**3**	44	
Amount of above adjustments attributable to non-controlling interests	**–**	(1)	
Headline earnings	**165 110**	149 799	10.2

* Refer note 3.1.

SHARE INFORMATION

	Reviewed year ended 30 June 2019	Restated year ended 30 June 2018*	% change
Total shares in issue (000's)	**108 481**	108 481	–
Net shares in issue (000's)[$]	**94 789**	95 509	(0.8)
Weighted average number of shares in issue (000's)	**95 065**	95 580	(0.5)
Diluted weighted average number of shares in issue (000's)	**95 322**	95 761	(0.5)
Headline earnings per share (cents)	**173.68**	156.73	10.8
Diluted headline earnings per share (cents)	**173.21**	156.43	10.7
Net asset value per share (cents)	**924.47**	892.17	3.6
Dividend per share (cents)[#]	**136.00**	123.00	10.6
Reconciliation of weighted average number of shares in issue ('000)			
Gross shares in issue at beginning of year	**108 481**	108 481	
Shares repurchased at beginning of year	**(12 972)**	(12 812)	
Shares repurchased during the year weighted for period held by the group	**(477)**	(89)	
Shares issued during the year weighted for period in issue (refer note 7.2)	**33**	–	
Weighted average number of shares in issue for the year	**95 065**	95 580	
Dilutive potential ordinary shares weighted for period outstanding (refer note 7.2)	**257**	181	
Diluted weighted average number of shares in issue for the year	**95 322**	95 761	

* Refer note 3.1.

$ 108 480 926 total shares in issue less 7 026 701 (2018: 6 196 901) shares repurchased by wholly owned subsidiary companies, 6 164 698 (2018: 6 374 698) shares held by the Spur Management Share Trust (consolidated structured entity) and 500 000 (2018: 400 000) shares held by the Spur Foundation Trust (consolidated structured entity).

\# Refers to interim and final dividend declared for the respective financial year, as applicable.

OPERATING SEGMENT INFORMATION

R'000	Reviewed year ended 30 June 2019	Restated year ended 30 June 2018*	% change
External revenue			
Manufacturing and distribution	**201 934**	186 224	8.4
Franchise – Spur	**230 522**	210 073	9.7
Franchise – Pizza and Pasta	**37 588**	35 578	5.6
Franchise – John Dory's	**21 287**	19 714	8.0
Franchise – Captain DoRegos (refer note a)	**–**	2 526	(100.0)
Franchise – The Hussar Grill	**6 879**	6 206	10.8
Franchise – RocoMamas	**33 685**	31 100	8.3
Franchise – Nikos (refer note b)	**2 660**	–	–
Retail (refer note c)	**69 753**	69 534	0.3
Marketing (refer note d)	**245 112**	231 862	5.7
Other South Africa (refer note e)	**51 807**	60 284	(14.1)
Total South African segments	**901 227**	853 101	5.6
Unallocated – South Africa	**2 319**	1 329	74.5
Total South Africa	**903 546**	854 430	5.7
Australasia	**4 349**	6 560	(33.7)
Marketing (refer note d)	**7 266**	7 814	(7.0)
Other International (refer note h)	**29 618**	22 993	28.8
Total International	**41 233**	37 367	10.3
TOTAL EXTERNAL REVENUE	**944 779**	891 797	5.9
Profit/(loss) before income tax			
Manufacturing and distribution	**73 360**	61 050	20.2
Franchise – Spur	**192 361**	176 328	9.1
Franchise – Pizza and Pasta	**23 453**	21 732	7.9
Franchise – John Dory's	**9 880**	9 409	5.0
Franchise – Captain DoRegos (refer note a)	**–**	4 604	(100.0)
Franchise – The Hussar Grill	**5 664**	4 790	18.2
Franchise – RocoMamas	**24 380**	21 471	13.5
Franchise – Nikos (refer note b)	**779**	–	–
Retail (refer note c)	**8 576**	6 785	26.4
Marketing (refer note d)	**12 555**	(1 237)	1115.0
Other South Africa (refer note e)	**(6 208)**	(4 953)	(25.3)
Total South African segments	**344 800**	299 979	14.9
Unallocated – South Africa (refer note f)	**(74 143)**	(65 352)	(13.5)
Total South Africa	**270 657**	234 627	15.4
Australasia (refer note g)	**(16 992)**	(10 980)	(54.8)
Marketing (refer note d)	**917**	(107)	957.0
Other International (refer note h)	**12 663**	10 378	22.0
Total International segments	**(3 412)**	(709)	(381.2)
Unallocated – International (refer note i)	**(8 823)**	(6 492)	(35.9)
Total International	**(12 235)**	(7 201)	(69.9)
PROFIT BEFORE INCOME TAX AND SHARE OF PROFIT OF EQUITY-ACCOUNTED INVESTEE	**258 422**	227 426	13.6
Share of loss of equity-accounted investee (net of income tax) (refer note 9)	**(1 345)**	(1 813)	25.8
PROFIT BEFORE INCOME TAX	**257 077**	225 613	13.9

* Refer note 3.1.

NOTES TO THE SEGMENT REPORT

a) **Franchise – Captain DoRegos** – The business was disposed of with effect from 1 March 2018. The prior year to 30 June 2018 includes a profit on disposal of the trademark and related intellectual property attributable to the business of R4.750 million (refer note 11).

b) **Franchise – Nikos** – The business was acquired with effect from 1 August 2018 (refer note 6).

c) **Retail** – This segment comprises the group's interests in local restaurants consisting of four The Hussar Grill restaurants and one RocoMamas outlet.

d) **Marketing** – These segments comprise the surplus or deficit of marketing fund contributions relative to marketing fund expenses for the year (refer note 3.1). The group is obligated, in accordance with the franchise agreements concluded between franchisees and the group, to spend the marketing fund contributions for the benefit of franchisees. Accordingly, any cumulative surplus recognised in profit is not for the benefit of the owners of the company, and will not, in the ordinary course of business, be distributable to shareholders.

e) **Other South Africa** – Other local segments include the group's training division, export business, décor manufacturing business, call centre and radio station which are each individually not material. The profit in the current year includes retrenchment costs of R1.410 million attributable to the group's décor manufacturing business.

f) **Unallocated – South Africa** – Loss includes:

R'000	Note	Year ended 30 June 2019	Year ended 30 June 2018
Net finance income		**32 789**	30 537
Impairment loss – GPI receivable	5.1	**(6 688)**	–
Impairment loss – expected credit loss on other financial instruments	5	**(1 443)**	–
Contingent consideration fair value adjustment	6, 12	**(1 555)**	(12 745)
Cash-settled share-based payment credit	7.1	**–**	885
Fair value loss on related economic hedge	7.1	**–**	(3 168)
Equity-settled share-based payment charge	7.2	**(3 272)**	(1 919)
Profit on disposal of Braviz funding instruments	10	**–**	17 500
Litigation costs – SARS dispute	14.1	**(86)**	(1 692)
Profit/(loss) of Spur Foundation Trust, all of which is attributable to non-controlling interests		**408**	(1 040)

g) **Australasia** – Loss includes:

R'000	Note	Year ended 30 June 2019	Year ended 30 June 2018
Impairment loss – expected credit loss on financial instruments	5	**(8 868)**	(6 753)
Impairment of investment in associate	9	**(3 357)**	–
RocoMamas establishment costs (travel, legal, marketing and pre-opening costs)	9	**–**	(2 253)
Foreign exchange losses		**(10)**	(44)
Other assets written off		**–**	(477)

h) **Other International** – Other International segments comprise the group's franchise operations in Africa (outside of South Africa), Mauritius, the Middle East, India, Pakistan and Cyprus.

