Spur Corporation

# Integrated Report 2013

# Contents

# THE GROUP AT A GLANCE

Spur Corporation is a growing multi-brand restaurant franchisor, headquartered in Cape Town, and listed in the travel and leisure sector of the JSE Ltd. Through its three sit-down family restaurant brands – Spur Steak Ranches, Panarottis Pizza Pasta and John Dory's Fish Grill Sushi, and fast food convenience chain – Captain DoRegos, the group provides customers with an inviting eating experience that is distinctly family-orientated. Each brand has its own distinctive atmosphere and brand positioning and offers compelling quality and value-for-money meals.

## OUR MISSION

Bringing people together over great food to create outstanding memories.

## OUR VISION

We will be passionate people growing great brands.

To achieve this, we will be a sustainable business with great brands which make a positive and lasting difference in the lives of our employees, franchisees, communities and the environment.

## OUR BRANDS

Spur Steak Ranches – A taste for life

Panarottis Pizza Pasta – Big on Family. Big on Pizza.

John Dory's – FISH • GRILL • SUSHI

Captain DoRegos – Chicken • Fish • Burgers – it's all good

# Our mission statements

- Our business exists to provide fun, **memorable experiences** over great food for the young and old.
- Our restaurants provide a warm, **family-friendly environment** with a social atmosphere that allows customers of all ages to relax and enjoy our generous, **value-for-money** portions of **great tasting food**, all served with a smile!
- We are committed to providing our customers with outstanding products (food) and **excellent service** in exciting, vibrant surroundings.
- We promise a **consistently excellent experience** no matter which outlet our customers visit.

## OUR VALUES

### BRAND FAMILY

Being a part of our family means showing your commitment to the Spur Corporation family and its brands.

We are caring and respectful towards our colleagues, customers and business partners.

### SPIRIT OF GENEROSITY

Selfless sharing of your knowledge and experiences while being of service to our brands, customers and colleagues.

### DAILY EXCELLENCE

Consistent, excellent delivery and eagerness to learn in order to complete your job with unwavering attention to detail.

### FIRED UP – PEOPLE WITH A TASTE FOR LIFE!

A passionate contribution to the development and growth of our brands – having an engaging, enthusiastic and energetic attitude in your area of expertise.







# Our promise

Food is our passion and welcoming you, our pleasure. When you meet at your "home away from home" you are treated as family.

Our reward is in presenting delicious meals to families and friends. Whether it is a Spur burger, Panarottis pizza, John Dory's catch of the day or Captain DoRegos crispy chicken, our food is prepared to please and satisfy.

We never hold back on our generosity, our laughter, or our welcome – we go big on quantity, aroma and especially on taste.

Nothing satisfies us more than pleasing you, our customer.

# Performance highlights

REVENUE
R653m
29.7%
Up

DILUTED HEPS
156.64
cents
22.4%
Up

DIVIDEND
PER SHARE
111
cents
27.6%
Up

PROFIT –
LOCAL OPERATIONS
R203.1m
18.3%
Up

RETURN ON
INVESTMENT
PRE-TAX
(capital and dividends)
59.3%

RESTAURANT
TURNOVER
R4.9bn
20.0%
Up

13 COLLEGE OF EXCELLENCE GRADUATES

43
NEW OUTLETS OPENED
71
REFURBISHED AND THREE RELOCATED

CAPTAIN DOREGOS INCLUDED FOR A FULL 12 MONTHS

1.4 MILLION SPUR FAMILY CARD MEMBERS ACCOUNTING FOR 38.3% OF LOCAL SPUR RESTAURANT TURNOVER IN THE MONTH OF JUNE 2013

Strategic achievements

## AWARDS

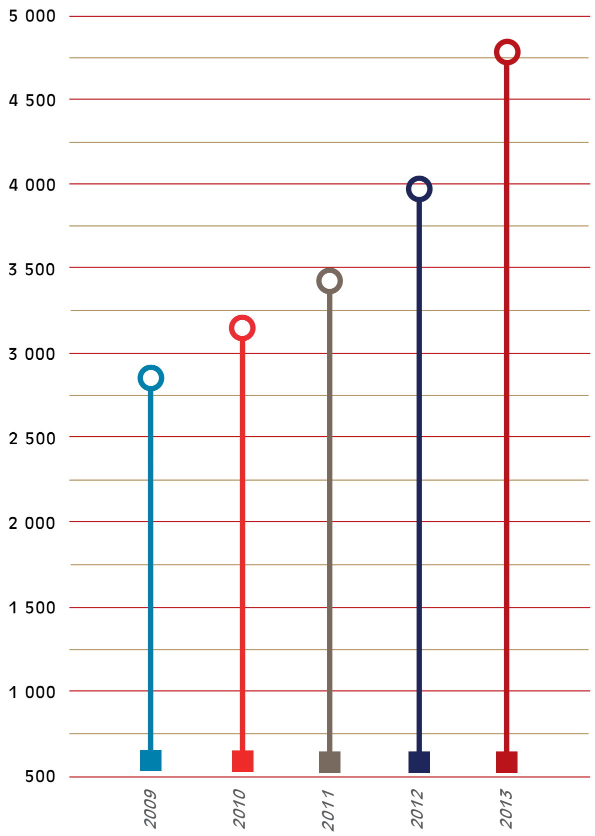
*Sunday Times* Top Brands 2013 – Best Family sit-down restaurant (Spur)

Generation Next Awards 2013 – Coolest Eat-out Place (Spur)

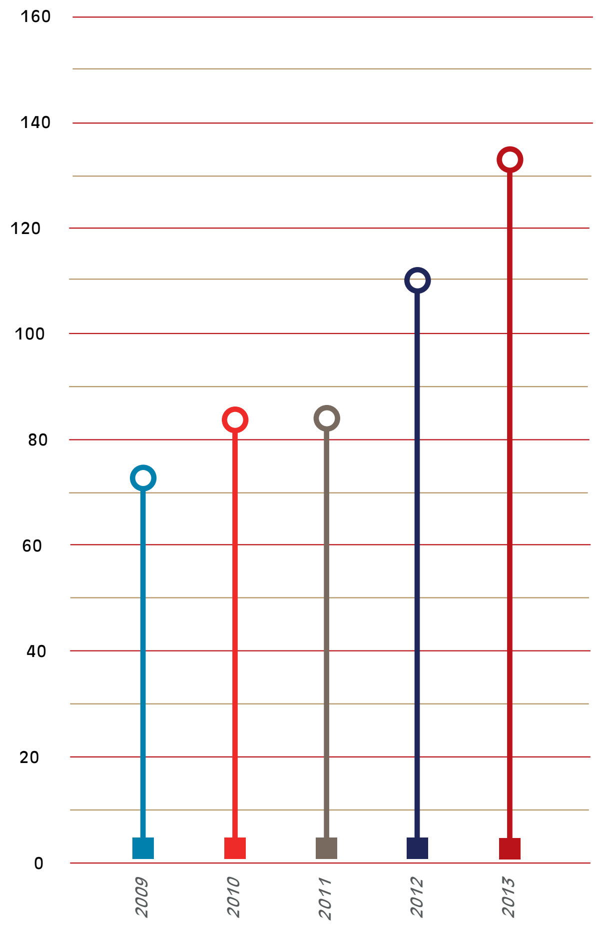
Best Kids' Party Venue in the 2013 Leisure Options Best of Joburg Readers' Choice Awards (Spur)

Adtrack Best Liked Television Advertisement 2012 – Sign Writing (Spur)

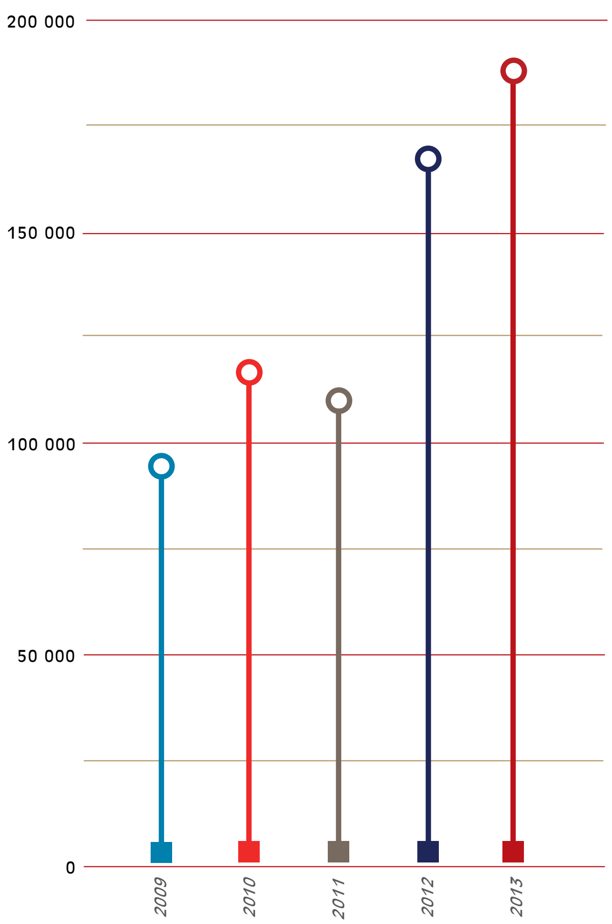
## RESTAURANT TURNOVER (R'm)



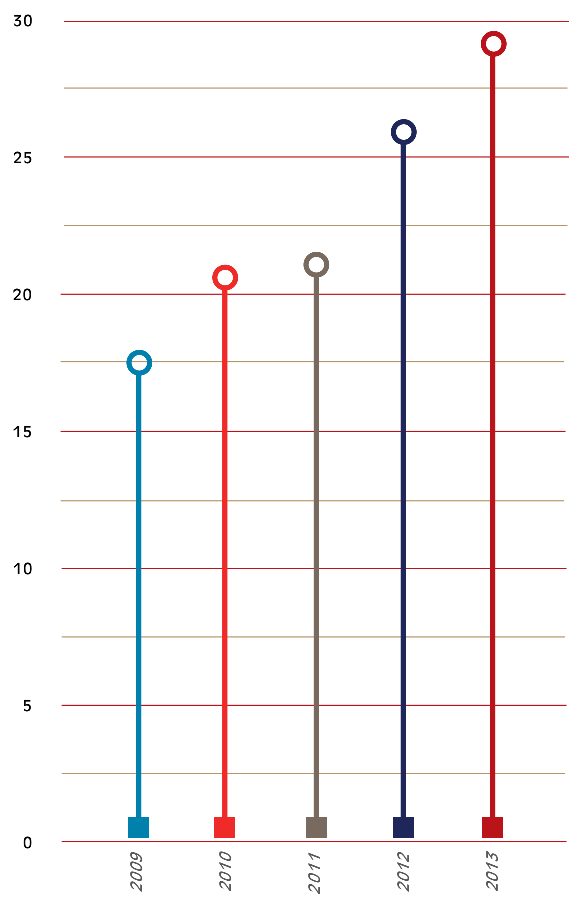

## HEADLINE EARNINGS (R'm)




## OPERATING PROFIT BEFORE FINANCE INCOME (R'm)




## RETURN ON EQUITY (%)



# 5 YEAR REVIEW

| | footnote | 2013 R'000 | 2012 R'000 | 2011 R'000 | 2010 R'000 | 2009 R'000 |
|---|---|---|---|---|---|---|
| **Statement of comprehensive income** | | | | | | |
| Revenue | | **653 027** | 503 444 | 403 396 | 348 024 | 326 774 |
| Operating profit before finance income | 1 | **189 186** | 168 936 | 111 969 | 118 549 | 96 196 |
| Adjusted operating profit | 2 | **197 844** | 164 575 | 130 030 | 124 504 | 108 693 |
| Net interest income | | **5 871** | 6 164 | 4 861 | 4 380 | 6 219 |
| Profit before income tax | | **195 057** | 175 100 | 116 830 | 122 929 | 102 415 |
| Headline earnings | 3 | **134 847** | 111 795 | 85 759 | 85 067 | 74 476 |
| **Statement of financial position** | | | | | | |
| Property, plant and equipment | | **76 878** | 73 492 | 70 387 | 75 184 | 84 429 |
| Cash and cash equivalents | | **112 096** | 98 804 | 115 966 | 84 628 | 83 887 |
| Bank overdraft | | **1 605** | 1 854 | 2 256 | 3 596 | 2 853 |
| **Statement of cash flows** | | | | | | |
| Net cash flow from operating activities | | **60 012** | 59 916 | 56 213 | 12 580 | 35 673 |
| **Share statistics** | | | | | | |
| Weighted average number of shares (000's) | 3 | **86 090** | 87 124 | 87 777 | 87 865 | 87 942 |
| Earnings per share (cents) | 3 | **153.66** | 130.71 | 80.65 | 88.27 | 71.94 |
| Headline earnings per share (cents) | 3 | **156.64** | 128.32 | 97.70 | 96.82 | 84.69 |
| Cash flow earnings per share (cents) | 4 | **169.01** | 136.18 | 123.46 | 102.31 | 102.02 |
| Operating cash flow per share (cents) | 5 | **69.71** | 68.77 | 64.04 | 14.32 | 40.56 |
| Net asset value per share (cents) | 6 | **549.86** | 493.42 | 468.09 | 458.99 | 494.30 |
| Distribution per share (cents) | 7 | **111.00** | 87.00 | 66.00 | 60.00 | 55.00 |
| Distribution cover (times) | 8 | **1.4** | 1.5 | 1.5 | 1.6 | 1.5 |

| | footnote | 2013 R'000 | 2012 R'000 | 2011 R'000 | 2010 R'000 | 2009 R'000 |
|---|---|---|---|---|---|---|
| **Stock exchange performance** | | | | | | |
| Number of shares in issue (000's) | | **97 633** | 97 633 | 97 633 | 97 633 | 97 633 |
| Number of shares traded (000's) | | **30 007** | 22 569 | 20 739 | 20 930 | 28 271 |
| Value of shares traded (R'000) | | **725 956** | 333 353 | 283 628 | 230 533 | 195 639 |
| Percentage of issued shares traded (%) | | **30.73** | 23.12 | 21.24 | 21.44 | 28.96 |
| Market price per share (cents) | | | | | | |
| – close | | **2739** | 1789 | 1385 | 1220 | 840 |
| – high | | **3250** | 1789 | 1550 | 1325 | 995 |
| – low | | **1700** | 1235 | 1175 | 850 | 560 |
| Headline earnings yield (%) | 9 | **5.72** | 7.17 | 7.05 | 7.94 | 10.08 |
| Distribution yield (%) | 10 | **4.05** | 4.86 | 4.77 | 4.92 | 6.55 |
| Price earnings ratio | | **17.49** | 13.94 | 14.18 | 12.60 | 9.92 |
| Market capitalisation (R'000) | | **2 674 168** | 1 746 654 | 1 352 217 | 1 191 123 | 820 117 |
| **Business performance** | | | | | | |
| Operating profit margin (%) | 11 | **30.30** | 32.69 | 32.23 | 35.77 | 33.26 |
| Return on equity (%) | 12 | **29.54** | 25.99 | 21.07 | 20.91 | 17.58 |
| Return on total assets (%) | 13 | **20.20** | 18.31 | 15.47 | 15.89 | 13.98 |
| Liquidity ratio | 14 | **1.88** | 1.91 | 2.47 | 2.36 | 2.86 |

**Footnotes**

1 Includes share of profit/loss of equity-accounted investees (net of income tax).
2 Operating profit (see footnote 1) adjusted for headline earnings adjustments and foreign exchange gain/loss.
3 Refer to note 8 of the group financial statements on page 116.
4 Operating profit before working capital changes plus net interest received/(paid) less tax paid divided by the weighted average number of shares in issue.
5 Net cash flow from operating activities divided by the weighted average number of shares in issue.
6 Net asset value divided by the number of shares in issue (net of treasury shares).
7 Interim and final distribution for the year to which it relates.
8 Headline earnings per share divided by distribution per share (see footnote 7).
9 Headline earnings per share divided by the closing share price.
10 Distribution per share divided by the closing share price.
11 Adjusted operating profit (see footnote 2) divided by revenue.
12 Profit for the year adjusted for headline earnings adjustments and foreign exchange gain/loss divided by equity.
13 Profit for the year adjusted for headline earnings adjustments and foreign exchange gain/loss divided by assets.
14 Current assets divided by current liabilities.

# GROUP PROFILE
## About us

| 1967 | 1986 | 1990 | 1991 | 1995 | 1996 | 1997 | 1999 | 2001 |
|---|---|---|---|---|---|---|---|---|
| First *Spur Steak Ranch* opens in Newlands, Cape Town | The Spur group lists on the Johannesburg Stock Exchange | First *Panarottis Pizza Pasta* opened | First international outlet opens in Namibia | First outlets open in Botswana, Mauritius and Zambia | First outlets open in Australia and Swaziland | First outlet opens in Zimbabwe | Group restructures to form Spur Corporation | First outlets open in the UK and Ireland |

## Our markets

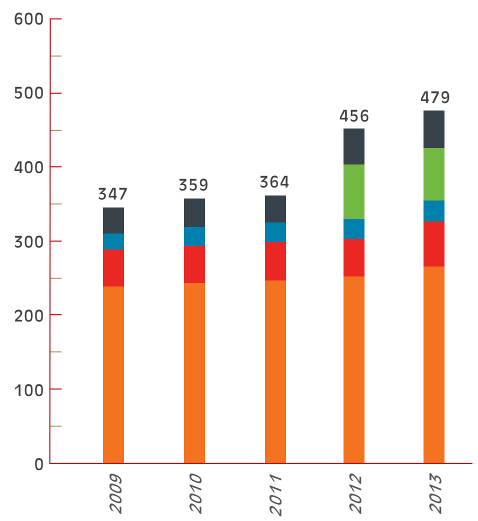
The group's primary market is the family sit-down restaurant market with Captain DoRegos targeting the takeaway market. South Africa remains the core market with an increasing focus on international markets. Although international markets have a similar customer profile to that of South Africa in this segment, we implement appropriate strategies to increase local appeal in the international territories in which we trade.

Due to the family positioning of the group's brands, children are considered a core market and Spur, Panarottis and John Dory's cater for children in restaurant design, marketing communication and product.

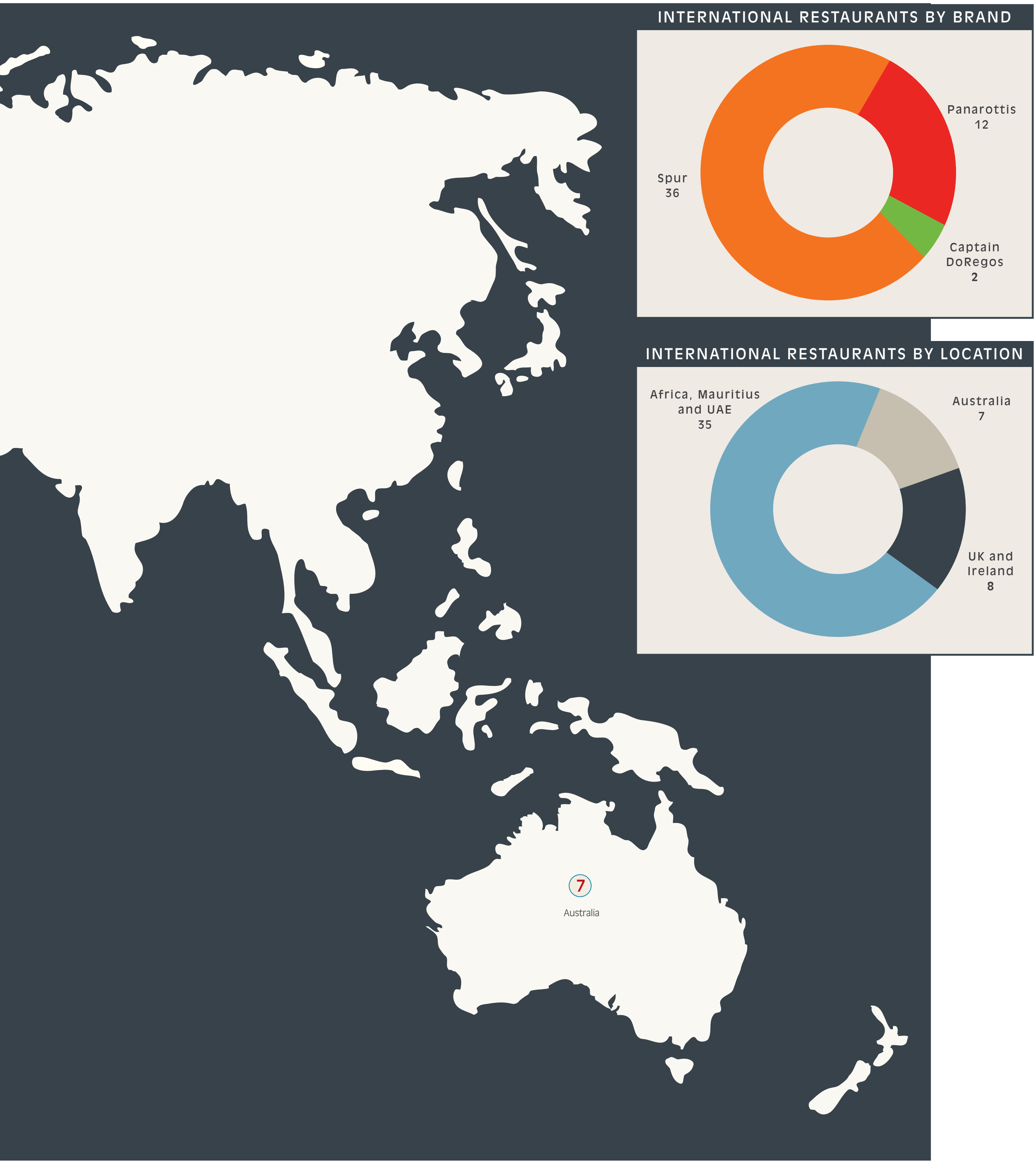
All four brands are structured to add value to the burgeoning middle class in South Africa, although appeal crosses all income and cultural boundaries.

Spur Corporation has already expanded its franchising model into several African territories, Mauritius, the United Arab Emirates ("UAE"), the United Kingdom ("UK") and Ireland and Australia.

RESTAURANTS




| 2004 | 2006 | 2012 | 2012 |
|---|---|---|---|
| Group acquires 60% shareholding in *John Dory's Fish Grill Sushi*, based in KwaZulu-Natal | Group acquires a further 5% in John Dory's | Group acquires the remainder of John Dory's shareholding | Group acquires *Captain DoRegos* franchise and distribution centre businesses |



| TOTAL SOUTH AFRICAN RESTAURANTS | | | | | |
|---|---|---|---|---|---|
| **REGION** | **Spur** | **Panarottis** | **John Dory's** | **Captain DoRegos** | **Total** |
| Eastern Cape | 18 | 5 | 2 | 12 | **37** |
| Free State | 14 | 2 | 1 | 25 | **42** |
| Gauteng | 82 | 17 | 5 | 12 | **116** |
| KwaZulu-Natal | 45 | 8 | 14 | 4 | **71** |
| Limpopo | 13 | 4 | – | 2 | **19** |
| Mpumalanga | 15 | 3 | 1 | 2 | **21** |
| North West | 8 | 5 | 2 | 6 | **21** |
| Northern Cape | 6 | 1 | 1 | 9 | **17** |
| Western Cape | 66 | 16 | 3 | – | **85** |
| **Total South Africa** | **267** | **61** | **29** | **72** | **429** |

| TOTAL INTERNATIONAL RESTAURANTS | | | | | |
|---|---|---|---|---|---|
| **REGION** | **Spur** | **Panarottis** | **John Dory's** | **Captain DoRegos** | **Total** |
| **Africa, Mauritius, UAE** | **25** | **8** | **–** | **2** | **35** |
| Botswana | 5 | 1 | – | – | **6** |
| Kenya | 2 | – | – | – | **2** |
| Lesotho | 1 | – | – | – | **1** |
| Malawi | 1 | – | – | – | **1** |
| Namibia | 5 | 1 | – | 1 | **7** |
| Nigeria | 1 | – | – | – | **1** |
| Swaziland | 1 | – | – | – | **1** |
| Tanzania | 1 | – | – | – | **1** |
| Uganda | 1 | – | – | – | **1** |
| Zambia | 1 | – | – | – | **1** |
| Zimbabwe | 2 | 1 | – | – | **3** |
| Dubai | 1 | – | – | – | **1** |
| Mauritius | 3 | 5 | – | 1 | **9** |
| **Australia** | **3** | **4** | **–** | **–** | **7** |
| **UK and Ireland** | **8** | **–** | **–** | **–** | **8** |
| England | 6 | – | – | – | **6** |
| Northern Ireland | 1 | – | – | – | **1** |
| Ireland | 1 | – | – | – | **1** |
| **Total International** | **36** | **12** | **–** | **2** | **50** |
| **TOTAL RESTAURANTS** | **303** | **73** | **29** | **74** | **479** |


Panarottis
Pizza Pasta


RocoMamas

# Business model

The Spur group is predominantly a franchisor, leveraging its intellectual property, experience, skills and support infrastructure to manage franchised restaurant operations. The group does not own and manage its restaurants in South Africa, the rest of Africa, Mauritius and the UAE – these are run by independent, entrepreneurial franchisees that pay the group a franchise fee based on the turnover of each restaurant.

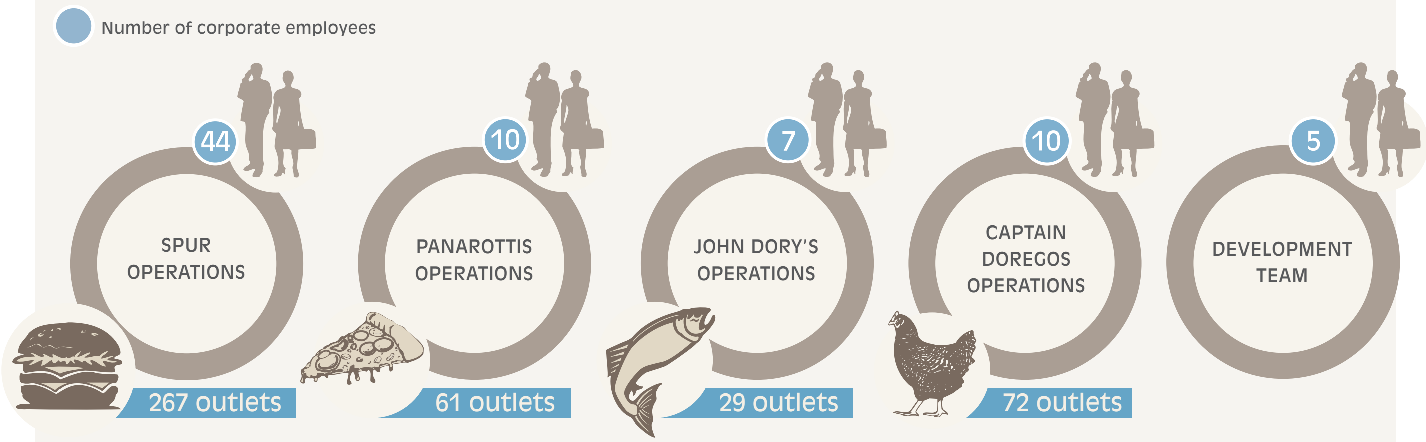
## FRANCHISE MANAGEMENT (SOUTH AFRICA)

The group does not get involved in the day-to-day operations of the outlets, but we maintain a high level of supervision at all restaurants. Experienced brand-specific operations teams provide ongoing support to franchisees in the following ways:

- Managing the businesses
- Marketing support through the proactive identification of marketing opportunities and assistance in developing and implementing bespoke marketing plans for each restaurant
- Upholding the brand and product standards
- Ensuring that franchisees build and maintain successful businesses.

The operations management teams visit each restaurant at least once a month to perform inspections and assess the operations of each restaurant against predetermined standards. This covers everything from food safety to regulatory compliance.

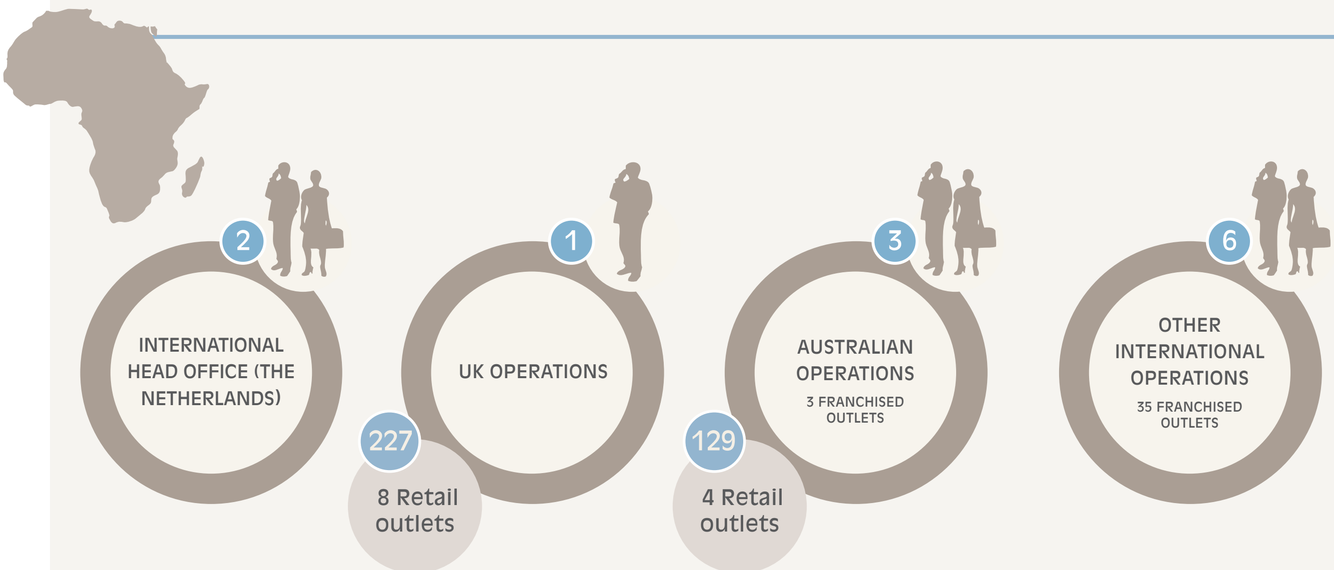
The development team manages the new franchisee process, from franchisee and site selection to store opening. They are also responsible for store relocations and refurbishments.




## INTERNATIONAL OPERATIONS

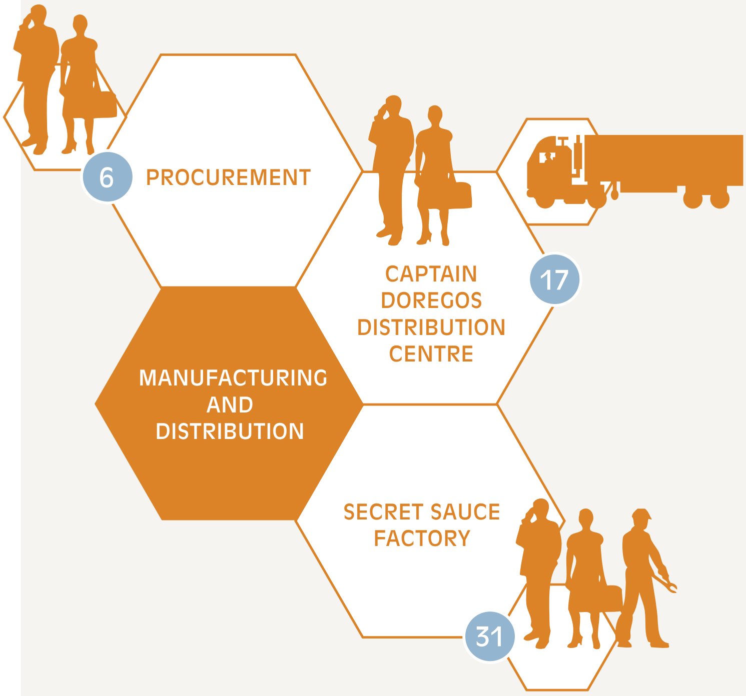
Franchise management functions for the UK and Australia are performed by dedicated regional franchise executives in those countries. In Australia, the group operates franchised restaurants and limited retail outlets (restaurants in which the group has a majority equity interest). Following the takeover of the two remaining franchised restaurants in Staines (England) and Dublin (Ireland) during the current year, the UK and Ireland operate exclusively on a retail model. The group plays a more active role in the day-to-day management of its retail outlets.

Franchise management functions for international territories (other than the UK, Ireland and Australia) are performed by the international head office.



## MANUFACTURING AND DISTRIBUTION

The manufacturing and distribution division includes the Captain DoRegos distribution centre and the procurement function for the group and its franchisees. It also includes the secret sauce factory, which manufactures most of the brands' unique sauces for group restaurants as well as sauces for third parties.




## OTHER GROUP SERVICES

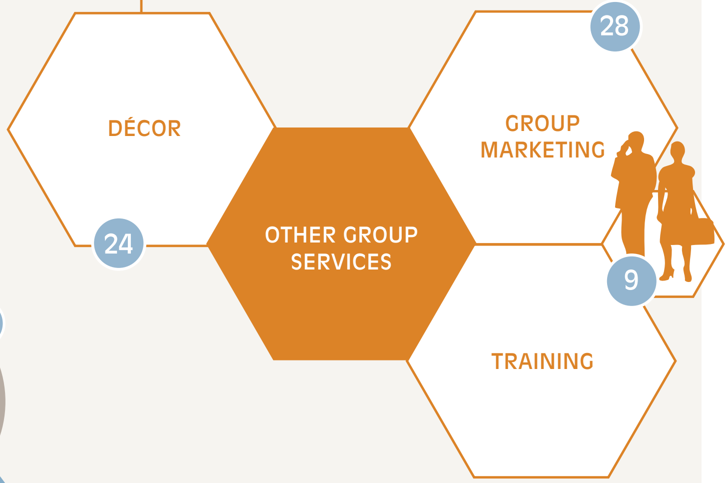
The group training department provides training to head office employees, franchisees and franchisee employees. It is also responsible for the Spur College of Excellence.

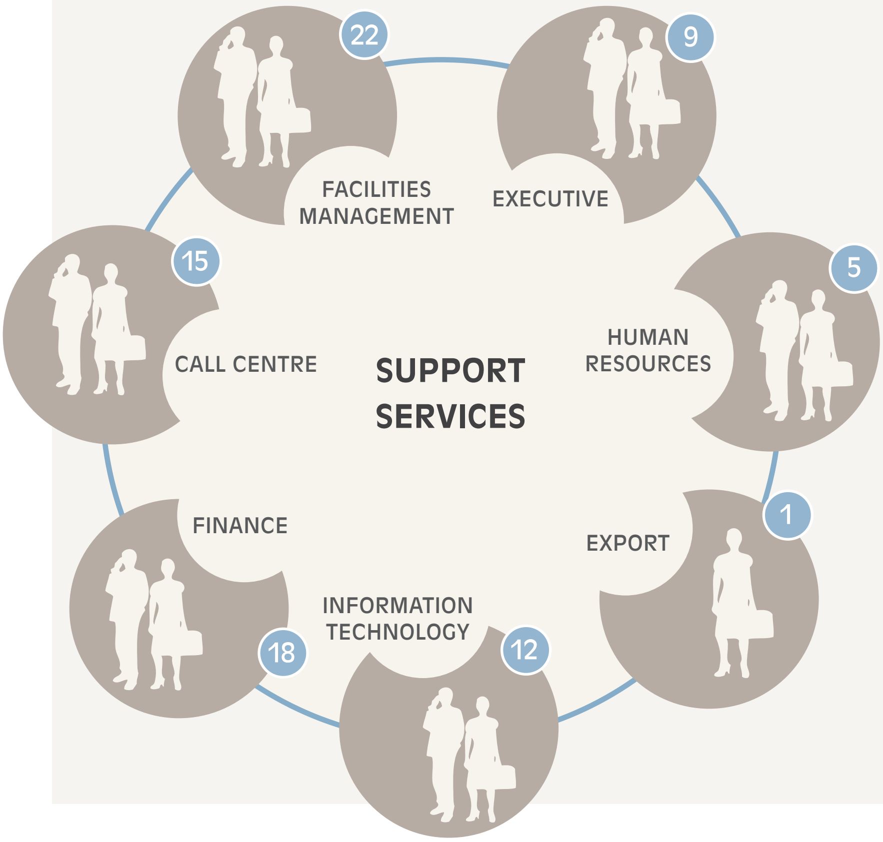
Group marketing is a customer-focused service department that collaborates with multiple business partners to create compelling communication that broadens the group's customer base to build profitable iconic brands.

Group marketing managed funds of R164.8 million during the year (2012: R140.8 million) on franchisees' behalf.

The group's décor manufacturing business makes most of the iconic décor items that are unique to the group's brands. These décor items are sold to franchisees for use in new restaurants and refurbishments.

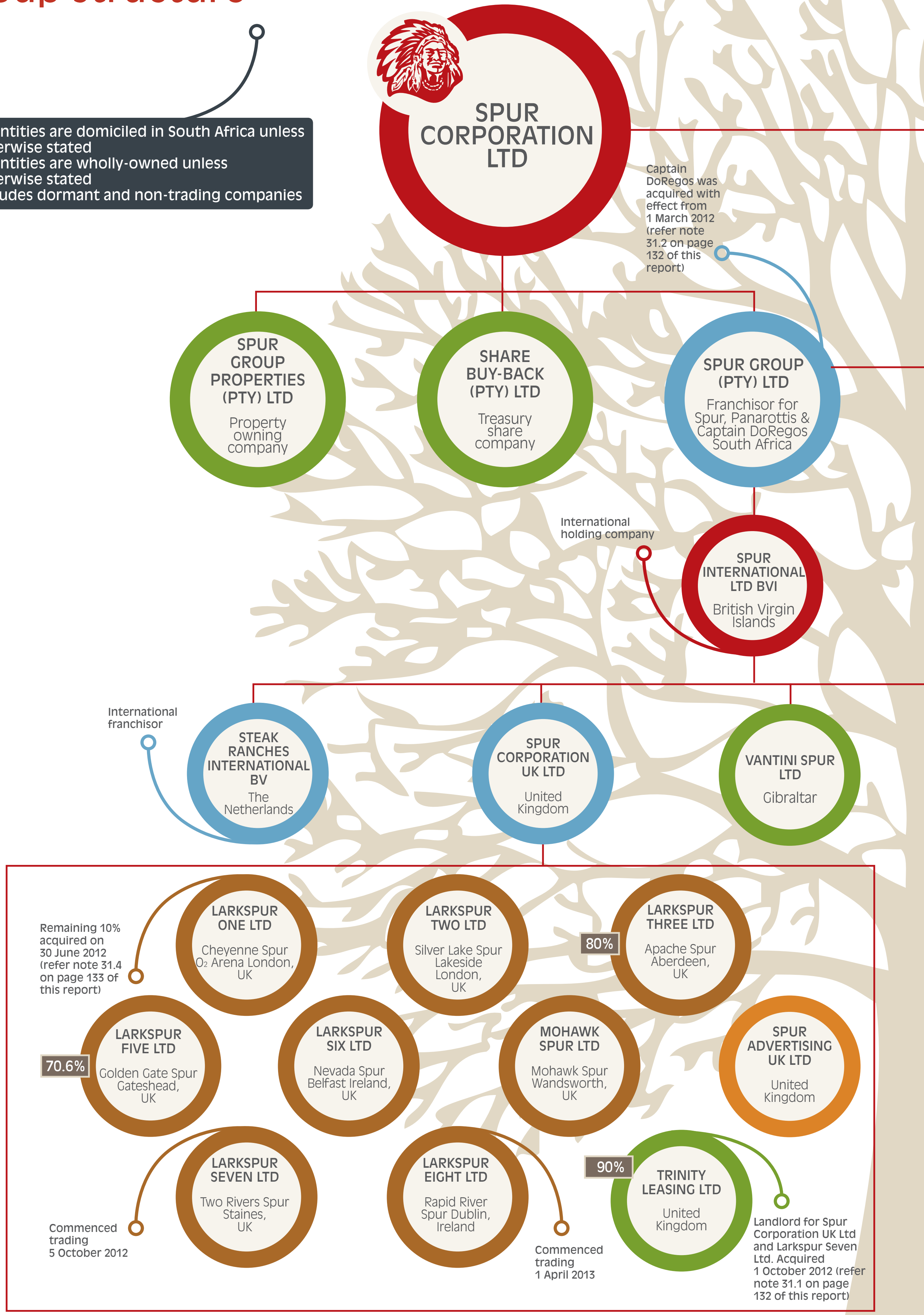
The group also manages a host of support functions that are integral to the franchise business model.

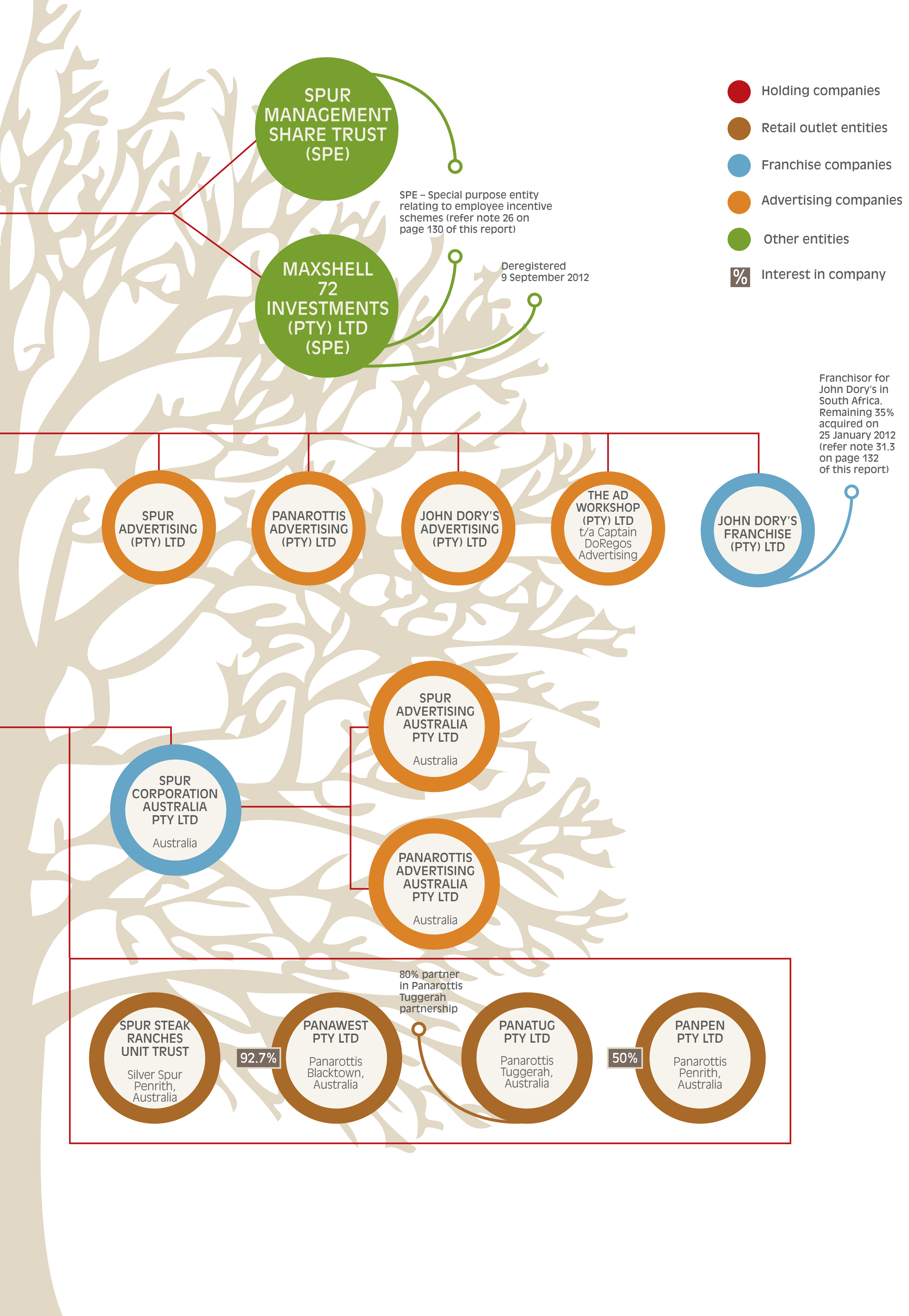


# Group structure

- All entities are domiciled in South Africa unless otherwise stated
- All entities are wholly-owned unless otherwise stated
- Excludes dormant and non-trading companies





SPUR MANAGEMENT SHARE TRUST (SPE)
SPE – Special purpose entity relating to employee incentive schemes (refer note 26 on page 130 of this report)
MAXSHELL 72 INVESTMENTS (PTY) LTD (SPE)
Deregistered 9 September 2012
Holding companies
Retail outlet entities
Franchise companies
Advertising companies
Other entities
% Interest in company
SPUR ADVERTISING (PTY) LTD
PANAROTTIS ADVERTISING (PTY) LTD
JOHN DORY'S ADVERTISING (PTY) LTD
THE AD WORKSHOP (PTY) LTD t/a Captain DoRegos Advertising
JOHN DORY'S FRANCHISE (PTY) LTD
Franchisor for John Dory's in South Africa. Remaining 35% acquired on 25 January 2012 (refer note 31.3 on page 132 of this report)
SPUR ADVERTISING AUSTRALIA PTY LTD Australia
SPUR CORPORATION AUSTRALIA PTY LTD Australia
PANAROTTIS ADVERTISING AUSTRALIA PTY LTD Australia
SPUR STEAK RANCHES UNIT TRUST Silver Spur Penrith, Australia
92.7%
PANAWEST PTY LTD Panarottis Blacktown, Australia
80% partner in Panarottis Tuggerah partnership
PANATUG PTY LTD Panarottis Tuggerah, Australia
50%
PANPEN PTY LTD Panarottis Penrith, Australia

# Material issues table

The material financial and non-financial issues the Spur group faces are summarised in the table below and discussed further in the sections that follow. These issues were derived from the following:

- Our risk management processes
- Ongoing engagement with our key stakeholders
- Our environmental sustainability guidelines.

Implementation of our sustainability strategy takes place at strategic level (those areas the group can effect directly) and operational level (at franchisee level, where the group can only influence indirectly).

| | | MATERIAL ISSUE | CONSIDERATIONS | PAGE |
|---|---|---|---|---|
| ECONOMIC | STRATEGIC | Local restaurant revenue growth | Sustainable value creation depends on growing the number of outlets and gaining market share. A shortage of suitable sites and suitable franchisees could constrain this growth. | 45 |
| | | Sustainable local franchise model | We need to ensure that our franchisees can earn a reasonable return on investment and run sustainable businesses. Rising costs and strong competition could pressure franchisee margins. | 46 |
| | | International expansion | The group's brands and formats are well placed to succeed in other markets but expansion plans must take unfamiliar market dynamics into account. | 47 |
| | | Sustainable supply of raw materials (procurement) | The group consumes a significant amount of raw materials in its franchised operations. Climate change and social unrest could affect the supply of these raw materials. | 48 |
| | | Product responsibility (procurement) | Food quality and food safety are critical considerations in the restaurant industry. We have a number of initiatives in place to ensure that our food is of a consistent high quality. | 49 |
| | OPERATIONAL | Efficient use of resources to reduce costs (energy, water and waste) | The rising costs of electricity and gas have made efficient use of resources an important part of managing franchisee margins. | 58 |
| | | Systems for monitoring and reporting | Franchisees need to have the necessary equipment and procedures in place to monitor and report their resource management initiatives. | 60 |
| | | Support the local economy (procurement) | Our franchisees are encouraged to support local suppliers in certain categories of ingredients where our quality standards are met. | 48 |
| ENVIRONMENTAL | STRATEGIC | Resource management (energy, water and waste) | The Spur group needs to ensure that, as a responsible corporate citizen, it manages its use of resources responsibly. | 58 |
| | | Transport | Unnecessary travel must be reduced to minimise the carbon emissions attributable to group activities. | 58 |
| | | Packaging | The group aims to reduce the negative environmental impact of its packaging by using sustainable materials and limiting ink usage. | 59 |
| | | Supply chain (procurement) | The Spur group has a responsibility to ensure its suppliers share its values and consideration for environmental sustainability. | 59 |
| | | Events | All major events held by the group should be hosted and conducted in a responsible manner. | 59 |

| | | MATERIAL ISSUE | CONSIDERATIONS | PAGE |
|---|---|---|---|---|
| ENVIRONMENTAL | OPERATIONAL | Responsible resource management to reduce wastage (energy, water and waste) | Franchisees should reduce wastage as part of their commitment to environmental and financial sustainability. | 58 |
| | | Green procurement | Supporting responsible suppliers improves long-term sustainability of supply. | 59 |
| | | Events | All major events should be hosted and conducted in a responsible manner. | 59 |
| SOCIAL | STRATEGIC AND OPERATIONAL | Community support | All restaurants and regional offices are encouraged to support their local communities through active involvement and increasing corporate social investment (CSI) spend. The Spur Foundation implements the group's CSI initiatives. | 60 |
| | | Training and skills development | Continued investment in developing employees at both regional offices and in restaurants brings a range of benefits, including improved food quality, customer service and employee engagement. | 54 |
| | | Employment equity | Transformation is imperative for South Africa's long-term success. Facilitating the upliftment of historically disadvantaged individuals at franchises and regional offices is an important consideration for social sustainability. | 57 |

# Group stakeholder matrix

The group subscribes to the stakeholder inclusive approach to engagement, as recommended by King III. Our environmental sustainability committee identified these stakeholders through engagement with various employees in the group.

| STAKEHOLDER GROUP | HOW WE ENGAGE | KEY CONCERNS | OUR RESPONSE |
|---|---|---|---|
| Employees | Road shows<br>Intranet<br>Company values<br>Open door policy | Fair remuneration, career opportunities, transformation, skills development | Our human resources policies ensure our employees are appropriately incentivised and remunerated, and have the opportunity to develop and progress in their careers. Our transformation strategy supports upliftment of historically disadvantaged individuals. |
| Shareholders | Analysts' presentation<br>Annual general meeting<br>SENS<br>One-on-one meetings<br>Website | Prudent capital allocation, return on investment | Management's interests are aligned with shareholders through the long-term incentive programmes. Senior management has extensive experience in the restaurant industry and a conservative approach to international expansion. |
| Franchisees | Road shows<br>Extranet<br>Advisory committees<br>Restaurant visits<br>Conference<br>Conversation cafés | Return on investment, ongoing support | Our operations management teams interact with franchisees on an ongoing basis to offer support in running a successful business. We offer training to franchisee employees on all the aspects of running and managing a profitable restaurant. Our outsourced distribution model enhances procurement efficiencies. |
| Suppliers | Day-to-day interaction<br>Supplier audits<br>Assessments<br>Meetings | Fair payment terms, certainty of supply, fair treatment | The procurement team interacts with suppliers on a day-to-day basis to ensure reciprocal understanding. Franchisees pay suppliers directly. Head office, manufacturing and depot suppliers operate on normal contractual terms. |
| Customers and potential customers | Customer care centre<br>Social media<br>Loyalty cards<br>Spur Secret Tribe<br>*Totem* magazine | Excellent food, great service, a welcoming family experience | Operations management inspections cover food quality, customer service and restaurant management. We apply stringent food safety processes to suppliers and our manufacturing facilities. Our revamp programme ensures outlets are kept up to date and keeping with the brand promise. |
| Potential customers | Corporate social investment ("CSI")<br>Outdoor events | Ongoing support | Our CSI initiatives are run through the Spur Foundation, and aim to provide ongoing support for underprivileged youth. The group's sponsorship of outdoor events encourages a healthy and fun lifestyle. |

# OUR LEADERSHIP TEAM
## Executive directors

**Allen Ambor (Age 72)**
**EXECUTIVE CHAIRMAN**
46 years' service
B.A. – University of Witwatersrand

Allen opened the first Spur Steak Ranch in 1967. Today, Allen is creative custodian for all TV, radio and print advertisements. He is involved in the interaction between group marketing and the brand agencies, and guides the board on issues that have substantive bearing on the future direction and strategy of the company.