i) **Unallocated – International** – The current year includes the Zambia litigation settlement and related legal costs amounting to R2.350 million (refer note 14.2) and includes a foreign exchange loss of R0.592 million (2018: R0.357 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The condensed consolidated financial statements for the year ended 30 June 2019 are prepared in accordance with the requirements of the JSE Ltd Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa (No. 71 of 2008), as amended. The 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 the SAICA Financial Reporting Guides and Financial 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 condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements for the year ended 30 June 2018, except for the adoption of new standards effective for the group's financial period commencing 1 July 2018, as detailed in note 3 below. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2 REVIEW REPORT

The condensed consolidated financial statements, which comprise of the statement of financial position at 30 June 2019 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, share information, reconciliation of headline earnings and the notes to such financial statements, have been reviewed by KPMG Inc., who expressed an unmodified review conclusion. The auditor's report does not necessarily report on all of the information contained in these financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the company's registered office, which can be obtained at no cost by appointment with the company secretary at the company's registered office.

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP

3.1 IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers replaces *IAS 18 – Revenue* for annual periods beginning on or after 1 January 2018. IFRS 15 introduces a new five-step model for determining the timing and amount of revenue to be recognised from contracts with customers. The core principle of the new model is that an entity should recognise revenue to depict the transfer of control of promised goods or services to customers and that the amount of revenue should reflect the consideration to which the entity expects to be entitled in exchange for those goods and services.

The group has adopted this standard fully retrospectively as at the start of the earliest period presented (i.e. 1 July 2017). The consequential change in accounting policy has therefore resulted in a restatement of the comparative figures on the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows as detailed below.

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP (continued)

3.1 IFRS 15 – Revenue from Contracts with Customers (continued)

The effect of adopting IFRS 15 on the opening statement of financial position as at 1 July 2017 is as follows:

Statement of financial position

R'000	Audited as at 30 June 2017	IFRS 15 adjustment – Initial franchise fees and distribution costs reallocation	IFRS 15 adjustment – Marketing funds	Restated as at 1 July 2017
Non-current assets				
Deferred tax	1 450	–	2 558	4 008
Current assets				
Loans receivable	19 085	–	(9 617)	9 468
Restricted cash	–	–	5 947	5 947
Cash and cash equivalents	265 953	–	(5 947)	260 006
		–	(9 617)	
Equity				
Retained earnings	605 388	(18 605)	(1 559)	585 224
Non-controlling interests	12 019	(1 167)	–	10 852
		(19 772)	(1 559)	
Non-current liabilities				
Contract liabilities	–	23 637	–	23 637
Deferred tax	60 924	(7 689)	1 412	54 647
		15 948	1 412	
Current liabilities				
Contract liabilities	–	3 824	–	3 824
Loans payable	6 912	–	(6 912)	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP (continued)

3.1 IFRS 15 – Revenue from Contracts with Customers (continued)

The effect of adopting IFRS 15 on comparative information is as follows:

Statement of financial position

R'000	Audited as at 30 June 2018	IFRS 15 adjustment – Initial franchise fees and distribution costs reallocation	IFRS 15 adjustment – Marketing funds	Restated as at 30 June 2018
Non-current assets				
Loans receivable	132 816	–	(14 333)	118 483
Deferred tax	1 736	–	4 014	5 750
		–	(10 319)	
Current assets				
Loans receivable	12 943	–	(438)	12 505
Restricted cash	–	–	6 796	6 796
Cash and cash equivalents	259 895	–	(6 796)	253 099
		–	(438)	
Equity				
Foreign currency translation reserve	30 022	(340)	–	29 682
Retained earnings	645 827	(21 453)	(2 568)	621 806
Non-controlling interests	10 919	(1 495)	–	9 424
		(23 288)	(2 568)	
Non-current liabilities				
Contract liabilities	–	27 813	–	27 813
Deferred tax	61 748	(9 057)	2 533	55 224
		18 756	2 533	
Current liabilities				
Contract liabilities	–	4 532	–	4 532
Loans payable	10 722	–	(10 722)	–

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP (CONTINUED)

3.1 IFRS 15 – Revenue from Contracts with Customers (continued)

Statement of profit or loss and other comprehensive income

R'000	Audited year ended 30 June 2018	IFRS 15 adjustment – Initial franchise fees and distribution costs reallocation	IFRS 15 adjustment – Marketing funds	Restated year ended 30 June 2018
Revenue	667 192	(4 411)	229 016	891 797
Cost of sales	(193 998)	(4 915)	(12 861)	(211 774)
Gross profit	473 194	(9 326)	216 155	680 023
Other income	44 903	–	(21 513)	23 390
Operating expenses	(316 205)	4 915	(194 602)	(505 892)
Operating profit before finance income	201 892	(4 411)	40	197 521
Interest income	31 322	–	(1 327)	29 995
Interest expense	(33)	–	(57)	(90)
Share of loss of equity-accounted investee (net of income tax)	(1 813)	–	–	(1 813)
Profit before income tax	231 368	(4 411)	(1 344)	225 613
Income tax expense	(68 159)	1 235	335	(66 589)
Profit after income tax	163 209	(3 176)	(1 009)	159 024
Other comprehensive income	3 773	(340)	–	3 433
Total comprehensive income	166 982	(3 516)	(1 009)	162 457
Profit attributable to:	163 209	(3 176)	(1 009)	159 024
Owners of the company	158 519	(2 848)	(1 009)	154 662
Non-controlling interests	4 690	(328)	–	4 362
Total comprehensive income attributable to:	166 982	(3 516)	(1 009)	162 457
Owners of the company	162 292	(3 188)	(1 009)	158 095
Non-controlling interests	4 690	(328)	–	4 362
Earnings per share (cents)	165.85	(2.98)	(1.06)	161.81
Diluted earnings per share (cents)	165.54	(2.97)	(1.06)	161.51
Headline earnings	153 656	(2 848)	(1 009)	149 799
Headline earnings per share (cents)	160.76	(2.98)	(1.05)	156.73
Diluted headline earnings per share (cents)	160.46	(2.97)	(1.06)	156.43

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP (continued)

3.1 IFRS 15 – Revenue from Contracts with Customers (continued)

3.1.1 Changes to the group's accounting policies

Accounting for marketing funds and marketing fund administration fees

The franchise agreements concluded between the group and its franchisees provide for the payment by franchisees to the group of an ongoing franchise fee and a marketing fund contribution. Both the franchise fee and the marketing fund contribution are determined as a percentage of the franchised restaurants' sales. The franchise fee is paid by the franchisee to the group for the franchise support services provided by the group in terms of the franchise agreement, and for the ongoing access to intellectual property required by the franchisee to operate the franchised restaurant. The marketing fund contributions paid by the franchisee to the group are required, in terms of the franchise agreements, to be accounted for by the group separately to its own funds, and must be used on marketing-related costs for the benefit of the respective bodies of franchisees contributing to the respective marketing funds, save to the extent that the group may retain, for its own benefit, that amount of the marketing fund contributions required to defray the costs of administering the respective marketing funds on behalf of the respective bodies of franchisees. The group has therefore established, and administers, a number of marketing funds, in accordance with the franchise agreements, to discharge its obligations to its franchisees in this regard.