**Pierre van Tonder (Age 54)**
**CHIEF EXECUTIVE OFFICER**
31 years' service

Pierre joined the group in 1982 as a junior restaurant manager. He has held several senior management positions before being appointed as director of Spur Steak Ranches Ltd and Spur Holdings in 1992. Pierre was appointed as managing director in 1996 and chief executive officer in 2012. Pierre is responsible for the group's overall strategy and operations. He is also the group's chief risk officer, the chairman of the risk, operational executive committee, transformation, human resources productivity and treasury committees and a member of the social and ethics committee.

**Mark Farrelly (Age 49)**
**CHIEF OPERATING OFFICER**
23 years' service
B.A. – University of Cape Town

Mark joined Spur in 1990 as an operations manager and was promoted to regional operations manager in 1995. He was appointed to the board in 1999 and appointed as chief operating officer in 2012. Mark is responsible for developing and implementing the local group strategy.

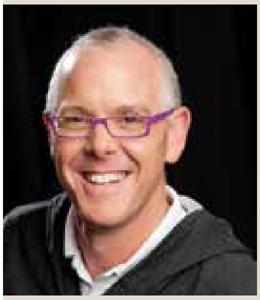
**Ronel van Dijk (Age 41)**
**CHIEF FINANCIAL OFFICER**
10 years' service
B.Acc (Hons) – University of Stellenbosch; CA(SA)

Ronel joined Spur as group financial manager in 2003. In 2005, she was appointed as chief financial officer and company secretary, joining the board in 2006. Ronel is responsible for the finance, company secretarial, administrative, legal and compliance functions of the group. She also currently fulfils a supervisory function for IT, HR and transformation. She has been involved in the international growth strategy of the group since 2008 and spearheads the activities of the Spur Foundation.

# Non-executive directors

**Keith Getz (Age 57)**
**NON-EXECUTIVE DIRECTOR**
**22 years' service**
**BProc LLM – University of Cape Town**

Keith is a practising attorney and a senior partner of Bernadt Vukic Potash & Getz, the group's principal legal counsel. He was appointed to the board in 1991. Keith is a director of various international subsidiaries of the group, and chairs the social and ethics committee. Keith chaired the nominations committee until 5 September 2012. He sits on the boards of Mr Price Group Ltd and various private companies.



**Dean Hyde (Age 46)**
**INDEPENDENT NON-EXECUTIVE DIRECTOR***
**19 years' service**
**B.Com (Legal) – University of Witwatersrand; Canadian Chartered Accountants' Board Examination**

Dean joined Spur as financial manager and was the financial director for five years. He resigned in 2004 and was subsequently appointed as a non-executive director. Dean is currently the chief financial officer of Lombard Insurance Ltd. He chaired the group's remuneration committee until 6 March 2013 and was nominated by the board to chair the audit committee, which will be considered by shareholders at the forthcoming annual general meeting.

* Following the disposal of all his franchise interests in the group's brands, and upon the recommendation of the lead independent director, the board assessed Dean as an independent non-executive director with effect from 26 November 2012.

**Muzi Kuzwayo (Age 45)**
**INDEPENDENT NON-EXECUTIVE DIRECTOR**
**5 years' service**
**B.Sc. (Biochemistry and Microbiology) – Rhodes University; Executive MBA – University of Cape Town**

Muzi is a visiting professor at the UCT Graduate School of Business. He is the founding chief executive officer of Ignitive, a marketing and advertising consulting company. Muzi is an author and commentator on advertising and marketing. He was appointed to the board in 2008 and is a member of the group's audit, nominations and transformation committees, and chairs the remuneration committee from 6 March 2013.

**Keith Madders MBE (Age 65)**
**NON-EXECUTIVE DIRECTOR**
**18 years' service**
**B.Com (Economics) – University of Cape Town**

Keith trained as an investment analyst before joining the music industry. Keith lectured and established various businesses and charitable organisations in the United Kingdom, where he was awarded an MBE in the Queen's 2002 Honours List for services to the Zimbabwe Trust. Keith chairs the group's audit committee.

**Dineo Molefe (Age 36)**
**INDEPENDENT NON-EXECUTIVE DIRECTOR**
**Appointed 11 September 2013**
**B.Compt (Hons) – Unisa; Masters' in International Accounting – University of Johannesburg; CA(SA); Advanced Management Program – Wharton Business School, University of Pennsylvania**

Dineo held various audit and finance positions at the Industrial Development Corporation, Eskom Holdings Ltd and SizweNtsaluba VSP. She is currently the group financial director of Thebe Investment Corporation. She serves on the boards of 24 subsidiaries, associates and investee companies of the Thebe Group, including Combined Motor Holdings Ltd and Accentuate Ltd. Dineo will be nominated to Spur's audit committee at the forthcoming annual general meeting.

**Mntungwa Morojele (Age 54)**
**INDEPENDENT NON-EXECUTIVE DIRECTOR; LEAD INDEPENDENT DIRECTOR**
**3 years' service**
**CA (Lesotho); Higher National Diploma in Business Studies – Farnborough College of Technology, UK; Bachelor's of Business Administration – University of Charleston, USA; M.Acc – Georgetown University, USA; MBA – University of Cape Town**

Mntungwa has established and managed various companies including Briske Performance Solutions and Motebong Tourism Investment Holdings (Pty) Ltd. He has served on the boards of Gray Security Services Ltd and the UCS Group Ltd. He was appointed to the Spur board in 2010 and appointed as lead independent director on 1 March 2011. He is also a member of the group's audit, remuneration, nominations and transformation committees and is chairman of the nominations committee from 5 September 2012.

# Key management

## Our team of dedicated and passionate people growing great brands

**Blaine Freer (Age 48)**
**GROUP DEVELOPMENT EXECUTIVE**

Blaine started his career as a waiter before moving into management and becoming a franchisee. He joined head office in 1998 and is responsible for the development of new restaurants and the relocation and revamping of existing outlets outside of the Western and Eastern Cape.

**Cobus Jooste (Age 37)**
**NATIONAL TRAINING EXECUTIVE**
**Certificate in Human Resources – Damelin**

Cobus started his career as a waiter. He was a manager at several outlets before taking on a training role for a large multiple-franchisee group. Cobus was recruited as the Gauteng regional training manager in 2005 and was promoted to national training executive in 2010.

**Derick Koekemoer (Age 43)**
**FRANCHISE EXECUTIVE: AFRICA**
**Diploma in business and financial management**

Derick trained as a chef during his national military service. He joined head office in 1996 as an operations manager and was promoted to a regional operations manager in Gauteng in 1999. Derick was involved in establishing the group's first outlets in the United Kingdom and Ireland. Since 2009 he has managed the group's expansion into Africa.

**Duncan Werner (Age 53)**
**GROUP PROCUREMENT AND DEVELOPMENT EXECUTIVE**

Duncan began his career in the packaging business. He joined Spur as a waiter in 1985 and moved to head office in 1988. Duncan is responsible for national procurement, Western and Eastern Cape development and menu engineering. He also oversees the group's sauce and décor manufacturing facilities.

**Etienne Ralphs (Age 43)**
**CHIEF OPERATING OFFICER: CAPTAIN DOREGOS TO 30 JUNE 2013**
**B.Sc. (Biochemistry and Microbiology) – University of Cape Town**

Etienne started his Spur career as a waiter in 1988. He managed and operated Spur restaurants before joining head office in 2002 as operations manager and subsequently as national marketing development manager. Etienne was appointed as chief operating officer for the Captain DoRegos brand on its acquisition by the group in March 2012. Julian Odendaal took over as chief operating officer of Captain DoRegos from 1 July 2013.

**Julian Odendaal (Age 37)**
**CHIEF OPERATING OFFICER: CAPTAIN DOREGOS FROM 1 JULY 2013**

Julian started his Spur career as a waiter in 1996, progressing to manager and then restaurant operator. He joined Spur head office as an operations manager in 2006 and was appointed as a regional manager for Gauteng in 2011. He was appointed chief operating officer of Captain DoRegos from 1 July 2013.

**Kevin Robertson (Age 47)**
**NATIONAL FRANCHISE EXECUTIVE**

Kevin joined Spur in 1987 as a waiter and was appointed to the board and as managing director of Panarottis Pizza Pasta Franchise in 1999. Kevin managed the group's operations in the United Kingdom from 2008 to 2011 and was appointed as a director of Spur Group (Pty) Ltd and national franchise executive in 2012. Kevin is responsible for managing the Spur South Africa inland operations and provides the board and other brand chief operating officers with strategic input.

**Leonard Coetzee (Age 40)**
**CHIEF OPERATING OFFICER: JOHN DORY'S**

Leonard started his career as a waiter in 1989 before becoming a restaurant manager. He joined head office in March 1996 and was promoted to regional operations manager for the KwaZulu-Natal region in 2003. Leonard assisted in opening restaurants in Perth, Dar Es Salaam, Reunion Island and Mauritius. He was promoted to chief operating office of John Dory's in February 2012.

**Patrick Lawson (Age 42)**
**GROUP BUSINESS INTELLIGENCE EXECUTIVE**

Patrick first joined Spur in 1998 as the Spur marketing brand manager and left in 2003 to join an international advertising agency working on a large retail food brand. Patrick rejoined Spur in 2009 as senior marketing brand manager, overseeing the Spur and Panarottis brands. Patrick was appointed as group business intelligence executive in 2011.

**Peter Wright (Age 62)**
**GROUP HUMAN RESOURCE EXECUTIVE**

Peter started as a waiter in 1975 and gained further experience at the Cape Town manufacturing facility, Midnite Grill and Hard Rock Café. He left the group for a period and returned in 1991 to develop the Panarottis business. Peter is currently head of human resources.

**Phillip Matthee (Age 35)**
**GROUP FINANCE EXECUTIVE**
**B.Com (Acc), Postgraduate Diploma in Accounting – University of Cape Town; CA(SA)**

Phillip completed his articles at KPMG in 2002. In 2004 he was appointed as group accountant for New Clicks Holdings before joining Spur in 2007 as new business development manager. In September 2008 Phillip was appointed group finance executive.

**Robin Charles (Age 39)**
**NATIONAL PROCUREMENT EXECUTIVE**
**National diploma in food technology – Cape Technikon**

Robin gained extensive experience in food technology, product research and development, quality management, logistics and warehouse management before joining the group in 2008 as logistics and quality assurance manager. He was promoted to national procurement executive in 2010.

**Sacha du Plessis (Age 35)**
**GROUP MARKETING EXECUTIVE**
**B.Com (Hons) (Business Management) – University of Stellenbosch**

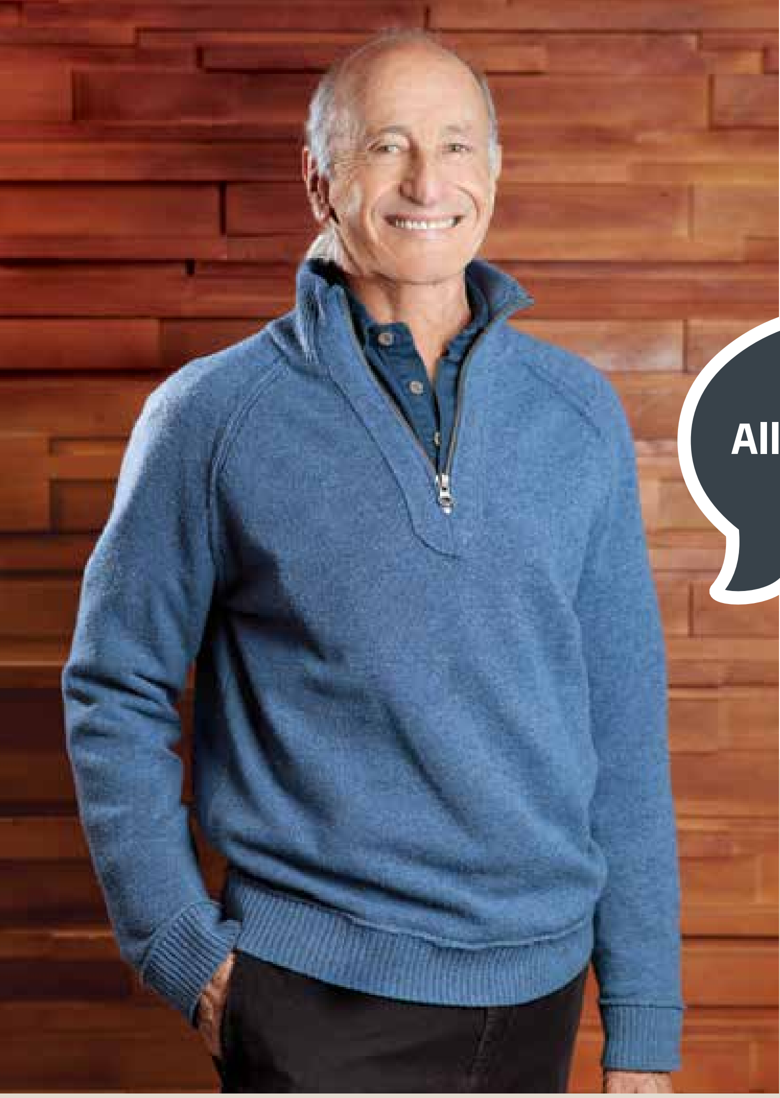
Sacha joined Spur in January 2007 as group marketing manager. Sacha is responsible for building a strong brand portfolio based on market strategies that explore consumer insights to deliver profitable turnover growth for the group's brands.

**Samkelo Blom (Age 41)**
**GROUP HUMAN RESOURCE AND TRANSFORMATION EXECUTIVE**
**B.A. – University of Cape Town, HR Diploma and Management Development Programme – Stellenbosch Business School**

Samkelo started his career in human resources specialising in 'learning and development'. He previously managed the learning and development functions at Old Mutual, Standard Bank, government and Media 24. Samkelo joined Spur in January 2013.

**Tyrone Herdman-Grant (Age 42)**
**CHIEF OPERATING OFFICER: PANAROTTIS**
**Diploma in business and financial management**

Tyrone started as a waiter in 1992 and moved into management one year later. Tyrone joined Spur group as an operations manager in February 1998. He was promoted to regional operations manager in 2000. He also assisted in opening Spur restaurants internationally. He was appointed as the chief operating officer of Panarottis Pizza Pasta in 2011.



# Interview with the chairman

## Allen Ambor

### What were the highlights for Spur Corporation this year?

I am particularly proud of the strong financial performance we produced, especially in light of the tough economic conditions around the world and in South Africa. With the country's major international trading partners still not really showing much in the way of recovery, the South African economy has done fairly well. However, the pressure on consumers is not letting up – electricity, fuel, wages and food have all increased significantly over the past few years and disposable income has been squeezed as a result. You can see this in the consumer confidence levels, which hit a nine-year low in the first quarter of 2013.

We also see the negative effects of rising costs on our franchisees. We have all worked hard to manage efficiencies so these do not have to be passed on to consumers. And of course, competition continues to increase; with many restaurants running concurrent specials, it is difficult to keep up foot traffic.

With that as a backdrop, I think growing total restaurant sales by 20.0% is quite an achievement. Our total revenue grew 29.7% and profit before tax increased 15.8% if you strip out the non-recurring items and look at comparable profit.

Headline earnings increased 20.6% to R134.8 million with diluted headline earnings per share growing by 22.4% to 156.6 cents. The total dividend for the year increased 27.6% to 111 cents.

Our expansion into the rest of Africa is developing nicely. We have opened another Spur in Kenya, a Panarottis Express in Mauritius and acquired two Spurs, one each in England and Ireland. This brings the number of company-owned outlets in the UK and Ireland to eight. We also rolled out new Captain DoRegos outlets in Namibia and Mauritius and these have been well received. In total, our international operations contributed 29.3% to total revenue.

Captain DoRegos is also bedding down well. Integration into the group is largely complete and we are seeing the synergy this brings as well as the benefits of bringing our established procedures into the outlets.

It is always nice to be recognised for our efforts and there were a number of accolades this year, including the Best Family Sit-down Restaurant and Coolest Place to Eat Out awards. Building our brands is something that is close to my heart, so I was particularly happy when one of our advertisements won the Best Liked Television Ad for 2012.

### How would you define the group's approach to governance and sustainability?

We continually refine our governance structures to align with the principles of King III. We believe in keeping as much of our entrepreneurial culture as possible while making sure we can demonstrate good corporate governance. We apply the principles where we feel these are in the best interests of our stakeholders and explain instances where we have not. (Please refer to the table on page 64). After year-end we appointed another independent non-executive director, Dineo Molefe, and she will be nominated to the audit committee to strengthen our governance structures further.

We also moved forward on a number of the broader sustainability issues this year. Setting up the Spur Foundation to coordinate our ongoing corporate social investment activities is a definite highlight. We appointed a senior executive to drive transformation in the group, which shows our seriousness about improving our BBBEE credentials.

We also launched a toolkit to deepen franchisee and employee understanding of environmental issues, why these are important concerns and what practical steps they can take to make a difference.

### What could have gone better?

No business is perfect and we are no exception. Conditions in Australia continue to be tough. Ireland and the UK have done well in quite challenging times. While I think we have made good progress in establishing capable teams and deepening our understanding of these markets, that is not fully showing in the results just yet.

We did not open as many new outlets as we planned. We opened 11 new Captain DoRegos outlets in South Africa but had to close 13 that were not ideally located. There were also delays in a few planned restaurants elsewhere in Africa, although these should be caught up in the coming year. Our strategy remains to strengthen our presence in the countries in which we already trade so that we can build efficiencies.

Adtrack: Best Liked Television Advertisement 2012 – Sign Writing (Spur)

## How is Spur today different to when you started in 1967?

I think there are many more similarities than differences, really. It is still all about the customer. We have been able to grow in such tough times because we continue to offer great food at excellent value, especially through our breakfasts and weekly specials.

Our ongoing programme of "re-energising and revamping" ensures that our customers eat in comfortable and fun surroundings – and of course the kids' play centres mean the whole family gets to enjoy their time in our restaurants.

We use the best-quality ingredients and invest heavily in training so that our food is perfectly prepared and served with a smile. Our customers come back for the consistent value and great food we offer and we reward their loyalty through our loyalty programmes.

Our unique range of sauces, bastings and thus tastes, which are only available at Spur, play their part in pleasing our customers and bringing them back for repeat visits.

Word of mouth has always been a big deal. It has always been a crucial factor in ensuring our ongoing success, as the loyalty and trust that word of mouth promotes is believed far more than advertisements. That being said, good advertising that contains a ring of truth, while also being humorous and even quirky, certainly plays its part in attracting customers and building brands. Social media is the same thing – it spreads quickly and reaches a wide range of people.

We have invested in our customer care centre and brought it in-house so that we can make sure our customers get the right response when they try to get hold of us. We have a resource dedicated to social media – we welcome all opinions and we aim to make sure that all the facts are on the table when people need them.

## Where would you like Spur to be in five years' time?

I would like to see us having expanded into Africa in a more substantial way. I would like to have further diversified our product offerings – this will be done organically. But should good opportunities for acquisitions present themselves we will certainly consider them – we have shown that we are happy to take that route.

The investment in our manufacturing facilities and commissioning of our bottling plant is also an important step for the group. We have expanded sauce manufacturing for third parties and I would like to see us realising the potential in our manufacturing facility in a bigger way.

And, of course, we will still be giving our customers the same great food and service they expect, across all our brands.

## Is there anybody in particular who you would like to thank?

While one can be tempted to single out individuals, I believe that we have built a strong and capable team over the years. Our chief executive officer, Pierre van Tonder and his executive management team have a wealth of industry experience and knowledge. I would like to thank them for their dedication and passion during the year. I also want to thank all of our employees for the hard work they continue to put in that enables us to achieve these pleasing results.

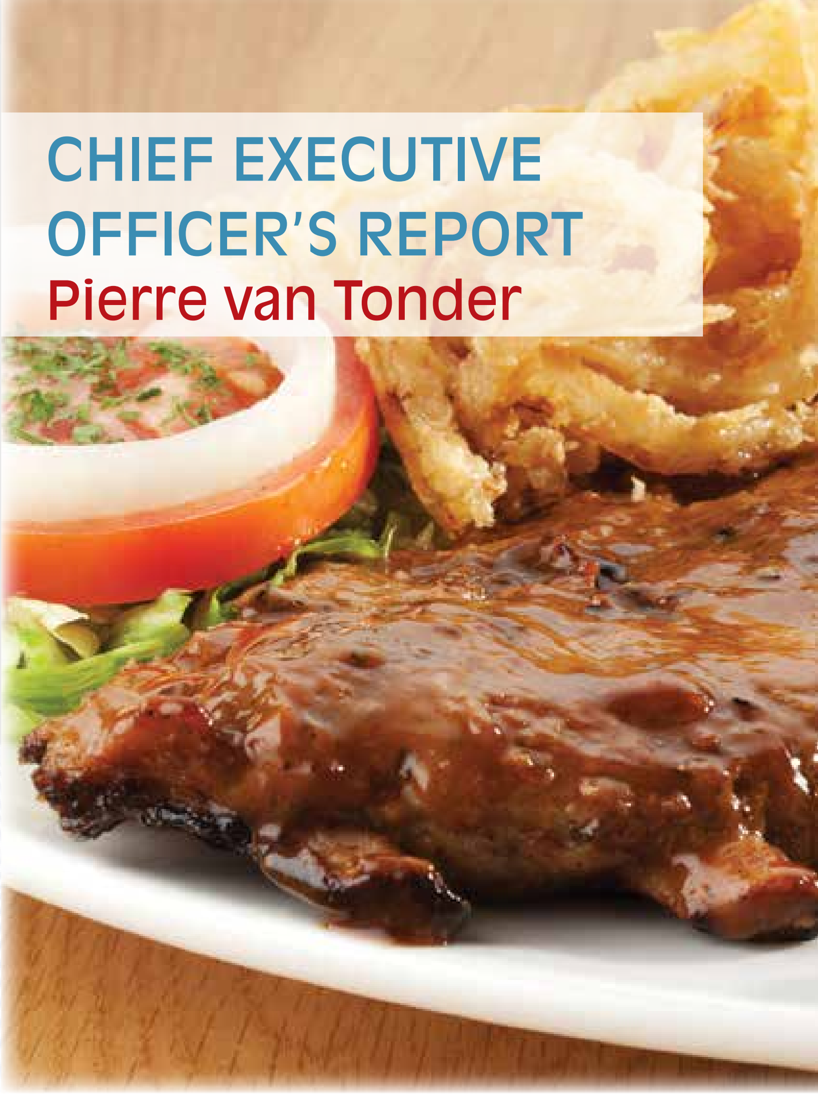
Our franchisees, suppliers, business partners and advisors are all critical to our ongoing success as a business. My thanks go to them for their support. I would also like to thank our shareholders and the investment community for their interest in our company.

After 46 years, our business continues to be all about our customers. We thank them for choosing us in these challenging economic times and for making our restaurants their first choice eating out experience.

**Allen Ambor** EXECUTIVE CHAIRMAN

# CHIEF EXECUTIVE OFFICER'S REPORT

## Pierre van Tonder



*This chief executive officer's report discusses our performance during the year across our financial and non-financial material issues. A more detailed review of each trading division follows on page 28.*

The 2013 financial year was another difficult trading year in the local food sector. Consumers' disposable income remains constrained by escalating electricity prices, transport costs and the broader general rise in the cost of living. Competition in the food sector intensified with restaurants and quick service restaurant operators discounting aggressively and non-traditional competitors making inroads into the market.

Our response has been to attract customers through innovative marketing and aggressive promotions and by ensuring that we manage our costs through sound operational disciplines. These actions have to be balanced against the need to ensure our franchisees can continue earning a good return on their investment.

### Group performance

The group produced a good set of results, especially in the context of the challenging operating environment. Revenue grew by 29.7% to R653.0 million and profit before income tax from local operations increased 18.3% to R203.1 million. Comparable profit, which excludes exceptional and one-off items, rose by 15.8%.

The inclusion of the Captain DoRegos distribution centre for the full 12 months boosted turnover but reduced the group margin, due to thin margins in that business. Margins for the local Spur and Panarottis franchise businesses remained relatively stable while John Dory's and Captain DoRegos improved.

### Local divisional performance

*Spur Steak Ranches* performed exceptionally well again this year, with restaurant turnover increasing 15.2% and turnover from existing business increasing 13.0%. Our menu price increase was contained to 3.6% despite the high levels of food price inflation over the past year. Franchise revenue increased by 15.5% to R179.5 million and profit before tax increased by 16.4% to R158.8 million.

Our franchisees invested approximately R40 million on 55 revamps, we opened 14 new outlets in South Africa and customers continued to respond well to our marketing initiatives and specials.

*Panarottis Pizza Pasta* traded strongly and is starting to deliver on its potential. Local restaurant sales increased 31.4% on the back of turnover growth of 22.4% from existing outlets. Franchise income increased 28.9% to R16.7 million and profit before tax was R9.9 million, an increase of 25.5% on the prior year. We opened 10 new restaurants and refurbished seven outlets.

*John Dory's Fish Grill Sushi* had a reasonable year with total restaurant sales increasing 11.4% and the division's contribution to group profit before tax increasing 13.9% to R6.6 million. Existing restaurant turnover increased by 9.3% and franchise revenue increased 5.6% to R11.7 million. We opened two outlets during the year, six less than our target for 2013 due to delays in some of the opportunities identified. Our focus was on operational standards and refining the business model to solidify the platform for future growth. With a settled management team and customers recognising the excellent value in our weekday campaigns, we are looking forward to a strong performance in the coming year.

*Captain DoRegos* generated restaurant sales of R191.1 million and depot sales of R72.6 million in its first full year as part of the group. Franchise revenue totalled R9.1 million for the year and the brand contributed R3.8 million to group profit before tax. Eleven new outlets were opened and 13 underperforming outlets were closed. Integration into the group is substantially complete and the division is already seeing the benefits of the group's scale and infrastructure.

*The manufacturing and distribution* division grew revenue by 49.6%, boosted by the inclusion of the Captain DoRegos distribution centre for the full year. Manufacturing highlights include the upgrade of the sauce manufacturing facility, the commissioning of the group's new bottling plant, continued refinement of occupational health and safety programmes in the manufacturing facilities and the increased range of John Dory's, Captain DoRegos and third party sauces manufactured.

## International

In general, the international operations traded well, with restaurant turnover growing by 24.7% in rand terms. This was supported by the weakening of the local currency against major currencies over the year. Total restaurant sales in local currencies increased 14% although trading conditions remained subdued in Australia. The group acquired two previously franchised outlets, one each in England and Ireland, and the costs associated with the temporary closure and revamp (which could not be capitalised in terms of IFRS) of these two restaurants offset a stronger performance in the rest of the UK business.

The international operations produced a pre-tax loss of R8.0 million compared to a R3.4 million profit in the prior year. Excluding foreign exchange differences, the impact of impairments and other one-off items, the international business contributed R4.5 million to profit before tax, relative to the previous year's comparable profit of R1.8 million.

## Local restaurant revenue growth

We opened 37 new outlets in South Africa during the year under review. Our development team works closely with property developers and landlords to identify good sites for our outlets and matches these to promising prospective and existing franchisees. We continue growing our business intelligence capabilities and make extensive use of market research to understand our customers better and ensure we stay abreast of the latest trends in consumer tastes. Our loyalty programmes, promotions and menu engineering help to increase footfall and spend per head.

## Sustainable local franchise model

We are constantly mindful that franchisee profitability is the core of our business. While aggressive promotions and specials may attract customers, increased revenue at the cost of profitability is not sustainable.

Businesses in South Africa face increases in electricity, property taxes, gas, fuel prices and inflationary pressure, and our franchisees are no exception. We constantly look for ways to refine our business model and increase efficiencies to protect margins in our restaurants. We rolled out three smaller format Spur outlets during the year and four Panarottis Pizza Express outlets.

Countries in the rest of Africa offer a good opportunity to enter higher growth markets although each market brings its own particular challenges. Adding Captain DoRegos to our brands positioned us to target a lower LSM (living standards measure) market compared to our other brands and new outlets continue to be received well, both in South Africa and in other countries.

While recent returns from our established retail and franchise businesses in the UK, Ireland and Australia have been subdued, we believe these markets are showing signs of recovery. Our business models and management teams are well established and positioned to benefit when this happens.

We opened four new outlets during the year – one each in Kenya and Namibia, and two in Mauritius – and converted two franchise outlets in Ireland and the UK into retail outlets. Several openings were delayed during the year and we expect these to take place in 2014.

## Sustainable supply of raw materials

As responsible corporate citizens, we ensure that we source our raw materials from responsible suppliers who use sustainable production methods. Supply disruptions, whether from climate change, labour unrest or any other source, could affect our business not only through shortages of materials but also, and more immediately, through increased prices that will affect franchisee profitability. We continue evaluating our suppliers' sustainability and contingency plans through regular procurement department inspections.

## Product responsibility

We are only ever as good as our last meal. Therefore, food safety and quality are critical concerns for the Spur group. We ensure that our suppliers, distributors and our manufacturing facilities meet the highest standards of food safety and that we train restaurant employees in food safety. Over 90% of our suppliers are HACCP and/or ISO 22000 compliant and we are engaging with the remaining suppliers to ensure they become compliant. Our recommended suppliers are selected on the grounds of their ability to deliver consistently to our high specifications. Monthly quality and hygiene reviews are conducted at every outlet by our operations management teams.

## The Spur Foundation ("the Foundation")

We believe in social investment that makes a meaningful difference to the communities around us. As such, the Foundation was established during the year as the new focal point for the group's corporate social investment activities. The Foundation's motto is 'Nourish, Nurture, Now!' and this is reflected in the range of initiatives that focus on feeding children in impoverished communities and providing basic necessities and amenities.

The group also supports numerous community-focused events that aim to promote a healthy lifestyle and give people a 'taste for life'.

## Transformation

As a proudly South African company, we support the principle of transformation and the ideals that underlie it. Our transformation strategy aims to demonstrate this commitment through the transformation of our workforce over time. We are currently an externally verified level 8 BBBEE contributor and have put plans in place to improve this rating. During the year, we appointed a transformation executive to drive the process in the company.

## Skills development

We see the range of training programmes that we offer our franchisees, their managers and their employees as one of our competitive advantages. These practical training courses cover areas such as food preparation, food safety, customer service, restaurant management, people management and financial management. We trained 7 220 people during the year.

The Spur College of Excellence continues going from strength to strength, and 13 delegates graduated during the year. The College was established in Johannesburg in 2011 and this year expanded to Cape Town. We believe the skilled graduates produced by the College will be an important key to the transformation of our franchises and our business.

## Environment

Our commitment to creating a sustainable business means that we take environmental sustainability very seriously, not only in our own corporate offices, but also in our restaurants. Although we cannot dictate to our franchisees, we can use our influence to encourage sustainable practices, especially where these have a demonstrable financial benefit.

We launched the Green Economics Toolkit to educate and inform our employees and franchisees about sustainable business practices and to offer practical tips on minimising electricity use, water consumption and waste production.

We continually improve the collection of sustainability data at our offices to understand our current usage and to put realistic targets in place. Both the Cape Town head office and the Durban regional office underwent full energy retrofits during the year. Waste management and eco-friendly packaging are two focus areas and more than 90% of the waste produced by head office was recycled during the year.

## Thanks

I would like to thank all employees of the group for their hard work and dedication during the year. I would also like to thank our business partners – our franchisees and suppliers – for their commitment and support. Special thanks go to my colleagues on the board for their guidance and assistance over the past 12 months. On behalf of the Spur group, I would like to thank our loyal customers for their continued support.

Pierre van Tonder GROUP CHIEF EXECUTIVE OFFICER

# OPERATIONS REPORT

SPUR SPECIALS

SPUR'S UNREAL BREAKFAST

MONDAY BURGER (BUY ONE GET ONE FREE)

KIDS EAT FREE WEDNESDAYS

THURSDAY BOTTOMLESS RIBS AND WINGS

## Spur Steak Ranches

### A TASTE FOR LIFE

Spur Steak Ranches have been part of the South African family since 1967. We are a family-oriented chain of steakhouses that promises a warm, relaxed, family-friendly environment, generous portions of great tasting food and a hearty helping of quality.

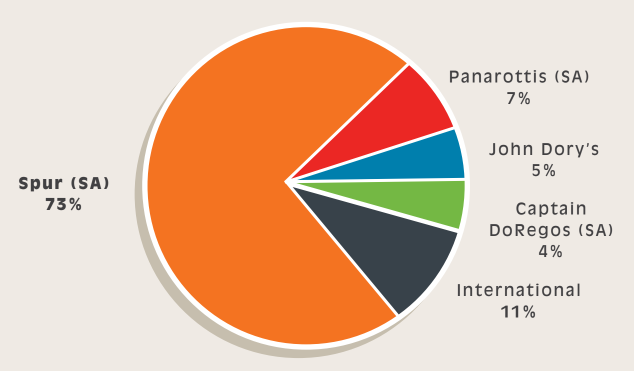
Despite challenging economic conditions and fierce competition, Spur South Africa produced an exceptional result, with total restaurant turnover increasing 15.2% to R3 554 million (2012: R3 085 million). Existing restaurant turnover grew 13.0% (2012: 11.7%). This turnover growth was achieved despite a below-inflation menu price increase of 3.6% in November 2012. Franchise income increased 15.5% and the division contributed R158.8 million to group profit before tax – an increase of 16.4% on the 2012 financial year.

Costs were controlled and the division continues to benefit from the stringent enforcement of standards across the group, our menu positioning and the success of Spur's Unreal Breakfast campaign. Marketing support was a critical factor, delivering effective regional marketing initiatives. Our weekday specials boost trading in traditionally quieter periods and appeal to consumers looking for great food at excellent prices.

During the year, we opened net 13 new restaurants, bringing the total number of outlets to 267, and relocated three restaurants to better trading locations. Our franchisees invested approximately R40 million in 55 revamps, realising significant benefits from increases in monthly restaurant turnovers as a result. Strategic relocations, refurbishments and installation of new kids' play areas will continue in the year ahead.

Uptake of Spur's Family Card exceeded our expectations once again with membership reaching just under 1.4 million by year-end. By June 2013, Family Card holders accounted for 38.3% of all sales, they visited our restaurants more frequently than non-card holders and spent 27.6% more per visit on average. Our business intelligence processes are maturing, enabling us to start tailoring our offering according to customer behaviour and we are planning an exciting digital launch of the card towards the end of 2013. Technical challenges delayed the launch of the gift card and this will now be launched during the 2014 financial year.

RESTAURANT TURNOVER 2013

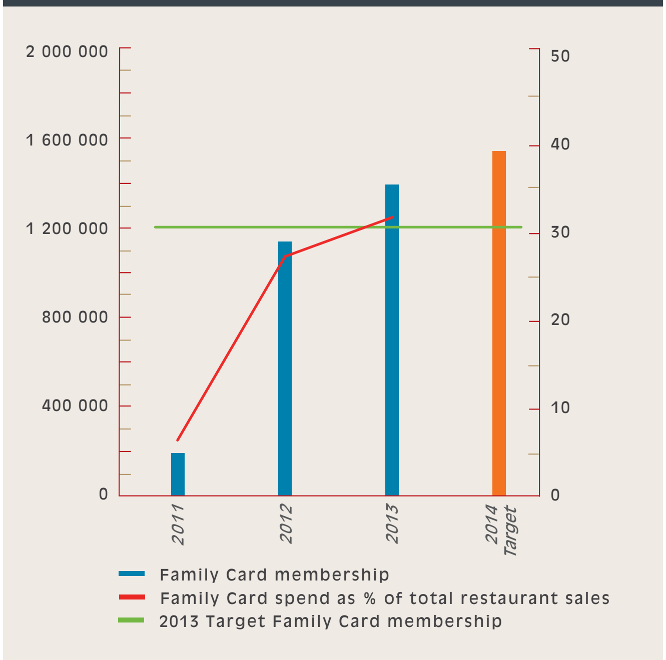



## SPUR RESTAURANT TURNOVER (R'm) AND EXISTING RESTAURANT TURNOVER GROWTH (%)



## SPUR SOUTH AFRICA RESTAURANTS


## SPUR FAMILY CARD MEMBERSHIP AND % SPEND




## Goals for 2014

| SPUR |
|---|
| Open six new outlets |
| Relocate/revamp 45 outlets |
| Continue to promote weekday specials |
| Implement an innovative lunchtime offering |
| Further entrench breakfast market presence |
| Focus marketing on product credentials (quality and value proposition) |
| Ongoing rollout of smaller model outlets in appropriate locations |
| Continued community involvement |
| Enhance loyalty offering |

* Full details of our historic performance and goals are available in the key performance indicator table on page 39 of this report.


# Panarottis Pizza Pasta

## BIG ON FAMILY. BIG ON PIZZA

Panarottis is well known for its generous portions, handmade pizzas, freshest ingredients and warm, family-friendly atmosphere.

Panarottis produced an excellent performance with overall restaurant turnover increasing 31.4% to R351.5 million (2012: R267.6 million). Growth in turnover at existing outlets rose 22.4%, well ahead of our target for the year of 10.9%. This strong result was driven by the ongoing revamps of existing outlets, continuing rollouts of kids' facilities and a strong focus from both franchisees and head office on promoting our weekday and breakfast specials.

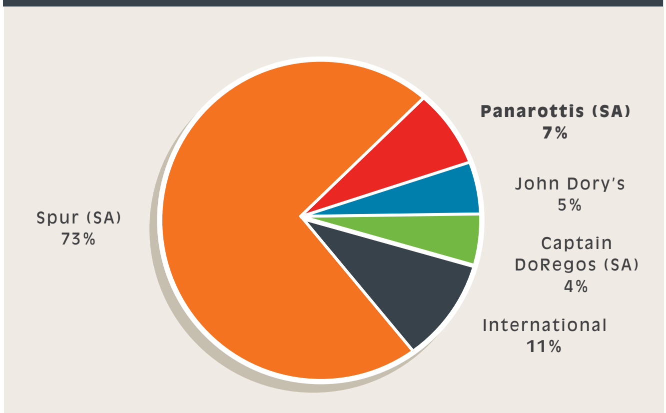
Franchise income increased 28.9% to R16.7 million (2012: R13.0 million). The division contributed R9.9 million to group profit before tax, an increase of 25.5% on 2012.

There was a strong focus on improving franchisee profitability during the year, including increasing turnover, reducing gas and electricity usage and refining the menu to lower labour costs and improve operational efficiencies. We continually refine the business model to serve our customers better and to optimise turnover and franchisee return on investment.

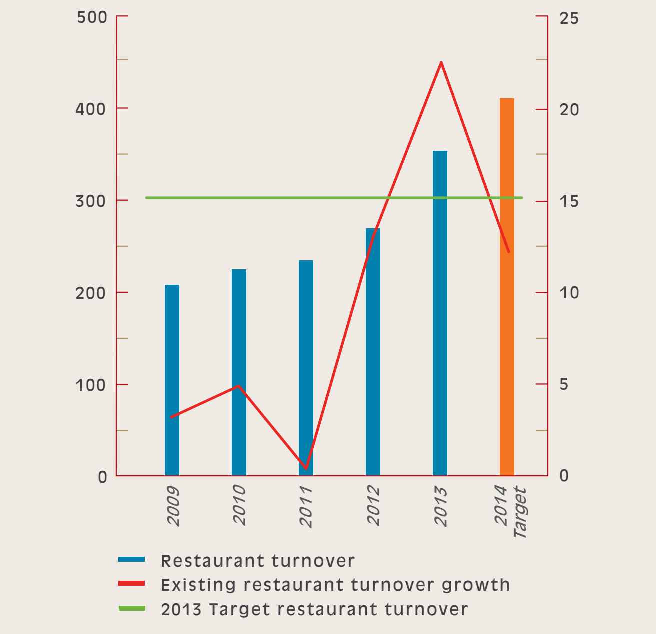
The new restaurant design has given the brand a fresh and modern look and has been well received by both the public and landlords. We conducted countrywide road shows with key landlords and this, together with the strong performance of our restaurants, has entrenched our ability to secure good sites and match these to suitable franchisees.

We opened net five new sit-down restaurants and four Panarottis Pizza Express outlets during the year, bringing the total number of outlets to 61 at year-end. Seven restaurants were revamped to the new design during the year.

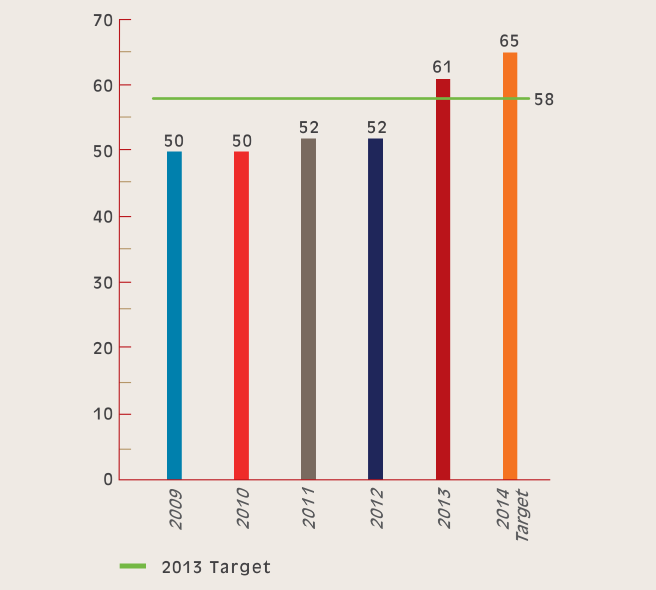
RESTAURANT TURNOVER 2013




## PANAROTTIS RESTAURANT TURNOVER (R'm) AND EXISTING RESTAURANT TURNOVER GROWTH (%)




## PANAROTTIS SOUTH AFRICA RESTAURANTS




# Goals for 2014

| PANAROTTIS |
|---|
| Opening two new restaurants and three new Panarottis Pizza Express outlets |
| Relocating/revamping 12 outlets |
| Promoting our weekday specials and breakfast offering |
| Launching our new menu using imported high-quality Italian ingredients |
| Expanding our delivery business |
| Expanding the slice bar and take-away offerings |
| Refining the business model, running product workshops and training |
| Focused approach to 'big on family, big on pizza' |
| Greater community involvement |
| Implementing a loyalty programme |

* Full details of our historic performance and goals are available in the key performance indicator table on page 39 of this report.


# John Dory's

## FISH • GRILL • SUSHI

John Dory's is predominantly a seafood restaurant well known for its distinctly Mediterranean culture, charisma and family appeal.

John Dory's restaurant turnover grew by 11.4% to R247.1 million (2012: R221.8 million) with existing restaurant turnover increasing 9.3% on the prior year. Franchise revenue rose 5.6% to R11.7 million (2012: R11.1 million) and the division's contribution to group profit before tax increased 13.9% to R6.6 million.

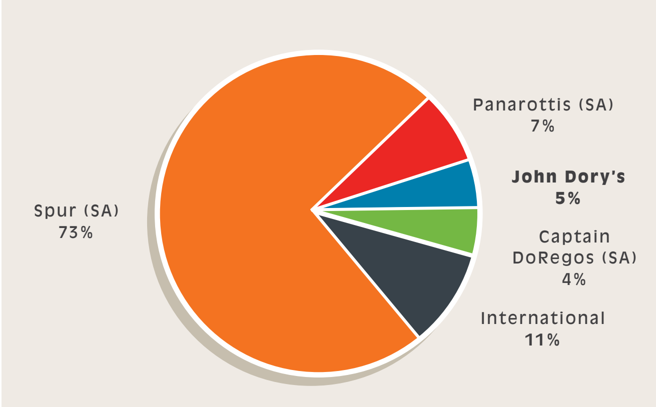
The focus this year was on overhead disciplines, accurate labour scheduling and stringent food cost maintenance which enabled us to remain lean in the current challenging economic climate. We concentrated on maximising operational efficiencies, especially during the weekday value campaigns, to improve customer experience and reduce costs.

Training interventions focused on development of management and front-of-house employees, as well as management training at our dedicated training outlets. Our new menu and wine list has been well received and keeps the upmarket feel while ensuring consistency across our restaurants.

As a brand, we are constantly looking for opportunities to instil good sustainability practices in our franchisees, employees and customers. We deepened our relationship with the Southern African Sustainable Seafood Initiative ("SASSI") to ensure responsible sourcing of seafood. We were the first sit-down restaurant group to list the sustainable range of Tangle Tree wines. We reduced light box signage in our restaurants by 50%, and continue to investigate energy saving initiatives and recycling opportunities.

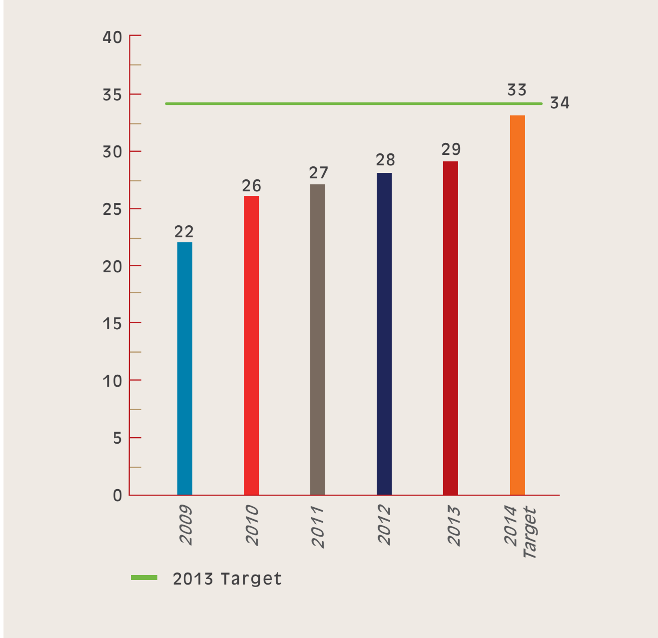
John Dory's branding was revised and rolled out to all outlets. We opened two new restaurants in 2013, ending the year on 29 which was below our target of 34. This was mainly due to delays in the construction of shopping centres where new outlets are planned, but we anticipate these to be completed in the year ahead. Six outlets received full revamps and three undertook minor revamps. We continued to install live oyster tanks and kids' play facilities in our restaurants.

**RESTAURANT TURNOVER 2013**




JOHN DORY'S RESTAURANT TURNOVER (R'm) AND EXISTING RESTAURANT TURNOVER GROWTH (%)


JOHN DORY'S RESTAURANTS





## Goals for 2014

| JOHN DORY'S |
|---|
| Open four new restaurants |
| Revamp/relocate eight outlets |
| Continue to promote our weekday specials |
| Focus on improving our kids' offerings |
| Rejuvenate the brand's vibe and spirit of generosity |
| Create national marketing exposure |
| Improve our operational disciplines |
| Increase community involvement |
| Enhance our loyalty offering |

* Full details of our historic performance and goals are available in the key performance indicator table on page 39 of this report.


# Captain DoRegos

## IT'S ALL GOOD

Captain DoRegos serves quality, quick-service food at an affordable price. We are the "fundies" when it comes to whipping up delicious value-for-money meals in a flash that you can enjoy as a take-away or in a comfortable sit-down environment.

Captain DoRegos outlets delivered R191.1 million in turnover in their first full year of trading in the group, compared to R59.9 million for the four months of inclusion in 2012. Turnover for the year was slightly lower than we had targeted as we focused on optimising outlet positioning and the customer value proposition in an intensely competitive and price-sensitive market. Franchise revenue for the year was R9.2 million compared to R2.5 million for the four months to June 2012. The division contributed R3.8 million to group profit before tax compared to R0.9 million for the partial period in 2012.