In terms of *IAS 18 – Revenue*, revenue was recognised where the reporting entity acted as principal and not agent. The board had previously exercised judgement in determining that the group was not exposed to the significant risks and rewards associated with the marketing fund contributions, and accordingly, it acted as an agent of the respective bodies of franchisees, and not as principal, in administering the marketing funds. The marketing fund contributions were therefore not recognised as revenue. To the extent that the marketing fund contributions were retained by the group to cover the costs of administering the respective marketing funds, these amounts were considered a recovery of costs incurred by the group and as such were included in *other income* in the statement of profit or loss and other comprehensive income. As marketing fund contributions were not recognised as revenue, the disbursement of marketing fund contributions on marketing services for the benefit of franchisees, was not recognised as an expense to the group. The cumulative surplus or deficit in each marketing fund was consequently previously recognised as a financial liability (loan payable) or financial asset (loan receivable) respectively in the statement of financial position.

The group's separate legal obligations to provide franchise support services to franchisees and administer the marketing fund contributions received from franchisees on their behalf, cannot be considered separate and distinct performance obligations in accordance with IFRS 15, as the two legal obligations are integrally linked: a franchisee may not separately benefit from the marketing funds' activities without being a franchisee of the group and being entitled to the support services provided by the group to all its franchisees in terms of the franchise agreements. The services provided by the respective marketing funds are for the benefit of the respective brands and bodies of franchisees as a whole, and not specific individual franchisees or locations. The two legal obligations are highly interrelated and interdependent on each other, and considered a single performance obligation as contemplated by IFRS 15.

IFRS 15 requires that the revenue attributable to a performance obligation is recognised to depict the transfer of control of the promised goods or services. As there is only one performance obligation in terms of IFRS 15, the separate legal obligations cannot be accounted for separately. Accordingly, the marketing fund contributions are now recognised as revenue on the same basis as franchise fee revenue. Both franchise fee revenue and marketing fund contributions are considered to be sales-based royalties as contemplated by IFRS 15, and are therefore now recognised in the period in which the related franchisee sales are recognised.

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP (continued)

3.1 IFRS 15 – Revenue from Contracts with Customers (continued)

3.1.1 Changes to the group's accounting policies (continued)

Accounting for marketing funds and marketing fund administration fees (continued)

The disbursement of marketing fund contributions on marketing services are now recognised as an expense (disclosed as *marketing expenses* in the statement of profit or loss and other comprehensive income) as incurred. In addition, the respective marketing funds sell specific products to franchisees: these are recognised as revenue as the goods are sold, with the corresponding cost of goods sold recognised in *cost of sales* in the statement of profit or loss and other comprehensive income. The resulting surplus or deficit in any period is now recognised in profit or loss, although any such cumulative profit/surplus is <u>not for the benefit of the owners of the company, and will not, in the ordinary course of business, be distributable to shareholders</u>. No financial liability or financial asset is recognised for any cumulative surplus or deficit in a marketing fund. Instead, any surplus funds are identified as "restricted" cash balances as the group can only use these funds for future marketing purposes.

Initial franchise fees

Franchisees are charged an initial fixed value franchise fee by the group, as franchisor, upon signature of the franchise agreements concluded with franchisees. The initial franchise fee is non-refundable. The franchise agreements oblige the group to undertake activities for the duration of the franchise agreement to, *inter alia*, support the franchisee's brand, where such activities significantly affect the intellectual property to which the franchisee has rights, without resulting in a transfer of control of specific goods or services. The group previously recognised revenue in respect of the initial franchise fees in full upon meeting the recognition criteria of IAS 18, i.e. where the inflow of economic benefits was probable and the amount could be reliably measured. However, as the group's performance obligation in relation to the initial franchise fee is satisfied over time, IFRS 15 requires that the revenue be recognised on a straight-line basis over the term of the franchise agreement.

Distribution costs

The group's manufacturing facilities supply products to the group's outsourced logistics service provider. The group is obliged, at its cost, to deliver the goods it manufactures and supplies to the logistics service provider, to specific depots belonging to the service provider. The performance obligation in terms of the contract with the service provider comprises a promise to both supply and deliver the inventory in question. Accordingly, the costs associated with delivering the inventory to the service provider's depots is a cost that is directly associated with transferring the control of the promised goods to fulfil the performance obligation in this regard. Consequently, distribution costs, which were previously disclosed separately on the statement of profit or loss and other comprehensive income as *distribution expenses*, have been reallocated to *cost of sales*.

The impact on revenue and other items of the primary financial statements such as deferred taxes, income tax expense, retained earnings, non-controlling interests and exchange differences on translation of foreign operations is detailed in the tables above.

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP (continued)

3.2 IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments replaces *IAS 39 – Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

IFRS 9 was adopted without restating comparative information. The reclassifications and adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 30 June 2018, but are recognised as a transitional adjustment against retained earnings on 1 July 2018. The effect of the IFRS 9 transitional adjustment at 1 July 2018 is as follows:

R'000	Restated as at 30 June 2018*	IFRS 9 transitional adjustment	Restated as at 1 July 2018
Non-current assets			
Loans receivable	118 483	(5 651)	112 832
Current assets			
Trade and other receivables	99 997	(2 875)	97 122
Loans receivable	12 505	(1 155)	11 350
		(4 030)	
Equity			
Retained earnings	621 806	(8 855)	612 951
Non-controlling interests	9 424	(21)	9 403
		(8 876)	
Non-current liabilities			
Deferred tax	55 224	(805)	54 419

* Refer note 3.1.

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP (continued)

3.2 IFRS 9 – Financial Instruments (continued)

3.2.1 Changes to the group's accounting policies

Classification and measurement

Except for certain trade receivables, under IFRS 9, the group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at FVPL, amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the group's business model for managing the assets; and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding (the "SPPI criterion").

On 1 July 2018 (the date of initial application of IFRS 9), the group classified its financial instruments into the following IFRS 9 categories:

Financial asset	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount R'000	IFRS 9 carrying amount R'000
Loans receivable	Loans and receivables	Amortised cost	130 988*	124 182
Financial instruments included in trade and other receivables	Loans and receivables	Amortised cost	95 727	92 852
Cash and cash equivalents (including restricted cash)	Loans and receivables	Amortised cost	259 895	259 895

* Restated. Refer note 3.1.

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP (continued)

3.2 IFRS 9 – Financial Instruments (continued)

3.2.1 Changes to the group's accounting policies (continued)

Classification and measurement (continued)

The new classification and measurement of the group's debt financial assets are at amortised cost as they are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

The assessment of the group's business models was made as of the date of initial application, 1 July 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 July 2018. The assessment of whether contractual cash flows on debt instruments solely comprise principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration assets and liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss and other comprehensive income.

Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the group's accounting for impairment losses for financial assets by replacing IAS 39's *incurred loss approach* with a forward looking *expected credit loss* ("ECL") approach. IFRS 9 requires the group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the group has applied the standard's simplified approach and has calculated ECLs based on lifetime ECLs.