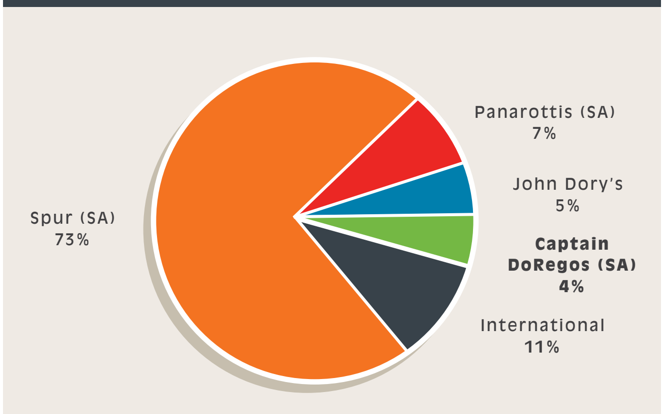
Our focus this year was on integrating the division into the group to leverage the economy of scale of the group shared infrastructure and further entrenching group processes and controls into the division. Spur operations management teams are assisting to service restaurants in outlying areas.

The new menu launched during the year has been well received and we are currently analysing sales data to ascertain product performance to inform future menu offerings. The results of our market research last year showed that there remains a strong affinity to Captain DoRegos among consumers and the name of the division was changed to reflect this.

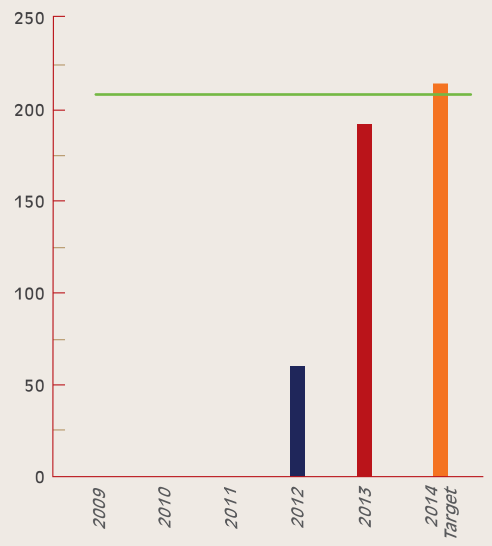
We opened 11 outlets during the year, eight in Gauteng, two in KwaZulu-Natal and one in the Eastern Cape. The division ended 2013 with a total of 72 outlets, two less than the prior year due to the planned closure of several outlets.

In the year ahead, we plan to upgrade all intellectual property, décor, uniforms and signage in the division. We will also be refining the processes in place to ensure consistent product quality and improved service. We plan on revamping seven outlets to bring them into line with the refreshed look and feel and we will test new products in specific regions to ensure we remain competitive in our target market.

RESTAURANT TURNOVER 2013



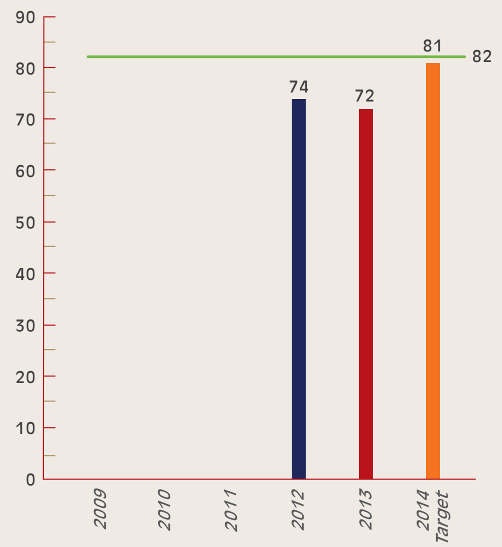

### CAPTAIN DOREGOS RESTAURANT TURNOVER (R'm)*




— 2013 Target

* Acquired March 2012

### CAPTAIN DOREGOS RESTAURANTS*




— 2013 Target

* Acquired March 2012

## Goals for 2014

| CAPTAIN DOREGOS |
|---|
| Open 11 new restaurants |
| Revamp/relocate seven restaurants |
| Enhance our value-added campaigns |
| Increase focused regional media exposure |
| Further entrench group disciplines and procedures |
| Upgrade and standardise the brand's look and feel |
| Train employees to enhance customer experience |
| Improve business intelligence |
| Increase community involvement |

* Full details of our historic performance and goals are available in the key performance indicator table on page 39 of this report.

**50**
**restaurants internationally**

36 Spur Steak Ranches
12 Panarottis Pizza Pasta
2 Captain DoRegos

# International operations

There are 50 restaurants in the group's international division, comprising 36 Spur Steak Ranches, 12 Panarottis Pizza Pasta outlets and two Captain DoRegos outlets. These restaurants are spread across Africa, Australia, the United Kingdom and Ireland, Mauritius and the Middle East.

The company took over the previously franchised Spur outlets in Staines (England) and Dublin (Ireland) during the year; as a result, all eight Spurs in the UK are now retail outlets. In addition to the three retail outlets in Australia, there are three franchised and one partly-owned (equity-accounted) outlets. The other international outlets are all franchised.

Total restaurant turnover in the international division increased 24.7% to R515.7 million, supported by the weakening of the rand against major currencies. Total sales in local currencies increased by 14.0% and by 7.7% in existing outlets as the performance of the UK operations improved steadily. The trading conditions in Australia remain subdued. Revenue (comprising franchise fees and sales from company-owned retail outlets) increased 32.8% to R191.4 million (2012: R144.0 million), benefiting from the two additional retail outlets in the United Kingdom and Ireland. The temporary closures of these two restaurants and the related initial one-off set-up costs associated with these businesses offset a stronger performance in the UK division. The subdued trading conditions in Australia resulted in the board making the prudent decision to impair the assets of the Panarottis outlet in Tuggerah, Australia.

Operating profit from the international divisions, excluding foreign exchange differences, impairments and other one-off items in the current and prior years, increased from R1.8 million to R4.5 million.

## THE UK AND IRELAND

Our outlets in the UK and Ireland traded strongly despite household disposable income coming under severe pressure from government austerity measures. Average monthly turnover increased by 10% on the prior year in pound sterling. Profitability was negatively affected by significant cost increases in food ingredients. Our young management team is developing well and we will continue consolidating our position in the region.

## AUSTRALIA

The trading environment remained tough, but the final months of the financial year showed the first signs of a turnaround. Turnover was marginally up for the year in Australian dollars. All restaurants are operationally sound and overheads are well controlled. Labour costs are a significant challenge due to the high cost of labour in Australia, and these costs make up a significant portion of total costs. We continue to investigate innovative ways of controlling labour costs and have appointed a labour analyst to identify labour-saving strategies and technological innovations that can streamline processes, speed up service and improve waitron productivity.

We will continue focusing on entrenching quality and service standards, managing labour costs and improving profitability for our restaurants in the year ahead. We continue to investigate viable sites for franchise expansion with two franchised sites due to open in the year ahead.

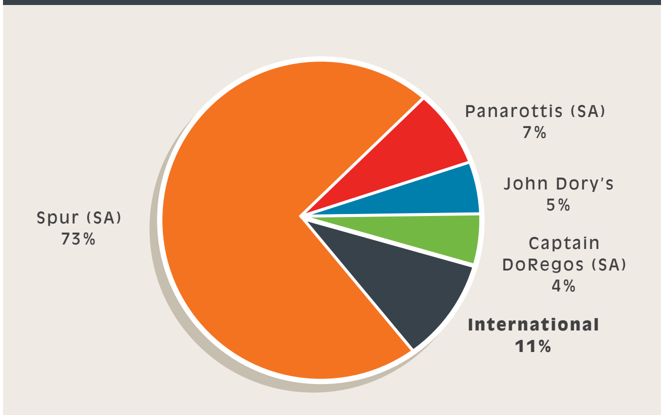
## AFRICA AND MAURITIUS

Revenue growth benefited from the large number of new franchises opened in Africa and Mauritius in 2012, although developmental and logistical delays affected certain planned restaurant openings in the current year. We opened a Spur in Kenya, a Panarottis Express in Mauritius and Captain DoRegos outlets in Mauritius and Namibia. There are a number of outlets due to open in 2014 including in Swaziland, Nigeria, Tanzania, Namibia and the Seychelles.

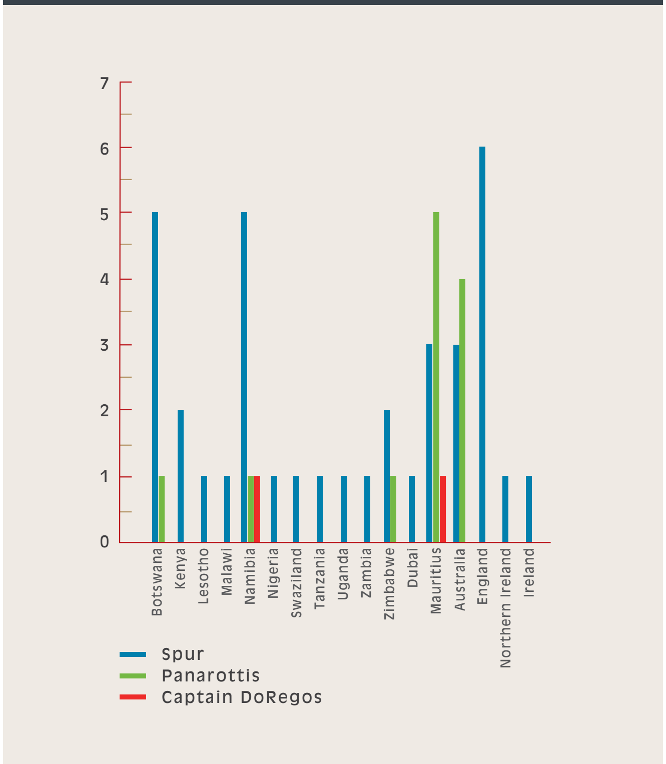
Our strategy is to grow in existing territories to allow for the development of improved logistics, pricing and raw material efficiencies. We have added resources to our African management team. The two new Captain DoRegos have been received well and we believe that there is a large market for this offering in Africa. We continue to review our traditional models to adapt these to the higher set up, occupancy costs and other challenges we encounter in certain countries in Africa.

National marketing funds have been set up in Namibia, Mauritius and Botswana and are beginning to show the necessary results. We still focus on improving facilities across these restaurants through renovations and revamps and are improving kids' play areas.

## RESTAURANT TURNOVER 2013




## RESTAURANTS BY BRAND AND COUNTRY




# Manufacturing and distribution

## MANUFACTURING

The group manufactures many of its unique sauces at the sauce manufacturing facility in Cape Town. During the year, the upgrade of the sauce factory was completed and a new bottling plant commissioned. The new bottled BBQ and Salad Dressing table sauces have been well received at restaurants and align with international trends in food health and safety. Sales of our iconic Spur sauces, which are sold through select retail outlets, increased 22.3% in the current year.

The sauce manufacturing facility produced nearly 5 million litres of sauce during the year and more John Dory's and Captain DoRegos sauces are being added. The group also manufactures sauces for external parties under licence as a way to increase volumes through the factory and increase efficiencies. The factory was audited for HACCP compliance and recertified for a further three years.

## DISTRIBUTION

The group uses an outsourced distributor to handle supply chain logistics between our suppliers, our manufacturing facilities and our franchisees. This allows us to focus on our core competency of franchise management while ensuring security of supply and consistent quality of products in our restaurants. This approach also enhances operating standards and improves efficiencies for the group and franchisees alike.

The role of the group's procurement division is as follows:

- Managing the relationship between franchisees, suppliers and the outsourced distributor
- Negotiating the best price for the best quality materials with suppliers by exploiting the group's national purchasing footprint
- Performing quality and food safety audits on suppliers and the outsourced distributor
- Sourcing and investigating new, sustainable products and suppliers.

The group margin on the volumes sold through the distributor, the Cost of Integration ("COI"), for the services provided to franchisees is on average 3%. This margin contributes towards the costs of providing the above services.

As part of the Captain DoRegos acquisition, the group acquired a distribution centre in Bloemfontein. This distribution centre warehouses a significant portion of the goods supplied to Captain DoRegos franchises including fish, chicken and burgers. The distribution centre charges franchisees a logistics fee of an average of 15% of the cost of the items delivered.

Manufacturing and distribution revenue increased 49.6% to R213.7 million, although this increase is distorted by the inclusion of the Captain DoRegos distribution centre for a full 12-month period compared to four months from acquisition in 2012. Excluding the Captain DoRegos depot, manufacturing and distribution revenue increased 18.2% to R141.1 million and contributed R57.6 million to group profit before tax. The Captain DoRegos depot generated revenue of R72.6 million in 2013 and R1.9 million in profit before tax.

The group's outsourced distribution partner delivered more than 4.6 million cases to outlets during the year, an increase of 12.1% on the prior year. This increase is due to increased restaurant turnover, new products added to the distribution basket and a continued increase in franchisee participation.

# STRATEGY, RISKS AND KEY PERFORMANCE INDICATORS ("KPIS")

## Strategy

Our vision commits us to being a sustainable business that makes a positive and lasting difference in the lives of our employees, franchisees, communities and the environment. Close to 90% of our EBITDA comes from the franchise fees we receive, which comprise a percentage of franchisee turnover. We receive a margin of around 3% on supplies sold through our distributor. We also earn income from our majority-owned international restaurants and sauce manufacturing facility. Our long-term ability to deliver sustainable value to our stakeholders is therefore inextricably tied to the success of our franchisees.

Our growth strategy targets continued growth in both local and international restaurants across our brands. This growth can occur both organically and by acquisition. While we have a strong statement of financial position, we will only make an acquisition where this creates overall shareholder wealth and return on equity rather than merely increasing profits.

Ensuring that our franchisees can build great businesses is important to us and we work closely with them to ensure that they are trading from viable sites, their employees are well trained, they have the correct procedures in place to operate efficiently and that they receive the best quality ingredients they need to prepare great tasting food.

Customer satisfaction is another critical area of focus. As mentioned before, we believe we are only as good as our last meal – a bad experience at one of our restaurants can damage the trusted brands we have worked so hard to establish. We offer comprehensive training to the employees at our franchises to ensure excellent service and food preparation.

Our sustainable procurement procedures and focus on product quality are also crucial to our continued success. We also take our responsibility to run an environmentally responsible company extremely seriously and this can be seen in our approach to our suppliers, logistics and the efficient use of resources at both our corporate offices and at our franchisees' restaurants.

Our vision of being passionate people also drives our approach to social sustainability, including our investments in the communities around us through the Spur Foundation, our commitment to Broad-based Black Economic Empowerment and the way in which we interact with our own employees.

SUSTAINABLE LONG-TERM RETURNS

GROW LOCAL RESTAURANTS

SUSTAINABLE BUSINESS PRACTICES

SUSTAINABLE LOCAL FRANCHISES

GROW INTERNATIONALLY

# Key performance indicators ("KPIs")

Spur Corporation adds value in many ways through the brands it manages. For over 40 years, our restaurants have produced great meals at exceptional value in a unique family-oriented setting. The group has also provided employment to thousands through its franchises and corporate offices. Our close relationships with our suppliers support South African businesses.

| KPI | 2010 | 2011 | 2012 | TARGET 2013 | 2013 | TARGET 2014 | TARGET 2018 |
|---|---|---|---|---|---|---|---|
| **Financial performance** | | | | | | | |
| Operating profit before finance income | R118.5m | R112.0m | R168.9m | **R184.4m** | **R189.2m** | R205.3m | R359.0m |
| Growth in adjusted operating profit (as defined on page 7) | 14.5% | 4.4% | 26.6% | **15.0%** | **20.2%** | 15.0% | 15.0% |
| Operating profit margin (as defined on page 7) | 35.8% | 32.2% | 32.7% | **31.5%** | **30.3%** | 29.6% | 39.0% |
| Return on equity (as defined on page 7) | 20.9% | 21.1% | 26.0% | **23.0%** | **29.5%** | 27.0% | 27.0% |
| Return on investment (dividends per share plus change in share price for the year expressed as a percentage of share price at the beginning the year) | 52.4% | 18.9% | 35.5% | **15.0%** | **59.3%** | 15.0% | 15.0% |
| | | | | | | | |
| **Restaurants** | | | | | | | |
| ***New local restaurants*** | | | | | | | |
| – Spur | 9 | 10 | 12 | **11** | **14** | 6 | 6/year |
| – Panarottis | 3 | 7 | 3 | **7** | **10** | 5 | 4/year |
| – John Dory's | 5 | 3 | 1 | **8** | **2** | 4 | 3/year |
| – Captain DoRegos | | | 2 | **10** | **11** | 11 | 14/year |
| | | | | | | | |
| ***Closed local restaurants*** | | | | | | | |
| – Spur | 4 | 6 | 7 | | **1** | | |
| – Panarottis | 3 | 5 | 3 | | **1** | | |
| – John Dory's | 1 | 2 | – | | **1** | | |
| – Captain DoRegos | | | 6 | | **13** | | |
| | | | | | | | |
| ***Total local restaurants*** | | | | | | | |
| – Spur | 245 | 249 | 254 | **262** | **267** | 269 | 285 |
| – Panarottis | 50 | 52 | 52 | **58** | **61** | 65 | 76 |
| – John Dory's | 26 | 27 | 28 | **34** | **29** | 33 | 40 |
| – Captain DoRegos | | | 74 | **82** | **72** | 81 | 128 |
| | | | | | | | |
| **Relocated*/revamped local restaurants** | | | | | | | |
| – Spur | 24 | 32 | 64 | **65** | **58** | 45 | |
| – Panarottis | 5 | 2 | 8 | **8** | **7** | 12 | |
| – John Dory's | 3 | 1 | 1 | **4** | **9** | 8 | |
| – Captain DoRegos | | | | | **–** | 7 | |

* A relocation of a restaurant to a new site in the same general geographical area and where the franchisee remains the same is not considered a closure. Relocations are necessary as circumstances in areas change over time.

| KPI | 2010 | 2011 | 2012 | TARGET 2013 | 2013 | TARGET 2014 | TARGET 2018 |
|---|---|---|---|---|---|---|---|
| **Total restaurant turnover** | | | | | | | |
| – Spur | R2 459m | R2 703m | R3 085m | **R3 379m** | **R3 554m** | R3 911m | R5 637m |
| % Growth in restaurant turnover | 9.5% | 9.9% | 14.2% | **9.5%** | **15.2%** | 10.0% | |
| % Growth in existing restaurant turnover | 7.8% | 7.9% | 11.7% | **8.6%** | **13.0%** | 9.3% | |
| | | | | | | | |
| – Panarottis | R223m | R233m | R268m | **R304m** | **R352m** | R408m | R699m |
| % Growth in restaurant turnover | 7.8% | 4.5% | 14.7% | **13.7%** | **31.4%** | 16.1% | |
| % Growth in existing restaurant turnover | 4.8% | 0.3% | 13.0% | **10.9%** | **22.4%** | 12.1% | |
| | | | | | | | |
| – John Dory's | R177m | R194m | R222m | **R252m** | **R247m** | R295m | R488m |
| % Growth in restaurant turnover | 23.4% | 9.8% | 14.2% | **13.8%** | **11.4%** | 19.4% | |
| % Growth in existing restaurant turnover | 7.8% | 4.5% | 11.7% | **9.7%** | **9.3%** | 11.2% | |
| | | | | | | | |
| – Captain DoRegos | | | R60m | **R207m** | **R191m** | R213m | R441m |
| % Growth in restaurant turnover | | | | | | 11.5% | |
| % Growth in existing restaurant turnover | | | | | | 5.5% | |
| | | | | | | | |
| – Total worldwide | R3 217m | R3 489m | R4 048m | **R4 643m** | **R4 859m** | R5 424m | R11 177m |
| | | | | | | | |
| **Loyalty** | | | | | | | |
| Family Card loyalty spend | N/A | R163m | R821m | **R924m** | **R1.1bn** | R1.2bn | R1.95bn |
| Family Card membership | N/A | 190 836 | 1 135 254 | **1 200 000** | **1 390 373** | 1 540 000 | 2 500 000 |
| Secret Tribe membership | 1 053 899 | 1 066 827 | 909 315 | **910 000** | **1 119 924** | 1 100 000 | 1 400 000 |
| John's Club loyalty spend | R8m | R24m | R36m | **R55m** | **R42m** | R46m | R75m |
| John's Club membership | 13 790 | 37 630 | 50 753 | **65 000** | **119 891** | 135 000 | 220 000 |
| | | | | | | | |
| **Sustainable local franchise model** | | | | | | | |
| Number of smaller format Spur outlets | 3 | 4 | 7 | **12** | **10** | 13 | 25 |
| Number of Panarottis Pizza Express outlets | – | 4 | 5 | **8** | **9** | 11 | 25 |
| | | | | | | | |
| **International expansion** | | | | | | | |
| Percentage of international revenue to total group | 26.6% | 28.9% | 28.6% | **25.4%** | **29.3%** | 34.0% | 35.0% |
| Percentage of international profits to total group profit before tax | (7.3%) | (23.9%) | 1.9% | **5.5%** | **(4.1%)** | 3.2% | 15.0% |
| Number of international outlets | 38 | 36 | 48 | **57** | **50** | 57 | 75 |
| | | | | | | | |
| **Sustainable supply of raw materials** | | | | | | | |
| Percentage of suppliers managed by the group that have adequate and appropriate sustainability plans in place | 10% | 20% | 64% | **75%** | **83%** | 83% | 100% |
| Percentage of seafood suppliers managed by the group that comply with SASSI guidelines and Marine Stewardship Council | 60% | 80% | 95% | **95%** | **95%** | 95% | 100% |
| | | | | | | | |
| **Product responsibility** | | | | | | | |
| Percentage of suppliers managed by the group that are HACCP/ISO 22000 compliant | 59% | 65% | 91% | **95%** | **97%** | 97% | 100% |
| Percentage of menu items that are rBST and MSG free | not available | 93% | 93% | **95%** | **93%** | 93% | 100% |

| KPI | 2010 | 2011 | 2012 | TARGET 2013 | 2013 | TARGET 2014 | TARGET 2018 |
|---|---|---|---|---|---|---|---|
| **Community support** | | | | | | | |
| Contribution to JAM or similar organisation | R213 615 | R87 412 | R95 000 | **R90 000** | **R582 749** | R1 300 000 | R1 500 000 |
| Contribution to FoodBank (corporate and employees) | R10 000 | R23 400 | R21 060 | **R42 120** | **R49 300** | R55 000 | R75 000 |
| | | | | | | | |
| **Skills development** | | | | | | | |
| Number of people trained | 7 624# | 4 269 | 5 171 | **5 735** | **7 220** | 8 000 | 10 000 |
| Number of successful graduates of Spur College of Excellence | N/A | 4 | 6 | **18** | **13** | 24 | 36 |
| | | | | | | | |
| **Head office employees** | | | | | | | |
| Head office employee rotation | 12% | 20% | 10% | **10%** | **8%** | 10% | 10% |
| Employee loans (education and housing) | R229 690 | R163 355 | R275 682 | **R250 000** | **R499 319** | R500 000 | R500 000 |
| Employee training costs | R259 489 | R274 163 | R499 942 | **R579 800** | **R684 303** | R718 600 | R1 200 000 |
| | | | | | | | |
| **Environmental sustainability** | | | | | | | |
| ***Corporate*** | | | | | | | |
| Carbon footprint (Energy kWh) | | | 445 267 | **435 000** | **475 739** | 460 000 | 465 000 |
| % Waste reduction to landfill† | | 55% | 70% | **75%** | **91%** | 95% | 96% |
| % Water usage reduction∆ | | | 0% | **10%** | **10%** | 15% | 20% |
| % Travel reduction◊ | | | | **10%** | **22.1% increase** | 10% increase | 0% |
| | | | | | | | |
| ***Procurement*** | | | | | | | |
| % Takeaway packaging that is recyclable | | 15% | 65% | **75%** | **75%** | 80% | 90% |
| % Reduction in use of plastic bags and other polymers | | 35% | 45% | **50%** | **50%** | 65% | 100% |
| % Marketing elements that are recyclable or reusable | | 45% | 50% | **60%** | **60%** | 65% | 75% |

# In 2010, the calculation was based on number of training days attended by participants. From 2011, the calculation is based on the number of people trained (regardless of the length of a particular course).

† Cumulative percentage reduction compared to baseline audit benchmark at July 2010.

∆ Cumulative percentage reduction compared to baseline audit benchmark at July 2011.

◊ Cumulative percentage reduction compared to baseline audit benchmark at July 2012.

# Financial performance

The group exceeded its targets in operating profit before finance income of R184.4 million, delivering R189.2 million in 2013. Operating profit was distorted again by a number of one-off items in the current and previous years that are reconciled in the pages that follow.

Growth in adjusted operating profit also exceeded our target of 15%. This figure looks at operating profit adjusted for items of headline earnings and foreign exchange gains and losses. The 26.6% growth in 2012 was distorted by the one-offs in that year and the year that preceded it.

Operating margin declined slightly for a number of reasons, including:

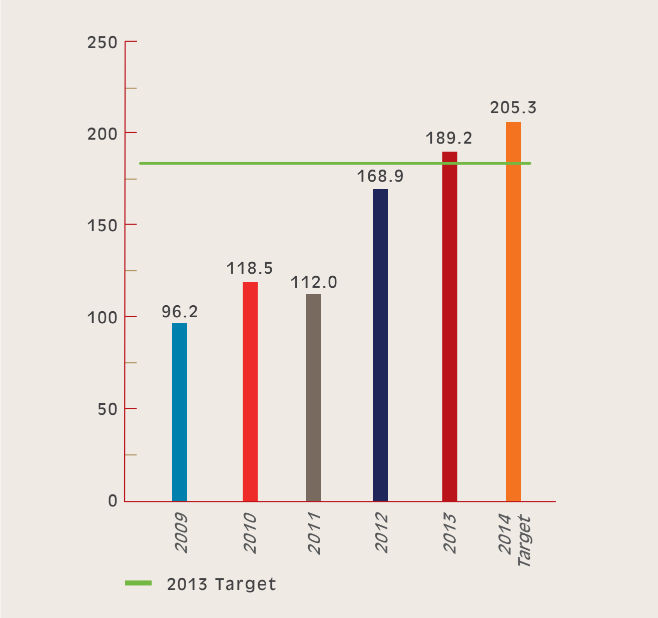
- The inclusion of the Captain DoRegos depot which operates at lower margins than our traditional businesses.
- The addition of the two company-owned retail outlets in the UK and Ireland. Retail operations operate at lower margins than the franchise businesses.
- Margins declined in central kitchens as the group absorbed rising input costs rather than passing these on to franchisees.

Return on equity improved to 29.5% in 2013.

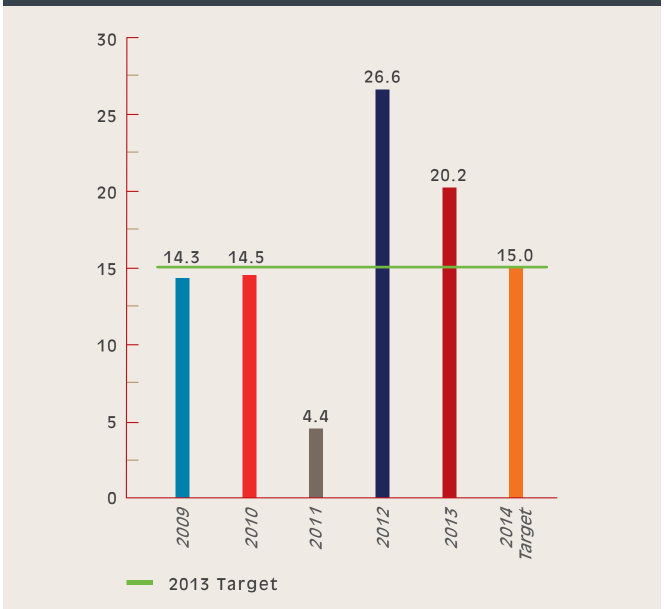
The group focuses on internal efficiencies within its own operations. Captain DoRegos is now almost fully integrated into the business and the group is seeing the benefit from synergy in support infrastructure, supply chain and vertical integration into the group's existing manufacturing facilities. We continued to invest in the manufacturing business by opening the bottling plant during the year. We also continue to look for innovative ways to achieve scale in the manufacturing business, including the manufacture of sauces for third parties.

The inclusion of the Captain DoRegos distribution centre for a full 12 months, and the margin decline in central kitchens resulted in a lower operating margin in wholesale and distribution. Comparable operating margins improved in all other operations as restaurant turnovers continued to grow and the focus on cost containment kept cost increases minimal.

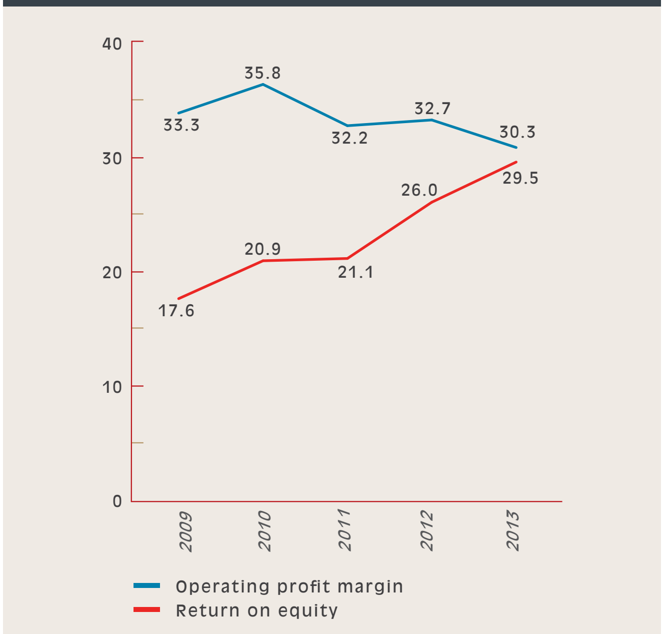
## OPERATING PROFIT BEFORE FINANCE INCOME (R'm)




## GROWTH IN ADJUSTED OPERATING PROFIT (%)




## OPERATING MARGIN AND RETURN ON EQUITY (%)



## COMPARABLE OPERATING PROFIT

The exceptional and one-off items that distort profit growth calculations are listed in the table below.

| ITEM | 2013 | 2012 |
|---|---|---|
| Costs relating to the winding up of Australian entities. | R1.052 million in winding up certain Australian equity-accounted associates which ceased trading in previous years. | Rnil. |
| Items not qualifying for capitalisation in terms of IFRS. | Rnil. | Relocation of the group's training centre in Cape Town, the establishment of the group's internal call centre and improvements to the group's sauce manufacturing facility in Cape Town to facilitate the implementation of a bottling plant in the 2013 financial year – total R0.491 million. |
| Bargain purchase gain from the acquisition of Captain DoRegos. | Rnil. | R3.694 million as detailed in note 31.2 on page 132 of the annual financial statements. |
| Contribution to profit before income tax by the Captain DoRegos business – although this is not exceptional or a one-off item, it has an impact on the comparative analysis. | R5.844 million for the full year. | R1.876 million for the four months from acquisition to 30 June 2012. |
| Due diligence costs on acquisitions and potential acquisitions. | Rnil. | R0.745 million. |
| Fair value gain on the realisation of collateral in respect of a loan advanced to the former non-controlling shareholder of one of the group's subsidiaries. | Rnil. | R0.843 million – see note 4 on page 112 of the annual financial statements. |
| Foreign exchange movements. | Loss of 6.510 million. The loss includes the reclassification of foreign currency differences (a net loss) from other comprehensive income to profit on the deregistration of a foreign operation, Larkspur Four Ltd (incorporated in the United Kingdom), in the amount of R0.842 million. | Gain of R2.288 million. |
| Impairment losses. | R2.188 million relating to the impairment of property, plant and equipment of the Panarottis in Tuggerah, Australia. | R1.564 million relating to the impairment of goodwill in respect of the Panarottis in Tuggerah, Australia. |
| International restructure and tax query costs. | Professional services costs of R0.567 million associated with defending assessments issued by SARS in respect of the group's international structure as detailed in note 41.1 on page 148 of the annual financial statements. | Rnil. |
| Legal costs. | R1.424 million in respect of the John Dory's Franchise (Pty) Ltd shareholder dispute and related Financial Services Board investigation which was resolved during the year. | R3.171 million in respect of the shareholder dispute with the former non-controlling shareholder of John Dory's Franchise (Pty) Ltd which was resolved in the prior year. |
| Rent review (UK). | The lease in respect of Cheyenne Spur in the $0_2$ Arena in London, England is a 25-year lease that is subject to five-year rent reviews. Rental costs are adjusted every five years to market-related amounts. The rent review was only finalised during the current year but back-dated to January 2012. The current year thus included an amount of R0.603 million that related to the prior year. | See 2013 comment. |
| Share-based payment charge in respect of the group's cash-settled, long-term share-linked retention scheme. | R23.645 million – see note 21 on page 127 of the annual financial statements. | R3.965 million – see note 21 on page 127 of the annual financial statements. |
| Fair value gain on the hedge derivative financial instrument on the retention scheme. | R34.357 million – see note 15 on page 124 of the annual financial statements. | R7.479 million – see note 15 on page 124 of the annual financial statements. |
| Costs incurred in 2012 for the 2013 Spur Convention. | Rnil. | R2.0 million. |
| Contribution to The Spur Foundation to achieve the group's corporate social investment strategy. | Rnil. | R0.670 million. |
| New retail outlets. | R2.773 million relating to initial trading losses and set-up/refurbishment costs that cannot be capitalised in terms of IFRS in respect of the previously franchised retail outlets in Staines (England) and Dublin (Ireland). | Rnil. |
| Trade fair costs. | R0.640 million to attend the US National Restaurants' Association convention in Chicago, USA. | Rnil. |

Comparable profit is reconciled in the table below. Please note that this reconciliation does not aim to show sustainable or maintainable profit, but is presented only to provide users of this report with an understanding of key items included in profit.

| | 2013 R'000 | 2012 R'000 | % CHANGE |
|---|---|---|---|
| **Profit before income tax** | **195 057** | **175 100** | **11.4%** |
| Australian entity windup costs | **1 052** | – | |
| Capital expenditure – projects | **–** | 491 | |
| Captain DoRegos bargain purchase gain | **–** | (3 694) | |
| Captain DoRegos franchise and distribution centre | **(5 844)** | (1 876) | |
| Due diligence costs | **–** | 745 | |
| Fair value gain on realisation of collateral | **–** | (843) | |
| Foreign exchange loss/(gain) | **6 510** | (2 288) | |
| Impairment losses (property, plant and equipment and goodwill) | **2 188** | 1 564 | |
| International restructure and tax query costs | **567** | – | |
| Legal costs – John Dory's | **1 424** | 3 171 | |
| Rent review – Cheyenne Spur in $O_2$ Arena in London, England | **603** | (603) | |
| Share appreciation rights (net of related hedge) | **(10 711)** | (3 514) | |
| Spur Convention | **–** | 2 000 | |
| Spur Foundation | **–** | 670 | |
| Start-up and initial trading losses for new retail outlets | **2 773** | – | |
| Trade fair costs | **640** | – | |
| **Comparable profit before income tax** | **194 259** | **170 923** | **13.7%** |
| Captain DoRegos franchise and distribution centre | **5 844** | 1 876 | |
| **Comparable profit before income tax including the contribution of Captain DoRegos** | **200 103** | **172 799** | **15.8%** |

# Local restaurant revenue growth

For Spur Corporation to continue growing sustainably, it needs to increase the number of viable restaurants while maintaining or growing market share. However, this growth in outlets cannot be achieved at the expense of quality. Our growth strategy for local restaurant revenues faces a number of challenges:

## SUITABLE SITES FOR RESTAURANTS

The group's history of strong performance and brand recognition has helped our success in securing good locations for our restaurants. There have been fewer large shopping centres built recently than there were in the past decade and competition for restaurant sites is increasing.

## SUITABLE FRANCHISEES

Where a franchisee does not have the necessary skills and work ethic to make a success of a restaurant, it can affect not only the viability of their business but also the reputation of the franchise. Suitable franchisees also need to have access to substantial funds to cover the start-up costs of the restaurant.

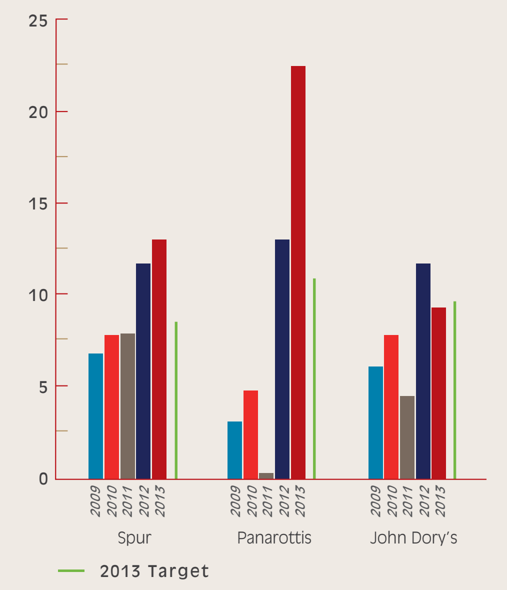
## GROWTH IN OUR TARGET MARKET

Market demographics in South Africa are shifting and we believe that growth in our middle to higher LSM (living standards measure) target markets will continue, although at a slower rate than in the past decade.

## CHANGING CONSUMER TASTES

Market share growth depends on our ability to continue meeting changes in consumers' taste profiles, keeping our product offerings relevant and ensuring that our restaurants always meet our customers' needs and wants.

EXISTING RESTAURANT TURNOVER GROWTH (%)




## Targets for 2014

| | EXISTING RESTAURANT TURNOVER | TOTAL REVENUE | NUMBER OF LOCAL OUTLETS | NUMBER OF REVAMPS/ RELOCATIONS | LOYALTY MEMBERSHIP | LOYALTY SPEND |
|---|---|---|---|---|---|---|
| Spur Steak Ranches | 9.3% | R3 911m | 269 | 45 | 1 540 000 | R1.2bn |
| Panarottis Pizza Pasta | 12.1% | R408m | 65 | 12 | – | – |
| John Dory's Fish Grill Sushi | 11.2% | R295m | 33 | 8 | 135 000 | R46m |
| Captain DoRegos | 5.5% | R213m | 81 | 7 | – | – |

Our development team establishes and maintains relationships with property developers, landlords and potential franchisees to ensure that new potential sites are identified as early as possible and matched to appropriate franchisees. We apply rigid site selection criteria and have a rigorous new franchisee application process to ensure restaurant viability.

We continue working with financial institutions to facilitate funding for good prospective franchisees and manage outlet set-up costs to keep these reasonable. This includes a focus on cost and quality of raw materials, efficient use of space and practical functionality in restaurant layouts and blueprints. We match the appropriate outlet model to the opportunity that is presented.

While we cannot control overall market demographic trends, we focus on strategies to attract more customers into our restaurants and incentivise increased average spend per visit. We attract customers through our marketing promotions and activities on digital media. Our investment in developing our business intelligence helps us to understand customer behaviour better and market research helps us to identify and respond to changes in consumer trends. Uptake of loyalty cards in Spur and John Dory's is growing strongly and spend from card holders in June 2013 accounted for 38.3% of total sales at Spur. Our focus remains on revamps and relocation of outlets to better trading sites where necessary.

As discussed in more detail in the operations reports, we opened more outlets than targeted in each brand apart from John Dory's. Although Captain DoRegos opened more outlets than planned, there were closures of a number of unviable outlets which led to the total number of outlets declining to 72 at year-end (2012: 74).

Existing restaurant turnover (total turnover adjusted to exclude new outlets opened during the current year) grew above target in Spur and Panarottis, but remained slightly below target for John Dory's. Comparative outlet data is not reported for Captain DoRegos as it was only included for a portion of 2012.

# Sustainable local franchise model

Franchisees who build sustainable businesses by meeting their customers' needs contribute more to group franchise fee income, build the brand and make it more attractive for future potential franchisees and landlords. Our strategy is to increase the proportion of our outlets achieving model cash flow margins and to increase the number of smaller format outlets.

## MODEL CASH FLOW MARGINS UNDER PRESSURE

Business in South Africa is under pressure from a number of trends, including inflation in food and other categories and significant increases in property rates and taxes and electricity and fuel costs. Employment costs are rising due to the implementation of minimum wage rates and sectoral determinations above inflation. All of these factors impact franchisee operating margins directly and affect occupancy costs as landlords look to pass through these increases to their tenants.

These trends are also affecting consumers, driving them to focus on quality and value for money, so it is difficult to pass through these increased costs to consumers without affecting our competitive advantage and value proposition. While it is unavoidable that some of these costs will be passed on to consumers, we try to minimise menu prices as much as possible.

Therefore, we focus on reviewing other aspects of the franchise model to manage costs as effectively as possible, ensuring that our franchisees can continue generating a reasonable return on their investment.

These actions include:

- Designing restaurants to keep set-up costs as low as possible while maintaining high standards of quality.
- Managing gross margins to compensate for the medium-term trends we anticipate in utilities, labour costs and occupancy costs.
- Expanding the outsourced distribution model to improve the management of food cost while maintaining consistent quality and price and ensuring sustainable supplier practices.
- Menu engineering to optimise sales mix, food cost and product range, which can help to reduce labour and occupancy costs.
- Developing training material and delivering training to franchise employees and management to ensure efficient use of employees and human resource planning.
- Implementing lessons learned from the higher labour-cost models encountered in the UK and Australia.
- Assisting franchisees in negotiating with landlords to manage rental escalations and related costs as much as possible.
- Investigating and communicating ways to manage electricity, gas and water usage to franchisee employees and management. Efficient use of these costly resources also helps to reduce the environmental impact of the group.

Due to the direct link between franchisee profitability and the group's success, we work very closely with our franchisees to ensure their financial sustainability. Franchise financial models are reviewed and revised on at least an annual basis to ensure that franchisee cash flow profit margins are maintained. Our operations management teams regularly review restaurant financial information to identify potential inefficiencies and proactively work with franchisees to address these.

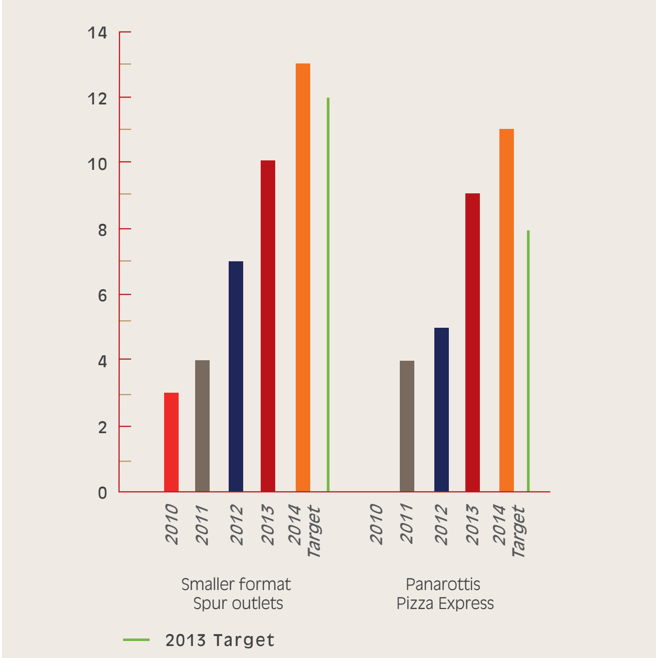
## SMALLER FORMAT RESTAURANTS

The group continues rolling out smaller format outlets for both Spur and Panarottis. These smaller outlets generate less turnover than a standard outlet, but the lower set-up costs and better operational efficiencies offer good returns on investment for franchisees. This approach also allows Spur to expand into locations which would not have been feasible with a standard format restaurant.

During the year we rolled out three smaller format Spur outlets and opened four Panarottis Pizza Express outlets. We are refining our business models and identifying good sites for the potential expansion of these formats.

The Captain DoRegos management team continues to investigate new channels to expand the brand's footprint, including the possibility of a filling station forecourt model. The format also opened its first drive-through outlet in Heidelberg, which is trading well.

### SMALLER FORMAT OUTLETS




### MENU PRICE INFLATION AND FOOD INFLATION (%)


* Source: STATSSA

## Targets for 2014

| |
|---|
| Open three smaller format Spur outlets |
| Open two Panarottis Pizza Express outlets |

# International expansion

With growth in South Africa still strong, but likely to continue at a slower rate in the medium term, the group continues investigating options to grow our brands internationally. Our approach to international expansion will continue being cautious as conditions differ in the international markets we are targeting for growth. Both the UK and Australia have significantly higher labour and occupancy costs than the South African market. While expansion into the rest of Africa represents an exciting opportunity, there are challenges in securing suitable sites, placing skilled employees and ensuring consistent delivery of quality ingredients.

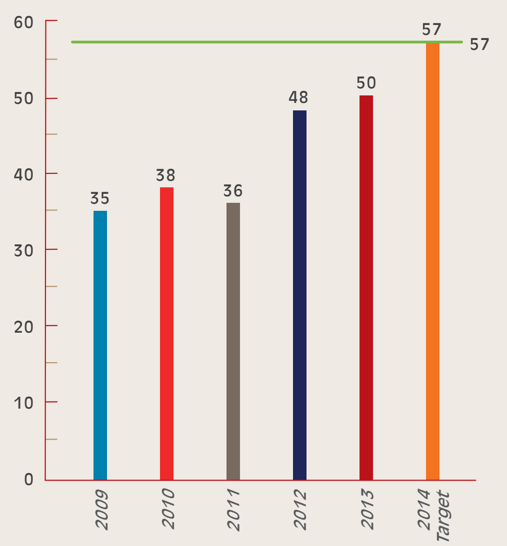
We are aware that the expansion of the retail business in the UK and Australia – where the group directly owns and operates the restaurant – comes at significant financial risk and we monitor this aspect of the business particularly closely.

Both the UK and Australia are self-funding and the board continues to consider prudent investments into these regions where viable opportunities present themselves. We will continue rolling out franchised outlets in Australia, the rest of Africa and Mauritius.

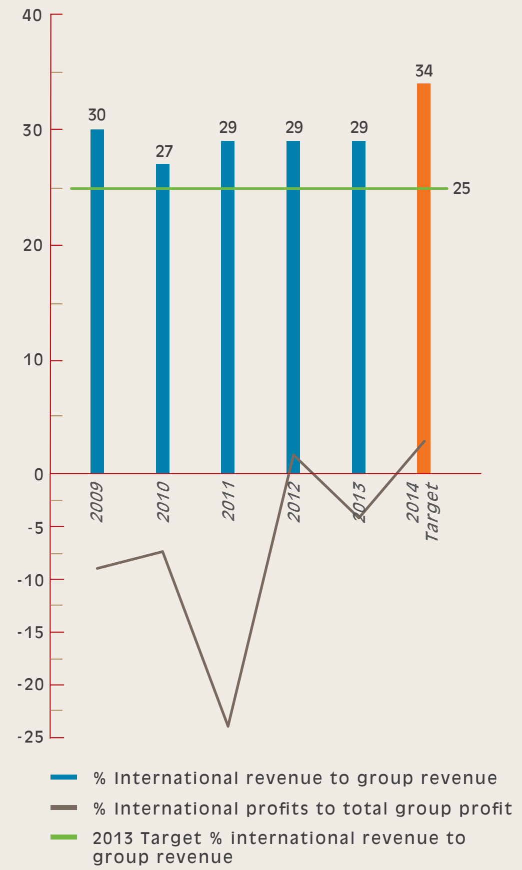
International revenue comprised 29.3% of group revenue for the year, surpassing our 2013 goal of 25%, although the increase is partly attributable to the inclusion of revenue from the two new retail outlets in the UK and Ireland. Profit before tax fell back to a loss, due to negative foreign exchange movements, initial start-up and one-off set-up costs associated with the new retail outlets, and impairments and other one-off items in the current and prior years. This resulted in us missing our target of 5.5% of total profit before tax. We also did not end the year with as many international outlets as we had planned due to delays in the development of locations for planned restaurants.

On a comparable basis, operating profit from the international operations increased from R1.8 million in 2012 to R4.5 million in 2013.

NUMBER OF INTERNATIONAL OUTLETS




PERCENTAGE OF INTERNATIONAL REVENUE AND PROFIT




## Targets for 2014

| | |
|---|---|
| Percentage of international revenue to total group revenue | 34% |
| Percentage of international profits to total group profit | 3.2% |
| Number of international outlets | 57 |

# Sustainable supply of raw materials

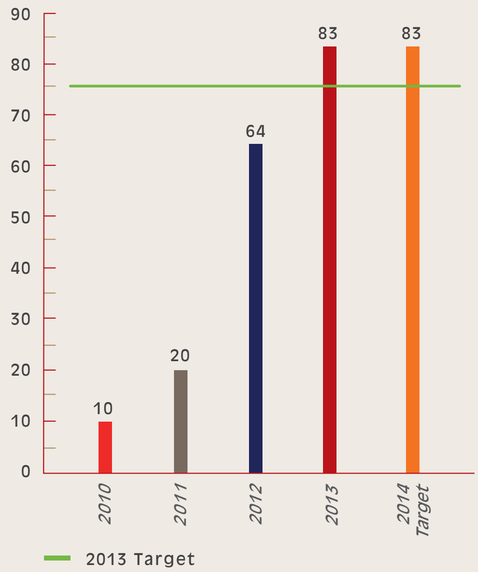
All the Spur group brands require significant quantities of raw materials to run their restaurants. Climate change is likely to lead to shifting weather patterns that will have a negative impact on food production. Over time, stress on food producers to meet the rising demands of the growing world population will increase. In the short term, shifts in the availability of raw materials affect food prices, which in turn puts pressure on franchisee margins. As a responsible corporate citizen, Spur Corporation needs to work closely with its suppliers to ensure that they use sustainable practices so the group will have access to the food it needs at a reasonable price.

The transport strikes in October 2012 highlighted the financial impact labour and social unrest can have on business. While our outsourced distributor was not directly affected by these strikes, many suppliers were affected. In addition, three key suppliers suffered industrial action during the year which affected their ability to meet the group's requirements.

The group relies on certain key suppliers to meet its demands, especially in the high volume foods we use such as beef, chicken, pork, seafood, potatoes and cheese. John Dory's has a close relationship with the Southern African Sustainable Seafood Initiative (SASSI) to ensure that the seafood its franchisees use comes from responsible sources.

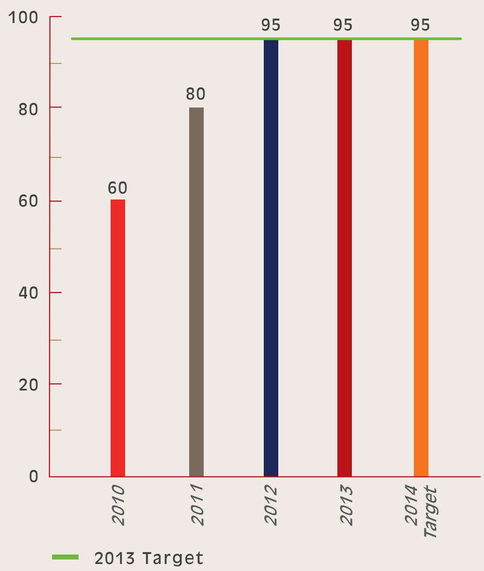
Our procurement department specifies sustainable practices in the criteria it applies when selecting preferred suppliers, including seafood suppliers' adherence to SASSI guidelines and Marine Stewardship Council standards. We review our key suppliers' sustainability plans and processes annually to ensure that they apply sustainable practices which align with group values. To the extent possible, we secure alternative suppliers (both local and foreign) of key products to limit our exposure to any single supplier. Alternative suppliers of core products are chosen to ensure a geographic separation to limit the impact of a regional event.


## SUSTAINABLE SUPPLIERS* (%)




* Suppliers managed by the group that have adequate and appropriate sustainability plans in place.

## SASSI SUPPLIERS* (%)




* Seafood suppliers managed by the group that comply with SASSI guidelines and Marine Stewardship Council standards.

## Targets for 2014

| | |
|---|---|
| Percentage of suppliers managed by the group that have adequate and appropriate sustainability plans in place | 83% |
| Percentage of seafood suppliers managed by the group that comply with SASSI guidelines and Marine Stewardship Council standards | 95% |

# Product responsibility

Our customers trust us to deliver on our brand promises by providing great food, excellent service and the welcoming ambience of our restaurants. Customers also expect us to deliver this quality consistently across our restaurants and each time they visit us. Failing to meet our stringent quality standards can damage customer goodwill and, with the viral nature of social media, can have a much wider impact on our brands and patronage.

We train our franchisees' employees in food preparation, customer service, food safety and the other relevant areas necessary to ensure that they have the knowledge and tools to deliver the quality products and service our customers demand.

Food safety is another particular focus area for the group, as is ensuring that customers and employees are protected from personal injury and loss, to the extent possible.

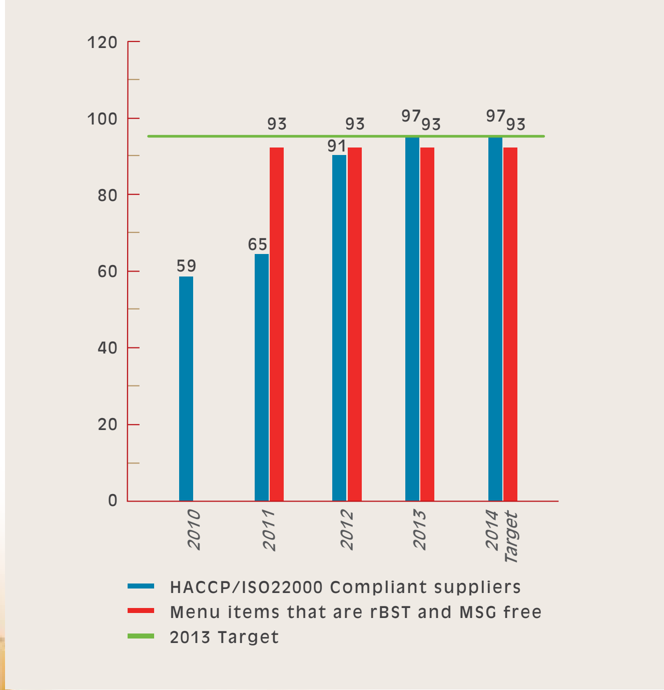
Hazard Analysis and Critical Control Points (HACCP) compliance is monitored in both the group's own manufacturing facilities as well as at our suppliers and in our outsourced distributor to ensure that the highest standards of food safety are applied. New suppliers are subjected to a capability assessment process which includes a review of their HACCP compliance. Each major supplier is regularly audited to assess their performance against their capability assessment. We engage with suppliers who are not HACCP and/or ISO 22000 compliant regularly to encourage them to become compliant.

Operations management's monthly inspections at restaurants include checks of food quality, specifications and portion sizes of certain products in store, including meat and oil. Customer service levels are assessed as part of the operations manager visits, and through mystery shopper surveys and independent audits.

We believe our customers should make informed decisions about their diet. Spur provides a full nutritional analysis of its entire menu on its website (www.spur.co.za/nutrition) and Panarottis is in the process of completing a similar exercise. We aim to eliminate MSG from the food we serve, although alternative products without MSG can be significantly more expensive. Currently, 93% of the products on our menus are MSG free.

The group invests considerable time, money and effort in educating franchisees regarding their legal obligations in respect of health and safety. The onus remains on franchisees to ensure that they are fully compliant with the applicable legislation, franchise agreement and group operating standards. The training courses we provide our franchisees include courses covering customer safety and safety of minors.

**HACCP/ISO 22000 COMPLIANCE AND MENU ITEMS (%)**




## Targets for 2014

| | |
|---|---|
| Percentage of suppliers managed by the group who are HACCP/ISO 22000 compliant | 97% |
| Percentage of menu items that are rBST and MSG free | 93% |

# Community support

Our vision inspires us to make a positive and lasting difference in the lives of our communities in line with the spirit of our core value of generosity. Our corporate social investment (CSI) initiatives are managed through the Spur Foundation ("the Foundation").

The Foundation was established on Mandela Day, 18 July 2012 with a donation from the Spur group of R670 000. The value of the donation not only resonates with the '67 minutes' theme of Mandela Day, but also recognises the founding of the Spur family in 1967.

The Foundation aims to uplift and improve the lives of South Africa's families, with a special emphasis on assisting children. The Foundation will support initiatives that assist children in impoverished communities by administering feeding schemes and providing basic necessities and amenities. Over time the Foundation plans to provide financial assistance for educational bursaries and general community upliftment. The activities of the Foundation will be available through the Foundation's social media campaigns on Facebook and Twitter (@spur_cares).

SPUR FOUNDATION

NOURISH, NURTURE, NOW!


## CURRENT BENEFICIARIES OF THE FOUNDATION

| | |
|---|---|
| TEDDY BEAR CLINIC | **The Teddy Bear Clinic –** provides assistance, support and protection to children who have been physically or sexually abused. |
| JAM SOUTH AFRICA | **Joint Aid Management ("JAM") –** currently supports around 700 000 children through its nutritional feeding programme. |
| Sisanda FunDaytion | **Sisanda FunDaytion –** makes a difference in the lives of disadvantaged children in South Africa by providing them with "fun days" and other recreational opportunities. |
| CREATING Change | **Creating Change –** empowers and assists disadvantaged communities by teaching children about the environment and sustainability, focusing on natural gardening, healthy cooking, natural building, product development and environmental awareness activities. |
| reach for a dream | **Reach for a Dream –** fulfils the dreams of children between the ages of 3 and 18 who have been diagnosed with a life-threatening illness. |
| FOODBANK SOUTH AFRICA | **FoodBank South Africa –** aims to get rid of hunger, currently supports approximately 200 000 beneficiaries, delivering 1.5 million meals a week. |

The group encourages employees to offer up their time in support of worthy causes and has a voluntary employee salary deduction scheme. Franchisees are also encouraged to get involved in initiatives that support their surrounding communities. An example is the 'Lekker to Give' campaign in which 107 Spur Steak Ranches in Gauteng collaborated with Jacaranda FM to establish community soup kitchens and collect educational books for local libraries. The soup kitchens served bread and soup every Tuesday from 18 June 2013 to 21 July 2013, feeding 73 100 underprivileged people and collecting 12 419 books.

Spur supports numerous community-focused events aimed at uplifting communities through sport. Through outdoor activities we believe we can encourage families and children to improve their health while having fun and experiencing the Spur 'taste for life'. Funds raised from these events support JAM feeding schemes. The events supported include:

**Masidlale** – uplifts local communities through football. The programme teaches life skills and encourages self-confidence among disadvantaged children between the ages of 8 and 12, culminating in a 10-week seven aside mini tournament for 200 learners.

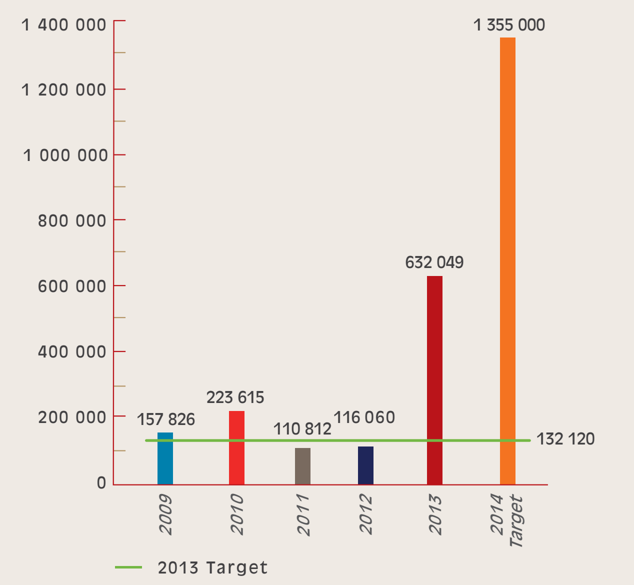
**The National School Mountain Biking League –** incorporates over 40 events and attracts more than 5 300 riders between the ages of 14 and 18. Four graduates of the Spur League will represent the South African team at the World Championships this year.

**Spur Adventure Sprint Series –** 11 adrenaline-fuelled family events are held in the Western Cape and KwaZulu-Natal, including biking, kloofing, hiking and other outdoor adventure activities.

**School and University Rugby Tournaments –** Spur supports the development and transformation of rugby at school and university level through various festivals and tournaments. These include the Varsity Cup, Varsity Shield, numerous junior and high school rugby festivals, the Sharks Talent ID Development Tournament, Ithembelihle High School in the Eastern Cape and the Western Province Mini Rugby Day.

**The Spur Annual Charity Golf Tour –** R93 726 was raised in 2013 across three regional events for JAM's feeding scheme initiatives.

**CSI INVESTMENT* (R)**




* Includes voluntary employee salary deductions

Total CSI for 2013 was R632 049, including voluntary employee salary deductions. This is a significant increase on the R116 060 invested in 2012 and represents 0.4% of net profit after tax. This is also more than the R132 120 target we set ourselves for the year.


## Targets for 2014

| | |
|---|---|
| CSI investment | R1.355 million |


## FOUNDATION CONTRIBUTIONS

2012
R116 060
2013
R632 049

**2014 Targets:**
CSI investment R1.355 million.

# Skills development

Spur Corporation's training unit is a critical component of our strategy to deliver sustainable value to all of our stakeholders. Our ability to keep customers coming back to our restaurants lies in our franchisees' employees preparing great food and delivering excellent service. Issues such as food safety, operational efficiencies, financial management, environmental awareness and customer safety are also communicated through various training programmes.

Skills development is also an important aspect of transformation and social upliftment and this is especially true in the current environment of declining numeracy and literacy skills in South African school leavers. This makes it challenging to identify suitably qualified restaurant employees and management, and corporate employees who match the group's work ethic, fit the culture and can execute Spur's strategy.

A wide range of training courses are delivered to franchisees, their employees and corporate office employees.

Training centres in Cape Town and Johannesburg trained 7 220 people during the year through internal and external workshops, an increase of 40% on the previous year.

Practical training at accredited restaurants in Gauteng, KwaZulu-Natal and the Western Cape aims to ensure that franchisees and management are capable of operating all aspects of a franchise business. During the year, 201 people were trained in these restaurants.

The Spur College of Excellence offers a comprehensive six-month course covering all aspects of operating and managing one of our outlets. Individuals who show a passion for the restaurant business attend lectures, practical training and workshops. The College of Excellence has been accredited with the CATHSSETA and aims to build capacity at middle management and above within franchise outlets to improve service and quality.

The College is based in Johannesburg and Cape Town and 13 delegates graduated during the year with a further six starting the course in 2013. The training team continues to engage with the CATHSSETA to have the individual training programmes accredited.

Our 'For the love of food' practical workshop is designed to ignite a passion for food in the employees responsible for food preparation. These workshops have produced significant results and a similar workshop is being designed for Captain DoRegos, along with updated training manuals and related intellectual property.

A dedicated kitchen will be built at the Cape Town training centre in 2014 to conduct the back of house training programmes in a 'Masterchef'-style environment.

Several management development training programmes are in progress, including the 'Keys to management' and 'Manager as coach' courses, to teach management skills and concepts to franchisees' management.

The group's sustainability team provides various training courses to head office and franchisee employees to raise awareness and provide practical tips on environmental issues.

PEOPLE TRAINED


COLLEGE OF EXCELLENCE GRADUATES


## Targets for 2014

| | |
|---|---|
| Employees trained (franchise and corporate) | 8 000 |
| Number of Spur College of Excellence graduates | 24 |

# Transformation

Spur group supports the principles of transformation and Broad-based Black Economic Empowerment (BBBEE). We measure our progress against the Department of Trade and Industry Codes of Good Practice (dti CoGP). During 2013, a transformation executive was appointed to drive transformation and employment equity in the group. The group was externally verified as a level 8 contributor during the year scoring 36.35 out of a possible total of 100. While the group performed well in the skills development and preferential procurement categories, it scored zero in the ownership and enterprise development categories. Spur has put initiatives in place that will improve this rating over time.

## OWNERSHIP

*– Score 0/15*

The group's black ownership has not been verified due to practical challenges in confirming the designation of beneficial shareholders. The group is investigating various options to improve black ownership of the group, including a black employee ownership trust. Spur's board and management will only consider a solution that creates clear value for all stakeholders and where beneficiaries are broad-based.

## MANAGEMENT CONTROL

*– Score 3.94/14*

The board includes two black non-executive directors and the group's nominations committee continues to evaluate suitable candidates who can bring additional experience, expertise and diversity to the board. On 11 September 2013, subsequent to year-end, the board appointed another black female non-executive director which should contribute to an improved score next year.

## EMPLOYMENT EQUITY

*– Score 2.07/14*

The lack of availability of suitable black candidates at senior and top management is a concern for the group. At junior management level representation is improving, but employee turnover at the more senior levels is low, making meaningful progress at these levels challenging. Recruitment processes promote transformation and an operations management mentorship programme has been launched. This programme assigns black trainee operations managers to shadow qualified operations managers to build their skills and understanding of the business.

## SKILLS DEVELOPMENT

*– Score 15.02/20*

We are currently in the process of securing accreditation for our training courses. Once this has been achieved, our skills development score should improve. We are currently evaluating a learnership programme, which would also contribute to this category.

## PREFERENTIAL PROCUREMENT

*– Score 12.32/15*

Our vendor selection process includes BBBEE status as one of the factors we assess. Our preferential procurement score reflects this and should continue to improve over time.

## ENTERPRISE DEVELOPMENT

*– Score 0/14*

The group's enterprise development initiatives focus on supporting suitable candidates to develop and grow the number of black franchisees, although this does not qualify towards the BBBEE scorecard. We have also implemented a preferential credit policy for BBBEE suppliers which will contribute to the enterprise development score in 2014.

## SOCIO-ECONOMIC DEVELOPMENT

*– Score 3/8*

The group's CSI initiatives, which contribute to this score, are discussed on page 50.

The board continues to monitor the potential impact of the revised BBBEE Codes of Good Practice (2012) on our transformation strategy.

BBBEE SCORECARD


## Targets for 2014

| |
|---|
| Achieve level 7 accreditation |

# Head office employees

Second only to the group's trademarks, people are our most valued and important asset. Successful execution of our strategy requires us to identify, attract, develop and retain passionate people with the right attitude and cultural fit. We strive to create an environment that is tolerant of diversity in our communities, yet encourages creativity, empowerment and freedom of expression. We are committed to ensuring that we create a safe and healthy workplace for our employees.

The human resources department has started a needs analysis as part of the group leadership development programme. Our succession planning initiatives and the development of a leadership pipeline aim to ensure that suitable and diverse managers and leaders are developed to meet the group's future needs.

Operational health and safety programmes were rolled out in our manufacturing divisions to ensure the safety of our employees.

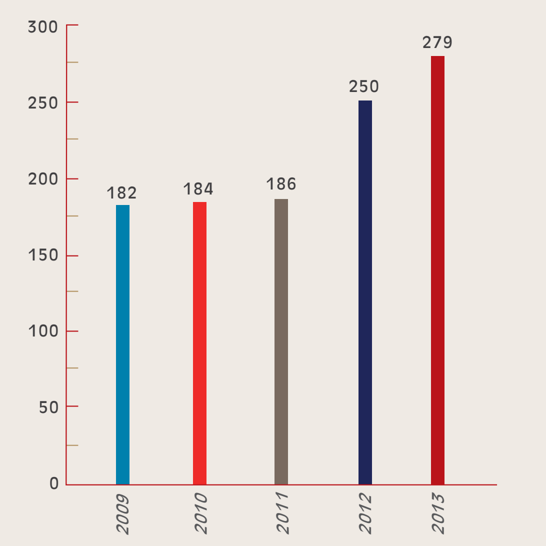
Total South African permanent employees increased in 2012 with the addition of the Captain DoRegos distribution centre. Employee numbers increased to 279 in 2013 due to the establishment of the in-house customer care centre and organic growth.

The group offers financial support to assist employee upliftment, including paying for business-related studies and offering loans for education, housing and other requirements.

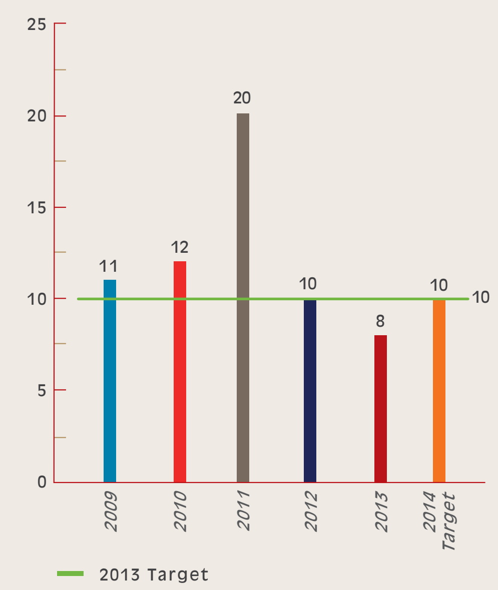
The group invested R684 303 in employee training during the year (excluding internal time), an increase of 36.9% on 2012. This figure includes group funding of tertiary studies for employees and basic education of employees' dependants. Training also includes holistic skills development through an adult education, training, literacy and numeracy programme.

Head office employee rotation dropped to 8% in 2013, slightly better than our target of 10%.

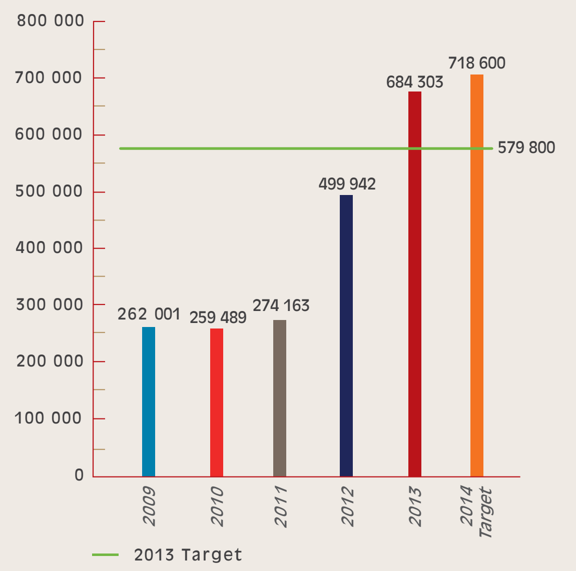
TOTAL SOUTH AFRICAN-BASED PERMANENT EMPLOYEES




HEAD OFFICE EMPLOYEE ROTATION (%)




EMPLOYEE TRAINING COSTS (R)




## Targets for 2014

| | |
|---|---|
| Head office employee rotation | 10% |
| Employee loans | R500 000 |
| Employee training costs | R718 600 |

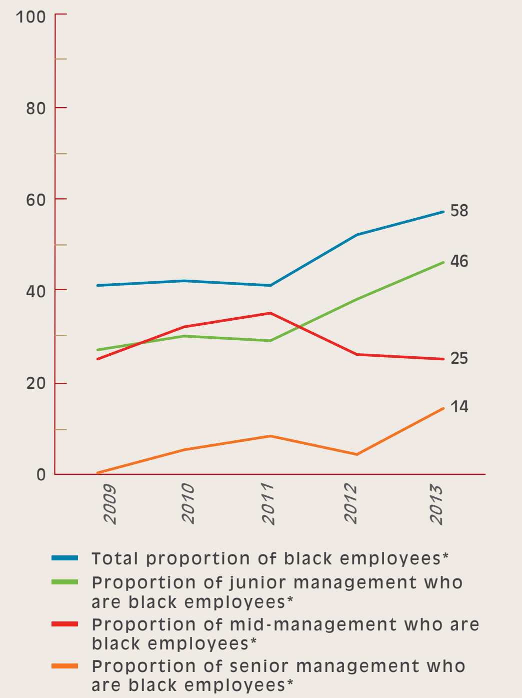
# Employment equity

Spur group is committed to transformation, including the transformation of its workforce. The group's human resources policies aim to eliminate discrimination and promote transformation and employment equity.

While senior and junior management representation showed some improvement in 2013, the low level of representation at senior and top management is a concern for the group. Addressing representation at these levels will remain a challenge in the short term due to the shortage of industry skills in representative groups, as well as the low turnover at senior management levels.

The group's employment equity plan outlines the transformation challenges facing the group and the strategies to address these. All human resources policies align with employment equity legislation. We will continue to develop promising equity candidates in the operations management mentorship programme and will identify potential candidates in the Spur College of Excellence programmes.

MANAGEMENT REPRESENTATION (%)




* Black as defined by the dti CoGP relating to BBBEE

The employee composition in South Africa at 30 June was as follows:

| | 2013 | | | | | 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| OCCUPATIONAL LEVEL | MALE | FEMALE | TOTAL | BLACK | WHITE | MALE | FEMALE | TOTAL | BLACK | WHITE |
| Top management | 5 | 1 | **6** | – | 6 | 5 | 1 | **6** | – | 6 |
| Senior management | 24 | 4 | **28** | 4 | 24 | 24 | 2 | **26** | 1 | 25 |
| Professionally qualified and experienced specialists and mid-management | 9 | 7 | **16** | 4 | 12 | 9 | 10 | **19** | 5 | 14 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents | 58 | 56 | **114** | 53 | 61 | 51 | 44 | **95** | 36 | 59 |
| Semi-skilled and discretionary decision-making | 42 | 56 | **98** | 83 | 15 | 38 | 45 | **83** | 69 | 14 |
| Unskilled and defined decision-making | 11 | 6 | **17** | 17 | – | 12 | 9 | **21** | 20 | 1 |
| **Total permanent** | **149** | **130** | **279** | **161** | **118** | **139** | **111** | **250** | **131** | **119** |
| Non-permanent | – | – | **–** | – | – | 1 | 1 | **2** | 2 | – |
| **Total** | **149** | **130** | **279** | **161** | **118** | **140** | **112** | **252** | **133** | **119** |

# Environmental sustainability

The Spur group is committed to sustainable environmental practices as part of our vision to make a positive and lasting difference to the people, communities and environment around us. Under the guidance of the environmental sustainability committee, we will put the necessary processes and procedures in place to measure and minimise our environmental impact. We will also use our relationship with our suppliers, business partners and franchisees to encourage them to minimise their environmental impact.

The group's journey to sustainability started in 2008 when members of the Cape Town head office attended the Western Cape government's smart living training and started asking questions about the company's policy on recycling, packaging and more. In response to these questions, it was decided to start the long process of getting the group on the track to a greener future. A baseline audit of a few selected outlets soon indicated that this process would be more challenging than expected and that head office would need to implement new processes before it could filter down to franchisees.

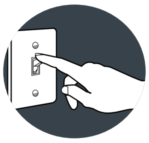
A baseline audit of the group's head office proved to be very useful in identifying problem areas, potential solutions and the practical applications thereof. In order to give structure to the process, an environmental sustainability committee, comprising both executive and operational members, was established that oversees the establishment and implementation of policies, as well as the tracking, measurement and verification of all resultant data.

Following a succinct vision of 'creating sustainable relationships and communities for the future', the committee compiled an action plan that could benefit franchisees, their businesses and the communities they serve. This plan culminated in a formal environmental sustainability policy. The policy encourages employees at the group's restaurants and corporate offices to implement the group's environmental principles and practices and addresses the following areas:

- Energy efficiency
- Water conservation
- Waste reduction
- Procurement/supply chain management
- Transport
- Packaging
- Events
- Measuring and reporting
- Awareness
- Community involvement.

The policy is supported by a detailed set of environmental sustainability policy guidelines.

## OUR SUSTAINABILITY JOURNEY SO FAR



### ENERGY EFFICIENCY

An energy audit was conducted at corporate offices and franchised restaurants to identify the group's overall energy requirements, key concern areas and ultimate intervention plan.

#### Corporate

The reporting offices have implemented various energy-saving initiatives, including timer switches for lights and air conditioning, energy-saving light bulbs and window films on corner offices. A full energy retrofit was completed at head office and the Durban regional office at the end of the 2013 financial year, the benefits of which should be evident in the coming year.

Spur Corporation consumed 475 739 kWh of electricity in 2013, a 7% increase on 2012 (445 267 kWh). These figures relate to the Gauteng, Durban and Port Elizabeth regional offices, Cape Town head office, and décor manufacturing, training and call centre facility. The increase needs to be considered in the context of the organic growth in the business and the increase in head count.

#### Franchisees

An energy-efficiency campaign was launched in 2012 and sought to create awareness among franchisees and their employees. Information posters and stickers were circulated in different languages to all franchised restaurants to educate, inform and engage at grass roots level.

A revised restaurant building specification, incorporating a switch to LED lighting, together with practical implementation guidelines, was developed and relayed to franchisees.

## WATER CONSERVATION AND REDUCTION

The corporate offices do not use significant amounts of water. Most of the water is sourced from local municipalities with a small amount of ground water used to water the gardens. The largest consumers of water are the group's sauce and décor manufacturing facilities.

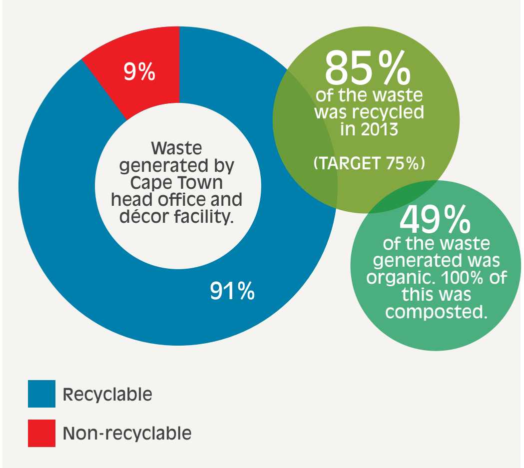
Water-saving initiatives focus primarily on ensuring production efficiencies in the group's manufacturing plants and raising awareness to change employee behaviour. The environmental sustainability committee has recommended that the group focuses on water management instead of water saving.

## WASTE MANAGEMENT

### Corporate

The group's corporate offices have implemented waste reduction and recycling programmes, although not all of these sites have accurate data regarding waste diverted from landfill. The committee has provided all corporate offices with the necessary guidance and information to ensure accurate and complete data collection in future. Waste recycled includes organic waste and general office items such as paper, packaging (cardboard, plastic and tin) and office-related electronic waste. Spur has partnered with the Zero-to-Landfill programme to manage the waste generated by head office. This programme teaches employees to separate organic waste and recyclables in a clear and practical fashion. Currently, 91% of the waste generated by Spur head office is recycled or composted, with only 9% going to landfill.

HEAD OFFICE WASTE MANAGEMENT 2013




### Franchisees

Steps have been taken to engage franchisees and their landlords to implement a practical waste management process at restaurant level. The environmental sustainability committee is committed to rolling out an operationally sound process in the year ahead.

Over the last two years, more than a million litres of vegetable cooking oil from group franchised restaurants in the Western Cape have been converted to biodiesel to power fishing vessels, trucks and mining equipment. The oil is collected weekly, purified and converted to biodiesel that is then sold to other companies. Oil collectors were appointed in certain regions of Gauteng during the year. The group also completed testing of an oil cleaning enzyme in the Gauteng region which will be rolled out in 2014.

## PROCUREMENT/SUPPLY CHAIN MANAGEMENT

Our franchise network is a significant consumer of food products. While sustainable procurement is a key risk for the group and forms a large part of our overarching strategy, it is also arguably one of the most difficult strategies to implement. One of the first steps taken to address this issue was to partner with SASSI to ensure that John Dory's outlets serve only sustainably sourced seafood.

Refer page 48 for further strategies concerning the sustainable supply of raw materials.

## PACKAGING

The group uses sustainable paper-based takeaway packaging in Spur, Panarottis and John Dory's restaurants.
The design team has further reduced the ink coverage and number of colours used on all packaging elements across the Spur and Panarottis brands, to reduce the environmental impact during the manufacturing process. The procurement team engages with its packaging and printing suppliers continually to develop and explore sustainable alternatives and minimise waste.

## EVENTS

As part of its community development programme, Spur hosts and manages many outdoor events each year. The environmental sustainability team has introduced a full event-greening manual and training programme that will ensure that all events leave a legacy that reflects the group's environmental policy. This approach was applied to the Spur Convention at Sun City in February 2013.

We plan to offset the estimated 41.07 tonnes of $CO_2$ equivalent created during the Spur Convention through support of the Endangered Wildlife Trust's Karoo Land Rehabilitation Programme and the purchase of 18 Friedenheim hydro tradable renewable energy certificates. An extensive list of items was donated to local schools through the Sun City Resort social responsible investment team. Donated items included carpeting, notebooks, educational material (Spur Totem magazine for kids), juice, biscuits, games and other items that were left over after the event.

## MEASURING AND REPORTING

### Corporate

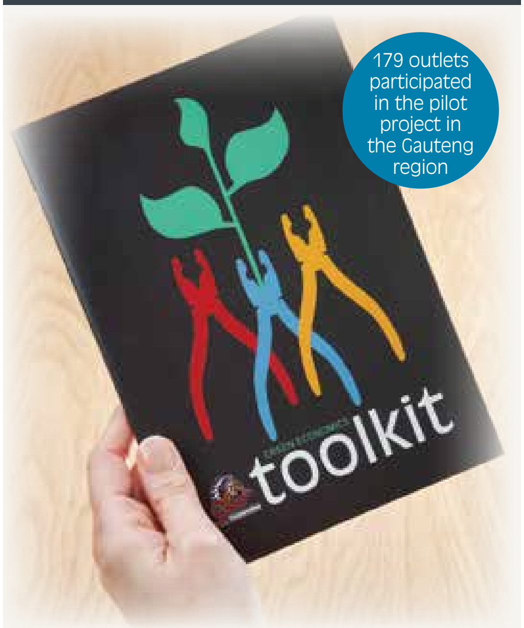
Spur has set reduction targets for various sustainability metrics, which are currently being re-evaluated in light of the realities of the business. Data collection is also at an early stage, as not all group sites have reported consumption figures.

### Franchisees

During the year, the group launched an eco-checklist, 'the Green Store Report', which introduces environmental KPIs at franchisee level so that these can be monitored and the group's total environmental impact better understood. KPIs cover specific greening initiatives, energy efficiency, waste reduction, water conservation, eco-procurement and general administration. In addition to serving as a data collection tool, the process also creates regular awareness of these issues among franchisees.

The project was piloted in the Gauteng region in September 2012. In May 2013, a total of 179 outlets across Mpumalanga, Gauteng and Limpopo participated with an average score of 66.25%. We plan to roll out the Green Store Report to all outlets across South Africa from July 2013.

**ECO-TOOLKIT**




## AWARENESS

A Spur eco-toolkit has been compiled to raise awareness among corporate employees, franchise owners and franchisee employees. The toolkit provides information and practical implementation guidance on the matters addressed by the eco-checklist.

The group's sustainability team implemented a number of training courses during the year to raise awareness among head office and franchisee employees and provide practical tips on environmental issues. During 2013, 167 employees and selected franchisees were trained in the group's environmental sustainability policy and eco-toolkit rollout program and over 60 employees received specific skills training around environmental sustainability issues. Ongoing training is scheduled for 2014.

The environmental sustainability committee hosted an eco-stand at the Spur Convention at Sun City in February 2013. The stand provided franchisees with the opportunity to engage with members of the committee and served to showcase the group's initiatives and facilitate the sharing of information on environmental sustainability matters applicable to franchisees. The aim of interacting with franchisees was to highlight the commercial benefits of implementing the group's environmental policies. A prize of a R50 000 restaurant eco-makeover was also put up for grabs for a lucky participating restaurant who visited the stand.

The group also raises awareness of environmental issues through the ecological messaging in the Totem magazine and the EcoWarriors initiative (www.spur.co.za/ecowarriors).

## COMMUNITY INVOLVEMENT

The environmental sustainability committee currently supports two ongoing initiatives that align with the group's sustainability principles:

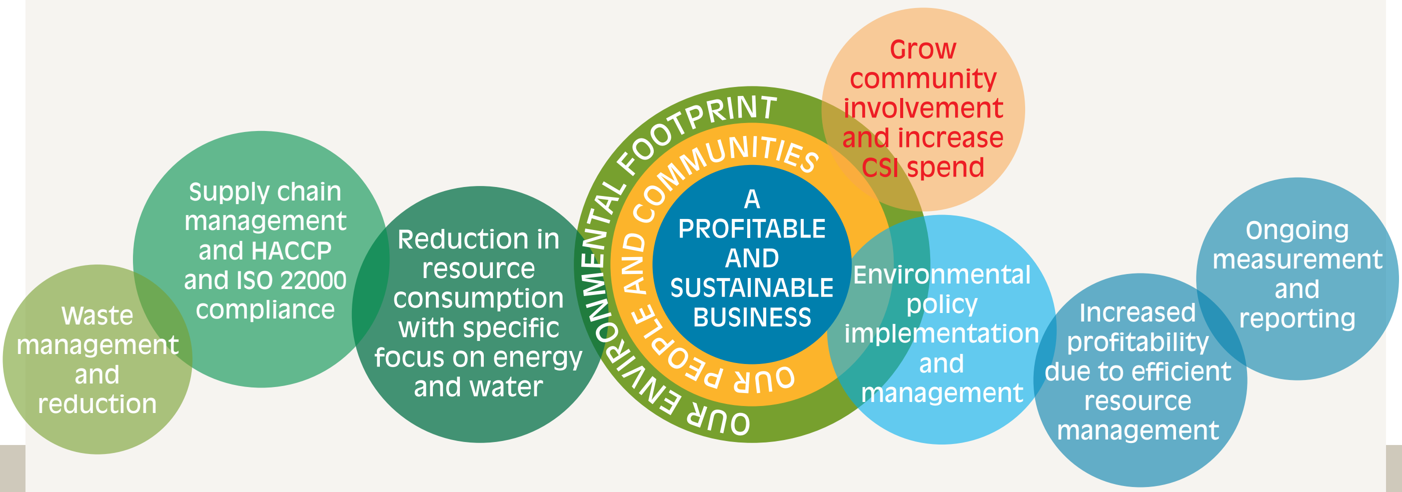
- **Creating Change –** The group contributes clothing, cash donations and cooking items for Creating Change's Conscious Cooking course at Marine Primary in Ocean View, Cape Town. It teaches children life skills and about nutrition and healthy eating, their communities and the environment.
- **ZTL Organics schools' recycling project –** This initiative assists schools with the establishment of recycling facilities. It is a fun, engaging project based on educating and encouraging children to recycle and create food gardens.

The group is well aware of the many challenges that still lie ahead, but is proud of its achievements to date which will lead to a greater sustainable business into the future.

## KEY ENVIRONMENTAL STRATEGIES FOR 2014

| | | | | | | |
|---|---|---|---|---|---|---|
| Transport management and policy development | Green Store Report implementation at franchisee level | Environmental sustainability training and awareness | Measurement and verification of environmental KPIs | Stakeholder engagement on environmental issues relating to group operations | Event greening (all outdoor events) | Procurement and supply chain review to reduce environmental risk |

## SUSTAINABILITY FRAMEWORK 2014



# GOVERNANCE REPORTS

The group's operational style is based on the fundamentals instilled by its founder in 1967. This has been refined and improved over more than 40 years and entrenched by the directors and senior executives – many of whom started their careers working in individual outlets.

Spur's operational style is based on people, entrepreneurial flair, customer focus, operational excellence, empowerment and learning, and prudent and considered decision-making.

There is a justifiable need for formal corporate governance imperatives and structures in maturing listed companies with multiple stakeholders. At times, the group's operational style may appear to be in conflict with certain of these areas.

The board and management are committed to guarding against corporate bureaucracy stifling the fundamentals that have been critical to the success of the group. As such, the directors strive to achieve equilibrium where corporate governance imperatives and the group's fundamental operational ethos are balanced. The directors believe that in this manner, the interests of all stakeholders are protected.

As such, the board has considered the King Code of Governance Principles for South Africa ("King III"), released in 2009, and it recognises the importance of these objectives.

The board does not believe that all the recommendations of King III are appropriate to the group. However, the directors are confident that the fundamental objectives and spirit of King III are being achieved within Spur Corporation Ltd.

## Governance assessment

As part of its continuing quest to improve governance practices, the board has adopted the Institute of Directors of South Africa's ("IoDSA") Governance Assessment Instrument ("GAI") process. The GAI is a tool to assess the performance of the group's governance practices relative to the recommended practices of King III.

Practices are either applied or not applied. Where a practice is not applied, an explanation is given of a compensating practice or, alternatively, the reason for non-application. The GAI confirms the extent of application of the King III principles by way of the following rating:

| | |
|---|---|
| AAA | Highest application |
| AA | High application |
| BB | Notable application |
| B | Moderate application |
| C | Application to be improved |
| L | Low application |

Assurance of the accuracy and validity of these results is provided by executives, the audit committee and the board of directors, by their review of the following reports supplied by the GAI:

- Explanation register
- Exceptions listing
- A detailed governance register of all the recommended King III practices.

The GAI process culminates in a King III application register that provides stakeholders with an analysis of the extent of application of the recommended practices of King III – and in so doing, explains how and to what extent the principles of King III have been applied.

Below is the summary King III applications register in respect of the principles in chapter 2 of King III which lists material departures from the recommended practices of King III. The detailed King III application register (all 75 principles) is available on the company's website at www.spurcorporation.com.

| PRINCIPLE | PRINCIPLE DESCRIPTION | APPLIED/PARTIALLY APPLIED/NOT APPLIED | IODSA GAI RATING | |
|---|---|---|---|---|
| Principle 2.1 | The board acts as the focal point for and custodian of corporate governance | Applied | AAA | |
| Principle 2.2 | The board appreciates that strategy, risk, performance and sustainability are inseparable | Applied | AA | |
| Principle 2.3 | The board provides effective leadership based on an ethical foundation | Applied | AAA | |
| Principle 2.4 | The board ensures that the company is, and is seen to be, a responsible corporate citizen | Applied | AAA | |
| Principle 2.5 | The board ensures that the company's ethics are managed effectively | Applied | AAA | |
| Principle 2.6 | The board ensures that the company has an effective and independent audit committee | Applied | AAA | |
| Principle 2.7 | The board is responsible for the governance of risk | Applied | AA | |
| Principle 2.8 | The board is responsible for information technology (IT) governance | Applied | AA | |
| Principle 2.9 | The board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards | Applied | AA | |

| EXPLANATION/COMPENSATING PRACTICES | NOT APPLIED COMMENTARY |
|---|---|
| | |
| | Regarding the recommendation to translate strategy into key performance and risk areas (including finance, ethics, compliance and sustainability) with associated performance and risk measures, the board has commenced the process of establishing KPIs and risk measures for non-financial items. The process requires further rigour and the board is committed to implementing the recommended practice in due course. |
| | |
| | |
| | |
| | Regarding the recommended practices relating to the composition of the audit committee: for the year under review, the committee comprised a majority of independent non-executive directors, but is still chaired by a non-independent non-executive director, Keith Madders. Keith will resign from the committee at the annual general meeting on 5 December 2013 and Dean Hyde (independent) will be nominated to chair the committee; Dineo Molefe will also be nominated to sit on the committee at that meeting. |
| Regarding the recommended practices relating to the composition of the risk committee: for the 2013 financial year, the committee comprised only executive directors. Senior management and relevant experts are invited to attend. In light of the fact that the majority of risks facing the group are largely operational in nature, the board is satisfied that it is appropriate for the committee to comprise only executive directors. Notwithstanding this fact, the board has acknowledged that participation by a non-executive director will strengthen the effectiveness of the committee in relaying critical risk issues to the board. A non-executive director, Keith Getz, was appointed to the committee on 11 September 2013, although the chief executive officer will continue to chair the committee. | At the request of the audit committee, internal audit conducted a review of the risk management process relative to recommended practices of King III during the year. While the review concluded that an adequate process of risk management is in place (given the size and nature of the group), improvements were recommended to elements of the process. These include: enhancements to management's reporting to the committee and the committee's report back to the board; enhancements to the risk ranking and reporting process; enhanced accountability in terms of risk response strategies; enhancements to the process for updating the risk register on a more regular basis; enhancements to the process of identifying risks; and quantification of risks to the extent possible. These recommendations have been or will be implemented during the 2014 financial year. Regarding the recommended practice for a top-down approach to be adopted in risk assessments without being limited to strategic and high-end risks, in the past the focus of risk management has been on those risks that impact the longer-term sustainability of the company. From the 2014 financial year, consideration will be given to all other risks as part of the risk management process. |
| Regarding the recommended practices to implement an information security management system: as the group's IT infrastructure is relatively uncomplicated and not considered a fundamental component of the group's business, the board considers it appropriate for information security to be managed by executive management (as opposed to the board). The internal audit function will consider information security as part of its IT reviews in future and report to the board (through the audit committee) in this regard going forward. | Regarding the recommended practices relating to disaster recovery, an IT disaster recovery plan is in place but it has not been thoroughly tested. Management intends updating and testing the plan in the year ahead. |
| Regarding the recommended practices to ensure that a legal compliance policy is implemented and that assurance be obtained: a formal legal compliance policy is not in place. The board is satisfied, given the size and nature of the group and its activities, that the process of legal compliance is adequately managed by the structures in place which include the company's chief financial officer and legal and compliance officer. Given the size and nature of the group and its activities, the board is satisfied that the risk management process and report back from management is adequate assurance in this regard. | Regarding the recommended practices for ongoing training programmes for directors: training of directors on applicable laws, rules, codes and standards happens on an *ad hoc* basis as the need arises. The board considers this appropriate in the context of the group's operations. |

| PRINCIPLE | PRINCIPLE DESCRIPTION | APPLIED/PARTIALLY APPLIED/NOT APPLIED | IODSA GAI RATING | |
|---|---|---|---|---|
| Principle 2.10 | The board ensures that there is an effective risk-based internal audit | Applied | AAA | |
| Principle 2.11 | The board appreciates that stakeholders' perceptions affect the company's reputation | Partially not applied | BB | |
| Principle 2.12 | The board ensures the integrity of the company's integrated report | Applied | AAA | |
| Principle 2.13 | The board reports on the effectiveness of the company's system of internal controls | Applied | AAA | |
| Principle 2.14 | The board and its directors act in the best interests of the company | Applied | AAA | |
| Principle 2.15 | The board will/has consider/ed business rescue proceedings or other turnaround mechanisms as soon as the company has been/may be financially distressed as defined in the Company's Act (Act No. 71 of 2008) | Applied | AAA | |
| Principle 2.16 | The board has elected a chairman of the board who is an independent non-executive director, failing which a lead independent director. The chief executive officer of the company does not also fulfil the role of chairman of the board | Applied | AAA | |
| Principle 2.17 | The board has appointed the chief executive officer and has established a framework for the delegation of authority | Applied | AAA | |
| Principle 2.18 | The board comprises a balance of power, with a majority of non-executive directors. The majority of non-executive directors are independent | Applied | AAA | |
| Principle 2.19 | Directors are appointed through a formal process | Applied | AAA | |
| Principle 2.20 | The induction of and ongoing training and development of directors are conducted through formal processes | Applied | AAA | |

| | EXPLANATION/COMPENSATING PRACTICES | NOT APPLIED COMMENTARY |
|---|---|---|
| | | |
| | | Regarding the recommended practice to identify, assess and deal with stakeholders that could materially affect the operations of the company as part of the risk management process, the interests and expectations of stakeholders are not formally incorporated into the risk management process. However, these are dealt with by management outside of the risk management process. To the extent that a relevant risk is identified, this will be escalated to the risk committee. Nevertheless, stakeholders have been identified and a channel of communication has been established for each stakeholder. Regarding the recommended practice to have the company's reputation and its link to stakeholder relationships as a regular board agenda item, reputation management is not a standard board agenda item, but it is always front of mind and will be raised by a director where appropriate. Regarding the recommended practices for management to develop a strategy and formulate policies for the management of relationships with each stakeholder group: the group's current stakeholder engagement processes are focused on certain stakeholders, in particular customers, franchisees, shareholders (or their representatives) and employees. For other stakeholders, there are no formal strategies and policies in place. The board will consider this recommended practice in due course. |
| | | |
| | | |
| | | |
| | | |
| | King III recommends the appointment of a lead independent director in the event that the board is chaired by an executive chairman. Regarding the recommendation of an independent chairman: the group's founder, Allen Ambor, who is an executive director, is the chairman of the board. As the founder of the group and designated brand custodian of the group's brands, Allen has a holistic understanding of the group's brands; his creativity, entrepreneurial flair and insight into the customer psyche are considered invaluable to the group. The board believes that it is important for a franchisor group to have a chairman that has experience in the franchise industry and Allen fulfils this requirement. To compensate for the board being chaired by an executive director, the board has appointed Mntungwa Morojele (an independent non-executive director) as lead independent director. The roles and responsibilities of the lead independent director are formalised in a lead independent director charter. | |
| | | |
| | | With effect from 26 November 2012, Dean Hyde has been assessed as independent. Prior to 26 November 2012, the board comprised a majority of non-executive directors, but the majority of non-executives were not independent. |
| | | |
| | | |

| PRINCIPLE | PRINCIPLE DESCRIPTION | APPLIED/PARTIALLY APPLIED/NOT APPLIED | IODSA GAI RATING | |
|---|---|---|---|---|
| Principle 2.21 | The board is assisted by a competent, suitably qualified and experienced company secretary | Applied | AAA | |
| Principle 2.22 | The evaluation of the board, its committees and its individual directors is performed every year | Partially not applied | B | |
| Principle 2.23 | The board delegates certain functions to well-structured committees without abdicating from its own responsibilities | Applied | AAA | |
| Principle 2.24 | A governance framework has been agreed upon between the group and its subsidiary boards | Applied | AAA | |
| Principle 2.25 | The company remunerates its directors and executives fairly and responsibly | Applied | AAA | |
| Principle 2.26 | The company has disclosed the remuneration of each individual director and certain senior executives | Applied | AAA | |
| Principle 2.27 | The shareholders have approved the company's remuneration policy | Applied | AAA | |

| EXPLANATION/COMPENSATING PRACTICES | NOT APPLIED COMMENTARY |
|---|---|
| | |
| Regarding the recommended practice of the board determining its own role, function, duties and performance criteria as well as that of directors and board committees to serve as a benchmark for performance appraisals: the first formalised board evaluation took place in July 2012 and annual evaluations have taken place since then. Informal evaluations of the board committees have taken place for the 2013 financial year. Given the size and nature of the board, the board is satisfied that the process of informal evaluation and feedback applied for the 2013 financial year is adequate; nevertheless, formal evaluations against set performance criteria have been implemented for board committees with effect from the 2014 financial year. Executive directors are assessed annually. The chairman provides feedback on the performance of the non-executive directors to the nominations committee on an informal basis which the board considers appropriate given the size and nature of the board. The lead independent director oversees the process of evaluating the independence of directors. Regarding the recommended practice for the nominations committee to oversee the process and results of performance and independence evaluations of individual directors, the board and board committees: the members of the nominations committee are present at the board meetings where feedback regarding board and committee performance is given and therefore have access to the information that is available. Regarding the recommended practices relating to the composition of the nominations committee: as the board chairman is an executive director, he is not a member of the committee; the committee is chaired by the lead independent director, Mntungwa Morojele, and the two remaining members are both non-executive directors; the committee comprises only non-executive directors, the majority of whom are independent. | Regarding the recommended practice for the appraisal process and the results thereof to be disclosed in the integrated report: the appraisal process is explained in the integrated report, but the results and action plans are not detailed in the integrated report. The board will consider this recommended practice in due course. The board does not consider there to be any material issues arising from these evaluations that would be of interest to stakeholders. |
| | Regarding the recommended practices relating to the composition of the social and ethics committee: the board's social and ethics committee does not comprise a majority of non-executive directors and is not chaired by an independent non-executive director. However, the composition of the committee complies with the Companies Act. The board is satisfied that the chairman of the committee is capable of acting independently and objectively and that the committee comprises the necessary skills to fulfil its statutory responsibilities in terms of the Companies Act and its charter. |
| | |
| | Regarding the recommended practices relating to the composition of the remuneration committee: while the remuneration committee now comprises three independent non-executive directors, for the one meeting held by the committee during the year under review in July 2012, the committee was still chaired by Dean Hyde who was not considered independent at the time. |
| | |
| | |

# Board restructure

The board underwent a restructuring during 2012 to address certain of the historic departures from King III. In September 2012, the board resolved to make the following changes:

- Appoint Mntungwa Morojele as chairman of the nominations committee (to comply with King III's recommendations and the JSE Listings Requirements relating to the composition of a nominations committee). Keith Getz stepped down as chairman of the committee but remains a member of the committee.
- Formally recognise the group's risk committee as a subcommittee of the board and to establish the appropriate terms of reference and charter for the committee (the risk committee was previously a management committee). In September 2013, Keith Getz, a non-executive director, was appointed to the risk committee in accordance with the recommendations of King III.