For debt financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. In all cases, the group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group. On initial application of IFRS 9, as the group has been unable to determine without undue cost or effort whether there has been a significant increase in credit risk since origination of the financial instruments existing at initial application, the group has recognised an allowance based on the lifetime ECLs, and will continue to do so, for those specific financial instruments until they are derecognised, in accordance with the transitional provisions of IFRS 9.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the group's debt financial assets. The increase in allowance resulted in an adjustment to retained earnings.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

3 NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP (continued)

3.2 IFRS 9 – Financial Instruments (continued)

3.2.1 Changes to the group's accounting policies (continued)

Impairment of financial assets (continued)

The group determined that the application of IFRS 9's impairment requirements at 1 July 2018 resulted in an additional impairment allowance as follows:

	R'000
Loss allowance at 30 June 2018 under IAS 39	7 553
Trade receivables	800
Loans receivable	6 753
Additional impairment recognised at 1 July 2018 under IFRS 9	9 681
Trade receivables	2 875
Loans receivable	6 806
Loss allowance at 1 July 2018 under IFRS 9	17 234
Trade receivables	3 675
Loans receivable	13 559

In addition to, and as a result of, the adjustments described above, other items of the primary financial statements such as deferred taxes, income tax expense, retained earnings, non-controlling interests and exchange differences on translation of foreign operations were adjusted as necessary.

4 REVENUE

R'000	**Reviewed year ended 30 June 2019**	Restated year ended 30 June 2018*
Sales-based royalties	**640 080**	580 577
Distribution and rebate income	**51 081**	41 157
Ongoing franchise fee income	**354 494**	326 896
Marketing fund contributions	**234 505**	212 524
Recognised at a point in time	**294 307**	304 384
Manufacturing and distribution sales	**150 853**	145 067
Retail restaurants' sales	**69 753**	69 534
Marketing sales	**9 162**	17 181
Marketing supplier contributions	**8 712**	9 971
Other sundry sales	**45 188**	51 893
Other sundry services rendered	**10 639**	10 738
Recognised over time		
Initial franchise fee income	**10 392**	6 836
Total external revenue	**944 779**	891 797

* Refer note 3.1.

Other sundry sales include largely export sales to franchisees trading in areas outside of South Africa and sales of décor and other sundry items to local franchisees.

Other sundry services rendered include largely TasteFM (internal radio station) subscriptions, training fees and architectural service fees received from local franchisees.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4 REVENUE (continued)

Revenue is disaggregated based on the timing of recognition by segment as follows:

R'000	Sales-based royalties	Recognised at a point in time	Recognised over time	Total
2019				
Manufacturing and distribution	51 081	150 853	–	201 934
Franchise – Spur	225 322	890	4 310	230 522
Franchise – Pizza and Pasta	35 942	562	1 084	37 588
Franchise – John Dory's	20 563	128	596	21 287
Franchise – The Hussar Grill	6 711	–	168	6 879
Franchise – RocoMamas	31 996	18	1 671	33 685
Franchise – Nikos	2 567	–	93	2 660
Retail	–	69 753	–	69 753
Marketing	227 239	17 873	–	245 112
Other South Africa	–	51 807	–	51 807
Total South African segments	601 421	291 884	7 922	901 227
Unallocated – South Africa	–	2 319	–	2 319
Total South Africa	601 421	294 203	7 922	903 546
Australasia	4 097	133	119	4 349
Marketing	7 266	–	–	7 266
Other International	27 296	(29)	2 351	29 618
Total International	38 659	104	2 470	41 233
Total external revenue	640 080	294 307	10 392	944 779

4 REVENUE (continued)

R'000	Sales-based royalties	Recognised at a point in time	Recognised over time	Total
2018				
Manufacturing and distribution	41 157	145 067	–	186 224
Franchise – Spur	207 923	178	1 972	210 073
Franchise – Pizza and Pasta	34 601	204	773	35 578
Franchise – John Dory's	19 073	63	578	19 714
Franchise – Captain DoRegos	1 894	–	632	2 526
Franchise – The Hussar Grill	5 787	–	419	6 206
Franchise – RocoMamas	29 820	42	1 238	31 100
Retail	–	69 534	–	69 534
Marketing	204 710	27 152	–	231 862
Other South Africa	–	60 284	–	60 284
Total South African segments	544 965	302 524	5 612	853 101
Unallocated – South Africa	–	1 329	–	1 329
Total South Africa	544 965	303 853	5 612	854 430
Australasia	6 246	201	113	6 560
Marketing	7 814	–	–	7 814
Other International	21 552	330	1 111	22 993
Total International	35 612	531	1 224	37 367
Total external revenue	580 577	304 384	6 836	891 797

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 LOANS RECEIVABLE

R'000	Reviewed as at 30 June 2019	Restated as at 30 June 2018*
Grand Parade Investments 1 (RF) (Pty) Ltd[1]		
Gross carrying amount	**110 225**	100 695
Impairment allowance	**(10 812)**	–
Transition to IFRS 9 recognised in retained earnings at 1 July 2018	**(4 124)**	–
Current year impairment allowance	**(6 688)**	–
Net carrying amount	**99 413**	100 695
Franchisees (Australia)[2]		
Gross carrying amount	**5 808**	7 531
Impairment allowance	**(3 588)**	(2 916)
Opening impairment allowance	**(2 916)**	–
Transition to IFRS 9 recognised in retained earnings at 1 July 2018	**(591)**	–
Current year impairment allowance	**(2 997)**	(2 916)
Impairment allowance reversed against actual write off	**2 916**	–
Net carrying amount	**2 220**	4 615
Panawest Pty Ltd trading as Panarottis MacArthur[3]		
Gross carrying amount	**4 691**	5 196
Impairment allowance	**(4 691)**	(3 837)
Opening impairment allowance	**(3 837)**	–
Current year impairment allowance	**(967)**	(3 837)
Effect of foreign exchange	**113**	–
Net carrying amount	**–**	1 359
Hunga Busters Pty Ltd[4]		
Gross carrying amount	**5 032**	6 137
Impairment allowance	**(5 032)**	–
Transition to IFRS 9 recognised in retained earnings at 1 July 2018	**(528)**	–
Current year impairment allowance	**(4 504)**	–
Net carrying amount	**–**	6 137

[1] Refer note 15.5 on page 144 of the annual integrated report for the year ended 30 June 2018.
[2] Refer note 15.2 on page 143 of the annual integrated report for the year ended 30 June 2018.
[3] Refer note 15.8 on page 145 of the annual integrated report for the year ended 30 June 2018.
[4] Refer note 15.6 on page 144 of the annual integrated report for the year ended 30 June 2018.
* Restated for IFRS 15 (refer note 3.1).

5 LOANS RECEIVABLE (continued)

R'000	Reviewed as at 30 June 2019	Restated as at 30 June 2018*
KG Holdings Family Trust[5]		
Gross carrying amount	**3 292**	4 042
Impairment allowance	**(1 383)**	–
Transition to IFRS 9 recognised in retained earnings at 1 July 2018	**(348)**	–
Current year impairment allowance	**(1 035)**	–
Net carrying amount	**1 909**	4 042
Other loan receivables		
Gross carrying amount	**9 452**	14 140
Impairment allowance	**(1 642)**	–
Transition to IFRS 9 recognised in retained earnings at 1 July 2018	**(1 215)**	–
Current year impairment allowance	**(427)**	–
Net carrying amount	**7 810**	14 140
Total net carrying amount	**111 352**	130 988
Non-current	**5 391**	118 483
Current	**105 961**	12 505

[5] Refer note 15.9 on page 145 of the annual integrated report for the year ended 30 June 2018.
* Restated for IFRS 15 (refer note 3.1).