In November 2012, the board accepted the findings of the lead independent director's assessment that non-executive director Dean Hyde is independent, following the disposal of his interests in group franchises.

At a meeting of the board on 6 March 2013, the board resolved to appoint Muzi Kuzwayo to chair the remuneration committee. The board resolved further to nominate Dean Hyde to replace Keith Madders on the audit committee and to serve as chair of the audit committee for shareholder approval at the annual general meeting of 5 December 2013.

At a meeting of the board on 11 September 2013, Dineo Molefe was appointed to the board as an independent non-executive director. She will be nominated to the board's audit committee for shareholder approval at the annual general meeting. Upon the recommendation of the nominations committee, Keith Getz was appointed to the risk committee.

# Board and subcommittee information

## ROLES AND RESPONSIBILITIES

The board delegated authority to the group chief executive officer, executive directors and senior management for the implementation of the strategy and the ongoing management of the business on a day-to-day basis.

Pierre van Tonder is the group chief executive officer and is responsible and accountable to the board for all group operations. The executive chairman and the group chief executive officer have clearly defined and separate roles.

The board also delegates powers to the elected subcommittees. These are:

- Audit committee (refer Audit committee report on pages 89 to 90)
- Risk committee (refer Risk committee report on pages 78 to 80)
- Remuneration committee (refer Remuneration committee report on pages 81 to 83)
- Social and ethics committee (refer Social and ethics committee report on page 84)
- Transformation committee
- Nominations committee

However, the board retains ultimately responsibility for the proper fulfilment of all functions.

| COMMITTEE | CHARTER OR MANDATE | ROLES AND RESPONSIBILITIES |
| --- | --- | --- |
| **Board** | Yes | • Being the focal point and custodian of corporate governance and ethics.<br>• Developing and adopting strategic plans that align with stakeholder interests and expectations, result in sustainable outcomes and do not give rise to risks that have not been thoroughly assessed by management.<br>• Ensuring that the company is and is seen to be a responsible corporate citizen by having regard to the financial aspects of the business and the impact the business has on the environment and society.<br>• Ensuring that the company has effective and independent board and statutory committees.<br>• Approving financial objectives and targets.<br>• Monitoring operational performance and management.<br>• Ensuring effective risk management and internal controls (including an effective risk-based internal audit).<br>• Ensuring IT governance is managed.<br>• Ensuring effective management of reputational risk.<br>• Ensuring legislative and regulatory compliance.<br>• Monitoring solvency and liquidity and considering remedial responses in the event of indicators of financial distress.<br>• Ensuring the integrity of integrated and interim reports and approving the integrated report (including the annual financial statements). |
| **Audit** | Yes | **Statutory duties:**<br>• Nominating the appointment of the external auditor for approval by shareholders at the annual general meeting.<br>• Assessing the independence of the external auditor.<br>• Determining the fees paid to the external auditor.<br>• Determining the nature and extent of any non-audit services that the external auditor may provide and pre-approving any proposed engagement for such services.<br>• Ensuring that Companies Act (Act No. 71 of 2008, as amended) ("the Act") provisions are complied with in terms of appointing the external auditor.<br>• Preparing a report, as part of the annual financial statements of the company for the relevant financial year, that addresses the items listed in the Act.<br>• Receiving and dealing appropriately with any concerns or complaints in relation to matters as set out in the Act.<br>• Making submissions to the board on any matter concerning the company's accounting policies, financial control, records and reporting.<br><br>**Other duties:**<br>• Reviewing the independence, objectivity and effectiveness of the external auditor.<br>• Discussing the nature and scope of the audit (including key audit risks) with the external auditor before the audit commences and ensuring co-ordination with other group entity auditors.<br>• Reviewing and commenting on all financial reporting, including the interim and annual financial statements, provisional results announcements, trading statements, circulars and the release of price sensitive information before submission to the board for approval.<br>• Discussing any problems or issues arising from the audit and any matters incidental thereto with the external auditor.<br>• Reviewing various documents generated by the internal and external audit service providers.<br>• Approving the appointment of the outsourced internal audit service provider.<br>• Reviewing the performance and objectivity of the internal auditor annually and approving the charter and fee structure.<br>• Reviewing the functioning of the internal audit.<br>• Receiving and reviewing all internal audit reports and management's responses thereto.<br>• Overseeing integrated reporting and recommending the approval of the integrated report to the board for approval.<br>• Reviewing the expertise, resources and experience of the group chief financial officer and finance function annually. |

| COMMITTEE | CHARTER OR MANDATE | ROLES AND RESPONSIBILITIES |
|---|---|---|
| **Risk** | Yes | • Overseeing the development and annual review of a policy and plan for risk management.<br>• Assisting management in identifying major risk areas affecting the sustainability of the group's operations.<br>• Assessing and reviewing the risk management process and related activities.<br>• Making recommendations to the board concerning the group's levels of tolerance and risk appetite and monitoring that these risks are managed within the levels of tolerance and appetite as approved by the board.<br>• Overseeing that the risk management plan is widely disseminated throughout the company and integrated into the day-to-day activities of the company.<br>• Ensuring that management considers and implements appropriate risk responses.<br>• Ensuring that risk assessments are performed on a regular basis and that management monitors risk continuously.<br>• Assessing and reviewing compliance with applicable laws, regulations and supervisory requirements.<br>• Liaising with the audit committee to exchange relevant risk information.<br>• Expressing the committee's formal opinion to the board on the effectiveness of the system and process of risk management.<br>• Reviewing reporting concerning risk management. |
| **Remuneration** | Yes | • Establishing a formal and transparent procedure for developing, reviewing and amending the policy on executive remuneration.<br>• Determining, agreeing upon and developing remuneration policies for all levels of employees, with focus on executive directors.<br>• Determining remuneration packages for executive directors.<br>• Considering criteria to measure the performance of executive directors in discharging their functions and responsibilities.<br>• Approving the award of shares/options to executives and employees.<br>• Reviewing and approving all profit share or share-linked incentive allocations and the terms thereof.<br>• Regularly reviewing incentive schemes to ensure continued contribution to shareholder value. |
| **Social and ethics** | Yes | • Assisting the board with the monitoring and reporting of social and ethical matters in relation to Spur in accordance with the Act.<br>• Statutorily, the committee is responsible for monitoring Spur's social impact in the following material areas:<br>– social and economic development;<br>– good corporate citizenship;<br>– labour and employment practices;<br>– employment equity and Broad-based Black Economic Empowerment ("BBBEE") legislation;<br>– consumer relationships; and<br>– environment, health and public safety.<br>• Additional duties include monitoring Spur's governance of ethics. Spur also has a dedicated board transformation committee in place which is primarily responsible for monitoring and reporting on transformation matters.<br>• The committee's mandate incorporates the responsibility to draw matters within its mandate to the attention of the board and to shareholders of the company. |
| **Transformation** | Yes | • Reviewing the adequacy of the group's compliance with BBBEE legislation and regulations.<br>• Reviewing management's monitoring of employment equity throughout the group.<br>• Reviewing the promotion of managerial control by previously disadvantaged individuals.<br>• Ensuring that the BBBEE plan is dynamic and flexible.<br>• Reviewing the promotion of human resource development through employment equity and skills development initiatives.<br>• Reviewing indirect empowerment and corporate social responsibility initiatives.<br>• Reviewing legislation and making relevant recommendations to the board if appropriate.<br>• Reviewing the findings of any examination by verification agencies.<br>• Establishing special investigations and, if appropriate, hiring special counsel or experts to assist.<br>• Reviewing policies on sensitive issues or practices.<br>• Reviewing and proposing the group's transformation initiatives in line with the Codes of Good Practice for BBBEE, industry and other charters. |
| **Nominations** | Yes | • Ensuring the establishment of a formal process for appointing directors to the board.<br>• Identifying and recommending directorship candidates.<br>• Assessing the board's balance of skills, experience and diversity.<br>• Advising on the composition of the board, ensuring a balance between executive and non-executive directors.<br>• Ensuring inexperienced directors are developed through a mentorship programme (where applicable).<br>• Making recommendations in respect of directors retiring by rotation, or by contract, to be put forward for re-election. |

## COMPOSITION

The board is satisfied that there is an appropriate balance of power and authority, with no one individual or block of individuals being able to dominate the board's decision-making. A formal Limits of Authority Policy is in place which grants specific levels of management (including individual directors and groups of directors) specific authority to commit the group to financial obligations of set limits. This policy prohibits a veto by any one director. Other policies grant specific directors and senior managers with specific decision-making powers.

The group has no controlling shareholder and there is no shareholder with the right/power to appoint a director to the board (other than in accordance with the Act).

| COMMITTEE | COMPOSITION | COMMENTARY |
|---|---|---|
| **Board** | The group has a unitary board structure comprising:<br>• Three independent non-executive directors, including the lead independent director<br>• Two non-executive directors who, in the opinion of the board, act independently<br>• Four executive directors<br><br>A fourth independent non-executive director was appointed on 11 September 2013. | For part of the year, the majority of the non-executive directors were not independent as contemplated by King III. During the year, Dean Hyde disposed of his interests in group franchises and was assessed by the lead independent director as independent on 26 November 2012. The composition of the board now complies with King III's recommendations in this regard.<br><br>The board is of the opinion that the non-independent non-executive directors are sufficiently objective and have the necessary integrity to act independently where required by the Act. The board is of the opinion that the value gained from these directors exceeds the perceived potential risk of them not being independent. |
| **Audit** | Non-independent chair and two independent non-executive directors:<br>• Keith Madders (chair) (non-executive)<br>• Mntungwa Morojele (independent non-executive)<br>• Muzi Kuzwayo (independent non-executive) | Prior to 26 November, there were only two independent non-executive directors on the board and the committee therefore could not meet the requirements of King III.<br><br>At the annual general meeting in December 2013, Dean Hyde will be nominated to chair the audit committee as an independent non-executive director, from which time the committee will comprise only independent non-executive directors. Dineo Molefe will also be nominated to the committee to further bolster technical skills. |
| **Risk** | Three executive directors:<br>• Pierre van Tonder (chair)<br>• Mark Farrelly<br>• Ronel van Dijk | From 5 September 2012, the risk committee was formally constituted as a subcommittee of the board (previously a management committee). On 11 September 2013, Keith Getz, a non-executive director, was formally appointed to the committee. |
| **Remuneration** | Three independent non-executive directors:<br>• Muzi Kuzwayo (chair)<br>• Mntungwa Morojele<br>• Dean Hyde | King III recommends the remuneration committee should be chaired by an independent non-executive director. Dean Hyde, the chair at the start of the year, was not independent (in accordance with King III's requirements) at the only meeting of the committee in July 2012. However, he has been assessed as independent from 26 November 2012.<br><br>On 6 March 2013, Muzi Kuzwayo (an independent non-executive director) was appointed to chair the committee. At 30 June 2013, it comprises three independent non-executive directors. |
| **Social and ethics** | Two executive directors and one non-executive director:<br>• Keith Getz (chair) (non-executive)<br>• Pierre van Tonder (executive)<br>• Ronel van Dijk (executive) | King III recommends that the social and ethics committee be chaired by an independent non-executive director and should comprise a majority of non-executive directors, the majority of whom should be independent. The committee is currently chaired by a non-executive director who is not independent as defined by King III and comprises a majority of executive directors.<br><br>The composition of the committee complies with regulation 43 and section 72 of the Act. The board is satisfied that the chairman of the committee is capable of acting independently and objectively and that the committee comprises the necessary skills to fulfil its statutory responsibilities in terms of the Act and its charter. |

| COMMITTEE | COMPOSITION | COMMENTARY |
|---|---|---|
| **Transformation** | Three executive directors and two independent non-executive directors:<br>• Pierre van Tonder (chair) (executive)<br>• Mark Farrelly (executive)<br>• Ronel van Dijk (executive)<br>• Mntungwa Morojele (independent non-executive)<br>• Muzi Kuzwayo (independent non-executive) | |
| **Nominations** | Two independent non-executive directors and one non-independent non-executive director:<br>• Mntungwa Morojele (chair) (independent non-executive)<br>• Keith Getz (non-executive)<br>• Muzi Kuzwayo (independent non-executive) | King III recommends that the committee be chaired by an independent non-executive director. The committee was chaired by a non-executive director who is not independent as defined by King III, Keith Getz, for part of the current year. However, with effect from 5 September 2012, the board appointed lead independent director, Mntungwa Morojele, as chairman of the committee. Keith Getz stepped down as chairman of the committee, but remains a member. The remaining members of the committee remain unchanged. |

## Chairman of the board and lead independent director

The board is chaired by Allen Ambor, an executive director. King III recommends that the chairman of the board be an independent non-executive director. As executive chairman, Allen's executive involvement is limited to marketing, creative input and strategy.

Allen is the founder of the group and designated brand custodian for the group. As such, Allen has a holistic understanding of the group's brands. His creativity, entrepreneurial flair and insight into the customer psyche are considered invaluable to the group.

On this basis, the board has concluded that it is not inappropriate for Allen, as an executive director, to chair the board. In addition, the board has appointed a lead independent director ("LID"), as recommended by King III, because the chairman is an executive director.

The appointment of the LID is for a period of three years. The role of the LID, currently Mntungwa Morojele, is formalised in a lead independent director charter that includes *inter alia*:

- To preside at all meetings of the board at which the chairman is conflicted.
- To lead the board of directors in the annual assessment of the independence of the independent non-executive directors and of the ability of the non-independent non-executive directors to act independently.
- To preside over the process of evaluating the chairman's performance as chairman of the board.
- To call and preside over meetings of the non-executive directors where necessary.
- To serve as principal liaison between the independent non-executive directors and the chairman.
- To perform all such functions that cannot be performed by the chairman due to the existence of a conflict of interest.
- To liaise with major shareholders if requested by the board in circumstances or transactions in which the chairman is conflicted.
- To perform other duties that the board of directors may from time to time delegate.

## Directors' responsibility

The directors exercise objective judgement on the affairs of the company independently from management, but with sufficient management information to enable a proper and objective assessment to be made. To fulfil their legal duties, directors have unrestricted access to all the company's information, records, documents, property, management and employees subject to approval by the group chief executive officer and/or the chairman of the board. Non-executive directors have direct access to management and may meet with management without the executive directors. All directors have unrestricted access to the advice and services of the company secretary. They are entitled to seek independent professional advice at the company's expense after consultation with the chairman of the board and/or the group chief executive officer.

## Directors' appointments

The board has adopted a policy detailing the process and procedures, which are formal and transparent, for the appointment of directors to the board. While the appointment of directors is a matter for the board as a whole, recommendations are made by the nominations committee. All appointments are subject to shareholder approval.

## Directors' rotation

In terms of the company's Memorandum of Incorporation and in compliance with the JSE Listings Requirements, no less than one third of the non-executive directors retire annually by rotation each year at the annual general meeting. Consequently, at the forthcoming annual general meeting, Messrs Keith Getz and Dean Hyde will retire. The nominations committee has recommended the directors in question for re-election to the board. The re-election will be tabled at the annual general meeting for shareholder approval.

## Company secretary

The company secretary assists the chairman in coordinating and administering the functioning of the board, the induction of new non-executive directors and ensuring statutory compliance. The appointment and removal of the company secretary is a matter for the board and not executive management.

The company secretary is Ronel van Dijk, who is also the group chief financial officer (and financial director). King III recommends that the company secretary should ideally not be a director of the company. The board is of the opinion that there is no employee of the company who is more qualified than Mrs Van Dijk to fulfil the role of company secretary and that, given the size and nature of the company, the role of company secretary is not a full-time role. The board does not consider the appointment of a dedicated company secretary to be warranted at this time. While Mrs Van Dijk, as director, is not able to maintain an arm's length relationship with the board, the board is satisfied that she is able to act as the gatekeeper of good governance. In addition to being bound by the company's Code of Ethics and Conduct, as a chartered accountant (South Africa), Mrs Van Dijk is also bound by professional ethics. The board has faith in her to act impartially, ethically and in the best interests of the company and its stakeholders at all times.

The board has assessed the competence and expertise of Mrs Van Dijk, in her capacity as company secretary, and is satisfied in this regard. Mrs Van Dijk is assisted in her company secretarial duties by the in-house legal and compliance officer and as such, the board does not believe that her secretarial duties diminish her capacity to deal with her duties as financial director.

# ATTENDANCE

## Board

The board meets formally four times a year. Additional meetings are convened at short notice, as necessary, to discuss urgent business. The attendance at board meetings for the period 1 July 2012 to 30 June 2013 was as follows:

| DIRECTOR | 23-24 AUGUST 2012 | 5 SEPTEMBER 2012 | 27-28 FEBRUARY 2013 | 6 MARCH 2013 |
|---|---|---|---|---|
| Allen Ambor | P | P | P | P |
| Pierre van Tonder | P | P | P | P |
| Mark Farrelly | P | P | P | P |
| Ronel van Dijk | P | P | P | P |
| Keith Madders | P | P | P | P |
| Keith Getz | P | P | P | P |
| Dean Hyde | P | P | P | P |
| Muzi Kuzwayo | P | P | P | P |
| Mntungwa Morojele | P | P | P | P |

P – Present; A – Absent

## Audit committee

Two formal meetings were held during the year under review. Meetings are scheduled semi-annually. The attendance at committee meetings for the period 1 July 2012 to 30 June 2013 was as follows:

| DIRECTOR | 31 AUGUST 2012 | 1 MARCH 2013 |
|---|---|---|
| Keith Madders | P | P |
| Muzi Kuzwayo | P | P |
| Mntungwa Morojele | P | P |

P – Present; A – Absent

## Risk committee

Two formal meetings were held during the year under review. Meetings are scheduled semi-annually and attendance at committee meetings for the period 1 July 2012 to 30 June 2013 was as follows:

| DIRECTOR | 21 AUGUST 2012 | 5 MARCH 2013 |
|---|---|---|
| Pierre van Tonder | P | P |
| Mark Farrelly | P | P |
| Ronel van Dijk | P | P |

P – Present; A – Absent

## Remuneration committee

One formal meeting was held during the 2013 financial year. This meeting was held on 30 July 2012 and all three committee members (Messrs Dean Hyde, Muzi Kuzwayo and Mntungwa Morojele) were in attendance.

## Social and ethics committee

Two meetings were held during the financial year under review and two meetings are scheduled annually. The attendance at committee meetings for the period 1 July 2012 to 30 June 2013 was as follows:

| DIRECTOR | 6 DECEMBER 2012 | 27 MAY 2013 |
|---|---|---|
| Keith Getz | P | P |
| Pierre van Tonder | P | P |
| Ronel van Dijk | P | P |

P – Present; A – Absent

### Transformation committee

Typically, the committee meets quarterly and attendance at committee meetings for the period 1 July 2012 to 30 June 2013 was as follows:

| DIRECTOR | 30 JULY 2012 | 30 OCTOBER 2012 | 1 MARCH 2013 | 10 MAY 2013 |
|---|---|---|---|---|
| Pierre van Tonder | P | P | P | P |
| Mark Farrelly | P | P | P | P |
| Ronel van Dijk | A | P | P | P |
| Mntungwa Morojele | P | P | P | P |
| Muzi Kuzwayo | P | P | P | P |

P – Present; A – Absent

### Nominations committee

Two meetings were held during the financial year and attendance at committee meetings for the period 1 July 2012 to 30 June 2013 was as follows:

| DIRECTOR | 23 AUGUST 2012 | 27 FEBRUARY 2013 |
|---|---|---|
| Mntungwa Morojele | P | P |
| Keith Getz | P | P |
| Muzi Kuzwayo | P | P |

P – Present; A – Absent

## OPERATIONAL COMMITTEES

The board is also assisted in the discharge of its duties by certain operational committees comprising senior management (who are not directors) and certain executive directors. Although not formal subcommittees of the board, these committees provide valuable insight into the day-to-day operations of the group and assist in the identification of risks and the formulation of strategy.

### Operational executive committee

This committee meets twice a year to commit to plans for implementing the board's strategy, identifying and assessing risks within the group, identifying new business opportunities and reviewing performance against key metrics. This committee comprises executive directors, Pierre van Tonder, Mark Farrelly and Ronel van Dijk, and includes heads of all functional areas within the group. The committee is chaired by the group chief executive officer, Pierre van Tonder. Significant matters are raised at board meetings or meetings of board subcommittees.

### Environmental sustainability committee

The purpose of the committee is to establish "green policies" and a sustainability strategy for the group, and to assist the board in measuring compliance with the policies and strategies.

The committee comprises executive directors Pierre van Tonder, Mark Farrelly and Ronel van Dijk, the group finance executive, group marketing executive, Panarottis chief operating officer and a number of other functional heads and managers within the group. The committee is chaired by the group's sustainability champion, Joe Stead. Additional subcommittees have been established in each region and in certain specific functional areas.

The committee aims to meet at least quarterly.

### The human resource productivity committee

This committee's role is to develop and implement a competitive human resource strategy that will ensure that the company is able to attract, retain and develop the best possible talent to support superior business performance. The committee monitors and reports to the board of directors on progress relating to the group's human resource strategy. The committee meets at least once a year and consists of three executive directors, senior functional department heads, the group human resource and transformation executives and the group human resource manager. The committee is chaired by the group chief executive officer, Pierre van Tonder.

### Treasury committee

This committee comprises executive directors, Pierre van Tonder and Ronel van Dijk, the group finance executive and group financial manager. The committee reviews cash flow projections and monitors short-term investments to manage liquidity within the group, diversify the group's short-term investments among various financial institutions and maximise the return on short-term investments within the board's treasury mandate. The committee also manages the group's share buy-back programme and other share-related transactions in accordance with the board's mandate.

### Information technology ("IT") steering committee

The committee comprises executive directors, Pierre van Tonder and Ronel van Dijk, the group finance executive, group business intelligence executive (who chairs the meeting) and the head of IT infrastructure. The committee meets monthly to confirm key decisions concerning IT infrastructure, consider and respond to IT-related risks and prioritise IT development projects.

# IT governance

The group's IT infrastructure is relatively uncomplicated. While IT is a key component of everyday operations, it is not considered a fundamental component of the group's business and is not integral to the functioning of the group's franchised operations. The company would be able to operate in the short to medium term in the event of a catastrophic IT failure. Notwithstanding that IT is not a critical component of the group's core operations, it is an important business intelligence tool and a means of managing efficient operations.

The outsourced internal audit function has incorporated IT risks, controls and governance in its five-year internal audit plan. As a starting point, internal audit completed a comprehensive risk analysis and prioritisation exercise during the year which culminated in a comprehensive IT risk register and IT governance work plan. These findings have been reported to the audit committee and the board. The board will monitor the implementation progress.

King III recommends that the board should ensure that an information security management system be implemented. In the group's context, the board is satisfied that information security is managed by executive management (as opposed to the board). Nevertheless, the audit committee has requested the internal auditor to consider information security as part of its IT reviews in future and to report their findings to the board (through the audit committee).

While an IT disaster recovery plan is in place, it has never been thoroughly tested. Management intends updating and testing the plan in the year ahead.

The group business intelligence executive – assisted by the IT steering committee – is responsible for the general management of the IT function, and together they serve as a proxy for a chief information officer as contemplated by King III.

Given the limited complexity of the group's IT infrastructure, the board does not consider the risk of integrity of financial information produced from IT systems to be high. The board relies on internal audit and the skills, expertise and integrity of finance employees to provide complete, timely, relevant, accurate and accessible information. The board also places reliance on the findings of the external auditor regarding systems. To date, the board has no reason to believe that information provided is not complete, timely, relevant or accurate.

# Compliance with laws, rules, codes and standards

The group has an in-house legal and compliance officer whose responsibilities include proactively and systematically managing compliance.

The board relies on the group chief financial officer who, with the assistance of the legal and compliance officer, is responsible for monitoring compliance within the organisation, to highlight any significant matters relating to non-compliance with mandatory laws and rules and to report the potential consequences or risks associated with new legislation.

No material or immaterial but often repeated regulatory penalties, sanctions or fines for contraventions or non-compliance with statutory obligations were imposed on the company or any of its directors.

# Stakeholder relationships

Details of stakeholder engagements are listed on page 18.

While the group does not have a formal structured stakeholder engagement process in place, as recommended by King III, operationally, the group deals with most of its key stakeholders on a regular basis. Where significant issues or concerns are raised by stakeholders, these are brought to the attention of the group chief executive officer who will consider if the matter is to be addressed at a board level.

King III recommends that the chairmen of each board committee should be present at the annual general meeting. In instances where this is not practicable, as certain of the chairmen are not ordinarily resident in South Africa and the cost of travelling outweighs the benefits of having such chairmen available, a member of the committee will be available to field questions and the relevant chairmen will be available telephonically.

As a principle, the group insists on the use of alternate dispute resolution processes (most commonly, arbitration), in all contracts with stakeholders to the extent possible.

# Share dealings

Directors and employees are restricted from trading in the shares of the company during two formalised closed periods ahead of the interim and annual results. The group's insider trading policy requires directors to obtain formal clearance from the chairman prior to dealing in the company's shares. All share dealings are disclosed to the company secretary and this information is released on SENS within 48 hours of any trade being completed.

# Sustainability

The group has used the Global Reporting Initiative G3.1 guidelines as a guide for preparing this integrated report. Our GRI declaration and index appear on page 85 of this report.

King III recommends that a formal process of assurance regarding sustainability reporting should be established. On the basis that the group's sustainability reporting is in the early stages of development, the board is of the opinion that the cost of such an assurance engagement would far exceed the benefit to stakeholders at this time. Furthermore, the board is of the opinion that there is sufficient integrity within the group's reporting process to rely on sustainability disclosures.

# Ethics

The board subscribes to the philosophy of responsible leadership, incorporating the ethical values of responsibility, accountability, fairness and transparency. The directors are of the opinion that the company is, in fact and appearance, a responsible corporate citizen, but recognise that enhancing governance practices is a perpetual process.

Spur Corporation adopted a code of ethics which requires employees to maintain the highest moral and ethical standards in their relationships with all stakeholders. The principles contained in the code are:

- Integrity
- Honesty and good faith
- Impartiality
- Transparency and openness
- Accountability and responsibility.

In addition, the company has a strict conflict of interest policy governing gifts and prohibiting kick-backs and bribes. The policy restricts employee relationships with suppliers, governs the use of company resources for non-company purposes and limits the extent of other business interests undertaken by employees. Employees, including executive directors, may not have any interest whatsoever, directly or indirectly, in a competing restaurant business, franchise or chain that is considered (at the discretion of the board) to operate in a similar market to the group. All employees, including directors, who have any influence over purchasing decisions of the group or its franchisee body, are required to sign an annual declaration enforcing the above policy. The company also has an employee interest in group franchises policy which governs the number of group franchised outlets and the extent of the interest in such outlets an employee may have. It also includes the approval process that must be followed before franchises are granted to employees and other requirements.

The board is satisfied that no material breaches of ethical behaviour occurred during the year and confirms that the group continues to comply with the highest standards of business practices.

# Risk committee report

On 5 September 2012, the board of directors resolved to constitute the risk committee as a formal subcommittee of the board.

## FUNCTIONING OF THE COMMITTEE

The board recognises the importance of an effective risk management process and acknowledges that it is accountable and responsible for ensuring that adequate procedures and processes are in place to identify, assess, manage and monitor key business risks. The board is cautious to avoid reducing the process of risk management to a rigid bureaucratic annual or semi-annual process which has limited value and is rarely effective. The board considers risk management to be a perennial task that is integrated into all facets and functions of the company. Risks are identified, assessed and managed as part of the day-to-day operations of the group at various levels of management, who are empowered in terms of formal policies and protocols to deal with risks in an efficient manner.

The board has approved a formally documented risk management policy as recommended by King III. This policy clearly sets out the following:

- The responsibilities of employees, management, the risk committee and the board
- The definition of risk and risk management
- Risk management objectives
- The board's risk approach and philosophy
- The risk management process and structures.

In terms of this policy, the risk committee serves an oversight role in respect of risk management.

The committee is assisted by the operational executive committee ("exco") (refer page 76) which deliberates on risks relevant to the group and appropriate response strategies. Each member of the exco, effectively representing management, is responsible for identifying, evaluating and managing risk on a daily basis in their respective functional areas and reporting the results of this process to their peers at a semi-annual exco meeting. The exco is responsible for identifying, evaluating and prioritising strategic and operational risks and implementing appropriate controls or such other responses necessary to mitigate the risks, to the extent reasonably possible.

Risks are allocated "risk owners" who are responsible for implementing the necessary response strategies. Compliance with these strategies is reviewed at each meeting. The risk committee reviews and assesses the appropriateness of the risks identified and related response strategies, progress made in terms of implementing the response strategies and the overall risk management process, prior to reporting its findings and recommendations to the board.

## MATERIAL LOSSES

The group incurred no material losses during the financial year.

## RISK APPETITE AND TOLERANCE

The board is risk averse. General authority limits have been determined for various functional department heads, individual directors and groups of directors. It is the general policy of the board that any action that is not considered to have a negligible degree of risk and may potentially expose the group to material financial or other consequences will only be taken after consultation with other board members.

The board is satisfied that no member of management has exceeded his or her authority or acted contrary to the board's stated risk appetite and in so doing, has exposed to the group to unnecessary risk during the period under review and up to the date of this report.

## ASSURANCE

At the request of the audit committee, the internal audit function reviewed the group's risk management process during the year. The recommendations made by internal audit include:

- Enhancements to the reporting process of management to the committee and committee to the board
- Enhancements to the risk ranking and reporting processes
- Enhanced accountability in terms of risk response strategies
- Enhancements to the process for updating the risk register on a more regular basis
- Enhancements to the process of identifying risks
- Quantification of risks to the extent possible.

These recommendations have been, or will be, implemented during the 2014 financial year. The audit committee will provide guidance to the internal auditor on which risks are to be reviewed from an internal audit perspective.

The board is satisfied that an adequate process for identifying, evaluating and managing significant risks was in place for the financial year and until the time of the approval of the integrated report.

## INSURANCE

Insurance is reviewed on an annual basis by senior management, including the group chief financial officer and group chief executive officer. *Ad hoc* changes to insurance cover are made during the period between the annual reviews in the event of significant changes in circumstances, or acquisitions or disposals of significant assets. The group's insurance brokers have a long-standing relationship with the group and have a thorough understanding of its business and insurance requirements. The insurance brokers make certain recommendations which are considered by senior management. The risk committee reviews the insurance cover, the insurance broker's recommendations and management's recommendations before confirming that the appropriate insurance cover is in place.

## CURRENT AND IMMINENT RISKS

The group faces and deals with risks on a daily basis. As discussed above, management is empowered to respond to these risks within certain authority limits. The impact of risks on the longer-term sustainability of the group is dealt with by implementing medium to long-term strategies under the supervision of the board. The key risks to sustainability are discussed under strategy on page 38.

The top 10 risks on our risk register as at June 2013 are listed in the table below.

| RISK | MITIGATION |
|---|---|
| **Broad-based Black Economic Empowerment ("BBBEE")**<br>The group's commitment to BBBEE, although not legislated at this time, impacts market and customer perceptions and in so doing generates reputational risk.<br><br>Non-BBBEE accreditation could impact the group's ability to transact with suppliers and result in difficulty sourcing new locations in future, resulting in lost business opportunities. | Refer 'Transformation' on page 55. |
| **Sustainable supply of raw material**<br>Climate change, coupled with the growth in world population and associated urbanisation, is expected to have a negative impact on food supplies in the long term. This is likely to impact the availability and pricing of food items which will impact franchisee profitability and customers' disposable income. | Refer 'Sustainable supply of raw materials' on page 48. |
| **Short-term interruption of supply chain**<br>The risk of disease or illness negatively affecting the quality or availability of raw materials (for example poultry, beef and seafood) exists in the short term. In addition, in the event of a supplier failure, supply to the group could be disrupted. This would have a negative impact on franchisees and the group. | Where possible, a dual supply strategy is implemented (i.e. at least two suppliers are appointed to supply a specific product). For core items, multiple suppliers are isolated from each other to limit the impact of a regional threat on national supply.<br><br>If the cause for the raw material shortage is related to local factors, most products can be imported and relationships and infrastructure exist to take advantage of import opportunities should the need arise. Potential import agents have been identified.<br><br>Depending on the product, short supply can be mitigated by amending menus or food portions and/or redirecting marketing effort to unaffected products. |
| **Franchisee profitability**<br>Franchisees are exposed to above inflationary increases in minimum wage rates, occupancy costs, energy costs, utilities and food prices which can impact the viability of the brands' respective franchise models. If the franchise models are not regularly reviewed and managed, this could result in increased business failures which would adversely impact the profitability of the group. | Refer 'Sustainable local franchise model' on page 46. |
| **Inappropriate treatment of employees by franchisees**<br>Non-compliance with labour regulations by franchisees could result in bad publicity which could damage the reputation of the group and its brands. | The group's standard franchise agreement requires that franchisees comply with all applicable legislation and regulations. This is supplemented and enforced by each brand's operating manual which lists the laws and regulations that franchisees are required to comply with (including applicable labour laws).<br><br>While the onus of compliance vests with franchisees, operations management has created and disseminated specific training material (including training videos) regarding the treatment and management of employees. Links to guidelines and relevant processes are available to all franchisees through the group's extranet.<br><br>Through interactions with franchisee employees, operations management has identified specific franchisees who may benefit from further training and relevant guidance and workshops have been (or will be) held with these franchisees. |

| RISK | MITIGATION |
| --- | --- |
| **BBBEE compliance – franchisees**<br>Franchisees' ability to secure new leases and operating licences (e.g. liquor licences) may be linked to their BBBEE compliance in future. Non-BBBEE-compliant franchisees increase the group's risk of not achieving its strategy in terms of restaurant openings and revenue growth. | The group is committed to educating franchisees regarding the business imperative of transformation as well as practical methods of achieving transformation within their businesses. Specific plans include:<br><br>• The group's transformation executive hosting franchisee roadshows on transformation.<br>• Making information and guidelines on the BBBEE scorecard available to franchisees.<br>• Undertaking a baseline study on a sample of outlets to identify gaps and devise generic transformation strategies for franchisees and then setting relevant 2020 targets.<br>• Being vigilant in identifying opportunities for black franchisees and providing them with the necessary support.<br>• Enforcing the installation of a 10% black working partner in franchised restaurants, to the extent possible. |
| **Lack of skills – future management**<br>Poor literacy, numeracy and other skills of emerging management could lead to mismanagement and poor performance which could impact the integrity of the group's brands negatively in future. | Refer 'Skills development' on page 54. |
| **Lack of skills – existing management**<br>Poor restaurant middle management skills could lead to poor performance and non-compliance with group strategies which could damage the groups' trading brands. | Refer 'Skills development' on page 54. |
| **Profitability of sauce manufacturing facility**<br>The group's sauce manufacturing facility is a material contributor to group profits. Reduced profitability from the plant (arising from increasing input and transport costs and franchisee resistance to increasing selling prices) could negatively impact the group's overall profitability. | Quarterly reviews of product profitability are undertaken to understand the overall contribution of the product line to make meaningful decisions about capacity use.<br><br>Product recipes are being investigated to consider if more cost-effective formulations are feasible (without changing the taste profiles of the group's unique sauces).<br><br>Alternative transport, distribution and warehousing models are being investigated.<br><br>New external retail opportunities are being aggressively investigated and pursued to maximise capacity use and return on investment. New products are constantly being investigated.<br><br>New production methods and further capital investments are constantly considered to take advantage of the latest technological developments to improve efficiencies. |
| **Human capital retention**<br>The relatively specialised nature of the group's operations and scarcity of skilled resources increases the risk of highly skilled and competent employees being poached by competitors. The demanding working environment can also result in the loss of these employees. | Refer 'Head office employees' on page 56. |

Pierre van Tonder **CHIEF RISK OFFICER**

# Remuneration committee report

This report and the recommendations of the remuneration committee have been approved by the board and will be tabled to shareholders for a non-binding advisory vote at the forthcoming annual general meeting.

Details of the directors' and prescribed officers' remuneration, together with the remuneration of the three most highly paid employees who are not directors, are disclosed in note 34 on page 136 of this report.

## REMUNERATION PHILOSOPHY

The group aims to remunerate all employees in such a way so as not only to attract and retain talented individuals, but also to motivate all employees to contribute continuously to the success of the group. In order to achieve this, the group targets remuneration at the upper quartile of benchmarked remuneration levels for each individual's area of expertise and responsibility and total remuneration packages are structured in such a way as to ensure that the interests of employees and shareholders are aligned.

In addition, the group aims to strike a balance between guaranteed remuneration, short-term incentives and long-term incentives for executive and senior management. For these individuals, multiple metrics are used to determine performance criteria, which are aligned with the group's strategy and shareholder interests, including short and long-term profit growth and long-term share price appreciation.

Remuneration levels are influenced by a scarcity of skills and work performance. Given that performance-related incentives form a material part of remuneration packages, ongoing performance feedback is vital. Employees participate in annual performance and career development evaluations.

## REMUNERATION STRUCTURES

Remuneration consists of three elements:

### Basic cost to company package

The basic cost to company package consists of a basic salary, medical aid contribution, provident fund contribution, and – in certain instances where employees regularly and routinely are required to travel for business purposes – a travel allowance. These packages are linked to individual performance, expertise and knowledge required in the position and competitive benchmarking undertaken from time to time.

Basic cost to company is fixed for a period of 12 months and is subject to an annual review each year with effect from 1 July. Increases are entirely discretionary and are granted after a formal performance evaluation has been conducted on each individual. Increases are based on inflation, individual key performance indicators, benchmarking exercises, core skills, changes in responsibilities and financial performance measures, and are proposed by various line managers and reviewed and approved by the group chief executive officer and chairman of the board. Executive directors' increases are proposed by the chairman of the board and the group chief executive officer on the same basis as for all other employees, but are subject to the prior review and recommendation of the remuneration committee and final approval of the board.

*Ad hoc* adjustments between formal review dates may be proposed where circumstances so dictate; for example, to retain certain rare, specific or core skills or to compensate for promotions or changes in scope of functions. Such adjustments are approved in accordance with the group's limits of authority but would include as a minimum the approval of the group chief financial officer and in the case of higher paid individuals the additional approval of the group chief executive officer and chairman of the board. Adjustments to executive directors' basic cost to company packages are subject to the same process as for the annual review described above.

Travel allowances are reviewed on a three-year cycle and are fixed for the period between review dates. Travel allowances are determined based on the cost of financing, insuring and maintaining a certain level of vehicle depending on the seniority of the individual involved. The next travel allowance review is due to be effective 1 July 2014.

All local employees are required to be covered by medical aid, the cost of which is to be borne by the employee.

All local employees are required to be a member of the group's provident fund, which is administered externally. Employees must contribute a minimum of 15% of their cost to company (net of travel allowance, and provident fund contribution) to the fund but may voluntarily increase this to 20%. The contribution includes group life cover and income protection cover in the event of incapacity. The fund comprises commercially available investment funds managed independently by reputable financial services providers. A committee comprising group chief executive officer Pierre van Tonder, group chief financial officer Ronel van Dijk and other senior managers consults with an independent broker on at least an annual basis to review the performance of the fund and consider the choice of investments.

### Profit share/thirteenth cheque scheme

Employees participate in either a discretionary thirteenth cheque scheme, or a profit share scheme, depending on their position and seniority:

#### *Thirteenth cheque scheme*

The thirteenth cheque scheme operates by way of an annual thirteenth cheque being paid to the participating individuals in the event that the group achieves the requisite financial performance parameters set by the board. This is a discretionary scheme as the board may decide not to declare thirteenth cheque payments should the group's performance not be satisfactory. Depending on the extent to which financial performance parameters are met, a full or partial thirteenth cheque may be declared.

In the event of a thirteenth cheque being declared, each individual's participation is limited to a maximum of one month's cost to company (excluding travel allowance), or a proportionately lesser amount if a partial thirteenth cheque is declared, but may be reduced depending on individual performance during the year under review.

Thirteenth cheque bonuses are proposed by line managers and reviewed and approved by the group chief executive officer and chairman of the board.

#### *Profit share scheme*

The profit share scheme is funded by the dividends received by the Spur Management Share Trust on the 6 688 698 Spur shares held by the Trust pursuant to the shareholders' resolution of 10 December 2010, which are allocated to participating individuals based on growth in group profit and their division's contribution to group profit (both relative to inflation), salary level and personal key performance indicators. The quantum of the bonus pool, being the dividends on the Spur shares, is linked directly to group performance, as the dividend is a direct result of same. Refer note 26.2 on page 130 for further information.

Profit share bonus payments are determined by the group chief executive officer and chairman of the board in accordance with the rules of the scheme approved by, and amended from time to time by, the remuneration committee. The group chief executive officer has the right to make certain adjustments to individual payments within certain limits under certain circumstances. Payments to executive directors are reviewed and approved by the remuneration committee in advance.

The rules of the scheme currently include:

- The maximum aggregate bonus payable to all participants is 90% of the dividends received by the Trust in respect of the financial year for which the bonuses are to be determined (the balance of 10% is used to benefit previously disadvantaged employees through loans and grants) ("the bonus pool").
- The maximum bonus payable to each participant is a *pro rata* share of the bonus pool based on the ratio of each participant's cost to company to the aggregate of all participants' costs to company ("the maximum bonus").
- 20% of each participant's maximum bonus is subject to the group's performance (the average of growth in year-on-year undiluted earnings per share and undiluted headline earnings per share ("group performance measure")) ("the group bonus").
- 80% of each participant's maximum bonus is subject to the participant's divisional performance (the year-on-year growth in operating profit of that division ("divisional performance measure")). In the case of participants who do not work in a profit-generating unit, the divisional performance measure is the weighted average divisional performance measure of all profit-generating units. In the case of directors, the divisional performance measure is the same as the group performance measure ("the divisional bonus").
- The group bonus and divisional bonus of each participant are each multiplied by the following factors and then aggregated to determine a "financial performance bonus":
  - 100% where the group performance measure and divisional performance measure respectively is more than 8% above the rate of inflation.
  - Between 80% and 100% (determined *pro rata*) where the group performance measure and divisional performance measure respectively is between 5% above the rate of inflation and 8% above the rate of inflation.
  - Between 50% and 80% (determined *pro rata*) where the group performance measure and divisional performance measure respectively is between the rate of inflation and 5% above the rate of inflation.
  - 0% where the group performance measure and divisional performance measure respectively is less than the rate of inflation.
  - Where the rate of inflation is the headline consumer price index ("CPI") inflation rate, as published by Statistics South Africa, comparing prices in June of the year being measured relative to June of the previous year.
- Each participant's financial performance bonus is then multiplied by the following factors to determine their "actual bonus payment":
  - 100% where the participant achieves an individual performance rating in excess of 85%.
  - 80% where the participant achieves an individual performance rating of between 70% and 85%.
  - 50% where the participant achieves an individual performance rating of between 50% and 70%.
  - 0% where the participant achieves an individual performance rating of less that 50%.
  - Where the individual performance rating is determined by the participant's line manager in accordance with the group's standard employee performance appraisal system, subject to the moderation of the group chief executive officer.
- In the event that the above calculations indicate that no actual bonus payment is due to a participant, the remuneration committee may nevertheless exercise its discretion to pay a bonus of up to 20% of the maximum bonus based on the participant's individual performance.

## Share-linked retention scheme

The executive directors and certain members of top management participate in a share-linked retention scheme in the form of a cash-settled share appreciation rights scheme. The scheme is a three-year rolling scheme, in terms of which a baseline of 1 500 000 share-linked rights become available for allocation each year. The rights are granted each year in the period following the publishing of year-end results up to 31 December of that same year.

The number of rights to be allocated may be reduced depending on the financial performance of the group relative to inflation, but may not be increased above 1 500 000 per tranche. The granting of rights may be suspended where the performance of the group so dictates. These rights vest and are compulsorily exercisable three years after date of issue. The strike price is determined as the 50-day volume-weighted average price of the Spur share on the grant date.

The gain on the right, calculated as the difference between the 50-day volume-weighted average price of the Spur share on the vesting date and the strike price, is settled to the participant in cash. In terms of the rules of the scheme, the group's upside exposure to the share price and its impact on the liability arising from these share appreciation rights shall be hedged, unless a disinterested quorum of the board determines otherwise. The allocation of rights to specific individuals is based on growth in group profit and their division's contribution to group profit (both relative to inflation), expertise and knowledge, sphere of responsibilities, seniority and personal key performance indicators.

The number and terms of rights granted each year are determined in accordance with the rules of the scheme which are reviewed by the remuneration committee from time to time. In the event that the remuneration committee deems it appropriate for the rules to be amended following such a review, such amendments are recommended by the remuneration committee to the board for approval. The allocation of rights is proposed each year by the group chief executive officer and chairman of the board in accordance with the rules of the scheme and is reviewed and approved by the remuneration committee in advance.

The maximum number of rights that any participant may benefit from at any point in time is 1 500 000.

A total of 4 500 000 rights are currently in issue. Following the first tranche of 1 500 000 rights granted in December 2010 and second tranche of 1 500 000 rights granted in December 2011, a further tranche of 1 500 000 rights was granted in October 2012. Upon the recommendation of the remuneration committee, the board has approved a further allocation of 1 500 000 rights, subject to confirming the pricing parameters of the related hedge (refer below). The terms of these rights will be determined, in accordance with the rules of the scheme, subject to the conclusion of the related hedge.

The group has entered into a hedge to mitigate the liquidity risk relating to upside movement in the share price as detailed in note 15 on page 124 of this report.

The charge to profit or loss of the value of the rights for the year under review is R23.645 million (2012: R3.965 million) and the credit to profit or loss in respect of the hedge for the year under review is R34.357 million (2012: R7.479 million) (refer notes 15 and 21 on pages 124 and 127 of this report). As there are no potential dilutive ordinary shares in respect of the scheme, other than the impact on profit or loss disclosed above, there is no dilutionary impact on existing shareholders. While the hedge mitigates the group's liquidity risk in respect of the scheme, the group is exposed to downside price risk on the Spur share as described in note 39.2 on page 143.

King III recommends that vesting of share incentive awards should be conditional on achieving performance conditions and should be on a sliding scale. The group has not adopted this recommendation on the basis that the rights are relatively short term in nature and granted annually. In addition, the scheme serves largely as a retention scheme (as opposed to a pure incentive scheme). While vesting is not conditional on performance conditions, the granting of rights is conditional upon both company performance and personal performance. In this way, the board is satisfied that the interests of participants of the scheme and stakeholders are adequately aligned.

## EXECUTIVE SERVICE CONTRACTS

All the executive directors, with the exception of Allen Ambor, have standard employment contracts in place. Allen Ambor has no employment contract in place. Executive directors Pierre van Tonder and Mark Farrelly have three-month notice periods and Ronel van Dijk has a one-month notice period. With the exception of Allen Ambor, the executive directors are restrained by agreement from any involvement in businesses associated with brands competing with the group's brands during the tenancy of their employment and for a period of two years following their termination (for whatever reason) of employment. While Allen Ambor does not have a specific restraint of trade in place, the company's policies prohibit employee associations with brands competing with the group's brands while an employee of the company.

No contracts provide for termination settlements, other than those required in terms of law.

## NON-EXECUTIVE DIRECTORS' FEES

The board as a whole determines fees to non-executive directors for membership of the board and board committees. The board is of the opinion that such fees are market related and commensurate with the time and effort required by the directors in question to undertake their duties. Such remuneration is not linked to the performance of the group or its share performance.

At a general meeting of shareholders on 26 April 2012, shareholders approved (by way of special resolution) the remuneration of directors for services as directors for the financial years ended 30 June 2012 and 30 June 2013 as per the table below. A resolution is to be tabled for shareholders to approve the directors' fees for the 2014 financial year and in this regard, it is noted that the proposed fee is based on the current fee adjusted for inflation.

In addition to the fees detailed in the table below:

- Keith Getz is a director of two of the international subsidiary companies of the group. A related entity is paid a fee of €2 500 and €1 500 per meeting for the services of Mr Getz in chairing the board meetings of Steak Ranches International BV and Spur International Ltd BVI respectively. Ordinarily, three meetings of both boards are scheduled annually.
- Keith Madders is a director of Steak Ranches International BV. A related entity is paid a fee of €2 500 per meeting for the services of Mr Madders in attending meetings of that company's board.

King III recommends that non-executive director fees should comprise a base fee which may vary according to factors including the level of expertise of each director, as well as an attendance fee per meeting. Given the size and nature of the group, as well as the informal involvement of all non-executive directors in key decisions, the board is of the opinion that an equitable flat rate is applicable for all non-executive directors.

With the exception of Keith Madders, none of the non-executive directors has a specific service contract or notice period. The group has entered into a contract with a company for Keith Madders' services. The contract provides for a three-month notice period and services being rendered at an agreed hourly rate, escalating by the rate of inflation on the anniversary date of the agreement.

No non-executive directors participate in any incentive scheme. Details of fees paid to directors and to related parties for the services of directors and other consulting fees are included in notes 34 and 38 on pages 134 and 137 of this report respectively.

| NON-EXECUTIVE DIRECTORS' FEES FOR CURRENT YEAR AND PROPOSED FOR NEXT YEAR | PROPOSED 2014 | 2013 |
|---|---|---|
| Member of board | R375 000 in total for each non-executive director | R350 000 in total for each non-executive director |
| Lead independent director | | |
| Member of audit committee | | |
| Chairman of audit committee | | |
| Member of remuneration committee | | |
| Chairman of remuneration committee | | |
| Member of the social and ethics committee | | |
| Chairman of the social and ethics committee | | |
| Member of nominations committee | | |
| Chairman of nominations committee | | |
| Member of transformation committee | | |
| Member of risk committee | | |

Muzi Kuzwayo CHAIRMAN – REMUNERATION COMMITTEE

# Social and ethics committee report

In compliance with the requirements of the Companies Act (Act No. 71 of 2008, as amended), the social and ethics committee was constituted on 29 February 2012. It operates in terms of a formal charter which contains detailed provisions relating to the terms of reference, duties, composition, role and responsibilities of the committee.

## FUNCTIONING OF COMMITTEE

The inaugural meeting of the committee was held on 24 May 2012. At that meeting, the committee members and invitees were apprised of the charter and statutory and other duties and obligations of the committee. A work plan was formulated for the 2013 financial year to address the action plans required for the committee to discharge its statutory and other responsibilities.

The committee met twice during the financial year. Meetings are convened and conducted in terms of a detailed agenda accompanied by supporting documents and reports, in particular the reports of the permanent attendees. These presentations cover the core mandate of the committee and represent a material methodology used by the committee to monitor its responsibilities. The committee actively engages with management during these presentations.

Permanent invitees include the: group human resource and transformation executive, national procurement executive, legal and compliance officer, group finance executive, group finance manager, and environmental sustainability committee chairperson.

Matters considered by the committee (and reported to the board) include:

- Review of the company's code of conduct to determine compliance with statutory requirements, its alignment with the culture of the company and its coverage of ethical matters.
- Report on the company's compliance with all applicable legislation and codes of good practice.
- Review of the company's transformational progress (including consideration of the Employment Equity Act (Act No. 55 of 1998) and the Broad-Based Black Economic Empowerment Act (Act No. 53 of 2003)).
- Review of the corporate social initiatives undertaken by the Spur Foundation Trust.
- Review of sustainability initiatives.
- Monitoring of further areas relating to its statutory obligations and related good corporate governance and corporate citizenship.

The committee believes that the group is substantively addressing the issues monitored by the committee in terms of its statutory mandate in a beneficial and positive manner. Shareholders are referred to further reports on key aspects of the committee's mandate elsewhere in this integrated report. The committee recognises that issues within its mandate are constantly evolving and challenging but it is satisfied that management of the company is dedicated to this and positive in its responses.

As chairman of the committee, Keith Getz will be available at the annual general meeting to answer any questions relating to the statutory obligations of the committee.

**Keith Getz** CHAIRMAN – SOCIAL AND ETHICS COMMITTEE

# GRI declaration and table

This report discloses the Spur group's material non-financial sustainability information using the Global Reporting Initiative's (GRI) G3.1 Guidelines. As our first GRI-compliant report, the 2013 Spur integrated report sets a new benchmark for our incremental approach to sustainability reporting as well as providing stakeholders with information presented in a consistent and comparable framework.

The GRI index that follows provides references to the GRI disclosures in the integrated report and based on these disclosures we declare ourselves compliant with GRI application level C.

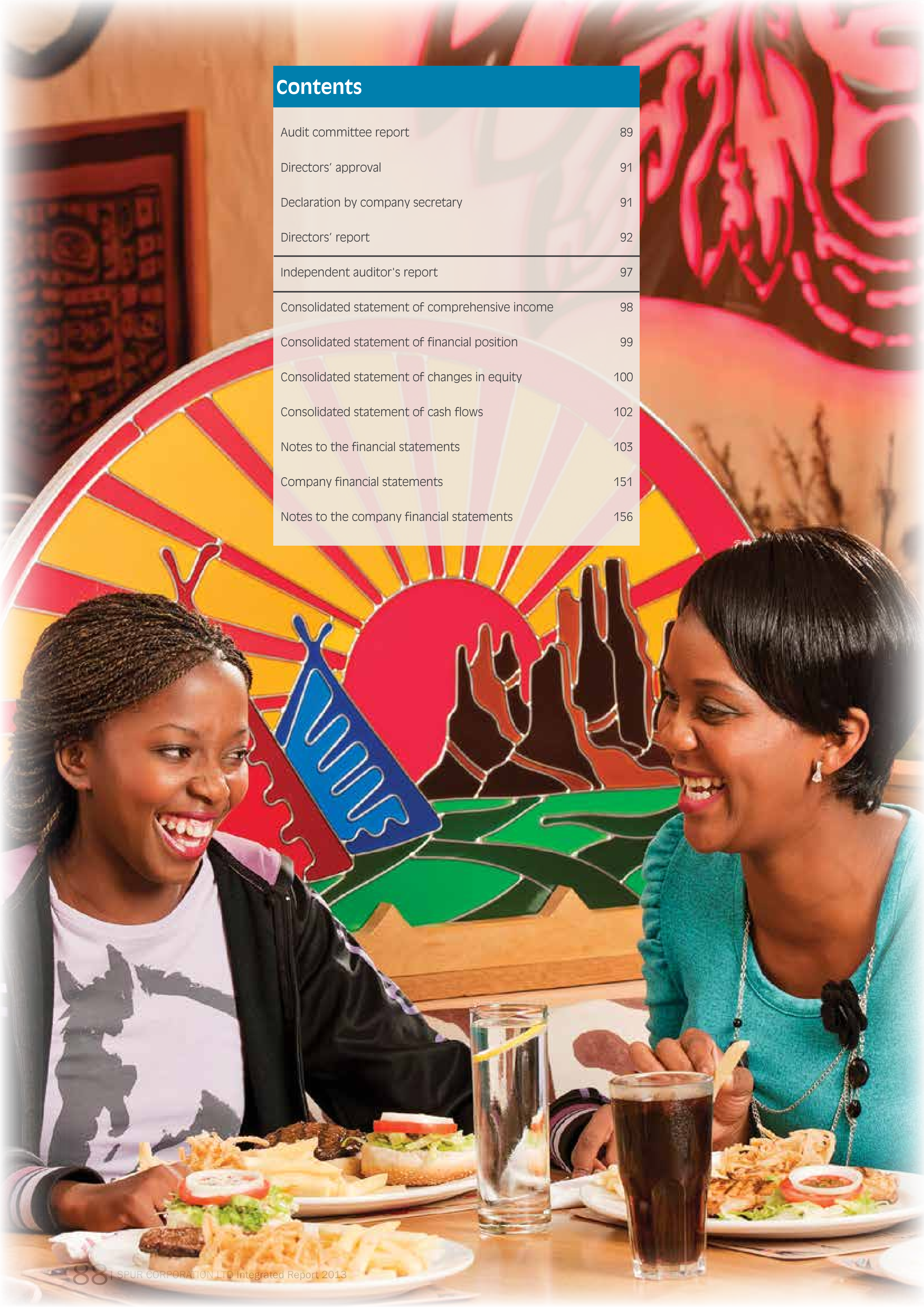
| G3.1 CONTENT INDEX – GRI APPLICATION LEVEL C<br>PROFILE DISCLOSURE | DESCRIPTION | SECTION/NOTES |
|---|---|---|
| **1. Strategy and analysis** | | |
| 1.1 | Statement from the most senior decision-maker of the organisation. | Chairman's interview; Chief executive officer's report |
| **2. Organisational profile** | | |
| 2.1 | Name of the organisation. | About this report |
| 2.2 | Primary brands, products, and/or services. | The group at a glance |
| 2.3 | Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures. | Business model; Group structure |
| 2.4 | Location of organisation's headquarters. | The group at a glance |
| 2.5 | Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | Our markets |
| 2.6 | Nature of ownership and legal form. | The group at a glance; Group structure |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | The group at a glance; Our markets |
| 2.8 | Scale of the reporting organisation. | Five-year review |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership. | There were no significant changes during the reporting period regarding size, structure, or ownership. |
| 2.10 | Awards received in the reporting period. | Awards |
| **3. Report parameters** | | |
| 3.1 | Reporting period (e.g. fiscal/calendar year) for information provided. | About this report |
| 3.2 | Date of most recent previous report (if any). | Our previous report covered the period 1 July 2011 to 30 June 2012. |
| 3.3 | Reporting cycle (annual, biennial, etc.) | Annual |
| 3.4 | Contact point for questions regarding the report or its contents. | About this report |
| 3.5 | Process for defining report content. | About this report |
| 3.6 | Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). | About this report |
| 3.7 | State any specific limitations on the scope or boundary of the report. | About this report |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations. | There were no changes in the basis for reporting that could significantly affect comparability. |
| 3.10 | Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods). | There were no restatements of information provided in earlier reports. |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | There were no significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. |
| 3.12 | Table identifying the location of the standard disclosures in the report. | This table |

| G3.1 CONTENT INDEX – GRI APPLICATION LEVEL C | | |
|---|---|---|
| PROFILE DISCLOSURE | DESCRIPTION | SECTION/NOTES |
| **4. Governance, commitments and engagements** | | |
| 4.1 | Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight. | Governance report |
| 4.2 | Indicate whether the chair of the highest governance body is also an executive officer. | Governance report |
| 4.3 | For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members. | Governance report |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | Group stakeholder matrix |
| 4.14 | List of stakeholder groups engaged by the organisation. | Group stakeholder matrix |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | Group stakeholder matrix |
| PERFORMANCE INDICATOR | DESCRIPTION | SECTION/NOTES |
| **Economic performance indicators** | | |
| EC2 | Financial implications and other risks and opportunities for the organisation's activities due to climate change. | Sustainable supply of raw material |
| EC4 | Significant financial assistance received from government. | No financial assistance was received from government. |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | Community support |
| **Environmental performance indicators** | | |
| EN4 | Indirect energy consumption by primary source. | Environmental sustainability |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | Environmental sustainability |
| EN22 | Total weight of waste by type and disposal method. | Environmental sustainability |
| **Social: Labour practices and decent work performance indicators** | | |
| LA1 | Total workforce by employment type, employment contract, and region, broken down by gender. | Employment equity |
| LA2 | Total number and rate of new employee hires and employee turnover by age group, gender, and region. | Head office employees |
| **Social: Human rights performance indicators** | | |
| HR4 | Total number of incidents of discrimination and actions taken. | There were no incidents of discrimination reported during the year. |
| **Social: Society performance indicators** | | |
| SO4 | Actions taken in response to incidents of corruption. | There were no incidents of corruption reported during the year. |
| SO6 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. | There were no contributions to political parties, politicians and related institutions. |

# GROUP FINANCIAL STATEMENTS

## ABOUT THESE FINANCIAL STATEMENTS

The annual financial statements on pages 98 to 159 of this report have been audited in accordance with the requirements of s30 of the Companies Act (Act No. 71 of 2008) and have been prepared under the supervision of the group chief financial officer, Ronel van Dijk CA(SA).



## Contents

# AUDIT COMMITTEE REPORT

## COMPANIES ACT COMPLIANCE

The company has applied with section 94 of the Companies Act (Act No. 71 of 2008, as amended) ("the Companies Act"). In addition, the board is of the opinion that the requirements of regulation 42 of the Companies Act, which require at least one-third of the members of a company's audit committee to have academic qualifications, or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management, are complied with.

## FUNCTIONING OF THE COMMITTEE

The committee operates within formal terms of reference approved by the board. The committee is satisfied that it has met its responsibilities as stipulated in the terms of reference. The committee is also satisfied that it has complied with its legal, regulatory and other responsibilities.

The committee discharges its responsibilities by meeting formally at least twice a year to review the group's interim and annual results before publication, to receive and review internal audit reports and reports from the external auditor. It also meets with management to review their progress on key issues relating to financial controls and risks and deals with other matters falling within its terms of reference. Committee members review company trading statements on an ad hoc basis. The findings and recommendations of the committee are reported to the board at the following board meeting, which is typically held within a week of the committee meeting.

The committee meets informally on an ad hoc basis with internal audit, the external auditor and management to address key issues as the need arises, specifically to consider risk assessment and management, review the audit plans of the external and internal auditors and to review accounting, auditing, financial reporting, corporate governance, and compliance matters. The internal audit plan and internal audit conclusions are similarly reviewed and approved by the committee.

Management meets with the external auditor on a regular basis to identify audit risks which, if significant, are reported to the committee.

Management presents the chairman of the committee and the external auditor with summarised financial information relating to the performance of the group on a regular basis.

The committee discharges all audit committee responsibilities of all the subsidiaries within the group. The external and internal auditors have unrestricted access to the committee.

The committee is responsible for overseeing the internal audit function. Refer to the internal audit section on page 90 of this report for more detail.

## CHAIRMAN'S ATTENDANCE AT THE ANNUAL GENERAL MEETING

King III recommends that the chairman of the committee be present at the annual general meeting to answer questions on the integrated report, the committee's activities and matters within the scope of the committee's responsibilities. However, the chairman of the committee is not resident in South Africa and consequently does not attend the annual general meeting.

Given the limited attendance by shareholders at the annual general meeting, the board is of the opinion that the cost of making the chairman of the committee available at the annual general meeting is not warranted. The chairman of the committee has agreed to be available telephonically in the event that any shareholder wishes to address him at the annual general meeting. In addition, a member of the committee will be available at the annual general meeting to field questions.

## EXTERNAL AUDITOR APPOINTMENT AND INDEPENDENCE

The audit committee has satisfied itself that the external auditor is independent of the company, as set out in section 94(8) of the Companies Act, which includes considering previous appointments of the auditor, the extent of other work undertaken by the auditor for the company and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

The committee ensured that the appointment of the auditor complied with the Companies Act and any other legislation relating to the appointment of auditors. There is a formal procedure that governs the process whereby the auditor is considered for non-audit services. In general, the auditor is not engaged for non-audit services, unless, in the opinion of the committee, the extent of the service is not significant. The committee recognises that there may be circumstances where it would be to the group's advantage to engage the auditor for non-audit services that are significant and these will be considered on a case-by-case basis. Minimal pre-approved non-audit services were provided by the auditor for the year under review.

The audit committee has satisfied itself that the audit firm and designated auditor are accredited on the JSE list of auditors and their advisors.

## FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

The audit committee has reviewed the accounting policies and the financial statements of the company and is satisfied that they are appropriate and comply with International Financial Reporting Standards.

An audit committee process has been established to receive and deal appropriately with any concerns and complaints relating to the reporting practices of the company. The committee is satisfied that all such matters have been drawn to its attention and will deal with the matters as it deems fit.

## INTERNAL FINANCIAL CONTROLS

In considering the integrity of the company's financial information and the effectiveness of internal financial controls, the committee relies on the work performed by internal audit, representations by management and the external auditor's management report. The committee acknowledges that it is not the external auditor's responsibility to identify control deficiencies, but considers the content of the report to be a key indicator of the effectiveness of the general financial control environment.

Based on these interactions, nothing has come to the attention of the committee which would lead it to believe that an adequate and appropriate system of internal control is not in place. The committee has advised the board accordingly.

## INTEGRATED REPORTING AND COMBINED ASSURANCE

King III recommends that the committee should recommend to the board to engage an external service provider to provide assurance over material elements of the sustainability part of the integrated report. The board has considered this recommendation and determined that the cost of such an assurance exercise would exceed any benefits to stakeholders. As the group progresses its journey towards more enhanced sustainability reporting, the board will review this decision.

The audit committee has considered the company's sustainability information as disclosed in the integrated report and has assessed its consistency with operational and other information known to audit committee members, and for consistency with the annual financial statements. Nothing has come to the audit committee's attention which would lead it to conclude that the sustainability information is not reliable.

The committee has reviewed this integrated report and recommended it to the board for approval.

## GOING CONCERN

The audit committee has considered the going concern status of the company and of the group and has made recommendations to the board in this regard. The board's statement on the going concern status of the company and of the group is supported by the audit committee.

## GOVERNANCE OF RISK

The risks identified by the risk committee insofar as they relate to financial and integrated reporting or internal controls are highlighted to the audit committee. The audit committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risk as it relates to financial reporting.

## INTERNAL AUDIT

The board appointed an outsourced independent service provider to provide internal audit services with effect from 1 July 2012.

The audit committee is responsible for ensuring that the company's internal audit function is independent and has the necessary resources, standing and authority within the company to enable it to discharge its duties. Furthermore, the committee oversees cooperation between the internal and external auditors, and serves as a link between the board of directors and these functions.

The audit committee considered and recommended the internal audit charter for approval by the board. The charter governs the authority and responsibilities of the various role players. The engagement partner of the outsourced service provider has been appointed as the chief audit executive in terms of the charter and reports directly to the audit committee.

The audit committee has approved a five-year risk-based audit programme in terms of which the outsourced service provider will address those risks and controls identified by the committee as being key to financial reporting, sustainability and stakeholder reporting. Deliverables will include written reports to the committee on the respective audit areas.

## EVALUATION OF THE EXPERTISE AND EXPERIENCE OF FINANCIAL DIRECTOR AND FINANCE FUNCTION

In accordance with the JSE Listings Requirements, the committee must consider and be satisfied, on an annual basis, of the appropriateness of the expertise and experience of the financial director – the committee has concluded that Ronel van Dijk, the group chief financial officer and financial director, possesses the appropriate expertise and experience to meet her responsibilities in that position. The committee has further assessed the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the finance function and concludes that these are adequate.

The committee is satisfied that in respect of the financial year and to the date of this report:

- Financial reporting risks have been identified and mitigated
- A satisfactory system of internal financial controls is in place
- Fraud risks relating to financial reporting have been considered and mitigated
- IT risks relating to financial reporting have been considered and mitigated

No material weaknesses in financial controls which resulted in material financial loss, fraud or errors were identified during the year under review.

Keith Madders CHAIRMAN – AUDIT COMMITTEE

# DIRECTORS' APPROVAL

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of Spur Corporation Ltd, comprising the statements of financial position at 30 June 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

Based on the results of reviews of the design, implementation and effectiveness of the internal financial controls conducted by the internal audit function during the 2013 financial year and considering information and explanations given by management and discussions with the external auditor on the results of the audit, assessed by the audit committee, nothing has come to the attention of the board that caused it to believe that the company's system of internal controls and risk management, to the extent this has any impact on this integrated report, is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements. The board's opinion is supported by the audit committee.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The board of directors furthermore acknowledges its responsibility to ensure the integrity of the integrated report. The board has accordingly applied its mind to the integrated report in its entirety and in the opinion of the board the integrated report addresses all material issues, and presents fairly the integrated performance of the group and its impacts. The integrated report has been prepared in line with best practice pursuant to the recommendations of King III.

The consolidated and separate annual financial statements of Spur Corporation Ltd, as identified in the first paragraph, as well as the integrated report in its entirety, were approved by the board of directors on 9 October 2013 and are signed on its behalf by

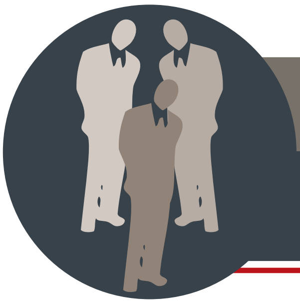
Allen Ambor EXECUTIVE CHAIRMAN

Pierre van Tonder GROUP CHIEF EXECUTIVE OFFICER

# DECLARATION BY COMPANY SECRETARY

In terms of Section 88(2)(e) of the Companies Act 2008, as amended, I certify that the Company has lodged with the Commissioner all such returns and notices as required by the Companies Act and that all such returns and notices appear to be true, correct and up to date.

Ronel van Dijk SECRETARY
9 October 2013



# DIRECTORS' REPORT

## The directors present their fourteenth annual report for the year ended 30 June 2013.

### NATURE OF THE BUSINESS

Spur Corporation Ltd, which is domiciled and incorporated in the Republic of South Africa and listed on the JSE Ltd, the recognised securities exchange in South Africa, is an investment holding company. Through its subsidiaries, primarily Spur Group (Pty) Ltd, John Dory's Franchise (Pty) Ltd, Steak Ranches International BV, Spur Corporation UK Ltd and Spur Corporation Australia Pty Ltd, the group carries on the business of franchisor in the family sit-down and quick service restaurant markets. Through subsidiaries, Spur Advertising (Pty) Ltd, Panarottis Advertising (Pty) Ltd, John Dory's Advertising (Pty) Ltd, The Ad Workshop (Pty) Ltd (trading as Captain DoRegos Advertising), Spur Advertising UK Ltd, Spur Advertising Australia Pty Ltd, Panarottis Advertising Australia Pty Ltd and Steak Ranches International BV (a division of the entity trading as Spur Namibia Advertising), the group provides marketing and promotional services to franchisees. A subsidiary of the company, Spur Group Properties (Pty) Ltd, owns certain properties which are owner-occupied from a group perspective. A subsidiary, Share Buy-back (Pty) Ltd, holds treasury shares as authorised by shareholders by way of special resolution on an annual basis. The company also has indirect interests in various companies in the United Kingdom and Australia which own and operate retail Spur and Panarottis restaurants in those territories.

### FINANCIAL REVIEW

The group's statement of comprehensive income is presented on page 98 and reflects the group's financial results.

Spur Corporation produced an excellent set of results in difficult trading conditions. In the face of mounting pressure on consumers, a strong performance across all brands saw Spur Corporation increase revenue by 29.7% to R653.0 million in the year ended 30 June 2013. Revenue growth was bolstered by the inclusion of the Captain DoRegos chain and distribution centre from 1 March 2012 and the acquisition by the group of two previously franchised Spur outlets in England and Ireland during the year.

Total restaurant sales across the group showed solid growth, increasing by 16.4% in total, and by 15.4% in South Africa despite the weak consumer economy.

Spur Steak Ranches lifted sales by 15.2% through the continued success of the breakfast and weekday promotions, and the upgrading of kids' play facilities in restaurants. The Spur Family Card continues to drive sales growth, with membership of the loyalty programme increasing to 1.4 million by year-end. Turnover from existing Spur restaurants increased by 13.0%. Fourteen new Spur restaurants were opened in South Africa during the year. Management contained the menu price increase in Spur to 3.6% despite the high levels of food price inflation over the past year.

Sales in Panarottis increased by 31.4%, with turnover from existing outlets growing by 22.4%. The brand's strong performance was driven by positive consumer response to its weekday and breakfast specials, supported by targeted revamps of existing outlets and the introduction and improvement of kids' play facilities. Ten new restaurants were opened during the year, including four Panarottis Pizza Express outlets, while a further seven were refurbished.

John Dory's grew sales by 11.4% as customers responded positively to the innovative marketing campaigns, the new menu offering and weekday specials. Two new restaurants were opened and nine revamped during the period.

Captain DoRegos has now been fully integrated into the group and generated restaurant sales of R191.1 million and distribution centre sales of R72.6 million in its first full year of inclusion. No comparative sales performance is reported as the business was only acquired in March 2012. Eleven new outlets were opened and management has focused on enhancing the brand image, menu offering and product quality.

Sales in the international operations increased by 24.7% in rand terms, benefiting from the depreciation of the rand against major currencies over the past year. Total sales in local currencies increased by 14.0% and by 7.7% in existing outlets as the performance of the UK operation continued to improve. Africa continues to deliver stable growth while trading conditions and revenues have remained static in Australia. The Spur outlets in Staines (England) and Dublin (Ireland) were converted to company-owned restaurants during the past year. All eight restaurants in the UK and Ireland are now company-owned. A new Spur restaurant was opened in Nairobi (Kenya) and a Panarottis Express outlet was opened in Mauritius. The first international Captain DoRegos outlets were opened in Namibia and Mauritius.

The group continues to expand as viable opportunities arise, opening a net 23 new restaurants in the past year and relocating three to improved trading sites. Customer experience remains a key focus and 55 Spur outlets were refurbished with a franchisee investment of approximately R40.0 million, and this has resulted in positive revenue growth in these outlets.

The group expanded its restaurant base from 456 to 479 during the year with 429 outlets in South Africa and 50 restaurants in international territories.

Franchise revenue showed impressive growth, with Spur growing 15.5% to R179.5 million, Panarottis increasing 28.9% to R16.7 million and John Dory's rising 5.6% to R11.7 million. Franchise revenue in Captain DoRegos amounted to R9.2 million.

Manufacturing and distribution revenue increased 49.6% to R213.7 million. This increase was supported by the inclusion of the Captain DoRegos distribution centre for the full year, which generated revenue of R72.6 million compared to the prior year's R23.5 million for the four months from acquisition. Product volumes in the group's sauce manufacturing facility also grew well. The upgrading of the central kitchen facility has been completed and a new sauce bottling plant was commissioned during the year.

International revenue, comprising franchise revenue and company-owned restaurant turnover, increased 32.8% to R191.4 million. Revenue benefited from the conversion of the two Spur outlets in England and Ireland to company-owned restaurants during the year. The board has taken a prudent decision to impair the assets of the Panarottis outlet in Tuggerah (Australia) owing to the challenging trading performance.

Profit before income tax increased by 11.4% to R195.1 million. This includes a net gain of R10.7 million (2012: R3.5 million) related to the group's share appreciation rights incentive scheme and a foreign exchange currency loss of R6.5 million compared to a gain of R2.3 million in 2012.

Comparable profit before income tax, excluding the impact of the group's long-term incentive scheme, the R2.2 million impairment of Panarottis Tuggerah, start-up costs in international company-owned outlets, as well as foreign exchange gains/losses and other one-off items in the current and comparable periods, but including the impact of the Captain DoRegos business, increased by 15.8%.

Headline earnings increased 20.6% to R134.8 million, with diluted headline earnings per share growing 22.4% to 156.6 cents.

## AUDIT AND RISK COMMITTEES

The roles and responsibilities of the audit and risk committees are set out on pages 71 and 72 of this report respectively and the committees' reports on how these responsibilities have been discharged are included on pages 89 to 90 and 78 to 80 of this report respectively.

## SHARE CAPITAL

The number of authorised shares has remained at 201 000 000 ordinary shares of 0.001 cents each, for the year ended 30 June 2013.

During the year, a wholly owned subsidiary of the group, Share Buy-back (Pty) Ltd, purchased 622 500 (2012: 958 000) shares at an average cost of R26.87 (2012: R16.46) per share, totalling R16.725 million (2012: R15.770 million) taking the total number of treasury shares held by the group to 5 311 128 (2012: 4 688 628). In addition, 6 688 698 (2012: 6 688 698) shares are held by The Spur Management Share Trust (as detailed on page 126 of this report). The Spur Management Share Trust is a special purpose entity that is required to be consolidated by the group for financial reporting purposes only. Consequently, the net number of shares in issue at 30 June 2013 was 85 633 007 (2012: 86 255 507).

## INTEREST IN SUBSIDIARY COMPANIES

Details of the share capital and the company's interests in the subsidiary companies are as follows:

| | Country of incorporation | Issued capital R'000 | Loan to subsidiary R'000 | % interest in company |
|---|---|---|---|---|
| Trading | | | | |
| – Spur International Ltd* | British Virgin Islands | 1.4 | | 100 |
| – Spur Group (Pty) Ltd | South Africa | 0.1 | | 100 |
| – Spur Advertising (Pty) Ltd* | South Africa | 0.1 | | 100 |
| – Panarottis Advertising (Pty) Ltd* | South Africa | 0.1 | | 100 |
| – The Ad Workshop (Pty) Ltd* trading as Captain DoRegos Advertising | South Africa | 0.1 | | 100 |
| – Share Buy-back (Pty) Ltd | South Africa | 0.1 | | 100 |
| – Spur Group Properties (Pty) Ltd | South Africa | 0.1 | 3 265 | 100 |
| – John Dory's Franchise (Pty) Ltd* | South Africa | 0.1 | | 100 |
| – John Dory's Advertising (Pty) Ltd* | South Africa | 0.1 | | 100 |
| – Vantini Spur Ltd* | Gibraltar | 0.1 | | 100 |
| – Steak Ranches International BV* | The Netherlands | 173.3 | | 100 |
| – Spur Corporation Australia Pty Ltd* | Australia | 0.6 | | 100 |
| – Spur Advertising Australia Pty Ltd* | Australia | 0.6 | | 100 |
| – Panarottis Advertising Australia Pty Ltd* | Australia | 0.6 | | 100 |
| – Spurcentral Pty Ltd* | Australia | 0.6 | | 100 |
| – Panhold Pty Ltd* | Australia | 5.0 | | 100 |
| – Panawest Pty Ltd* | Australia | 631.0 | | 93 |
| – Caspur Pty Ltd* | Australia | 772.0 | | 100 |
| – Spur Steak Ranches Unit Trust* | Australia | 0.1 | | 100 |
| – Panatug Pty Ltd* | Australia | 0.6 | | 100 |
| – Spur Corporation UK Ltd* | United Kingdom | 3.0 | | 100 |
| – Larkspur One Ltd* | United Kingdom | 1.4 | | 100 |
| – Larkspur Two Ltd* | United Kingdom | 1.4 | | 100 |
| – Larkspur Three Ltd* | United Kingdom | 1.3 | | 80 |
| – Larkspur Five Ltd* | United Kingdom | 1.1 | | 71 |
| – Larkspur Six Ltd* | United Kingdom | 0.1 | | 100 |
| – Larkspur Seven Ltd* | United Kingdom | 0.1 | | 100 |
| – Mohawk Spur Ltd* | United Kingdom | 15.1 | | 100 |
| – Spur Advertising UK Ltd* | United Kingdom | 1.3 | | 100 |
| – Trinity Leasing Ltd* | United Kingdom | 13.0 | | 90 |
| – Larkspur Eight Ltd* | Ireland | 0.1 | | 100 |
| Dormant | | 1.4 | | 100 |
| | | | 3 265 | |

* Indirect

The interest of the company in the aggregate after tax profits and losses of subsidiaries is as follows:

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Profits | **160 774** | 132 737 |
| Losses | **(26 798)** | (16 605) |

The group also consolidates The Spur Management Share Trust, a special purpose entity in which it does not hold shares, in accordance with IFRS. Similarly, the group consolidated Maxshell 72 Investments (Pty) Ltd, a special purpose entity in which it did not hold any shares, up to 9 September 2012, when that company was deregistered.

## CASH DIVIDEND

A final cash dividend in respect of the 2012 financial year of 47.0 cents per share was paid to shareholders on 8 October 2012. An interim cash dividend in respect of the 2013 financial year of 55.0 cents per share was paid to shareholders on 8 April 2013.

The directors declared a final cash dividend of 56.0 cents per share, funded by income reserves, on 11 September 2013, to be paid on 7 October 2013 to those shareholders of the company who are recorded in the company's register on 4 October 2013. As this dividend was declared after the reporting date, it will only be accounted for in the 2014 financial year.

## SPECIAL RESOLUTIONS

On 6 December 2012, at the company's annual general meeting, a special resolution was passed in terms of which the directors were granted the authority to contract the company, or one of its wholly owned subsidiaries, to acquire shares in the company issued by it, should the company comply with the relevant statutes and authorities applicable thereto. At the same meeting, a special resolution was passed in terms of which the directors were granted the authority to cause the company to provide financial assistance to any entity which is related or inter-related to the company.

At the company's annual general meeting of 6 December 2012, a special resolution was passed to approve and adopt a new Memorandum of Incorporation ("MOI") of the company which has been harmonised with the requirements of the Companies Act (Act No. 71 of 2008) and Schedule 10 of the JSE Listings Requirements. The full text of the MOI was approved by the JSE on 17 September 2012 and is available for inspection upon request from the company secretary at the company's registered office or electronically via email.

Full details of the special resolutions passed will be made available to shareholders on request.

## MATERIAL CHANGES

Save as disclosed herein, no material changes in the financial or trading position of the company or its subsidiaries have taken place to the date of this report.

## DIRECTORS AND SECRETARY

Details of the directors as at the date of this report, together with the name, business and postal address of the company secretary, are set out on pages 19 to 20 and 161. Dineo Molefe was appointed to the board as an independent non-executive director on 11 September 2013 and shareholders will be requested to confirm this appointment at the annual general meeting on 5 December 2013.

The secretary, Ronel van Dijk, has certified that the company has lodged with the Companies and Intellectual Property Commission ("CIPC") all such returns as required by a public company in terms of the Companies Act and that all such returns appear to be true, correct and up to date.

In terms of the company's Memorandum of Incorporation, Messrs Keith Getz and Dean Hyde retire at the forthcoming annual general meeting. These directors, all being eligible, offer themselves for re-election. Service agreements with the directors of Spur Corporation at the date hereof do not impose any abnormal notice periods on the company or the directors in question.

## DIRECTORS' INTERESTS

No contracts in which the directors or officers of the company or group had an interest and that significantly affected the affairs or business of the company or any of its subsidiaries, were entered into during the year.

**Shares**

Details of directors' interests in the ordinary shares are as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Direct beneficial | Indirect beneficial | Held by associates | Direct beneficial | Indirect beneficial | Held by associates |
| Allen Ambor | **3 086 685** | **464 609** | **–** | 3 086 685 | 464 609 | – |
| Ronel van Dijk | **73 244** | **–** | **–** | 73 244 | – | – |
| Keith Madders | **–** | **1 112 022** | **–** | – | 1 112 022 | – |
| Keith Getz | **2 491** | **–** | **820** | 2 491 | – | 820 |
| **Total** | **3 162 420** | **1 576 631** | **820** | 3 162 420 | 1 576 631 | 820 |
| % interest* | **3.4%** | **1.7%** | **0.0%** | 3.4% | 1.7% | 0.0% |

* These percentages are based on shares in issue less shares repurchased by a subsidiary company, Share Buy-back (Pty) Ltd.

There have been no changes in directors' interests in share capital from 30 June 2013 to the date of posting of this annual report.

## SHAREHOLDERS' INTEREST IN SHARES

**Major shareholders**

The following are shareholders (excluding directors) holding 3% or more of the company's issued share capital at 30 June 2013:

| | No. of shares | %* |
|---|---|---|
| Allan Gray | 14 955 565 | 16.2 |
| Investec | 9 940 538 | 10.8 |
| Sanlam | 7 489 798 | 8.1 |
| Spur Management Share Trust** | 6 688 698 | 7.2 |
| Fidelity | 4 842 326 | 5.2 |
| Coronation Fund Managers | 3 874 264 | 4.2 |
| Old Mutual | 2 966 943 | 3.2 |
| Eskom Pension & Provident Fund | 2 932 390 | 3.2 |

* These percentages are based on shares in issue less shares repurchased by a subsidiary company, Share Buy-back (Pty) Ltd.

** This holding relates to shares utilised in the group's short-term profit share incentive scheme, details of which are disclosed in note 26.2 of the group financial statements on page 130 of this report.

**Public/non-public shareholders**

An analysis of public and non-public shareholders is presented below:

| | No. of shareholders | No. of shares | % |
|---|---|---|---|
| **Non-public shareholders** | | | |
| Directors and associates | 7 | 4 739 871 | 4.9 |
| Subsidiary holding treasury shares | 1 | 5 311 128 | 5.4 |
| Spur Management Share Trust | 1 | 6 688 698 | 6.9 |
| Major shareholders | 2 | 24 896 103 | 25.5 |
| **Public shareholders** | 2 846 | 55 997 033 | 57.3 |
| **Total** | **2 857** | **97 632 833** | **100.0** |

**Analysis of shareholding**

An analysis of the spread of shareholding is presented below:

| | No. of shareholders | % | No. of shares | % |
|---|---|---|---|---|
| **Shareholder spread** | | | | |
| 1 – 10 000 shares | 2 392 | 83.7 | 5 176 472 | 5.3 |
| 10 001 – 25 000 shares | 227 | 7.9 | 3 677 975 | 3.8 |
| 25 001 – 50 000 shares | 81 | 2.8 | 2 965 085 | 3.0 |
| 50 001 – 100 000 shares | 59 | 2.1 | 4 069 226 | 4.2 |
| 100 001 – 500 000 shares | 70 | 2.5 | 16 121 688 | 16.5 |
| 500 001 – 1 000 000 shares | 9 | 0.3 | 6 669 389 | 6.8 |
| 1 000 001 shares and over | 19 | 0.7 | 58 952 998 | 60.4 |
| | **2 857** | **100.0** | **97 632 833** | **100.0** |

| | No. of shareholders | % | No. of shares | % |
|---|---|---|---|---|
| **Distribution of shareholders** | | | | |
| Banks and nominees | 346 | 12.1 | 8 414 050 | 8.6 |
| Endowment funds | 16 | 0.6 | 696 183 | 0.7 |
| Individuals | 2 206 | 77.2 | 13 224 750 | 13.5 |
| Insurance companies | 18 | 0.6 | 4 546 342 | 4.7 |
| Investment companies | 15 | 0.5 | 5 042 743 | 5.2 |
| Medical funds | 9 | 0.3 | 756 281 | 0.8 |
| Mutual funds | 62 | 2.2 | 40 430 932 | 41.4 |
| Own holdings | 1 | 0.0 | 5 311 128 | 5.4 |
| Pension and retirement funds | 68 | 2.4 | 10 723 246 | 11.0 |
| Spur Management Share Trust | 1 | 0.0 | 6 688 698 | 6.9 |
| Other corporate bodies | 115 | 4.1 | 1 798 480 | 1.8 |
| | **2 857** | **100.0** | **97 632 833** | **100.0** |

## BORROWINGS

In terms of the Memorandum of Incorporation of the company and its main local operating entity, Spur Group (Pty) Ltd, the borrowing powers of the directors of these companies are unlimited. The group's overall level of formal loan indebtedness decreased from R25.2 million to R19.6 million during the year.

## GOING CONCERN

These annual financial statements have been prepared on the going concern basis. The board has performed a review of the group and company's ability to continue trading as a going concern in the foreseeable future and, based on this review, consider that the presentation of the financial statements on this basis is appropriate.

There are no pending or threatened legal or arbitration proceedings which have had or may have a material effect on the financial position of the company or group, save for those disclosed in note 41 to the group financial statements on page 148 of this report.

## SUBSEQUENT EVENTS

Details of events occurring subsequent to the reporting date but prior to the date of issue of this report are detailed in note 40 to the group financial statements on page 147 of this report.

## COMPANY INFORMATION

The company's registration number and registered address are presented on page 161. Shareholders and members of the public are advised that the register of the interests of directors, executives, senior management and other shareholders in the shares of the company is available upon request from the company secretary.

Pierre van Tonder GROUP CHIEF EXECUTIVE OFFICER
9 October 2013

# INDEPENDENT AUDITOR'S REPORT

## To the shareholders of SPUR CORPORATION LTD

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated and separate financial statements of Spur Corporation Ltd, which comprise the statements of financial position as at 30 June 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 98 to 159.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Spur Corporation Ltd at 30 June 2013, and its consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

### OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 30 June 2013, we have read the Directors' Report, the Audit Committee Report and the Declaration by Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc.
Registered Auditor

Per I Engels
Chartered Accountant (SA), Registered Auditor
8th Floor, MSC House, 1 Mediterranean Street
Cape Town 8001

Cape Town, 9 October 2013

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **Revenue** | 3 | **653 027** | 503 444 |
| Cost of sales | | **(202 977)** | (135 299) |
| **Gross profit** | | **450 050** | 368 145 |
| Other operating income | 4 | **55 142** | 23 907 |
| Administration expenses | | **(140 924)** | (87 296) |
| Core operations expenses | | **(42 311)** | (36 593) |
| Distribution expenses | | **(12 149)** | (9 219) |
| Loss on impaired outlets | 5.1 | **(2 188)** | (1 564) |
| Retail operating expenses | | **(118 434)** | (88 444) |
| **Operating profit before finance income** | 5 | **189 186** | 168 936 |
| Net finance income | 6 | **5 871** | 6 164 |
| Interest income | 6 | **6 381** | 6 819 |
| Interest expense | 6 | **(510)** | (655) |
| **Profit before income tax** | | **195 057** | 175 100 |
| Income tax expense | 7.1 | **(63 237)** | (60 718) |
| **Profit for the year** | | **131 820** | 114 382 |
| **Other comprehensive income** | | **17 948** | 3 679 |
| Foreign currency translation differences for foreign operations | | **25 948** | (3 603) |
| Foreign exchange (loss)/gain on net investments in foreign operations | | **(10 666)** | 9 774 |
| Tax on other comprehensive income | | **2 666** | (2 492) |
| **Total comprehensive income for the year** | | **149 768** | 118 061 |
| **Profit attributable to:** | | | |
| Owners of the company | | **132 284** | 113 884 |
| Non-controlling interest | | **(464)** | 498 |
| **Profit for the year** | | **131 820** | 114 382 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the company | | **150 951** | 118 208 |
| Non-controlling interest | | **(1 183)** | (147) |
| **Total comprehensive income for the year** | | **149 768** | 118 061 |
| **Earnings per share (cents)** | | | |
| Basic earnings | 8 | **153.66** | 130.71 |
| Diluted earnings | 8 | **153.66** | 130.34 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AT 30 JUNE 2013

| | Note | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | **449 180** | 417 552 |
| Property, plant and equipment | 9 | **76 878** | 73 492 |
| Intangible assets and goodwill | 10 | **321 698** | 320 986 |
| Interest in equity-accounted investees | 11 | **2 565** | 3 010 |
| Loans receivable | 12 | **11 315** | 5 808 |
| Deferred tax | 13 | **9 347** | 7 776 |
| Leasing rights | 14 | **5 290** | 1 826 |
| Derivative financial assets | 15 | **22 087** | 4 654 |
| **Current assets** | | **239 309** | 186 462 |
| Inventories | 16 | **17 020** | 10 304 |
| Tax receivable | | **8 134** | 5 488 |
| Trade and other receivables | 17 | **80 873** | 69 635 |
| Loans receivable | 12 | **5 483** | 2 231 |
| Derivative financial assets | 15 | **15 703** | – |
| Cash and cash equivalents | 18 | **112 096** | 98 804 |
| **TOTAL ASSETS** | | **688 489** | 604 014 |
| **EQUITY** | | | |
| **Total equity** | | **470 858** | 425 606 |
| Ordinary share capital | 19.1 | **1** | 1 |
| Share premium | | **6** | 6 |
| Shares repurchased by subsidiaries | 19.2 | **(77 235)** | (60 510) |
| Foreign currency translation reserve | 19.3 | **18 721** | 54 |
| Retained earnings | | **535 248** | 490 815 |
| **Total equity attributable to equity holders of the parent** | | **476 741** | 430 366 |
| Non-controlling interest | | **(5 883)** | (4 760) |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | **90 236** | 80 578 |
| Long-term loans payable | 20 | **423** | 446 |
| Employee benefits | 21 | **12 048** | 4 520 |
| Operating lease liability | 22 | **5 481** | 6 564 |
| Deferred tax | 13 | **72 284** | 69 048 |
| **Current liabilities** | | **127 395** | 97 830 |
| Bank overdrafts | 18 | **1 605** | 1 854 |
| Tax payable | | **4 132** | 6 052 |
| Trade and other payables | 23 | **86 068** | 64 239 |
| Loans payable | 24 | **19 146** | 24 765 |
| Employee benefits | 21 | **16 117** | – |
| Shareholders for dividend | | **327** | 920 |
| **TOTAL EQUITY AND LIABILITIES** | | **688 489** | 604 014 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2013

| | Note | Number of shares (net of treasury shares) '000 | Ordinary share capital R'000 |
|---|---|---|---|
| **Balance at 1 July 2011** | | **87 214** | **1** |
| **Total comprehensive income for the year** | | | |
| **Profit** | | **–** | **–** |
| **Other comprehensive income** | | **–** | **–** |
| Foreign currency translation differences for foreign operations | | – | – |
| Foreign exchange gain on net investments in foreign operations | | – | – |
| Tax on foreign exchange gain on net investments in foreign operations | | – | – |
| Foreign exchange effect on non-controlling interest | | – | – |
| **Total comprehensive income for the year** | | **–** | **–** |
| **Transactions with owners recorded directly in equity** | | | |
| **Contributions by and distributions to owners** | | **(958)** | **–** |
| Distributions to equity holders | 25 | – | – |
| Distributions to participants of incentive scheme including tax | 26.1 | – | – |
| Own shares acquired | 19.2 | (958) | – |
| **Changes in ownership interests in subsidiaries that do not result in a loss of control** | | **–** | **–** |
| Acquisition of non-controlling interest in subsidiary | 31.3 & 31.4 | – | – |
| **Total transactions with owners** | | **(958)** | **–** |
| **Balance at 30 June 2012** | | **86 256** | **1** |
| **Total comprehensive income for the year** | | | |
| **Profit** | | **–** | **–** |
| **Other comprehensive income** | | **–** | **–** |
| Foreign currency translation differences for foreign operations | | – | – |
| Foreign exchange loss on net investments in foreign operations | | – | – |
| Tax on foreign exchange loss on net investments in foreign operations | | – | – |
| Foreign exchange effect on non-controlling interest | | – | – |
| **Total comprehensive income for the year** | | **–** | **–** |
| **Transactions with owners recorded directly in equity** | | | |
| **Contributions by and distributions to owners** | | **(623)** | **–** |
| Distributions to equity holders | 25 | – | – |
| Own shares acquired | 19.2 | (623) | – |
| **Changes in ownership interests in subsidiaries that do not result in a loss of control** | | **–** | **–** |
| Acquisition of controlling interest in subsidiary | 31.1 | – | – |
| **Total transactions with owners** | | **(623)** | **–** |
| **Balance as at 30 June 2013** | | **85 633** | **1** |

| Share premium R'000 | Shares repurchased by subsidiaries R'000 | Foreign currency translation reserve R'000 | Retained earnings R'000 | Total R'000 | Non-controlling interest R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|
| **6** | **(38 941)** | **(4 270)** | **450 507** | **407 303** | **933** | **408 236** |
| **–** | **–** | **–** | **113 884** | **113 884** | **498** | **114 382** |
| **–** | **–** | **4 324** | **–** | **4 324** | **(645)** | **3 679** |
| – | – | (3 603) | – | (3 603) | – | (3 603) |
| – | – | 9 774 | – | 9 774 | – | 9 774 |
| – | – | (2 492) | – | (2 492) | – | (2 492) |
| – | – | 645 | – | 645 | (645) | – |
| **–** | **–** | **4 324** | **113 884** | **118 208** | **(147)** | **118 061** |
| **–** | **(21 569)** | **–** | **(63 666)** | **(85 235)** | **(1 750)** | **(86 985)** |
| – | – | – | (63 666) | (63 666) | (1 750) | (65 416) |
| – | (5 799) | – | – | (5 799) | – | (5 799) |
| – | (15 770) | – | – | (15 770) | – | (15 770) |
| **–** | **–** | **–** | **(9 910)** | **(9 910)** | **(3 796)** | **(13 706)** |
| – | – | – | (9 910) | (9 910) | (3 796) | (13 706) |
| **–** | **(21 569)** | **–** | **(73 576)** | **(95 145)** | **(5 546)** | **(100 691)** |
| **6** | **(60 510)** | **54** | **490 815** | **430 366** | **(4 760)** | **425 606** |
| **–** | **–** | **–** | **132 284** | **132 284** | **(464)** | **131 820** |
| **–** | **–** | **18 667** | **–** | **18 667** | **(719)** | **17 948** |
| – | – | 25 948 | – | 25 948 | – | 25 948 |
| – | – | (10 666) | – | (10 666) | – | (10 666) |
| – | – | 2 666 | – | 2 666 | – | 2 666 |
| – | – | 719 | – | 719 | (719) | – |
| **–** | **–** | **18 667** | **132 284** | **150 951** | **(1 183)** | **149 768** |
| **–** | **(16 725)** | **–** | **(87 851)** | **(104 576)** | **–** | **(104 576)** |
| – | – | – | (87 851) | (87 851) | – | (87 851) |
| – | (16 725) | – | – | (16 725) | – | (16 725) |
| **–** | **–** | **–** | **–** | **–** | **60** | **60** |
| – | – | – | – | – | 60 | 60 |
| **–** | **(16 725)** | **–** | **(87 851)** | **(104 576)** | **60** | **(104 516)** |
| **6** | **(77 235)** | **18 721** | **535 248** | **476 741** | **(5 883)** | **470 858** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Operating profit before working capital changes | 27 | **200 302** | 171 060 |
| Working capital changes | 28 | **2 958** | 6 378 |
| Cash generated from operations | | **203 260** | 177 438 |
| Interest income received | | **6 381** | 6 819 |
| Interest expense paid | | **(510)** | (655) |
| Tax paid | 29 | **(60 675)** | (58 578) |
| Dividends paid | 30 | **(88 444)** | (65 108) |
| **Net cash flow from operating activities** | | **60 012** | 59 916 |
| **Cash flow from investing activities** | | | |
| Acquisitions of subsidiaries, non-controlling interests and business combinations | 31 | **(5 092)** | (41 413) |
| Acquisition of treasury shares | 19.2 | **(16 725)** | (21 569) |
| Additions of property, plant and equipment | 9 | **(12 937)** | (6 204) |
| Cash inflow from share-based payment hedge | 15 | **1 221** | 198 |
| Decrease in loans receivable | 12 | **1 634** | 1 528 |
| Loan advanced to equity-accounted investee | | **–** | (4) |
| Loans advanced to franchisees | 12.3 | **(4 837)** | (4 791) |
| Loan advanced to Spur Marketing Fund | 12.4 | **(7 091)** | – |
| Other loans advanced | 12 | **(445)** | – |
| Proceeds from disposal of property, plant and equipment | | **159** | 133 |
| **Net cash flow from investing activities** | | **(44 113)** | (72 122) |
| **Cash flow from financing activities** | | | |
| Decrease in interest-bearing loans payable | 20 | **(1 907)** | (4 787) |
| Landlord contribution received | | **–** | 683 |
| Loan repaid to non-controlling shareholders | 24 | **(169)** | (548) |
| **Net cash flow from financing activities** | | **(2 076)** | (4 652) |
| **Net movement in cash and cash equivalents** | | **13 823** | (16 858) |
| Effect of foreign exchange fluctuations | | **(282)** | 98 |
| Net cash and cash equivalents at beginning of year | | **96 950** | 113 710 |
| **Net cash and cash equivalents at end of year** | 18 | **110 491** | 96 950 |

# NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

Spur Corporation Ltd is a company domiciled in South Africa. The consolidated financial statements of the company as at and for the year ended 30 June 2013 comprise the company, its subsidiaries, controlled special purpose entities and the group's interests in equity-accounted investees, together referred to as "the group".