Total credit losses and impairments included in profit before income tax relating to financial instruments amount to:

R'000	Reviewed year ended 30 June 2019	Audited year ended 30 June 2018
Loans receivable	**16 618**	6 753
Trade receivables	**146**	(135)
Investment in associate (refer note 9)	**3 357**	–
Bad debts	**254**	1 195
	20 375	7 813

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 LOANS RECEIVABLE (continued)

5.1 Grand Parade Investments

The receivable from Grand Parade Investments 1 (RF) (Pty) Ltd ("GPIRF") was advanced in October 2014 to partially fund the acquisition by that entity of shares in Spur Corporation Ltd as part of a broad-based black economic empowerment transaction. The receivable is secured by a reversionary interest in the Spur Corporation Ltd shares, but ranks behind the debt owing by GPIRF to an external finance company. Based on the Spur Corporation Ltd share price at the reporting date, the value of the shares held by GPIRF is insufficient to settle the group's receivable, in the event of default, after GPIRF has settled the external debt. Accordingly, an impairment allowance has been recognised in the current year, in addition to the IFRS 9 transitional adjustment at 1 July 2018 (refer note 3.2).

5.2 Australasian franchisees

The group has granted a number of loans to franchisees in Australia and New Zealand. Persistent difficult trading conditions in these countries have increased the financial pressure on franchisees in those countries, increasing the risk of default on the loans in question. In certain instances, the group has granted payment holidays to these franchisees in order to assist their cash flow.

During the year:

– The loan to the franchisee of Panarottis Currambine of R2.916 million (included in *Franchisees (Australia)*) which had been impaired at 30 June 2018, was written off following the liquidation of the borrowing entity.
– The franchisee of Apache Spur defaulted on a loan of R2.297 million (included in *Franchisees (Australia)*). Given the poor trading performance of the restaurant in question, the directors consider the prospects of recovery of any significant amount of the loan to be low. Consequently, in addition to the IFRS 9 transitional adjustment of R0.313 million, the remaining balance of the loan has been impaired in the current year.
– The franchisee of White Cloud Spur in New Zealand, a related party (refer note 16.1), defaulted on a loan of R2.112 million (included in *Franchisees (Australia)*). While the restaurant is trading profitably, it continues to face liquidity challenges. The security provided (in the form of a personal suretyship of the shareholder of the franchisee), is restricted to the jurisdiction of New Zealand and is therefore considered to be insufficient to mitigate the risk of expected credit losses. Consequently, in addition to the IFRS 9 transitional adjustment of R0.278 million, a further allowance for credit losses of R0.778 million has been recognised during the year.
– Panawest Pty Ltd defaulted on its loan. The restaurant in question ceased trading in June 2019 as a result of poor trading. The security provided (in the form of a personal suretyship of the shareholder of the franchisee and pledge of shares in the franchisee entity), is considered to have negligible value and the directors consider the prospects of recovery of any significant amount of the loan to be low. An impairment loss of R3.837 million was recognised in the prior year and the remaining balance of the loan has been impaired in full in the current year.
– Hunga Busters Pty Ltd, a related party (refer note 16.2), trading as Silver Spur Penrith, has been late in meeting its commitments on this loan on several occasions during the year. The entity has significant outstanding liabilities and is not generating sufficient cash to settle its obligations. The franchisee has consequently indicated its intention to cease trading the restaurant. The security provided (in the form of a personal suretyship of the shareholder of the franchisee and pledge of shares in the franchisee entity), is considered to have negligible value and the directors consider the prospects of recovery of any significant amount of the loan to be low. An impairment loss of R0.528 million was recognised as a transitional adjustment and the remaining balance was impaired in full in the current year.

5 LOANS RECEIVABLE (continued)

5.3 KG Holdings Family Trust

The loan to KG Holdings Family Trust arose on the disposal of the Captain DoRegos business in the prior year (refer note 11). The borrower is in arrears with the instalments due on the loan as at the reporting date. Given the security in place, the directors are of the view that there are reasonable prospects of recovery, although the risk of credit losses has escalated. Therefore, in addition to the IFRS 9 transitional adjustment of R0.348 million, a further allowance for credit losses of R1.035 million has been recognised during the year.

6 NIKOS ACQUISITION

With effect from 1 August 2018, the group acquired 51% of the business of Nikos Coalgrill Greek ("Nikos"). At the effective date, Nikos operated six franchised restaurants. The brand offers affordable, quality, artisanal Greek food in a contemporary dining environment, giving the group exposure to a market that its existing brands did not cater for directly.

The fair value of the net assets acquired at the acquisition date amounted to:

	R'000
Intangible assets (trademarks and related intellectual property)	**2 032**
Deferred tax liability	**(569)**
Total fair value of net assets acquired	**1 463**
Attributable to non-controlling interest	**(717)***
Group's share of net assets acquired	**746**
Goodwill	**3 722**
Total consideration	**4 468**
In cash	**5 012**
Contingent consideration	**(544)**

* The non-controlling interest is measured as the non-controlling interest's proportionate share in the recognised amounts of identifiable net assets.

Deferred tax was measured by applying the effective tax rate applicable to taxable income in South Africa to the taxable temporary difference on initial recognition of the intangible assets.

The purchase consideration is determined as five times Nikos' profit before interest, tax, depreciation and amortisation ("EBITDA") of the third year following the date of acquisition. Following an initial payment of R5.012 million on the effective date, annual payments (or refunds as the case may be) are due on the first, second and third anniversaries of the acquisition date, calculated as five times the EBITDA of the year immediately preceding the anniversary date, less any aggregate payments already made. The total purchase consideration over the three-year period was estimated at R6.112 million as at the effective date, the present value of which was R4.468 million. A contingent consideration receivable was accordingly recognised at fair value at the acquisition date of R0.544 million.

The maximum purchase consideration is unquantifiable as it is based on the third year's EBITDA. In determining the third year's EBITDA, the revenue of the business will be limited to that attributable to the first 40 restaurants in operation (if applicable).

Subsequent to the acquisition date, the parties agreed to deem the partial refund of the purchase consideration due on the first anniversary date to be nil.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6 NIKOS ACQUISITION (continued)

As at the reporting date, the total expected purchase consideration had increased to R6.710 million, as a result of lower projected operating expenditure after rationalising costs. A financial liability measured at fair value of R1.011 million has been recognised in respect of the contingent consideration of R1.710 million at the reporting date. A fair value adjustment of R1.555 million relating to the contingent consideration liability has been charged to profit or loss during the year, and arises as a result of the increased gross contingent consideration, the deeming of the refund due on the first anniversary to be Rnil (as mentioned above), and an adjustment for the time value of money.

In the event that the forecast EBITDA increases by 5% or decreases by 5%, the gross contingent consideration will increase to R2.045 million or decrease to R1.375 million respectively.

The contingent consideration liability is designated as a level 3 financial instrument in terms of the IFRS 13 fair value hierarchy as inputs into the valuation model are not based on observable market data. The fair value is determined based on the expected aggregate purchase consideration payments (which is based on forecast EBITDA), discounted to the present value using a risk-adjusted discount rate of 22.03% at the reporting date (and 22.08% at the date of acquisition). The fair value is sensitive to a change in the forecast EBITDA and discount rate. The estimated fair value of the contingent consideration liability at the reporting date would change in response to a change in the key variables as follows:

R'000	Increase/(decrease) in contingent consideration liability and decrease/(increase) in profit before income tax
Projected EBITDA	
– increased by 5%	252
– decreased by 5%	(252)
Discount rate	
– increased by 2%	(44)
– decreased by 2%	46

The goodwill is attributable to the growth prospects of the brand (by expanding the chain nationally) that the group is anticipated to realise using its existing franchising expertise, infrastructure and extensive network of franchisees. The goodwill is not deductible for tax purposes.