The financial statements were authorised for issue by the directors on 9 October 2013.

The financial statements are presented in South African rands, rounded to the nearest thousand, unless otherwise stated. They are prepared on the going concern basis.

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:
- Derivative financial instruments are measured at fair value.
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

### 1.1 STATEMENT OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The consolidated and separate financial statements have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Council, the JSE Listings Requirements and the South African Companies Act (Act No. 71 of 2008), as amended.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses (refer note 42). The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities. Actual results may differ from these estimates. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

The accounting policies set out below have been applied consistently, in all material respects, to all years presented in these consolidated financial statements.

### 1.2 BASIS OF CONSOLIDATION

#### 1.2.1 Investment in subsidiaries

The group financial statements include the financial statements of the company and the entities that it controls. Control is achieved where the company has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements of the group from the date that control commences until the date that control ceases.

A special purpose entity ("SPE") is consolidated if, based on an evaluation of the substance of its relationship with the group and the SPE's risks and rewards, the group concludes that it controls the SPE.

The Spur Management Share Trust ("share trust") is an SPE that was established under terms that impose strict limitations on the decision-making powers of the SPE's management which results in the group receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to risks incidental to the SPE's activities, or retaining the majority of the residual or ownership risks related to the SPE or its assets. The group is therefore considered to control the share trust and it has been consolidated into the group financial statements. The group does not have any direct or indirect shareholding in this entity.

The company carries its investments in subsidiaries at cost less impairment losses in its separate financial statements.

#### 1.2.2 Investment in associates

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the group from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses exceeds its investment in an equity-accounted investee, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee.

#### 1.2.3 Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**1.2.4 Functional and presentation currency**

All items in the financial statements of the group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The group's consolidated financial statements are presented in rands, which is the company's functional currency and the group's presentation currency.

**1.2.5 Financial statements of foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to rands at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to rands at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised in other comprehensive income and presented in equity in the foreign currency translation reserve ("FCTR").

**1.2.6 Net investment in foreign operations**

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, the exchange differences arising from such monetary item are considered to be part of the net investment in foreign operations and are recognised in other comprehensive income and presented in equity in the FCTR. When the investment in foreign operation is disposed of, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

**1.2.7 Non-controlling interests**

Non-controlling interests in subsidiaries are identified separately from the group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' shares of subsequent changes in equity.

Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

**1.2.8 Business combinations and goodwill**

***Business combinations after 1 July 2009***

Business combinations occurring on or after 1 July 2009 are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are recognised as an expense in profit or loss.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be measured at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39: Financial Instruments: Recognition and Measurement either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity otherwise, subsequent changes to the fair value of the consideration are recognised in profit or loss.

Goodwill is initially measured at cost being the excess of the consideration transferred over the group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of under these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

***Business combinations prior to 30 June 2009***

In comparison to the above mentioned requirements, the following differences apply:

- Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.
- Business combinations achieved in stages were accounted for as separate transactions. Any additional shares acquired do not affect previously recognised goodwill.
- Contingent consideration was recognised if, and only if, the group had a present obligation, the economic outflow was more likely than not, and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

**1.2.9 Transactions with non-controlling interests**

Changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39: Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

## 1.3 FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are translated to the respective functional currencies of group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the respective functional currencies at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to the respective functional currencies using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the respective functional currencies at the foreign exchange rate ruling at the date the fair value was determined. Foreign exchange differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation which are recognised in other comprehensive income and presented in equity in the FCTR.

## 1.4 PROPERTY, PLANT AND EQUIPMENT

### 1.4.1 Recognition and measurement

Items of property, plant and equipment, including owner-occupied buildings, are stated at cost less accumulated depreciation and accumulated impairment losses. Land is stated at cost less impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of material and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located when the group has an obligation to remove the asset or restore the site and capitalised borrowing costs (refer note 1.15.2). Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

### 1.4.2 Subsequent costs

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing a part of such an item when the cost is incurred if it is probable that the economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss in the period they are incurred.

### 1.4.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date that they are ready for use. Leasehold improvements are depreciated over the shorter of the lease term or estimated useful life of the assets. Land is not depreciated.

Typically, the estimated useful lives are as follows:

| | |
|---|---|
| • buildings | 50 years |
| • plant, equipment and vehicles | 3 – 5 years |
| • furniture and fittings | 5 – 6.67 years |
| • computer equipment | 3 years |
| • computer software | 2 years |
| • leasehold improvements | lesser of lease term and 10 years |

Depreciation methods, useful lives and residual values are reassessed annually.

### 1.4.4 Disposal

Gains or losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognised in profit or loss.

## 1.5 INTANGIBLE ASSETS (OTHER THAN GOODWILL)

### 1.5.1 Trademarks and franchise rights

Intangible assets are initially recognised at cost if acquired externally, or at fair value if acquired as part of a business combination. Intangible assets which have finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each asset from the date they are ready for use. Intangible assets which have indefinite useful lives are not amortised but are tested for impairment annually. No value is attached to internally developed and maintained trademarks or brand names. Expenditure incurred to maintain trademarks and brand names is recognised in profit or loss as incurred.

Amortisation methods, useful lives and residual values are reassessed annually.

### 1.5.2 Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible, costs can be measured reliably, future economic benefits are probable and the group has sufficient resources to complete development in order to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

### 1.5.3 Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

## 1.6 IMPAIRMENT

### 1.6.1 Non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have an indefinite useful life or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows relating to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties less the costs of disposal. For an asset or cash-generating unit that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment reversals are recognised in profit or loss.

### 1.6.2 Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The recoverable amount of the group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Where the carrying value of the asset exceeds the recoverable amount, the difference is recognised as an impairment loss in profit or loss.

In assessing collective impairment, the group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

## 1.7 INVENTORIES

Inventories are measured at the lower of cost, determined on the first-in-first-out basis, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The cost of inventory includes costs incurred in acquiring the inventory and costs incurred in bringing the inventory to its current location and condition.

Cost of manufactured goods includes direct material costs, direct labour costs and an appropriate share of overheads based on normal operating capacity.

## 1.8 LEASES

### 1.8.1 Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Finance leases are recognised as assets and liabilities at amounts equal, at the inception of the lease, to the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease when it is practicable to determine; otherwise the group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the cost of the asset. Lease payments are apportioned between finance charges and the reduction of the outstanding liability. The finance charge is allocated to the periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period and is recorded in profit or loss.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. A finance lease gives rise to a depreciation expense for the asset as well as finance expenses for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

### 1.8.2 Operating leases

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases. Lease payments under an operating lease are recognised as an expense included in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

## 1.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## 1.10 TAX

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognised for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and joint ventures to the extent that the group is able to control the timing of the reversal of the temporary differences and they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes on the company that arise from distribution of dividends are recognised as a tax charge in profit or loss at the same time as the liability to pay the related dividends is recognised.

## 1.11 SHARE CAPITAL

### 1.11.1 Ordinary share capital

Ordinary share capital represents the par value of ordinary shares issued. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of taxes.

### 1.11.2 Share premium

Share premium represents the excess consideration received by the company over the par value of ordinary shares issued, and is classified as equity.

### 1.11.3 Repurchase of share capital

When shares of the company are acquired by the group, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity and the number of shares is deducted from the weighted average number of shares. Dividends received on treasury shares are eliminated on consolidation.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity.

### 1.11.4 Dividends

Dividends and capital distributions are recognised as a liability in the period in which they are declared and approved by shareholders.

## 1.12 FINANCIAL INSTRUMENTS

### 1.12.1 Measurement

Non-derivative financial instruments are initially measured at fair value, plus directly attributable transaction costs, except for financial instruments that are classified as being carried at fair value through profit or loss. Subsequent to initial recognition these instruments are classified according to their nature.

Financial instruments are classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Subsequent measurement of each financial instrument is explained in more detail below.

**Trade and other receivables (including loans)**
Trade and other receivables (including loans) are stated at amortised cost less impairment losses as appropriate.

**Cash and cash equivalents**
Cash and cash equivalents are measured at amortised cost, based on the relevant exchange rates at the reporting date.

**Financial liabilities**
Subsequent to initial recognition financial liabilities are stated at amortised cost using the effective interest method.

**Derivative instruments**
Subsequent to initial recognition, derivatives are measured at fair value. The gain or loss on remeasurement of derivative instruments is recognised in profit or loss in the period that the change arises.

Cash flow hedge accounting is not applied.

### 1.12.2 Derecognition

**Financial assets**
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Where the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

**Financial liabilities**
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 1.12.3 Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the group has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 1.13 REVENUE

Revenue comprises franchise-related fees, proceeds from the sale of supplies and promotional items and related services. All revenue is stated exclusive of value added tax or other sales taxes and net of transactions with group companies and measured at the fair value of the consideration received or receivable.

Franchise fees are recognised on the accrual basis as services are rendered, or the rights used, in accordance with the substance of the related franchise agreements.

Revenue from the sale of supplies and promotional items is recognised when the significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of the future economic benefits is probable.

Revenue from the rendering of services is recognised as the services are rendered if the costs relating to the rendering of the services can be reliably measured and the receipt of the future economic benefits is probable.

Dividend income is recognised when the right to receive payment is established.

## 1.14 ADMINISTRATION FEE INCOME

Administration fees are stated exclusive of value added tax or other sales taxes and are recognised as services are rendered.

## 1.15 FINANCE INCOME AND EXPENSE

### 1.15.1 Finance income

Finance income comprises interest income. Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the group.

### 1.15.2 Finance expense

Finance expense comprises interest payable on borrowings calculated using the effective interest method.

The interest expense component of finance lease payments is recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

## 1.16 EMPLOYEE BENEFITS

### 1.16.1 Short-term employee benefits

The costs of all short-term employee benefits are recognised in profit or loss during the period in which the employee renders the related service.

The accruals for employee entitlements to salaries and leave represent the amount which the group has a present obligation to pay as a result of employees' services provided to the reporting date. The accruals have been calculated at undiscounted amounts based on current salary rates.

### 1.16.2 Long-term employee benefits

Liabilities for employee benefits which are not expected to be settled within 12 months are discounted using the market yields, at the reporting date, on high-quality bonds with terms which most closely match the terms of maturity of the related liabilities.

### 1.16.3 Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised in profit or loss in the period during which related services are rendered by employees.

### 1.16.4 Share-based payment transactions

With regard to equity-settled transactions, the fair value of options granted is recognised as an employee expense included in profit or loss with a corresponding increase in equity. The fair value is measured at grant date and expensed in profit or loss over the period during which the employees become unconditionally entitled to the shares. The amount recognised as an expense included in profit or loss (with a corresponding increase in equity) is adjusted to reflect the actual number of options that vest or are expected to vest.

With regard to cash-settled transactions, the fair value of share appreciation rights granted is recognised as an employee expense included in profit or loss with a corresponding liability over the vesting period of the rights. The fair value of the rights granted is measured at each reporting date with any change in fair value being recorded in profit or loss as an employee expense, subject to the vesting period of the rights. The amount recognised as an expense included in profit or loss (and the related liability) is adjusted to reflect the actual number of rights that vest or are expected to vest.

## 1.17 PROVISIONS

A provision is recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with the contract.

## 1.18 SEGMENT REPORTING

Operating segments are identified based on financial information regularly reviewed by the Spur Corporation Ltd executive directors (identified as the Chief Operating Decision Maker ("CODM") of the group for IFRS 8: Operating Segments reporting purposes) for performance assessments and resource allocations. In accordance with IFRS 8: Operating Segments, no segment assets have been disclosed as such information is not regularly provided to the CODM.

The group identified seven reportable segments, as listed below, with no individual customer accounting for more than 10% of turnover:

- South Africa Manufacturing and distribution
- South Africa Franchise – Spur
- South Africa Franchise – Panarottis
- South Africa Franchise – John Dory's
- South Africa Franchise – Captain DoRegos
- United Kingdom
- Australia

The group's South African business comprises largely the franchise businesses of its four trading brands, Spur Steak Ranches, Panarottis Pizza Pasta, John Dory's Fish Grill Sushi and Captain DoRegos, and its sauce manufacturing, warehousing and product distribution business. Smaller operating segments include the group's training division, export business, décor manufacturing business, call centre and radio station which are each individually not material. The CODM reviews the performance of each of the franchise brands and other business units independently of each other to assess the risks and contribution of each business unit, including the relevant return on investment and where appropriate the possibility and financial feasibility of expanding, ceasing or outsourcing operations.

The group's International business comprises largely its operations in the United Kingdom and Australia. Smaller international operating segments include franchise operations in Africa, the United Arab Emirates and Mauritius. While the businesses in the United Kingdom and Australia comprise both a franchise and retail outlet (group-owned restaurant) component, in assessing the performance of these two divisions, the CODM acknowledges that the franchise and retail outlet businesses are intricately linked. In assessing the return on investment in these territories, it is not practicable to allocate contributions between the franchise and retail outlet businesses.

From a statutory reporting perspective, the CODM reviews the profit/loss before tax of each segment. In managing risks, performance and resource allocations, the CODM considers earnings before interest, tax, depreciation and amortisation ("EBITDA") as a more meaningful measure, particularly in light of the group's expansion strategy in international territories and its intention to establish a footprint in those territories, which is anticipated to carry significant depreciation and funding costs. Accordingly, the group has elected to disclose segmental EBITDA in addition to the minimum disclosure required by IFRS 8: Operating Segments, as the board and management are of the view that this provides meaningful information to stakeholders.

## 1.19 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale.

This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from classification and the asset is available for immediate sale in its present condition.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the group's accounting policies. Thereafter assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Disposal groups are classified as discontinued operations where they represent a major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

## 1.20 GUARANTEES

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

These financial guarantees are classified as insurance contracts as defined in IFRS 4: Insurance contracts. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the reporting date. Where the effect of discounting is material, the liability is discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## 1.21 EARNINGS PER SHARE

The group presents basic and diluted earnings per share ("EPS") and basic and diluted headline earnings per share ("HEPS") for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the dilutive effects of all share options granted to employees.

Headline earnings is calculated in accordance with Circular 3/2012: Headline Earnings issued by the South African Institute of Chartered Accountants at the request of the JSE. The JSE Listings Requirements require the calculation of headline earnings for all entities listed on the JSE in South Africa. Basic HEPS is calculated by dividing headline earnings by the weighted average number of ordinary shares outstanding during the period. Diluted HEPS is determined by dividing headline earnings by the weighted average number of ordinary shares outstanding during the period adjusted for the dilutive effects of all share options granted to employees.

## 2. OPERATING SEGMENTS

| | SOUTH AFRICA | | | | | |
|---|---|---|---|---|---|---|
| | Manu-facturing & distribution R'000 | Franchise Spur R'000 | Franchise Panarottis R'000 | Franchise John Dory's R'000 | Franchise Captain DoRegos R'000 | Other segments R'000 |
| **June 2013** | | | | | | |
| **Total revenues** | **214 181** | **179 464** | **16 692** | **11 712** | **9 174** | **32 953** |
| Inter-segment revenues | 469 | – | – | – | – | 2 554 |
| **External revenues** | **213 712** | **179 464** | **16 692** | **11 712** | **9 174** | **30 399** |
| **Profit/(loss) before income tax** | **59 525** | **158 818** | **9 874** | **6 629** | **3 838** | **92** |
| Exclude: | | | | | | |
| Interest income | – | – | – | – | – | – |
| Interest expense | – | – | – | – | – | – |
| Depreciation and amortisation | (1 095) | – | – | – | (48) | (162) |
| **EBITDA*** | **60 620** | **158 818** | **9 874** | **6 629** | **3 886** | **254** |
| Other material disclosable items: | | | | | | |
| Impairment of property, plant and equipment | – | – | – | – | – | – |
| Profit on disposal of property, plant and equipment | – | – | – | – | – | – |
| Share-based payments expense net of fair value adjustment in respect of hedge | – | – | – | – | – | – |
| Foreign exchange gain | – | – | – | – | – | – |
| **EBITDA* before other material disclosable items** | **60 620** | **158 818** | **9 874** | **6 629** | **3 886** | **254** |
| Capital expenditure | 1 565 | – | – | – | – | – |
| **June 2012** | | | | | | |
| **Total revenues** | **142 821** | **155 433** | **12 952** | **11 092** | **2 498** | **39 751** |
| Inter-segment revenues | – | – | – | – | – | 5 356 |
| **External revenues** | **142 821** | **155 433** | **12 952** | **11 092** | **2 498** | **34 395** |
| **Profit/(loss) before income tax** | **55 662** | **136 447** | **7 866** | **5 818** | **928** | **1 427** |
| Exclude: | | | | | | |
| Interest income | – | – | – | – | – | – |
| Interest expense | – | – | – | – | – | – |
| Depreciation and amortisation | (567) | – | – | – | (22) | (123) |
| **EBITDA*** | **56 229** | **136 447** | **7 866** | **5 818** | **950** | **1 550** |
| Other material disclosable items: | | | | | | |
| Bargain purchase gain | – | – | – | – | – | – |
| Fair value gain on realisation of collateral | – | – | – | – | – | – |
| Impairment of goodwill | – | – | – | – | – | – |
| Profit/(loss) on disposal of property, plant and equipment | – | – | – | – | – | – |
| Share-based payments expense net of fair value adjustment in respect of hedge | – | – | – | – | – | – |
| Foreign exchange loss | – | – | – | – | – | – |
| **EBITDA* before other material disclosable items** | **56 229** | **136 447** | **7 866** | **5 818** | **950** | **1 550** |
| Capital expenditure | 697 | – | – | – | – | – |

Notes:
- South Africa – Manufacturing and distribution includes revenue of R72.625 million (2012: R23.485 million) and profit before income tax of R1.949 million (2012: R0.948 million) in respect of the Captain DoRegos distribution centre (refer note 31.2).
- South Africa – Franchise Captain DoRegos was included for four months in the prior year (refer note 31.2).
- South Africa – Unallocated profit before income tax includes R1.424 million (2012: R3.171 million) in respect of legal costs relating to the dispute with the former non-controlling shareholder of John Dory's Franchise (Pty) Ltd and the related Financial Services Board investigation (which investigation was concluded during the year and the company vindicated of any wrong doing). The current year includes professional services costs of R0.567 million relating to a possible international group restructure and defending the tax assessments issued in respect of the group's controlled foreign companies (refer note 41.1). The prior year includes R0.745 million in respect of due diligence and other costs related to the acquisition of Captain DoRegos and an investigation into another potential acquisition which was not progressed.

| Total segments R’000 | Un-allocated R’000 | Total South Africa R’000 | INTERNATIONAL United Kingdom R’000 | Australia R’000 | Other segments R’000 | Total segments R’000 | Un-allocated R’000 | Total Inter-national R’000 | TOTAL R’000 |
|---|---|---|---|---|---|---|---|---|---|
| **464 176** | **515** | **464 691** | **118 353** | **60 632** | **12 374** | **191 359** | **–** | **191 359** | **656 050** |
| 3 023 | – | 3 023 | – | – | – | – | – | – | 3 023 |
| **461 153** | **515** | **461 668** | **118 353** | **60 632** | **12 374** | **191 359** | **–** | **191 359** | **653 027** |
| **238 776** | **(35 690)** | **203 086** | **(1 006)** | **(2 194)** | **7 487** | **4 287** | **(12 316)** | **(8 029)** | **195 057** |
| – | 6 143 | 6 143 | – | 165 | – | 165 | 73 | 238 | 6 381 |
| – | (289) | (289) | (126) | (95) | – | (221) | – | (221) | (510) |
| (1 305) | (2 774) | (4 079) | (5 430) | (2 107) | – | (7 537) | (40) | (7 577) | (11 656) |
| **240 081** | **(38 770)** | **201 311** | **4 550** | **(157)** | **7 487** | **11 880** | **(12 349)** | **(469)** | **200 842** |
| – | – | – | – | (2 188) | – | (2 188) | – | (2 188) | (2 188) |
| – | 40 | 40 | – | – | – | – | – | – | 40 |
| – | 10 712 | 10 712 | – | – | – | – | – | – | 10 712 |
| – | – | – | 27 | (19) | – | 8 | (6 518) | (6 510) | (6 510) |
| **240 081** | **(49 522)** | **190 559** | **4 523** | **2 050** | **7 487** | **14 060** | **(5 831)** | **8 229** | **198 788** |
| 1 565 | 3 421 | 4 986 | 7 512 | 335 | – | 7 847 | 104 | 7 951 | 12 937 |
| **364 547** | **205** | **364 752** | **81 631** | **53 140** | **9 277** | **144 048** | **–** | **144 048** | **508 800** |
| 5 356 | – | 5 356 | – | – | – | – | – | – | 5 356 |
| **359 191** | **205** | **359 396** | **81 631** | **53 140** | **9 277** | **144 048** | **–** | **144 048** | **503 444** |
| **208 148** | **(36 445)** | **171 703** | **694** | **(682)** | **5 305** | **5 317** | **(1 920)** | **3 397** | **175 100** |
| – | 6 573 | 6 573 | 47 | 103 | – | 150 | 96 | 246 | 6 819 |
| – | (392) | (392) | (150) | (113) | – | (263) | – | (263) | (655) |
| (712) | (2 149) | (2 861) | (5 054) | (2 039) | – | (7 093) | (5) | (7 098) | (9 959) |
| **208 860** | **(40 477)** | **168 383** | **5 851** | **1 367** | **5 305** | **12 523** | **(2 011)** | **10 512** | **178 895** |
| – | 3 694 | 3 694 | – | – | – | – | – | – | 3 694 |
| – | – | – | 843 | – | – | 843 | – | 843 | 843 |
| – | – | – | – | (1 564) | – | (1 564) | – | (1 564) | (1 564) |
| – | 81 | 81 | (138) | – | – | (138) | – | (138) | (57) |
| – | 3 514 | 3 514 | – | – | – | – | – | – | 3 514 |
| – | – | – | 72 | (8) | – | 64 | 2 224 | 2 288 | 2 288 |
| **208 860** | **(47 766)** | **161 094** | **5 074** | **2 939** | **5 305** | **13 318** | **(4 235)** | **9 083** | **170 177** |
| 697 | 3 815 | 4 512 | 1 393 | 287 | – | 1 680 | 12 | 1 692 | 6 204 |

- United Kingdom – Current year revenue includes R18.143 million and profit before income tax includes a loss of R2.773 million relating to Two Rivers Spur in Staines, England (including Trinity Leasing Ltd) from October 2012 and Rapid River Spur in Dublin, Ireland from April 2013 (refer notes 31.1 and 32.1 respectively). The loss includes initial set-up costs that could not be capitalised and initial trading losses.
- International – Unallocated current year profit before income tax includes losses amounting to R1.052 million in winding up certain of the group’s Australian equity-accounted associates which ceased trading in previous years.

* EBITDA is earnings (profit/loss) before interest, tax, depreciation and amortisation.

## 3. REVENUE

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Manufacturing and distribution sales and rebates | **213 712** | 142 821 |
| Franchise related fee income | **233 200** | 194 477 |
| Retail restaurants' turnover | **175 201** | 131 546 |
| Other sundry sales | **20 758** | 28 129 |
| Other sundry services rendered | **10 025** | 6 346 |
| Rental income | **131** | 125 |
| | **653 027** | 503 444 |

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

Other sundry services rendered includes largely TasteFM (internal radio station) subscriptions, call centre services provided to the group's local marketing funds, training fees and architectural service fees from local franchisees.

## 4. OTHER OPERATING INCOME

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Advertising administration fees | **13 153** | 11 891 |
| Bargain purchase gain (refer note 31.2) | **–** | 3 694 |
| Convention recoveries | **6 867** | – |
| Fair value gain on realisation of collateral | **–** | 843 |
| Fair value gain on derivative financial instruments (refer note 15) | **34 357** | 7 479 |
| Other | **765** | – |
| | **55 142** | 23 907 |

Advertising administration fees relate to administrative support services rendered by the group in respect of marketing funds (refer notes 36 and 42).

Convention recoveries relate to franchisee and supplier contributions to the group's franchise convention at Sun City held during the year. Costs related to the convention are included in Administration expenses in the statement of comprehensive income.

The fair value gain on realisation of collateral arose in the prior year when the group executed its pledge over the 10% shares in Larkspur One Ltd previously owned by a non-controlling shareholder, which served as security for a loan which the group had previously advanced to that shareholder. The shareholder absconded during the prior year and subsequently defaulted on the loan (refer note 31.4).

## 5. OPERATING PROFIT BEFORE FINANCE INCOME

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| The following items have been taken into account in determining operating profit before finance income: | | |
| Amortisation – intangible assets (refer note 10) | **143** | 128 |
| Bad debts | **868** | 371 |
| Depreciation (refer note 9) | **11 513** | 9 831 |
| – Buildings | **321** | 288 |
| – Leasehold improvements | **5 312** | 4 593 |
| – Furniture and fittings | **1 411** | 1 138 |
| – Plant, equipment and vehicles | **2 834** | 2 733 |
| – Computer equipment | **1 635** | 1 079 |
| Fair value gain on derivative financial instruments at fair value through profit or loss (refer note 15) | **(34 357)** | (7 479) |
| Fair value gain on realisation of collateral (refer note 4) | **–** | (843) |
| Foreign exchange loss/(gain)* | **6 510** | (2 288) |
| Impairment allowance – trade receivables | **3** | 60 |
| Loss on impaired outlets (refer note 5.1) | **2 188** | 1 564 |
| – Impairment of goodwill (refer note 10.2) | **–** | 1 564 |
| – Impairment of property, plant and equipment (refer note 9) | **2 188** | – |
| Operating lease charges | **24 049** | 15 845 |
| – Lease charges | **25 284** | 16 563 |
| – Straight-line lease credit (refer note 22) | **(1 787)** | (1 000) |
| – Amortisation of leasing rights (refer note 14) | **552** | 282 |
| (Profit)/loss on disposal of property, plant and equipment (refer note 9) | **(40)** | 57 |
| Provident fund expense – defined contribution plan (refer note 35) | **8 161** | 6 742 |
| Share-based payments expense – cash-settled (refer note 21) | **23 645** | 3 965 |
| Staff costs (excluding directors' emoluments and items disclosed separately above) | **128 258** | 96 509 |

* The current year includes the reclassification of foreign currency differences (a net loss) from other comprehensive income to profit on the deregistration of a foreign operation, Larkspur Four Ltd (incorporated in the United Kingdom), in the amount of R0.842 million.

Directors' and prescribed officers' emoluments are detailed in note 34.

### 5.1 LOSS ON IMPAIRED OUTLETS

**Panarottis Tuggerah (Australia)**

Panarottis Tuggerah, a restaurant operated by a partnership of which a wholly owned subsidiary of the group, Panatug Pty Ltd, is an 80% partner, commenced trading in Tuggerah, Australia in November 2010. Despite the restaurant achieving acceptable turnovers, the high cost of occupancy and certain other costs has resulted in the restaurant not achieving the cash flows that were anticipated. This was considered to be an indication of impairment.

In assessing the recoverable amount of the restaurant as a cash-generating unit, the directors have estimated the value-in-use of the cash-generating unit. Given the nature of the restaurant industry and the limited presence of the group's trading brands in Australia, the directors assert that the cash-generating unit's fair value less costs to sell is unlikely to be significant in relation to its value-in-use.

The cash-generating unit comprises predominantly property, plant and equipment and net working capital.

In determining the value-in-use of the cash-generating unit, the directors applied the following key assumptions which are based on historic performance:

- Cash inflows, comprising mainly restaurant turnovers, for the 2014 financial year were conservatively estimated based on historic trends. Turnovers were estimated to grow by 2.5% per annum (half way between the Australian Reserve Bank's targeted rate of inflation of 2% to 3%) for the 2015 to 2018 financial years.
- Cash outflows for the 2014 financial year were estimated based on the most recent expense budgets prepared by management and adjusted for the remainder of the forecast period as detailed below.
- Variable costs were estimated to increase in line with turnover.
- Fixed costs were estimated to increase at anticipated inflation of 2.5%.
- Semi-variable costs were adjusted in part for anticipated inflation and in part by the change in anticipated turnover.
- Rental cost was forecast in accordance with the lease agreement.
- Growth in perpetuity of cash flows beyond the five-year forecast horizon was estimated at 2%.
- Pre-tax cash flows were discounted at a pre-tax rate of 12.5%, being the risk-free rate of 2.5% (the Australian Reserve Bank cash rate) adjusted for risk factors.
- The present value of the cash flows was translated to the reporting currency at the exchange rate prevailing at the reporting date.

Based on the value-in-use calculation, the cash-generating unit's recoverable amount was determined to be significantly less than its carrying value. Consequently, the full carrying value of property, plant and equipment was impaired amounting AU$241 884, the equivalent of R2.188 million.

Despite the conclusion to impair the assets, management has implemented a number of measures which are anticipated to reduce costs in the forthcoming financial year. The board is confident that the restaurant remains a sustainable business and intends continuing to trade the outlet for the foreseeable future.

The goodwill attributable to the cash-generating unit of R1.564 million was impaired during the prior year.

## 6. NET FINANCE INCOME

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **Finance income and expense recognised in profit or loss** | | |
| Interest income on bank deposits | **5 435** | 6 275 |
| Interest income on financial assets measured at amortised cost | **946** | 544 |
| Interest income | **6 381** | 6 819 |
| | | |
| Interest expense on financial liabilities measured at amortised cost | **(510)** | (655) |
| Interest expense | **(510)** | (655) |
| **Net interest income recognised in profit or loss** | **5 871** | 6 164 |

## 7. INCOME TAX

### 7.1 INCOME TAX EXPENSE

| | | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **South African normal tax** | | | |
| Current | – current year | **56 445** | 49 250 |
| | – prior year | **274** | 104 |
| Deferred | – current year | **3 057** | 685 |
| | – prior year | **(111)** | (68) |
| | | **59 665** | 49 971 |
| **South African secondary tax on companies** | | **–** | 7 248 |
| **South African dividend withholding tax** | | **981** | – |
| **Dutch normal tax** | | | |
| Current | – current year | **317** | 204 |
| Deferred | – current year | **1 512** | 2 957 |
| | – prior year | **716** | 469 |
| | | **2 545** | 3 630 |
| **United Kingdom normal tax** | | | |
| Current | – current year | **169** | 508 |
| | – prior year | **(92)** | 9 |
| Deferred | – current year | **(409)** | (1 125) |
| | – rate change | **106** | 75 |
| | – prior year | **353** | 501 |
| | | **127** | (32) |
| **Australian normal tax** | | | |
| Current | – current year | **63** | 125 |
| | – prior year | **(21)** | 100 |
| Deferred | – current year | **(123)** | (138) |
| | – prior year | **–** | (186) |
| | | **(81)** | (99) |
| **Income tax expense** | | **63 237** | 60 718 |

Refer also contingent liability note 41.1.

| | 2013 % | 2012 % |
|---|---|---|
| **7.2 RECONCILIATION OF RATE OF TAX** | | |
| South African normal tax rate | **28.0** | 28.0 |
| Change in tax rate | **0.1** | – |
| Effect of tax in foreign jurisdictions | **(0.1)** | (0.1) |
| Non-deductible expenditure | **2.3** | 2.4 |
| Non-taxable income | **–** | (0.8) |
| Prior year under provision | **0.5** | 0.6 |
| Secondary tax on companies | **–** | 4.1 |
| Tax losses on which deferred tax not provided | **1.9** | 1.4 |
| Tax losses utilised on which no deferred tax previously provided | **(0.4)** | (0.5) |
| Tax on imputed expense not included in profit | **(0.6)** | (0.5) |
| Withholding tax | **0.7** | 0.1 |
| **Effective tax rate** | **32.4** | 34.7 |

The statutory rates of tax applicable to group entities in the Netherlands, the United Kingdom and Australia are 25% (2012: 25%), 23.75% (2012: 25%) and 30% (2012: 30%) respectively. The tax rate in the Netherlands operates on a sliding scale. In the United Kingdom, the tax rate was reduced to 23% with effect from 1 April 2013. Consequently, current tax is provided for at the time-weighted average tax rate of 23.75% and deferred tax is provided for at 23%.

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Estimated group gross tax losses available for set-off against future taxable income | **95 418** | 80 728 |

A deferred tax asset has not been recognised in respect of tax losses amounting to R82.115 million (2012: R66.035 million). A deferred tax asset amounting to R3.174 million (2012: R3.621 million) has been recognised in respect of the balance of the tax losses. Of the tax losses for which no deferred tax asset was recognised R46.695 million and R19.885 million are subject to restrictions on the periods for which the losses can be rolled forward of five years and nine years, respectively (refer note 13).

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **7.3 TAX CHARGED TO OTHER COMPREHENSIVE INCOME** | | |
| Deferred tax on foreign exchange (loss)/gain on net investments in foreign operations | **(2 666)** | 2 492 |
| **Total tax charged to other comprehensive income** | **(2 666)** | 2 492 |

## 8. EARNINGS PER SHARE

| | 2013 | 2012 |
|---|---|---|
| **8.1 STATISTICS** | | |
| – Basic earnings per share (cents) | **153.66** | 130.71 |
| – Diluted earnings per share (cents) | **153.66** | 130.34 |
| – Headline earnings per share (cents) | **156.64** | 128.32 |
| – Diluted headline earnings per share (cents) | **156.64** | 127.95 |

| | 2013 '000 | 2012 '000 |
|---|---|---|
| **8.2 RECONCILIATION OF SHARES IN ISSUE TO WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES** | | |
| Shares in issue at beginning of year | **97 633** | 97 633 |
| Shares repurchased at beginning of year | **(11 377)** | (10 419) |
| Shares repurchased during the year weighted for period not held by the group (refer note 19.2) | **(166)** | (90) |
| **Weighted average number of ordinary shares** | **86 090** | 87 124 |

| | 2013 '000 | 2012 '000 |
|---|---|---|
| **8.3 RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES TO WEIGHTED AVERAGE DILUTIVE NUMBER OF SHARES** | | |
| Weighted average number of shares | **86 090** | 87 124 |
| Dilutive effect of options outstanding (refer note 26.1) | **–** | 253 |
| **Weighted average dilutive number of shares** | **86 090** | 87 377 |

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **8.4 RECONCILIATION OF HEADLINE EARNINGS** | | |
| Profit attributable to owners of the company | **132 284** | 113 884 |
| Bargain purchase gain (refer note 4) | **–** | (3 694) |
| Impairment of goodwill (refer note 5.1) | **–** | 1 564 |
| Impairment of property, plant and equipment (refer note 5.1) | **1 750** | – |
| (Profit)/loss on disposal of property, plant and equipment | **(29)** | 41 |
| Reclassification of foreign currency loss from other comprehensive income to profit on deregistration of foreign operation (refer note 5) | **842** | – |
| **Headline earnings** | **134 847** | 111 795 |

None of the items listed above has any tax or non-controlling interest consequences with the exception of:

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **Impairment of property, plant and equipment** | | |
| Gross | **2 188** | – |
| Non-controlling interest | **(438)** | – |
| Attributable to owners of the company | **1 750** | – |
| **(Profit)/loss on disposal of property, plant and equipment** | | |
| Gross | **(40)** | 57 |
| Tax | **11** | (16) |
| Attributable to owners of the company | **(29)** | 41 |

## 9. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings R'000 | Leasehold improvements R'000 | Furniture and fittings R'000 | Plant, equipment and vehicles R'000 | Computer equipment R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| **COST** | | | | | | |
| Balance at 1 July 2012 | **35 011** | **73 880** | **13 606** | **28 506** | **9 674** | **160 677** |
| Acquisitions through business combinations (refer note 31) | **–** | **–** | **67** | **–** | **–** | **67** |
| Additions | **–** | **4 571** | **2 310** | **3 972** | **2 084** | **12 937** |
| Disposals | **–** | **–** | **–** | **(113)** | **(84)** | **(197)** |
| Effect of foreign exchange fluctuations | **–** | **6 607** | **959** | **1 693** | **302** | **9 561** |
| **Balance at 30 June 2013** | **35 011** | **85 058** | **16 942** | **34 058** | **11 976** | **183 045** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES** | | | | | | |
| Balance at 1 July 2012 | **(1 437)** | **(47 106)** | **(9 757)** | **(21 418)** | **(7 467)** | **(87 185)** |
| Disposals | **–** | **–** | **–** | **33** | **45** | **78** |
| Depreciation | **(321)** | **(5 312)** | **(1 411)** | **(2 834)** | **(1 635)** | **(11 513)** |
| Impairment (refer note 5.1) | **–** | **(1 851)** | **(85)** | **(246)** | **(6)** | **(2 188)** |
| Effect of foreign exchange fluctuations | **–** | **(3 084)** | **(647)** | **(1 374)** | **(254)** | **(5 359)** |
| **Balance at 30 June 2013** | **(1 758)** | **(57 353)** | **(11 900)** | **(25 839)** | **(9 317)** | **(106 167)** |
| **CARRYING VALUE** | | | | | | |
| Balance at 1 July 2012 | **33 574** | **26 774** | **3 849** | **7 088** | **2 207** | **73 492** |
| Acquisitions through business combinations (refer note 31) | **–** | **–** | **67** | **–** | **–** | **67** |
| Additions | **–** | **4 571** | **2 310** | **3 972** | **2 084** | **12 937** |
| Disposals | **–** | **–** | **–** | **(80)** | **(39)** | **(119)** |
| Depreciation | **(321)** | **(5 312)** | **(1 411)** | **(2 834)** | **(1 635)** | **(11 513)** |
| Impairment (refer note 5.1) | **–** | **(1 851)** | **(85)** | **(246)** | **(6)** | **(2 188)** |
| Effect of foreign exchange fluctuations | **–** | **3 523** | **312** | **319** | **48** | **4 202** |
| **Balance at 30 June 2013** | **33 253** | **27 705** | **5 042** | **8 219** | **2 659** | **76 878** |
| **2012** | | | | | | |
| **COST** | | | | | | |
| Balance at 1 July 2011 | 34 359 | 65 235 | 11 771 | 23 750 | 10 394 | 145 509 |
| Acquisitions through business combinations (refer note 31) | – | – | – | 1 881 | 26 | 1 907 |
| Additions | 652 | 178 | 1 878 | 1 703 | 1 793 | 6 204 |
| Disposals | – | (16) | (1 152) | (962) | (2 959) | (5 089) |
| Effect of foreign exchange fluctuations | – | 8 483 | 1 109 | 2 134 | 420 | 12 146 |
| **Balance at 30 June 2012** | 35 011 | 73 880 | 13 606 | 28 506 | 9 674 | 160 677 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES** | | | | | | |
| Balance at 1 July 2011 | (1 149) | (38 296) | (8 881) | (17 817) | (8 979) | (75 122) |
| Disposals | – | 1 | 1 130 | 824 | 2 944 | 4 899 |
| Depreciation | (288) | (4 593) | (1 138) | (2 733) | (1 079) | (9 831) |
| Effect of foreign exchange fluctuations | – | (4 218) | (868) | (1 692) | (353) | (7 131) |
| **Balance at 30 June 2012** | (1 437) | (47 106) | (9 757) | (21 418) | (7 467) | (87 185) |
| **CARRYING VALUE** | | | | | | |
| Balance at 1 July 2011 | 33 210 | 26 939 | 2 890 | 5 933 | 1 415 | 70 387 |
| Acquisitions through business combinations (refer note 31) | – | – | – | 1 881 | 26 | 1 907 |
| Additions | 652 | 178 | 1 878 | 1 703 | 1 793 | 6 204 |
| Disposals | – | (15) | (22) | (138) | (15) | (190) |
| Depreciation | (288) | (4 593) | (1 138) | (2 733) | (1 079) | (9 831) |
| Effect of foreign exchange fluctuations | – | 4 265 | 241 | 442 | 67 | 5 015 |
| **Balance at 30 June 2012** | 33 574 | 26 774 | 3 849 | 7 088 | 2 207 | 73 492 |

A register of land and buildings containing the required statutory information is available for inspection on request at the company's registered office.

## 9.1 IMPAIRMENT INDICATORS

**Panarottis Blacktown (Australia)**

Panarottis Blacktown, a restaurant operated by a subsidiary of the group, Panawest Pty Ltd (an entity in which the group has a 92.7% interest), commenced trading in Blacktown, Australia in October 2006. Despite the restaurant achieving acceptable turnovers and profit in the past, the increases in the cost of occupancy and minimum wage rates in Australia, coupled with a decrease in foot traffic in the centre in which the restaurant is situated, have resulted in the restaurant not achieving the cash flows that were anticipated. This was considered to be an indication of impairment.

In assessing the recoverable amount of the restaurant as a cash-generating unit, the directors have estimated the value-in-use of the cash-generating unit. Given the nature of the restaurant industry and the limited presence of the group's trading brands in Australia, the directors assert that the cash-generating unit's fair value less costs to sell is unlikely to be significant in relation to its value-in-use.

The cash-generating unit comprises predominantly property, plant and equipment and net working capital.

In determining the value-in-use of the cash-generating unit, the directors applied the following key assumptions:

- Cash inflows, comprising mainly restaurant turnovers, for the 2014 financial year were conservatively estimated based on historic trends to increase at 2.6% on the 2013 financial year. Turnovers were estimated to grow by 2.5% per annum (half way between the Australian Reserve Bank's targeted rate of inflation of 2% to 3%) for the 2015 to 2018 financial years.
- Cash outflows for the 2014 financial year were estimated based on the most recent expense budgets prepared by management and adjusted for the remainder of the forecast period as detailed below.
- Cost of sales as a percentage of sales was budgeted at 22.5% for the 2014 financial year and projected at 22.5% for 2015, 22.0% for 2016 and 21.5% for 2017 and 2018 in anticipation of management's efforts to refine the Panarottis menu in Australia.
- Labour costs as a percentage of sales were budgeted at 42.0% for the 2014 financial year and projected at 41.0% for 2015, 40.5% for 2016 and 2017 and 40% for 2018 in anticipation of savings in labour as various technology solutions are introduced to reduce headcount.
- All other variable costs were estimated to increase in line with turnover.
- Fixed costs were estimated to increase at anticipated inflation of 2.5%.
- Semi-variable costs were adjusted in part for anticipated inflation and in part by the change in anticipated turnover.
- Rental cost was forecast in accordance with the lease agreement.
- Growth in perpetuity of cash flows beyond the five-year forecast horizon was estimated at 2%.
- Pre-tax cash flows were discounted at a pre-tax rate of 12.5%, being the risk-free rate of 2.5% (the Australian Reserve Bank cash rate) adjusted for risk factors.
- The present value of the cash flows was translated to the reporting currency at the exchange rate prevailing at the reporting date.

Based on the value-in-use calculation, the cash-generating unit's recoverable amount was determined to be marginally in excess of its carrying value of R2.501 million. Consequently, while no assets were impaired in the current year, should the performance of the cash-generating unit not be as projected in future years, an impairment loss may need to be recognised in the 2014 (or subsequent) financial year.

Management has implemented a number of measures which are anticipated to reduce costs in the forthcoming financial year. The board is confident that the restaurant remains a sustainable business and intends to continue trading the outlet for the foreseeable future.

## 10. INTANGIBLE ASSETS AND GOODWILL

| | Trademarks and intellectual property R'000 | Goodwill R'000 | Franchise rights R'000 | Total R'000 |
|---|---|---|---|---|
| **2013** | | | | |
| **COST** | | | | |
| Balance at 1 July 2012 | **311 517** | **14 285** | **2 265** | **328 067** |
| Effect of foreign exchange fluctuations | **–** | **591** | **369** | **960** |
| **Balance at 30 June 2013** | **311 517** | **14 876** | **2 634** | **329 027** |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES** | | | | |
| Balance at 1 July 2012 | **–** | **(6 512)** | **(569)** | **(7 081)** |
| Amortisation | **–** | **–** | **(143)** | **(143)** |
| Effect of foreign exchange fluctuations | **–** | **–** | **(105)** | **(105)** |
| **Balance at 30 June 2013** | **–** | **(6 512)** | **(817)** | **(7 329)** |
| **CARRYING VALUE** | | | | |
| Balance at 1 July 2012 | **311 517** | **7 773** | **1 696** | **320 986** |
| Amortisation | **–** | **–** | **(143)** | **(143)** |
| Effect of foreign exchange fluctuations | **–** | **591** | **264** | **855** |
| **Balance at 30 June 2013** | **311 517** | **8 364** | **1 817** | **321 698** |
| **2012** | | | | |
| **COST** | | | | |
| Balance at 1 July 2011 | 271 865 | 13 010 | 1 919 | 286 794 |
| Acquisitions through business combinations (refer note 31.2) | 39 652 | – | – | 39 652 |
| Effect of foreign exchange fluctuations | – | 1 275 | 346 | 1 621 |
| **Balance at 30 June 2012** | 311 517 | 14 285 | 2 265 | 328 067 |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES** | | | | |
| Balance at 1 July 2011 | – | (4 948) | (369) | (5 317) |
| Amortisation | – | – | (128) | (128) |
| Impairment (refer note 10.2) | – | (1 564) | – | (1 564) |
| Effect of foreign exchange fluctuations | – | – | (72) | (72) |
| **Balance at 30 June 2012** | – | (6 512) | (569) | (7 081) |
| **CARRYING VALUE** | | | | |
| Balance at 1 July 2011 | 271 865 | 8 062 | 1 550 | 281 477 |
| Acquisitions through business combinations (refer note 31.2) | 39 652 | – | – | 39 652 |
| Amortisation | – | – | (128) | (128) |
| Impairment (refer note 10.2) | – | (1 564) | – | (1 564) |
| Effect of foreign exchange fluctuations | – | 1 275 | 274 | 1 549 |
| **Balance at 30 June 2012** | 311 517 | 7 773 | 1 696 | 320 986 |

### 10.1 TRADEMARKS AND INTELLECTUAL PROPERTY

Additions to trademarks and intellectual property during the prior year related to the acquisition of the Captain DoRegos franchise and distribution centre businesses as more fully described in note 31.2.

Trademarks and intellectual property consists of the Spur, Panarottis, John Dory's and Captain DoRegos trademarks and related intellectual property. The directors evaluated the indefinite useful life assessment of the assets at the reporting date and believe that there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the group, which supports the indefinite useful life assessment of these assets.

In accordance with the group's accounting policies, an impairment test on intangible assets with indefinite useful lives has been performed. The directors considered the expected cash inflows to be generated by the trademarks and intellectual property and after applying a pre-tax discount rate of 25%, concluded that no impairment of the assets is required.

## 10.2 GOODWILL

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| For the purposes of impairment testing, goodwill is allocated to the following cash-generating units: | | |
| John Dory's Franchise operations | **178** | 178 |
| Silver Lake Spur (United Kingdom) | **347** | 298 |
| Panarottis Penrith (Australia) | **972** | 905 |
| Silver Spur (Australia) | **6 867** | 6 392 |
| | **8 364** | 7 773 |

The recoverable amounts of the cash-generating units were based on their values-in-use which were determined to be higher than their carrying amounts at the reporting date and consequently no impairment is considered necessary.

In determining the values-in-use, the directors applied the following key assumptions which were based on historic performance:

**John Dory's Franchise operations**

- Impairment of goodwill was considered as part of the trademark and intellectual property impairment test referred to in 10.1.

**Silver Lake Spur (United Kingdom)**

- Cash inflows, comprising mainly restaurant turnovers, for the 2014 financial year were conservatively estimated based on historic trends. Turnovers were estimated to grow by 2.0% per annum for the 2015 to 2018 financial years in line with the Bank of England's expected rate of inflation in the United Kingdom.
- Cash outflows for the 2014 financial year were estimated based on the most recent expense budgets prepared by management and adjusted for the remainder of the forecast period as detailed below.
- Variable costs were estimated to increase in line with turnover.
- Fixed costs were estimated to increase at anticipated inflation of 2.0% throughout the forecast horizon.
- Semi-variable costs were adjusted in part for anticipated inflation and in part by the change in anticipated turnover.
- Rental cost was forecast in accordance with the lease agreement.
- Growth in perpetuity of cash flows beyond the five-year forecast horizon was estimated at 2%.
- Pre-tax cash flows were discounted at a pre-tax rate of 10%, being the risk-free rate of 0.5% (the Bank of England base rate) adjusted for risk factors.
- The present value of the cash flows was translated to the reporting currency at the exchange rate prevailing at the reporting date.

**Panarottis Penrith (Australia) and Silver Spur (Australia)**

- Cash inflows, comprising mainly restaurant turnovers, for the 2014 financial year were conservatively estimated based on historic trends. Turnovers were estimated to grow by 2.5% (half way between the Australian Reserve Bank's targeted rate of inflation of 2% to 3%) for the 2015 to 2018 financial years.
- Cash outflows for the 2014 financial year were estimated based on the most recent expense budgets prepared by management and adjusted for the remainder of the forecast period as detailed below.
- Variable costs were estimated to increase in line with turnover.
- Fixed costs were estimated to increase at anticipated inflation of 2.5%.
- Semi-variable costs were adjusted in part for anticipated inflation and in part by the change in anticipated turnover;
- Rental costs were forecast in accordance with the respective lease agreements.
- Growth in perpetuity of cash flows beyond the five-year forecast horizon was estimated at 2%.
- Pre-tax cash flows were discounted at a pre-tax rate of 12.5%, being the risk-free rate of 2.5% (the Australian Reserve Bank cash rate) adjusted for risk factors.
- The present values of the cash flows were translated to the reporting currency at the exchange rate prevailing at the reporting date.