Transaction costs, comprising legal and due diligence costs, amounting to R0.301 million are included in profit before income tax for the year.

From the date of acquisition, the business contributed R2.660 million revenue, profit before income tax of R0.779 million and profit after income tax of R0.537 million, of which R0.263 million is attributable to non-controlling interests. The acquired business has only been formally trading since July 2017. Had the group acquired the business at 1 July 2018, the impact on the group's revenue and profit would not have been materially different to that reported.

7 SHARE INCENTIVE SCHEMES

7.1 Previous (pre-April 2016) cash-settled share appreciation rights scheme

During the prior year, in December 2017, the fifth (and final) tranche of cash-settled share appreciation rights ("SARs") granted in terms of the group's long-term share linked employee retention scheme vested. Details of the financial impact of the scheme in the prior year are listed below:

R'000	Audited year ended 30 June 2018
Gross cash outflow on vesting of cash-settled rights	–
Gross cash outflow from economic hedging instrument	(13 410)
Payment of difference in guaranteed dividend to hedge counterparty	(330)
Net cash flow effect	(13 740)
Share-based payment credit	885
Fair value loss on economic hedging instrument	(3 168)
Net expense included in profit before income tax	(2 283)

Further details of these SARs and related hedges can be found in notes 27 and 28 on pages 157 and 158 respectively of the annual integrated report for the year ended 30 June 2018.

7.2 New (post-April 2016) equity-settled share incentive schemes

Following the approval by shareholders at the annual general meeting on 4 December 2015 of the Spur Group Forfeitable Share Plan ("FSP") and Spur Group SARs Scheme, certain awards have been granted to certain senior managers and directors during the current and previous financial years. Further particulars on the schemes as well as details of grants awarded in previous years are included in note 21.4 on page 151 of the annual integrated report for the year ended 30 June 2018.

During the current year, on 26 November 2018:

- 209 800 FSP shares were awarded to senior and middle management (excluding directors); and
- 3 189 176 SARs were awarded: 1 862 724 to executive directors; and 1 326 452 to senior management.

Existing treasury shares were used for the FSP shares granted during the period.

7 SHARE INCENTIVE SCHEMES (continued)

7.2 New (post-April 2016) equity-settled share incentive schemes (continued)

Number of shares/rights in issue:

	Reviewed year ended 30 June 2019	Audited year ended 30 June 2018
FSP shares		
Balance at beginning of year	**274 000**	314 000
Granted during the year	**209 800**	–
Forfeited during the year	**(12 000)**	(40 000)
Vested during the year	**(133 000)**	–
Balance at end of year	**338 800**	274 000
SARs		
Balance at beginning of year	**3 868 045**	4 590 889
Granted during the year	**3 189 176**	–
Forfeited/lapsed during the year	**(1 674 919)**	(722 844)
Balance at end of year	**5 382 302**	3 868 045

The terms of the shares/rights granted during the year are as follows:

	Third tranche (November 2018)
FSP	
Grant date	26 November 2018
Initial vesting date	25 November 2021
Date from which shares may be traded	24 November 2023
Service condition	3 years
Performance conditions	Personal performance
Grant date fair value per share	R15.35
SAR	
Grant date	26 November 2018
Initial vesting date	25 November 2021
Date from which shares may be traded	24 November 2023
Service condition	3 years
Performance condition – return on equity (“ROE”)	Between 0% and 100% vesting where ROE is between 12.75% and 17.25%
Performance condition – earnings	Between 33% and 100% vesting where adjusted headline earnings per share (including impairments) grows between CPI and CPI +6% per annum over initial vesting period
Strike price per right	R23.13
Grant date fair value per right	R4.91
Number of rights expected to vest based on meeting of non-market performance conditions	1 468 693

7 SHARE INCENTIVE SCHEMES (continued)

7.2 New (post-April 2016) equity-settled share incentive schemes (continued)

The grant date fair values of the forfeitable shares and SARs granted during the year were determined by an independent external professional financial instruments specialist using a Black-Scholes European Call Option Model, based on the following assumptions:

Risk-free rate (based on R186 South African Government bond)	7.48%
Expected dividend yield (based on historic dividend yield over historic period equivalent to vesting period)	5.47%
Expected volatility (based on historic volatility over historic period equivalent to vesting period)	38.97%
Liquidity discount due to trade restriction (five years in the case of FSP)	19.59%
Liquidity discount due to trade restriction (two years in the case of SARs)	6.99%

The financial impact of the incentive schemes is summarised below:

R’000	Reviewed year ended 30 June 2019	Audited year ended 30 June 2018
Cumulative share-based payments reserve:		
Balance at beginning of year	**3 731**	1 812
Share-based payment expense included in profit before income tax	**3 272**	1 919
Transfer to retained earnings on vesting	**(2 603)**	–
Balance at end of year	**4 400**	3 731
Income tax credit included in profit	**638**	456
Income tax credit included in equity (retained earnings)	**100**	468
Capital gains tax arising on intragroup sale of shares charged to equity (retained earnings)	**553**	–
Transaction costs arising on intragroup sale of shares charged to equity (retained earnings)	**57**	–
Weighted average dilutive potential ordinary shares (FSP)	**256 568**	180 950

As the performance conditions of the SARs, as assessed at the reporting date, had not been met to result in any vesting of the rights, no adjustment has been made to the dilutive weighted average number of shares in issue in respect of these contingently issuable shares for all years reported.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8 TAX RATE RECONCILIATION

Material items that have an impact on the effective rate of income tax are listed below:

%	Reviewed year ended 30 June 2019	Restated year ended 30 June 2018*
South African normal tax rate	**28.0**	28.0
Non-deductible loan impairments (refer note 5)	**1.3**	0.8
Non-deductible termination settlements	**0.3**	0.6
Non-taxable profit on disposal of Braviz loans (refer note 10)	**–**	(3.6)
Non-taxable interest income	**(1.0)**	(1.1)
Non-deductible fair value adjustment on Nikos/RocoMamas contingent consideration liability (refer notes 6 and 12)	**0.2**	1.6
Non-deductible other expenditure (capital items and items not in the production of income)	**1.2**	1.6
Non-taxable marketing fund surplus	**(0.1)**	–
Prior year underprovision	**0.2**	0.1
Tax losses on which deferred tax not raised	**1.5**	0.6
Tax losses utilised on which deferred tax not provided	**(0.5)**	(0.5)
Withholding taxes not recoverable	**1.6**	1.7
Other	**0.2**	(0.3)
Effective rate of tax	**32.9**	29.5

* Refer note 3.1.

9 INVESTMENT IN ASSOCIATE (ROCOMAMAS AUSTRALIA)

R'000	Reviewed as at 30 June 2019	Audited as at 30 June 2018
Carrying value of equity-accounted investee		
Balance at beginning of year	**3 461**	–
Investment	**1 241**	5 274
Share of loss of equity-accounted investee (net of income tax)	**(1 345)**	(1 813)
Impairment of loan to associate	**(3 357)**	–
Balance at end of year	**–**	3 461

9 INVESTMENT IN ASSOCIATE (ROCOMAMAS AUSTRALIA) (continued)

During the prior year, with effect from 1 July 2017, the group acquired 45% of the issued share capital in RocoMamas Restaurants Australia Pty Ltd ("RRA"), a company newly incorporated and domiciled in Australia, for a nominal consideration. During the prior year, the group advanced R5.274 million to RRA on loan account for the purpose of capitalising the entity and in respect of which settlement is neither planned nor likely to happen in the foreseeable future. The purpose of the investment was to establish a partnership with entrepreneurs having industry expertise in Australia to launch the RocoMamas brand in that country. To this end, subsidiaries in the group granted a subsidiary of RRA a master franchise agreement, in terms of which the entity was granted rights to exploit the RocoMamas trademarks and related intellectual property in Australasia. RRA furthermore provided finance to another subsidiary of RRA in the prior year to build the first RocoMamas restaurant in Australia, trading in Melbourne, which commenced trading in June 2018.

During the current year, further advances of R1.241 million were made to RRA on the same terms as above, to fund working capital of the business.

The loss in the current year relates to the trading operations of the business. The loss in the prior year related to costs incurred to establish the entities concerned, refine the intellectual property for the brand in the country and pre-opening costs associated with the new restaurant.

Sustained operating losses of the business in the year indicated a potential impairment. The board has considered the future cash flows of the business and concluded that the prospects of recovery of the group's funding of the investment is negligible. The carrying value of the investment (comprising a loan receivable from the associate) has accordingly been impaired in full.

10 PRIOR YEAR DISPOSAL OF INVESTMENT IN ASSOCIATE (BRAVIZ FINE FOODS)

In March 2014, the group acquired a 30% interest in Braviz Fine Foods (Pty) Ltd ("Braviz"), a start-up operation which established a rib processing plant in Johannesburg for R0.4 million. The group had previously advanced loans of R46.250 million to the entity, the full extent of which was impaired in the financial year ended 30 June 2017.

During the prior year, with effect from 6 November 2017, the group concluded an agreement to sell its equity interest and loan claims with Braviz to the existing Braviz shareholders for the sum of R17.500 million. This was received in cash in March 2018. A profit before income tax of R17.500 million, and a tax credit of R3.257 million was recognised in the prior year.

11 PRIOR YEAR DISPOSAL OF CAPTAIN DOREGOS

During the prior year, with effect from 1 March 2018, the group concluded an agreement to dispose of the Captain DoRegos business, largely comprising the Captain DoRegos trademarks and related intellectual property, for a consideration of R4.750 million. The Captain DoRegos intangible assets had been impaired in full as at 30 June 2017. The transaction therefore resulted in a profit on disposal of R4.750 million included in profit before income tax in the prior year. No income tax was applicable to the sale. Of the total consideration, R0.750 million was paid in cash in two instalments on 1 March 2018 and 1 May 2018 and the balance of R4.000 million is payable in equal monthly instalments over 48 months with effect from 1 June 2018, subject to interest at the prime overdraft rate of interest. The receivable is secured by personal guarantees from the purchaser and a trust which holds immovable property. Refer note 5.3.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12 ROCOMAMAS CONTINGENT CONSIDERATION

With effect from 1 March 2015, the group acquired a 51% interest in RocoMamas Franchise Co (Pty) Ltd ("RocoMamas"), an entity owning the trademarks and related intellectual property of the RocoMamas brand.

The purchase consideration was determined as five times RocoMamas' profit before income tax of the third year following the date of acquisition, which ended on 28 February 2018. Following an initial payment of R2.0 million on the effective date, annual payments were due on the first, second and third anniversaries of the acquisition date, calculated as five times the profit before income tax of the year immediately preceding the anniversary date, less any aggregate payments already made. Payments of R20.369 million and R18.271 million were made on the first and second anniversaries of the acquisition date respectively and the final payment of R18.542 million was paid in March 2018.

The movement in the contingent consideration liability was as follows:

R'000	**Reviewed as at 30 June 2019**	Audited as at 30 June 2018
Balance at beginning of year	–	5 797
Fair value adjustment recognised in profit before income tax	–	12 745
Payment made	–	(18 542)
Balance at end of year	–	–

With effect from 1 April 2017, the group acquired a further 19% interest in RocoMamas, increasing the group's equity interest in the entity to 70%.

13 SUBSEQUENT EVENTS

Subsequent to the reporting date, but prior to the date of issue of this report, the following significant transactions occurred:

13.1 Dividend

A dividend of 73 cents per ordinary share in issue, amounting to R79.191 million, was declared by the board on 11 September 2019 and is payable on 7 October 2019.

14 CONTINGENT LIABILITIES

14.1 Income tax in respect of 2004 to 2009 share incentive scheme

As reported in note 44.1 on page 183 of the annual integrated report for the year ended 30 June 2018, SARS had previously issued additional assessments to wholly owned subsidiary, Spur Group (Pty) Ltd ("Spur Group"), in respect of the 2005 to 2012 years of assessment totalling R22.034 million (comprising R13.996 million in additional income tax and R8.038 million in interest). The additional assessments were issued following the disallowance of a deduction claimed in respect of the 2004 share incentive scheme. The total of the additional assessments was paid in previous financial years. Following failed alternative dispute resolution proceedings, the matter was heard in the income tax court in February 2018. The tax court ruled in favour of Spur Group, but SARS has appealed the ruling. The appeal was heard by a full bench of the tax court on 29 July 2019 but no judgment has yet been issued. The board, in consultation with its tax advisors, remains confident that the probability of SARS' appeal being successful is low. Consequently, no liability has been raised in respect of the assessments issued to date and the payments made to date are accounted for as prepayments of income tax.

14 CONTINGENT LIABILITIES (continued)

14.2 Legal dispute with former Zambian franchisee

As previously reported (refer note 44.2 on page 183 of annual integrated report for the year ended 30 June 2018), in 2012, Steak Ranches Ltd ("SRL") instituted action against a wholly owned subsidiary of the group, Steak Ranches International BV ("SRIBV"), a company incorporated and domiciled in The Netherlands, for allegedly repudiating a franchise agreement previously concluded between the parties. SRL is an unrelated entity incorporated and domiciled in Zambia. SRIBV previously concluded a franchise agreement with SRL for a franchised outlet in Zambia, but cancelled that agreement after SRL breached the terms of the agreement, as alleged by the board of SRIBV.

SRL claimed special damages in the amount of US$648 152, pecuniary damages in the amount of US$4 236 041 and an unquantified amount of general damages arising out of the alleged repudiation, together with interest and costs.

SRIBV defended the action, denying the repudiation of the franchise agreement. Following several years of stalled legal proceedings, the matter was finally resolved by a court-ordered mediation on 30 January 2019. Giving consideration to the uncertainty, costs and time to litigate against a Zambian franchisee, under Zambian law and in a Zambian court, the board of SRIBV concluded that it was in the interests of the company to agree to an amount of US$120 000 in full and final settlement of the matter, without conceding on the legal merits of the case. Accordingly, an expense in the amount of R2.350 million (comprising the settlement and related legal costs) has been recognised in profit or loss for the year.

14.3 Other contingent liabilities

There have been no further changes to the status of other contingent liabilities referred to in note 44 on page 183 of the annual integrated report for the year ended 30 June 2018.

15 FAIR VALUE OF FINANCIAL INSTRUMENTS

The group has not disclosed the fair values of loans receivable, financial assets included in trade and other receivables, cash and cash equivalents, loans payable, bank overdrafts, financial liabilities included in trade and other payables and shareholders for dividend as their carrying amounts are a reasonable approximation of their fair values. In the case of loans receivable and loans payable, the directors consider the terms of the loans (including in particular, the interest rates applicable) to be commensurate with similar financial instruments between unrelated market participants and the carrying amounts are therefore assumed to approximate their fair values. In the case of financial assets included in trade and other receivables, cash and cash equivalents, bank overdrafts, financial liabilities included in trade and other payables and shareholders for dividend, the durations of the financial instruments are short and it is therefore assumed that the carrying amounts approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 RELATED PARTIES

There have been no material changes in the nature or value of the related-party transactions reported in note 42 on page 175 of the annual integrated report for the year ended 30 June 2018, save for the following:

16.1 Loan advanced to White Cloud Restaurant Limited (trading as White Cloud Spur (New Zealand))[1]

The entity is owned by an executive director of the company, Mark Farrelly. As previously reported, a loan had been granted by a subsidiary of the group to the entity in previous years to partially fund the fit-out of the restaurant in question. The loan was repayable by 30 June 2019. As at 30 June 2019, the entity has defaulted on the loan. The loan has accordingly been partially impaired at the reporting date (refer note 5.2).

A franchise fee and marketing fee concession amounting to R0.757 million (2018: R0.578 million) was granted to the franchisee during the year in an effort to ensure the sustainability of the outlet.

16.2 Loan advanced to Hunga Busters Pty Ltd (trading as Silver Spur, Penrith (Australia))[2]

50% of the shares in the entity are owned by José Vilar, the group's franchise executive in Australia. The loan arose on the sale of the business previously owned by the group to the entity in the 2015 financial year. The balance of the original loan at the reporting date amounted to R4.024 million. In addition, during the year, the entity was unable to settle all franchise fees and marketing fees due to the group, totalling R0.702 million and R0.306 million respectively and these amounts were added to the original loan outstanding. The total receivable from the entity at the reporting date therefore amounts to R5.032 million. Furthermore, the monthly loan repayments were extended during the year from September 2020 to May 2022 in an effort to facilitate the recovery of the loan. The franchisee has been in arrears on a number of occasions during the year. The loan has consequently been impaired in full at the reporting date (refer note 5.2).

A franchise fee and marketing fee concession amounting to R1.112 million (2018: R1.010 million) was granted to the franchisee during the year in an effort to ensure the sustainability of the outlet.

17 STANDARDS ISSUED BUT NOT YET EFFECTIVE

17.1 IFRS 16 – Leases

IFRS 16, published in 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases for lessees and lessors, and replaces the previous leases standard, *IAS 17 – Leases*, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors. This standard becomes mandatory for the group's 2020 financial statements.

[1] Refer note 42.3 on page 178 of the annual integrated report for the year ended 30 June 2018.
[2] Refer note 15.6 on page 144 of the annual integrated report for the year ended 30 June 2018.

17 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

17.1 IFRS 16 – Leases (continued)

The group completed an initial assessment of the potential impact of the adoption of this standard on its consolidated financial statements. The group determined that it will recognise right-of-use assets and lease liabilities in respect of all premises occupied for corporate offices and the sites leased by the company-owned restaurants as well as the 68 vehicles (as at 30 June 2019) currently leased. The group currently recognises the rental expenses of the properties and leased vehicles on a straight-line basis over the lease term. Upon the adoption of IFRS 16, the group's operating lease charge in profit or loss will be replaced by a depreciation charge in respect of the corresponding right-of-use assets, as well as an interest charge relating to the respective lease liabilities, which may in aggregate be different to the current operating lease charge.

In addition to the above leases, the group leased and sublet a premises for a restaurant in Australia. This lease is currently treated as an operating lease in accordance with IAS 17. Upon the adoption of IFRS 16, a lease receivable and lease payable in respect of the sublease and head lease respectively will be recognised.

The group plans to adopt this standard in its financial statements for the year ending 30 June 2020 using the modified retrospective approach, recognising each right-of-use asset at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. Accordingly, comparatives will not be restated.

The group estimates that it will recognise right-of-use assets of R40.593 million and lease liabilities of R43.703 million at 1 July 2019, as well as a lease receivable and additional lease liability in respect of the Australia restaurant lease of R8.289 million, on the date of initial application.

18 CHANGES IN DIRECTORS

Shareholders were advised on 16 November 2018 that Mr Mike Bosman was appointed to the board as an independent non-executive director with effect from 15 November 2018. Shareholders were further advised on 6 December 2018 that non-executive directors, Messrs Dean Hyde, Keith Getz and Keith Madders and Ms Prabashinee Moodley, retired by rotation from the board at the annual general meeting of the same date.

As announced on 23 February 2018, executive chairman of the board, Mr Allen Ambor, retired from the board on 28 February 2019. The board appointed Mr Bosman as chairman of the board, effective 1 March 2019. Following his appointment as chairman, Mr Bosman resigned from the audit committee with effect from 1 March 2019, and the board appointed Mr Muzi Kuzwayo to the audit committee in his stead.

On 6 June 2019, shareholders were advised that Prof Shirley Zinn and Ms Cora Fernandez were appointed to the board as independent non-executive directors with effect from 17 June 2019. Ms Fernandez was simultaneously appointed to the audit committee to replace Mr Kuzwayo, who resigned as a member of the audit committee, on 17 June 2019.

On 3 June 2019, shareholders were advised that Ms Nazrana Hawa resigned as company secretary with effect from 31 July 2019. Shareholders were advised on 2 August 2019 that Kilgetty Statutory Services (South Africa) (Pty) Ltd was appointed as interim company secretary with effect from 1 August 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 GPI REPURCHASE

Shareholders were advised on 27 June 2019 of the details of a transaction concluded between the group, Grand Parade Investments Ltd and GPI Investments 1 RF (Pty) Ltd ("GPIRF"), in terms of which the group will acquire the 10 848 093 Spur Corporation Ltd shares held by GPIRF for a total consideration of R260.354 million. GPIRF acquired the shares in October 2014 as part of a broad-based black economic empowerment transaction concluded between the parties. GPIRF will utilise the funds, after it has settled other external debt, to repay the receivable detailed in note 5.1.

The transaction is subject to Spur Corporation Ltd shareholders' approval and certain other regulatory requirements. The circular detailing the transaction and notice of general meeting was mailed to shareholders on 27 August 2019. The general meeting is scheduled for 25 September 2019, and, on the assumption that the requisite resolutions pass and other regulatory requirements are complied with, the expected implementation date of the transaction is mid-October 2019. The aforementioned circular provides details of the expected impact of the transaction on the group's financial statements.

ADMINISTRATION

DIRECTORS

Chairman: MJ Bosman (*appointed to the board 15 November 2018*) (*appointed chairman 1 March 2019*)

Executive chairman: A Ambor (*retired 28 February 2019*)

Chief executive officer: P van Tonder

Executive: M Farrelly, P Matthee

Independent non-executive: C Fernandez (*appointed 17 June 2019*), D Hyde (*retired 6 December 2018*), M Kuzwayo, D Molefe, M Morojele, S Zinn (*appointed 17 June 2019*)

Non-executive: K Getz (*retired 6 December 2018*), K Madders MBE (*retired 6 December 2018*), P Moodley (*appointed 15 August 2018 and retired 6 December 2018*), T Karriem (*resigned 14 August 2018*)

Company secretary: N Hawa (*resigned 31 July 2019*), Kilgetty Statutory Services (South Africa) (Pty) Ltd (*appointed 1 August 2019*)

COMPANY INFORMATION

Spur Corporation Limited

Registration number: 1998/000828/06

Share code: SUR **ISIN:** ZAE000022653

Registered office: 14 Edison Way, Century Gate Business Park, Century City, 7441

Transfer Secretaries: Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Sponsor: Sasfin Capital (A member of the Sasfin Group)

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