**Panarottis Tuggerah (Australia)**

The goodwill impairment in the prior year related to Panarottis Tuggerah (Australia). Refer also note 5.1.

## 10.3 FRANCHISE RIGHTS

These rights were acquired as part of the acquisition of the non-controlling shareholder's interest in Mohawk Spur Ltd, a subsidiary company operating the Mohawk Spur in Wandsworth in the United Kingdom, in the 2008 financial year. An amount of £175 000 was paid to Trinity Leisure Ltd, the former owner of the Spur master franchise rights in the United Kingdom, for the franchising rights of the restaurant in question. The rights expire in February 2025. The cost of the franchise rights is therefore being amortised over the period to expiration on a straight-line basis.

## 11. EQUITY-ACCOUNTED INVESTEES

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **11.1 INTEREST IN EQUITY-ACCOUNTED INVESTEES** | | |
| Balance at beginning of year | **635** | 547 |
| Effect of foreign exchange fluctuations | **47** | 88 |
| **Balance at end of year** | **682** | 635 |
| Loans to equity-accounted investees | **1 883** | 2 375 |
| **Total interest in equity-accounted investees** | **2 565** | 3 010 |

A profit of R0.341 million (2012: a loss of R0.007 million and a profit of R0.051 million) was not recognised during the year as the entities in question had incurred cumulative losses greater than the group's initial carrying values of the respective investments. The group's share of cumulative unrecognised losses amounts to R6.124 million (2012: R6.022 million) at the reporting date translated at rates of exchange ruling at that date.

| | Effective holdings %* | Carrying value of investment at beginning of year R'000 | Effect of foreign exchange fluctuations R'000 | Carrying value of investment at end of year R'000 |
|---|---|---|---|---|
| **11.2 ANALYSIS OF INTEREST IN EQUITY-ACCOUNTED INVESTEES** | | | | |
| **2013** | | | | |
| Pan Pen Pty Ltd (Australia) | 50.0 | **635** | **47** | **682** |
| **2012** | | | | |
| Bathspur Pty Ltd (Australia) | 33.3 | – | – | – |
| Pan Pen Pty Ltd (Australia) | 50.0 | 547 | 88 | 635 |
| Pangara Pty Ltd (Australia) | 23.3 | – | – | – |
| | | 547 | 88 | 635 |

| | Effective holdings %* | Loans in foreign currency 2013 '000 | Foreign currency | Loans in rands 2013 R'000 | Loans in rands 2012 R'000 | Share in post-acquisition reserves 2013 R'000 | Share in post-acquisition reserves 2012 R'000 |
|---|---|---|---|---|---|---|---|
| Bathspur Pty Ltd (Australia) | 33.3 | **–** | AU$ | **–** | 166 | **–** | – |
| Pan Pen Pty Ltd (Australia) | 50.0 | **208** | AU$ | **1 883** | 1 754 | **(1 263)** | (1 263) |
| Pangara Pty Ltd (Australia) | 23.3 | **–** | AU$ | **–** | 455 | **–** | – |
| | | | | **1 883** | 2 375 | **(1 263)** | (1 263) |

* Indirect investment

Bathspur Pty Ltd and Pangara Pty Ltd were wound up during the year.

Pan Pen Pty Ltd operates the Panarottis restaurant in Penrith, Australia.

The loan to Pan Pen Pty Ltd is denominated in Australian dollars, unsecured, interest-free and has no fixed repayment terms. The group has no intention to recall this loan within 12 months of the reporting date. This foreign currency loan is uncovered and translated into South African rands at the ruling exchange rate as at the reporting date.

The financial information used in determining the share of post-acquisition reserves in equity-accounted investees was sourced from unaudited proforma financial statements at 30 June 2013 of the respective equity-accounted investees. These entities are not audited because no statutory requirement exists in their operating jurisdiction for audits to be performed in the event that turnover is below a specified threshold.

| | Assets R'000 | Liabilities R'000 | Equity R'000 | Revenue R'000 | Profit R'000 |
|---|---|---|---|---|---|
| **11.3 SUMMARISED FINANCIAL POSITION OF EQUITY-ACCOUNTED INVESTEES – 100%** | | | | | |
| **2013** | **6 884** | **7 940** | **(1 056)** | **19 500** | **681** |
| 2012 | 7 862 | 15 958 | (8 096) | 16 606 | 92 |

## 12. LOANS RECEIVABLE

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Total gross loans receivable at end of year | **16 798** | 8 039 |
| Current portion included in current assets | **(5 483)** | (2 231) |
| **Total non-current loans receivable** | **11 315** | 5 808 |

These loans comprise:

### 12.1 TRINITY LEISURE LTD – 1

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Gross loan receivable at end of year | **78** | 3 268 |
| Current portion included in current assets | **(78)** | (932) |
| Non-current portion | **–** | 2 336 |

The loan is denominated in pound sterling and at the reporting date amounted to £5 000 (2012: £251 480).

The loan is secured by shares in the borrower's business and a personal suretyship in favour of the group by one of the borrowing entity's shareholders. Following the transactions during the year referred to in notes 31.1 and 32.1, the terms of the balance of the loan were renegotiated. The loan bears interest at a rate equal to the United Kingdom base rate plus one percentage point (with effect from 1 January 2013) and is repayable by no later than 30 June 2014.

### 12.2 TRINITY LEISURE LTD – 2

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Gross loan receivable at end of year | **558** | – |
| Current portion included in current assets | **(558)** | – |
| Non-current portion | **–** | – |

The loan is denominated in euros and at the reporting date amounted to €42 500 (2012: €nil).

The loan is unsecured. The loan bears interest at a rate equal to the United Kingdom base rate plus one percentage point. Of the loan, €30 000 (including interest) is repayable by 31 December 2013 and the balance (including interest) is repayable by 30 June 2014.

### 12.3 LOANS TO FRANCHISEES

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Gross loans receivable at end of year | **7 644** | 4 006 |
| Current portion included in current assets | **(2 774)** | (981) |
| Non-current portion | **4 870** | 3 025 |

The loans are advanced to local franchisees. The loans bear interest at between the prime rate of interest and two percentage points above the prime rate of interest. Repayment terms are between one and five years. The loans are secured by way of personal suretyships from the owners of the respective franchisees.

### 12.4 SPUR MARKETING FUND

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Gross loan receivable at end of year | **7 172** | – |
| Current portion included in current assets | **(1 150)** | – |
| Non-current portion | **6 022** | – |

This loan was advanced to the Spur Marketing Fund to finance the purchase of in-store monitors for the purpose of broadcasting the group's in-house television station, SpurTV, that was launched during the year. The loan bears interest at two percentage points above the prime overdraft rate and is repayable in 60 equal monthly instalments commencing in July 2013.

### 12.5 MARKETING FUNDS

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Gross loans receivable at end of year | **708** | 191 |
| Current portion included in current assets | **(708)** | (191) |
| Non-current portion | **–** | – |

The loans owing by marketing funds represent the net liabilities and cumulative over-spend of the marketing funds as at the reporting date. The amounts are recovered through controlled under-spending of marketing funds in subsequent years. Refer note 36 for more details.

| | 2013 R'000 | 2012 R'000 |
|---|---|---|

### 12.6 LOAN TO OPERATING PARTNER (AUSTRALIA)

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Gross loan receivable at end of year | **602** | 574 |
| Current portion included in current assets | **(179)** | (127) |
| Non-current portion | **423** | 447 |

This loan is denominated in Australian dollars and at the reporting date amounted to AU$66 497 (2012: AU$68 201). The loan bears interest at 7.5% per annum and is repayable over five years in equal monthly instalments which commenced in July 2011.

The loan was granted to finance the operating partner's 20% share of the start-up capital of a retail restaurant, Panarottis Tuggerah, in which wholly owned subsidiary Panatug Pty Ltd is an 80% partner. The loan is secured by way of a personal suretyship by the shareholder of the remaining 20% partner in the business.

In order to maintain liquidity within the borrowing entity, a payment holiday was granted with effect from November 2012. The repayment terms of the loan are in the process of being renegotiated. The board is confident that the loan will be repaid and that the value of the collateral is sufficient to cover the loan. On this basis the loan has not been impaired.

### 12.7 LOAN TO SPUR FOUNDATION

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Gross loan receivable at end of year | **36** | – |
| Current portion included in current assets | **(36)** | – |
| Non-current portion | **–** | – |

This is an unsecured, interest-free current account with the Spur Foundation Trust and was settled subsequent to the reporting date.

## 13. DEFERRED TAX

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Balance at beginning of year | **61 272** | 48 487 |
| Recognised in profit or loss | **5 101** | 3 170 |
| Current year deferred tax charge | **4 995** | 3 095 |
| Change in tax rate | **106** | 75 |
| Recognised in other comprehensive income | **(4 177)** | 1 414 |
| Tax on foreign exchange (loss)/gain on net investments in foreign operations | **(2 666)** | 2 492 |
| Effect of foreign exchange fluctuations | **(1 511)** | (1 078) |
| Acquisitions through business combinations (refer note 31) | **262** | 7 865 |
| Transferred to tax payable (UK group tax relief benefit) (refer note 29) | **479** | 336 |
| **Balance at end of year** | **62 937** | 61 272 |
| The deferred tax asset comprises deductible/(taxable) temporary differences relating to: | | |
| Accruals | **300** | 246 |
| Financial instruments | **–** | (2 890) |
| Intellectual property – International | **2 440** | 3 570 |
| Property, plant and equipment | **3 433** | 3 229 |
| Tax losses | **3 174** | 3 621 |
| – The Netherlands (at 25% (2012: 25%)) | **2 789** | 3 088 |
| – United Kingdom (at 23% (2012: 25%)) | **385** | 533 |
| | **9 347** | 7 776 |
| The deferred tax liability comprises taxable/(deductible) temporary differences relating to: | | |
| Accruals | **(1 084)** | (1 349) |
| Derivative financial assets | **10 582** | 1 303 |
| Intangible assets | **70 265** | 70 265 |
| Leave pay | **(595)** | (615) |
| Long-term employee benefits | **(7 886)** | (1 266) |
| Operating lease liability | **(76)** | (63) |
| Leasing rights | **241** | – |
| Prepayments | **334** | 153 |
| Property, plant and equipment | **503** | 620 |
| | **72 284** | 69 048 |

## 13. DEFERRED TAX continued

The deferred tax asset recognised in respect of cumulative tax losses in the Netherlands relates to a wholly owned subsidiary company, Steak Ranches International BV ("SRIBV"), incorporated in the Netherlands. The directors consider that sufficient future Dutch taxable income will be generated by SRIBV to utilise the deferred tax asset recognised in respect of Dutch tax losses. The reason for the historic tax losses in SRIBV is primarily as a result of favourable allowances which it benefits from in respect of its intellectual property. As these allowances continue until 2015, SRIBV may continue to recognise future tax losses until then. Taking this into account and given the expansion that has occurred in the group's international business in the current year and the planned expansion in Africa going forward, SRIBV is anticipated to generate sufficient taxable income in the future to utilise the past and anticipated future cumulative tax losses.

The deferred tax asset recognised in respect of cumulative tax losses in the United Kingdom relates to Larkspur One Ltd of R0.227 million (2012: Rnil) and Larkspur Five Ltd of R0.158 million (2012: R0.533 million). The tax losses in Larkspur One Ltd and Larkspur Five Ltd arose primarily as a result of accelerated capital allowances and trading losses. An asset has only been recognised for the losses in the companies to the extent that other UK group companies are able to utilise these losses in terms of UK group tax relief provisions. It is estimated that other UK group companies will be able to utilise the tax losses (in respect of which a deferred tax asset was recognised) to offset against tax payable in respect of the current year.

## 14. LEASING RIGHTS

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Balance at beginning of year | **1 826** | 1 798 |
| Acquisition through business combinations (refer note 31.1) | **934** | – |
| Additions | **2 453** | – |
| Recognised in profit or loss | **(552)** | (282) |
| Effect of foreign exchange fluctuations | **629** | 310 |
| **Balance at end of year** | **5 290** | 1 826 |

The leasing rights relate to:

- The premises occupied by Mohawk Spur Ltd, a wholly owned subsidiary of the group operating the Mohawk Spur in Wandsworth, England. The rights were acquired for £238 327 as part of the acquisition of Mohawk Spur Ltd in the 2008 financial year. The value of the leasing rights is being expensed to profit or loss as part of the rent expense over the remaining lease term which expires in September 2018.
- The premises occupied by Larkspur Seven Ltd, a wholly owned subsidiary of the group operating the Two Rivers Spur in Staines, England. The rights were acquired during the year as part of the acquisition of Trinity Leasing Ltd (refer note 31.1) and had a fair value of an estimated £69 496 (the equivalent of R0.934 million) as at the acquisition date. The value of the leasing rights is being expensed to profit or loss as part of the rent expense over the remaining lease term which expires in December 2016.
- The premises occupied by Larkspur Eight Ltd, a wholly owned subsidiary of the group operating the Rapid River Spur in Dublin, Ireland. The rights were acquired during the year for €206 763 (the equivalent of R2.453 million) (refer note 32.1). The value of the leasing rights is being expensed to profit or loss as part of the rent expense over the remaining lease term which expires in October 2023.

## 15. DERIVATIVE FINANCIAL ASSETS

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Hedge forward contracts in respect of: | | |
| – tranche 1 of share appreciation rights | **15 703** | 2 335 |
| – tranche 2 of share appreciation rights | **15 477** | 2 319 |
| – tranche 3 of share appreciation rights | **6 610** | – |
| | **37 790** | 4 654 |
| Current portion included in current assets | **15 703** | – |
| Non-current portion included in non-current assets | **22 087** | 4 654 |
| | **37 790** | 4 654 |
| The movement in the asset/(liability) during the year was as follows: | | |
| Balance at beginning of year | **4 654** | (2 627) |
| Recognised in profit or loss | **34 357** | 7 479 |
| Refund of difference in guaranteed dividend from counterparty | **(1 221)** | (198) |
| **Balance at end of year** | **37 790** | 4 654 |

The contracts were concluded to hedge the upside price risk of the Spur Corporation Ltd share price that the group is exposed to in respect of the share appreciation rights detailed in note 21. The hedge forward contracts for the first, second and third tranches of the share appreciation rights were concluded on 15 December 2010, 30 December 2011 and 9 October 2012 respectively.

The fair values of the hedge forward contracts are determined at each reporting date and any changes in the values are recognised in profit or loss.

| | Tranche 1 | Tranche 2 | Tranche 3 |
|---|---|---|---|
| The terms of each of the contracts are as follows: | | | |
| Hedge trade date | 15 December 2010 | 30 December 2011 | 9 October 2012 |
| Number of shares | 1 500 000 | 1 500 000 | 1 500 000 |
| Forward price per share | R17.10 | R17.76 | R25.64 |
| Settlement date | 13 December 2013 | 15 December 2014 | 15 December 2015 |
| Settlement price | 50-day VWAP at 13 December 2013 | 50-day VWAP at 15 December 2014 | 50-day VWAP at 15 December 2015 |

The hedge forward contracts are to be settled in cash on the respective settlement dates. The amounts settled are calculated as the difference between the 50-day volume-weighted average price ("VWAP") of the Spur Corporation Ltd share price on the settlement date and the forward price. In the event that this difference is positive, the counterparty will settle this difference with the group; should the difference be negative, the group is required to settle this difference with the counterparty.

| | 2013 | 2012 |
|---|---|---|
| The fair values of the hedge forward contracts have been determined by an independent external professional financial instruments specialist on the following assumptions: | | |
| **Hedge forward – tranche 1 of share appreciation rights** | | |
| Method of valuation | **Black-Scholes (risk neutral pricing)** | Black-Scholes (risk neutral pricing) |
| Dividend | **Refer below** | Refer below |
| Expected volatility | **28.22%** | 31.60% |
| Interest rate (nominal annual compounded quarterly) | **5.46%** | 5.37% |
| Credit spread (basis points) | **220** | 220 |
| **Hedge forward – tranche 2 of share appreciation rights** | | |
| Method of valuation | **Black-Scholes (risk neutral pricing)** | Black-Scholes (risk neutral pricing) |
| Dividend | **Refer below** | Refer below |
| Expected volatility | **28.22%** | 31.60% |
| Interest rate (nominal annual compounded quarterly) | **5.57%** | 5.37% |
| Credit spread (basis points) | **220** | 220 |
| **Hedge forward – tranche 3 of share appreciation rights** | | |
| Method of valuation | **Black-Scholes (risk neutral pricing)** | – |
| Dividend | **Refer below** | – |
| Expected volatility | **28.22%** | – |
| Interest rate (nominal annual compounded quarterly) | **5.99%** | – |
| Credit spread (basis points) | **270** | – |

| | Tranche 1 | Tranche 2 | Tranche 3 |
|---|---|---|---|
| In addition, the forward prices per share for the respective hedge forward contracts are subject to the following dividend streams in respect of the Spur Corporation Ltd share: | | | |
| October 2013 (cents per share) | 35.76 | 37.00 | 37.00 |
| March 2014 (cents per share) | – | 38.00 | 38.00 |
| October 2014 (cents per share) | – | 39.00 | 39.00 |
| March 2015 (cents per share) | – | – | 40.00 |
| October 2015 (cents per share) | – | – | 41.00 |

Any differences between the projected dividend above and the actual dividend paid is to be settled in cash between the parties.

## 16. INVENTORIES

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Raw materials | **2 243** | 811 |
| Packaging | **224** | 1 |
| Finished goods | **14 553** | 9 492 |
| | **17 020** | 10 304 |

## 17. TRADE AND OTHER RECEIVABLES

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Trade receivables | **63 573** | 59 730 |
| Impairment allowance | **(130)** | (127) |
| Net trade receivables | **63 443** | 59 603 |
| Prepayments | **9 567** | 6 145 |
| Deposits | **4 617** | 3 146 |
| Staff loans | **617** | 406 |
| VAT and other indirect taxes receivable | **2 374** | 223 |
| Other | **255** | 112 |
| | **80 873** | 69 635 |

Trade receivables include receivables from related parties of R1.795 million (2012: 2.378 million).

The impairment allowance is determined based on information regarding the financial position of each trade receivable as at the reporting date. No consideration is taken of trade receivables that may become irrecoverable in the future.

## 18. CASH AND CASH EQUIVALENTS

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Current, call and short-term deposit accounts | **112 096** | 98 804 |
| Bank overdrafts | **(1 605)** | (1 854) |
| | **110 491** | 96 950 |

The overdrafts are secured by way of cross guarantees between the company and its local subsidiaries.

## 19. CAPITAL AND RESERVES

| | Number of shares | | | |
|---|---|---|---|---|
| | 2013 '000 | 2012 '000 | 2013 R'000 | 2012 R'000 |
| **19.1 ORDINARY SHARE CAPITAL** | | | | |
| **Authorised** | | | | |
| Ordinary shares of 0.001 cents each | **201 000** | 201 000 | **2** | 2 |
| **Issued** | | | | |
| Ordinary shares of 0.001 cents each | **97 633** | 97 633 | **1** | 1 |
| Shares repurchased by subsidiary | **(5 311)** | (4 688) | **–** | – |
| Shares held by share incentive special purpose entity (refer note 26.2) | **(6 689)** | (6 689) | **–** | – |
| | **85 633** | 86 256 | **1** | 1 |

The ordinary shares have equal rights to distributions declared by the company.

In terms of the company's Memorandum of Incorporation, the unissued shares of the company may be issued by the directors of the company only with the approval of the shareholders by way of an ordinary resolution passed at a general meeting. No such authority has been granted.

The company does not have any unlisted shares.

### 19.2 SHARES REPURCHASED BY SUBSIDIARIES

During the year, a wholly owned subsidiary of the company, Share Buy-back (Pty) Ltd, acquired 622 500 (2012: 958 000) Spur Corporation Ltd shares at an average cost of R26.87 (2012: R16.46) per share, totalling R16.725 million (2012: R15.770 million). The group owns 5 311 128 (2012: 4 688 628) Spur Corporation Ltd treasury shares, held by Share Buy-back (Pty) Ltd, at a total cost of R70.057 million (2012: R53.332 million).

The balance per the statement of financial position comprises the cost of the Spur Corporation Ltd shares that have been repurchased by Share Buy-back (Pty) Ltd and those held by the Spur Management Share Trust, a special purpose entity consolidated for financial reporting purposes, for the purposes of the group's short-term profit share incentive scheme (refer note 26.2). At the reporting date, the entities in question held 11 999 826 (2012: 11 377 326) of the company's shares in aggregate.

### 19.3 FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as foreign exchange gains/losses relating to loans that are considered part of the net investments in foreign operations.

## 20. LONG-TERM LOANS PAYABLE

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Total gross amounts payable at end of year | **602** | 3 002 |
| Current portion included in current liabilities (refer note 24) | **(179)** | (2 556) |
| **Total non-current loans payable** | **423** | 446 |
| These loans comprise: | | |
| **20.1 TERM LOAN: NEDBANK** | | |
| Gross amount payable at end of year | **–** | 2 428 |
| Current portion included in current liabilities | **–** | (2 428) |
| Non-current portion | **–** | – |

This loan was unsecured, incurred interest at prime less 2.5% per annum and was repayable in 60 equal monthly instalments which commenced in January 2008. This loan was repaid in full in the current year.

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **20.2 LOAN FROM OPERATING PARTNER** | | |
| Gross amount payable at end of year | **602** | 574 |
| Current portion included in current liabilities | **(179)** | (128) |
| Non-current portion | **423** | 446 |

This loan is unsecured, bears interest at a fixed rate of 7.5% per annum and is repayable in 60 equal monthly instalments from July 2011. Loan repayments correspond with the loan repayments on the loan receivable referred to in note 12.6. As a payment holiday was granted in respect of the loan receivable with effect from November 2012, no loan repayments have been made in respect of the loan payable for the same period. The repayment terms of the loan payable are in the process of being renegotiated and any future payments in respect of the loan payable will be subject to collection of the loan instalments in respect of the loan receivable.

## 21. EMPLOYEE BENEFITS

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **Long-term retention share appreciation rights** | | |
| – tranche 1 | **16 117** | 3 313 |
| – tranche 2 | **9 374** | 1 207 |
| – tranche 3 | **2 674** | – |
| | **28 165** | 4 520 |
| Current portion included in current liabilities | **16 117** | – |
| Non-current portion included in non-current liabilities | **12 048** | 4 520 |
| | **28 165** | 4 520 |
| The movement in the liability during the year was as follows: | | |
| Balance at beginning of year | **4 520** | 555 |
| Recognised in profit or loss | **23 645** | 3 965 |
| **Balance at end of year** | **28 165** | 4 520 |

The board approved the first, second and third tranches of share appreciation rights to executives and senior managers of the company on 15 December 2010, 30 December 2011 and 9 October 2012 respectively. The salient features of these rights are listed below.

In terms of the long-term retention share appreciation rights scheme, a maximum of 1.5 million rights are eligible for granting to executives and senior management each year (subsequent to the publishing of year-end financial results). In terms of the rules of the scheme, the obligations in respect of the rights in issue are to be hedged economically (refer note 15). Refer remuneration committee report on page 81 of this report for more details regarding the scheme.

The fair values of the rights are determined at each reporting date and recognised in profit or loss over the vesting period of the rights.

## 21. EMPLOYEE BENEFITS continued

| | Tranche 1 | Tranche 2 | Tranche 3 |
|---|---|---|---|
| The terms of each tranche of rights are as follows: | | | |
| Grant date | 15 December 2010 | 30 December 2011 | 9 October 2012 |
| Number of rights granted | 1 500 000 | 1 500 000 | 1 500 000 |
| Strike price per right | R14.62 | R14.80 | R21.29 |
| Exercise date | 13 December 2013 | 15 December 2014 | 15 December 2015 |
| Exercise price | 50-day VWAP at 13 December 2013 | 50-day VWAP at 15 December 2014 | 50-day VWAP at 15 December 2015 |

The rights are compulsorily exercisable on the exercise date. The gain on each right is calculated as the difference between the 50 day volume-weighted average price ("VWAP") of the Spur Corporation Ltd share price on the exercise date and the strike price. The strike price was determined as the average share price utilised in the costing of the hedge detailed in note 15. The gain will be settled in cash on the exercise date. Should the gain be negative at the exercise date, the rights are cancelled without any recourse.

| | 2013 | 2012 |
|---|---|---|
| The obligations in respect of the share appreciation rights have been computed based on the fair values of the rights at the reporting date as determined by an independent external professional financial instruments specialist on the following assumptions: | | |
| **Share appreciation rights – tranche 1** | | |
| Method of valuation | **Black-Scholes** | Black-Scholes |
| Expected dividend yield | **3.89%** | 4.08% |
| Expected volatility | **28.22%** | 31.60% |
| Interest rate (nominal annual compounded quarterly) | **5.50%** | 5.41% |
| Spot price on valuation date | **R27.39** | R17.89 |
| Vesting period | **3 years** | 3 years |
| Forfeiture rate | **0%** | 0% |
| **Share appreciation rights – tranche 2** | | |
| Method of valuation | **Black-Scholes** | Black-Scholes |
| Expected dividend yield | **3.89%** | 4.08% |
| Expected volatility | **28.22%** | 31.60% |
| Interest rate (nominal annual compounded quarterly) | **5.61%** | 5.58% |
| Spot price on valuation date | **R27.39** | R17.89 |
| Vesting period | **3 years** | 3 years |
| Forfeiture rate | **0%** | 0% |
| **Share appreciation rights – tranche 3** | | |
| Method of valuation | **Black-Scholes** | – |
| Expected dividend yield | **3.89%** | – |
| Expected volatility | **28.22%** | – |
| Interest rate (nominal annual compounded quarterly) | **6.04%** | – |
| Spot price on valuation date | **R27.39** | – |
| Vesting period | **3.2 years** | – |
| Forfeiture rate | **0%** | – |

## 22. OPERATING LEASE LIABILITY

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Balance at beginning of year | **6 564** | 6 531 |
| Recognised in profit or loss | **(1 787)** | (1 000) |
| Effect of foreign exchange fluctuations | **704** | 1 033 |
| **Balance at end of year** | **5 481** | 6 564 |

Certain rental agreements concluded by the group during the current and previous years allow for an initial rent-free period as well as a tenant installation allowance paid by the landlord. The total rental costs in terms of the leases are expensed on a straight-line basis over the terms of the respective leases including the rent-free periods in each case. A liability is recognised to the extent that the rental expense recognised in profit or loss exceeds actual rental paid. On expiration of the rent-free period, the liability is reversed over the remaining lease period as a credit against future rental expenses. A liability is also recognised in respect of the tenant installation allowance upon receipt. The liability is subsequently recognised as a credit against rental expense in profit or loss over the initial lease period.

## 23. TRADE AND OTHER PAYABLES

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Trade payables | **45 276** | 31 340 |
| Accruals | **9 961** | 11 046 |
| Income received in advance | **3 554** | – |
| Employee benefits | **14 256** | 11 388 |
| Short-term profit share incentive scheme (refer note 26.2) | **5 892** | 4 800 |
| Leave pay and other employee benefits | **8 364** | 6 588 |
| VAT and other indirect taxes payable | **10 723** | 8 538 |
| Unredeemed gift vouchers | **2 104** | 1 563 |
| Other sundry payables | **194** | 364 |
| | **86 068** | 64 239 |

Income received in advance relates largely to licence fee deposits and upfront payments in respect of export orders.

## 24. LOANS PAYABLE

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Contingent consideration in respect of business combination (refer note 31.2) | **–** | 5 092 |
| Loans owing to non-controlling shareholders | **6 039** | 5 362 |
| Marketing funds | **12 928** | 11 755 |
| Current portion of long-term loans payable (refer note 20) | **179** | 2 556 |
| | **19 146** | 24 765 |

The contingent consideration was in respect of the Captain DoRegos business combination as detailed in note 31.2. An amount of R5.269 million (R5.092 million plus interest) was paid in cash on 1 March 2013.

The loans owing to non-controlling shareholders are unsecured and have no fixed repayment terms. Of the total, R0.301 million (2012: R0.281 million) is interest free and R5.738 million (2012: R5.081 million) bears interest at the UK base rate plus two percentage points.

The loans owing to the marketing funds represent the net assets and cumulative underspend of the marketing funds as at the reporting date. The cumulative underspend amounts are carried forward to the next financial year and are utilised for future marketing spend. Refer note 36 for more details.

## 25. DISTRIBUTIONS

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Final 2011 – dividend of 33.0 cents per share | **–** | 32 219 |
| Interim 2012 – dividend of 40.0 cents per share | **–** | 39 053 |
| Final 2012 – dividend of 47.0 cents per share | **45 888** | – |
| Interim 2013 – dividend of 55.0 cents per share | **53 698** | – |
| **Total distributions to equity holders** | **99 586** | 71 272 |
| | | |
| Distributions external to the group are reconciled as follows: | | |
| Gross dividends declared | **99 586** | 71 272 |
| Dividends received on shares held by the group | **(11 735)** | (7 606) |
| Net dividends distributed external to the group | **87 851** | 63 666 |
| Dividends distributed to non-controlling shareholder of subsidiary | **–** | 1 750 |
| **Total distributions external to the group** | **87 851** | 65 416 |

The directors have approved a final dividend of 56.0 cents per share, funded by income reserves, to be paid in cash on 7 October 2013. The dividend is subject to the applicable tax levied in terms of the Income Tax Act (Act No. 58 of 1962, as amended) ("dividend tax") of 15%. The net dividend is therefore 47.6 cents per share for shareholders liable to pay dividend tax.

## 26. SHARE INCENTIVE SCHEME

### 26.1 SPUR MANAGEMENT INCENTIVE SCHEME ("MIS")

In terms of a general meeting on 15 December 2004, shareholders approved the utilisation of a maximum of 10% (9 763 283) of the company's ordinary shares in issue for the purposes of the MIS. The aggregate number of shares utilised for the purposes of the MIS was 9 750 000 shares, representing less than 10% of the company's issued ordinary shares at December 2004. Of these, 8 274 043 shares were acquired by Maxshell 72 Investments (Pty) Ltd ("Maxshell") and the balance of 1 475 957 shares was made available for standard share options to non-executive directors and certain employees.

**Maxshell scheme**

The Maxshell scheme was wound up in prior years.

**Option scheme**

Of the 1 475 957 share options available, 815 045 share options were settled in cash in the financial year ended 30 June 2010. The remaining 660 911 options were allocated subsequent to December 2004 at a strike price of R7.25 per share. While the initial vesting date of these options was 24 February 2012, the board resolved during the prior year to extend the vesting date to 12 March 2012. The options were all exercised on the vesting date at a price of R16.02 per share and the company elected to settle the options in cash.

| | 2013 '000 | 2012 '000 |
|---|---|---|
| Options available for allocation to employees | – | – |
| Total outstanding options at beginning of year | – | 661 |
| Options vested during the year, settled in cash | – | (661) |
| **Total outstanding options at the end of the year** | **–** | – |

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **Charge to equity** | | |
| Proceeds from disposal of shares to Option scheme participants | – | 4 792 |
| Reacquisition of shares from Option scheme participants | – | (10 591) |
| Loss on sale and reacquisition of treasury shares charged directly to equity | – | (5 799) |

### 26.2 SHORT-TERM PROFIT SHARE INCENTIVE SCHEME

At the annual general meeting of 10 December 2010, shareholders approved amendments to the Spur Management Share Trust ("Share Trust") and MIS to facilitate a short-term incentive scheme (as explained in the notice to shareholders for the said annual general meeting).

As a result of the winding up of the MIS in December 2009, 6 688 698 Spur Corporation Ltd shares ("Spur Shares") were transferred to the Share Trust.

The amendments approved by shareholders in 2010 essentially resulted in:

(i) eligible employees, as discretionary income beneficiaries of the Share Trust, becoming entitled to share in the dividends payable in respect of the Spur Shares, thereby ensuring that appropriate incentives in terms of the 2004 Scheme remain in place to encourage and motivate such eligible employees to achieve performance levels that advance the interests of the group and promote an identity of interest between such eligible employees and the shareholders of the company; and

(ii) the company remaining and continuing as a discretionary capital beneficiary of the Share Trust.

Further details of the short-term profit share incentive scheme are presented in the remuneration committee report on page 81 of this report.

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| The impact on profit or loss of the short-term profit share incentive scheme is as follows: | | |
| Accrual in respect of dividends related to the prior year distributable to participants | **(4 800)** | (3 793) |
| Dividends related to the prior year actually distributed to participants in the current year | **4 937** | 3 401 |
| Accrual in respect of dividends related to the current year distributable to participants | **5 892** | 4 800 |
| **Recognised in profit or loss** | **6 029** | 4 408 |

In addition to the above, the Share Trust also distributed bursaries from undistributed income to dependants of group employees amounting to R0.122 million (2012: Rnil) which is also included in profit or loss.

## 27. OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Profit before income tax | **195 057** | 175 100 |
| Adjusted for: | | |
| Amortisation – intangible assets | **143** | 128 |
| Amortisation – leasing rights | **552** | 282 |
| Bad debts | **868** | 371 |
| Bargain purchase gain | **–** | (3 694) |
| Depreciation | **11 513** | 9 831 |
| Fair value gain on derivative financial assets at fair value through profit or loss | **(34 357)** | (7 479) |
| Fair value gain on realisation of collateral | **–** | (843) |
| Foreign exchange loss/(gain) (excluding gains/losses on intercompany accounts) | **1 451** | (16) |
| Foreign currency translations not disclosed elsewhere in the statement of cash flows | **6 937** | (1 102) |
| Impairment of goodwill | **–** | 1 564 |
| Impairment of property, plant and equipment | **2 188** | – |
| Interest expense | **510** | 655 |
| Interest income | **(6 381)** | (6 819) |
| Movement in operating lease liability | **(1 787)** | (1 000) |
| Movement in trade receivable impairment allowance | **3** | 60 |
| (Profit)/loss on disposal of property, plant and equipment | **(40)** | 57 |
| Share-based payments expense – cash-settled | **23 645** | 3 965 |
| | **200 302** | 171 060 |

## 28. WORKING CAPITAL CHANGES

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Increase in inventories | **(6 679)** | (243) |
| Increase in trade and other receivables | **(11 155)** | (14 265) |
| Increase in trade and other payables | **20 150** | 17 287 |
| Increase in short-term loans receivable | **(531)** | (75) |
| Increase in short-term loans payable | **1 173** | 3 674 |
| | **2 958** | 6 378 |

## 29. TAX PAID

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Tax paid is reconciled to the amount recognised in profit or loss as follows: | | |
| Amount payable at beginning of year | **(564)** | (2 212) |
| Current tax charged to profit or loss | **(58 136)** | (57 548) |
| Effect of foreign exchange fluctuations | **1 548** | 282 |
| Transfer from deferred tax (UK group tax relief benefit) (refer note 13) | **479** | 336 |
| Amount (receivable)/payable at end of year | **(4 002)** | 564 |
| | **(60 675)** | (58 578) |

## 30. DIVIDENDS PAID

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Dividends paid are reconciled to the amount disclosed as follows: | | |
| Amount payable at beginning of year | **(920)** | (612) |
| Net dividends distributed external to the group (refer note 25) | **(87 851)** | (63 666) |
| Dividends paid by subsidiary company to non-controlling shareholder (refer note 25) | **–** | (1 750) |
| Amount payable at end of year | **327** | 920 |
| | **(88 444)** | (65 108) |

## 31. ACQUISITIONS OF SUBSIDIARIES, NON-CONTROLLING INTERESTS AND BUSINESS COMBINATIONS

### 31.1 ACQUISITION OF TRINITY LEASING LTD (ACQUISITION OF SUBSIDIARY)

With effect from 1 October 2012, a wholly owned subsidiary of the company, Spur Corporation UK Ltd ("SCUK"), acquired a 90% interest in Trinity Leasing Ltd ("Trinity Leasing"), a company incorporated and domiciled in the United Kingdom. Trinity Leasing owns the head lease of the premises from which the former Arapaho Spur operated in Staines, England. Arapaho Spur was previously owned and operated by the former master franchise rights holder for Spur in the United Kingdom, Trinity Leisure Ltd ("Trinity Leisure"). The entity operating Arapaho Spur was liquidated by Trinity Leasing during the year (but prior to the acquisition) as a result of defaulting on its lease with Trinity Leasing. The group sought to secure the location of the former Arapaho Spur and acquired Trinity Leasing to do so. The board believes that the site in question is a suitable trading site for a Spur restaurant and subsequent to the acquisition, a newly incorporated wholly owned subsidiary, Larkspur Seven Ltd ("LS7"), commenced trading the Two Rivers Spur in October 2012 from the site. Part of the site is also used as an administrative office for SCUK.

| | 2013 R'000 |
|---|---|
| The fair values of the identifiable assets and liabilities acquired were as follows: | |
| Property, plant and equipment | 67 |
| Inventory | 37 |
| Trade and other receivables | 666 |
| Leasing rights | 934 |
| Trade and other payables | (844) |
| Deferred tax | (262) |
| Fair value of net assets acquired | 598 |
| Fair value of net assets attributable to non-controlling interest | (60) |
| Purchase consideration | 538 |
| Purchase consideration settled by way of loan receivable reduction | (538) |
| **Net cash flow on acquisition** | **–** |

Property, plant and equipment comprise fixtures and fittings in respect of the liquidated Arapaho Spur and are valued at the cost paid for the assets by Trinity Leasing (prior to the acquisition). The assets were subsequently sold to LS7.

Inventory comprises the inventory of the liquidated Arapaho Spur and was valued internally at the estimated cost of usable inventory on hand. The inventory was subsequently sold to LS7.

Trade and other receivables comprise prepaid rent paid by Trinity Leasing to the landlord in terms of the head lease.

The leasing rights are in respect of the lease owned by Trinity Leasing. The lease expires in December 2016 and the value of the leasing rights recognised will be amortised on a straight-line basis over the remaining lease term. The value of the lease was agreed between the parties on an arm's length basis. Subleases were subsequently concluded between Trinity Leasing and LS7, and Trinity Leasing and SCUK.

Trade and other payables comprise income received in advance (in respect of prepaid rent from tenants) and expense accruals.

Deferred tax has been recognised on the fair value adjustments made.

The purchase consideration was settled by way of a reduction in the loan receivable from Trinity Leisure, the former shareholder of Trinity Leasing (refer note 12.1).

In the nine months from acquisition to 30 June 2013, Trinity Leasing earned revenue of R1.754 million and incurred a loss of R0.059 million. All revenue is intercompany and has been eliminated on consolidation. The loss is due to one-off costs arising from the transaction which are not expected to recur and are included in Retail operating expenses in the group's consolidated statement of comprehensive income. The company's income comprises rental income from group entities and is eliminated on consolidation. Had the acquisition taken place on 1 July 2012, consolidated revenue and consolidated profit (after tax) would have remained unchanged. The company in isolation is not expected to contribute to consolidated revenue or profit (after tax) in future years as the lease cost will be borne by LS7 and SCUK in terms of the subleases referred to above.

### 31.2 PRIOR YEAR ACQUISITION OF CAPTAIN DOREGOS (BUSINESS COMBINATION)

During the prior year and with effect from 1 March 2012, a wholly owned subsidiary of the group, Spur Group (Pty) Ltd, acquired 100% of the Captain DoRegos franchise and distribution centre businesses as going concerns from an unrelated party for R34.224 million of which R29.132 million was settled in cash in the prior year, and the balance of R5.092 million, which was a contingent consideration, was settled in cash in the current year. The fair value of the net assets acquired at the effective date of the transaction was R37.918 million. A bargain purchase gain was consequently recognised in profit or loss of R3.694 million. Acquisition-related costs of R0.455 million in respect of external legal and due diligence costs incurred in the prior year were included in Administration expenses in the group's consolidated statement of comprehensive income.

### 31.3 PRIOR YEAR ACQUISITION OF JOHN DORY'S FRANCHISE (PTY) LTD (ACQUISITION OF NON-CONTROLLING INTEREST)

During the prior year and with effect from 25 January 2012, a wholly owned subsidiary of the group, Spur Group (Pty) Ltd, acquired the remaining 35% interest in John Dory's Franchise (Pty) Ltd ("JDF") held by the non-controlling shareholder for R12.250 million in cash, increasing the group's interest in that company to 100%. In addition to the purchase consideration, Marketable Securities Tax ("MST") in the amount of R0.031 million was paid to the South African Revenue Service on the transfer of the shares in the prior year. JDF is the franchise company for the John Dory's Fish Grill Sushi brand and owns the related trademark and intellectual property. The carrying amount of the net assets of JDF in the consolidated financial statements at the date of the acquisition was R9.976 million. The group recognised a decrease in non-controlling interest of R3.492 million and a decrease in retained earnings of R8.789 million relating to the transaction.

### 31.4 PRIOR YEAR ACQUISITION OF LARKSPUR ONE LTD (ACQUISITION OF NON-CONTROLLING INTEREST)

During the prior year and with effect from 30 June 2012, a wholly owned subsidiary of the group, Spur Corporation UK Ltd, acquired the remaining 10% interest in Larkspur One Ltd ("LS1") held by the non-controlling shareholder increasing its interest in that company to 100%. LS1, a company incorporated in the United Kingdom, operates the Cheyenne Spur in the $O_2$ Arena in London in the United Kingdom. The non-controlling shareholder of LS1 absconded and subsequently defaulted on a loan payable to the group which had been secured by a pledge of the 10% shares in LS1. As a result of the default, the group exercised its pledge and assumed ownership of the shares in question. The value of the loan at the time of the acquisition was £44 952 or R0.582 million. The carrying amount of LS1's net assets in the consolidated financial statements at the date of the acquisition was R3.034 million. The group recognised a decrease in non-controlling interest of R0.304 million and a decrease in retained earnings of R1.121 million relating to the transaction.

## 32. OTHER NON-CASH TRANSACTIONS

### 32.1 ACQUISITION OF LEASING RIGHTS

During the year and with effect from 1 April 2013, a newly incorporated wholly owned subsidiary of the group, Larkspur Eight Ltd ("LS8"), acquired the leasing rights of the former Iowa Spur in Dublin, Ireland from Liffey Valley Leasing Ltd ("LVL") for €206 763 (the equivalent of £177 000 or R2.453 million). Iowa Spur was previously owned and operated by the former master franchise rights holder for Spur in the United Kingdom and Ireland, Trinity Leisure Ltd ("Trinity Leisure"). LVL is also owned by Trinity Leisure. Iowa Spur ceased trading in December 2012. The board believes that the site in question is a suitable site for a Spur restaurant and thus acquired the lease from LVL. LS8 commenced trading Rapid River Spur from the site in question in April 2013. The consideration for the lease acquired from LVL was settled by way of reducing the loan receivable from Trinity Leisure (refer note 12.1).

## 33. CAPITAL COMMITMENTS

At the date of this report, there were no significant capital commitments authorised or contracted for.

## 34. DIRECTORS', PRESCRIBED OFFICERS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The following emoluments were paid by subsidiary companies:

| | Guaranteed remuneration | | | | | Variable remuneration | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Cash remuneration R'000 | Travel allowance R'000 | Provident fund R'000 | Medical aid R'000 | Subtotal R'000 | Equity compensation benefits[1] R'000 | Performance bonus[2] R'000 | Total remuneration included in profit or loss R'000 | Management Incentive Scheme payout[8] R'000 |
| **2013** | | | | | | | | | |
| **Executive directors and prescribed officer** | | | | | | | | | |
| ***For services, as employees, to subsidiary companies*** | | | | | | | | | |
| *Current directors* | | | | | | | | | |
| Allen Ambor | 2 444 | 238 | 484 | 96 | **3 262** | 2 075 | 433 | **5 770** | – |
| Pierre van Tonder | 3 290 | 238 | 535 | 104 | **4 167** | 6 641 | 563 | **11 371** | – |
| Mark Farrelly | 2 069 | 238 | 308 | 66 | **2 681** | 4 566 | 350 | **7 597** | – |
| Ronel van Dijk | 1 967 | – | 258 | – | **2 225** | 3 736 | 319 | **6 280** | – |
| **Total executive directors** | **9 770** | **714** | **1 585** | **266** | **12 335** | **17 018** | **1 665** | **31 018** | – |
| *Prescribed officer* | | | | | | | | | |
| Kevin Robertson[3] | 1 475 | 193 | 219 | 84 | **1 971** | 3 736 | 255 | **5 962** | – |
| **Non-executive directors** | | | | | | | | | |
| ***For services, as directors, to the company*** | | | | | | | | | |
| *Current directors* | | | | | | | | | |
| Keith Getz[5] | 350 | – | – | – | **350** | – | – | **350** | – |
| Keith Madders[6] | 350 | – | – | – | **350** | – | – | **350** | – |
| Dean Hyde | 350 | – | – | – | **350** | – | – | **350** | – |
| Muzi Kuzwayo | 350 | – | – | – | **350** | – | – | **350** | – |
| Mntungwa Morojele | 350 | – | – | – | **350** | – | – | **350** | – |
| | 1 750 | – | – | – | **1 750** | – | – | **1 750** | – |
| ***For services, as directors, to subsidiary companies*** | | | | | | | | | |
| *Current directors* | | | | | | | | | |
| Keith Getz[5] | 138 | – | – | – | **138** | – | – | **138** | – |
| Keith Madders[6] | 104 | – | – | – | **104** | – | – | **104** | – |
| | 242 | – | – | – | **242** | – | – | **242** | – |
| **Total non-executive directors** | **1 992** | **–** | **–** | **–** | **1 992** | **–** | **–** | **1 992** | – |
| **Total remuneration** | **13 237** | **907** | **1 804** | **350** | **16 298** | **20 754** | **1 920** | **38 972** | – |
| **Senior managers[7]** | | | | | | | | | |
| Senior manager 1 | 932 | 150 | 186 | 44 | **1 312** | 361 | 157 | **1 830** | – |
| Senior manager 2 | 1 088 | – | 163 | 56 | **1 307** | 361 | 176 | **1 844** | – |
| Senior manager 3 | 1 092 | – | 164 | – | **1 256** | 361 | 169 | **1 786** | – |

Footnotes

1. The equity compensation benefit is the pro rata share-based payment expense (in terms of IFRS 2: Share-based Payments) attributable to each of the directors or employees. Refer note 21.
2. Includes payments during the financial year (relating to performance criteria in respect of the prior year), but excludes accrual for payments due in the subsequent financial year (relating to performance criteria in respect of the current year). Refer note 26.2
3. Kevin Robertson resigned as a director of the company with effect from 29 February 2012 and was simultaneously appointed to the board of Spur Group (Pty) Ltd. He is the group's only 'prescribed officer' as defined by the Companies Act of South Africa (Act No. 71 of 2008).
4. Phillip Joffe retired as a director of the company with effect from 29 February 2012.
5. In addition to the standard non-executive director's fee of R350 000 (2012: R350 000) approved by shareholders, Keith Getz's fees include payments to a related party of R0.138 million (2012: R0.115 million) for Mr Getz's attendance at three (2012: three) meetings each of the board of directors of Steak Ranches International BV and Spur International Ltd BVI, all of which he chaired.
6. In addition to the standard non-executive director's fee of R350 000 (2012: R350 000) approved by shareholders, Keith Madders' fees include payments to a related party of R0.104 million (2012: R0.072 million) for Mr Madders' attendance at one (2012: three) meeting of the Steak Ranches International BV board and his review of the board pack and input in respect of two meetings of the Steak Ranches International BV board that he did not attend in person.
7. Senior managers are the top three earning employees, who are not directors or prescribed officers of the company, in the respective financial years. The composition of these senior managers varies from year to year.
8. Refer note 26.1 regarding the cost of winding up the Management Incentive Scheme 2004 charged directly to equity in the prior year.

| | Guaranteed remuneration | | | | | Variable remuneration | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Cash remune-ration R'000 | Travel allowance R'000 | Provident fund R'000 | Medical aid R'000 | Subtotal R'000 | Equity compen-sation benefits[1] R'000 | Perfor-mance bonus[2] R'000 | Total remu-neration included in profit or loss R'000 | Manage-ment Incentive Scheme payout[8] R'000 |
| **2012** | | | | | | | | | |
| **Executive directors and prescribed officer** | | | | | | | | | |
| ***For services, as employees, to subsidiary companies*** | | | | | | | | | |
| *Current directors* | | | | | | | | | |
| Allen Ambor | 2 227 | 238 | 436 | 87 | **2 988** | 364 | 256 | **3 608** | – |
| Pierre van Tonder | 3 032 | 238 | 475 | 85 | **3 830** | 1 166 | 333 | **5 329** | – |
| Mark Farrelly | 1 872 | 238 | 270 | 78 | **2 458** | 802 | 207 | **3 467** | – |
| Ronel van Dijk | 1 748 | – | 229 | 9 | **1 986** | 656 | 189 | **2 831** | – |
| | 8 879 | 714 | 1 410 | 259 | **11 262** | 2 988 | 985 | **15 235** | – |
| *Previous directors* | | | | | | | | | |
| Kevin Robertson[3] | 1 350 | 193 | 196 | 76 | **1 815** | 656 | 151 | **2 622** | – |
| Phillip Joffe[4] | 766 | – | 54 | 50 | **870** | – | 81 | **951** | – |
| | 2 116 | 193 | 250 | 126 | **2 685** | 656 | 232 | **3 573** | – |
| **Total executive directors** | **10 995** | **907** | **1 660** | **385** | **13 947** | **3 644** | **1 217** | **18 808** | **–** |
| **Non-executive directors** | | | | | | | | | |
| ***For services, as directors, to the company*** | | | | | | | | | |
| *Current directors* | | | | | | | | | |
| Keith Getz[5] | 350 | – | – | – | **350** | – | – | **350** | – |
| Keith Madders[6] | 350 | – | – | – | **350** | – | – | **350** | – |
| Dean Hyde | 350 | – | – | – | **350** | – | – | **350** | – |
| Muzi Kuzwayo | 350 | – | – | – | **350** | – | – | **350** | – |
| Mntungwa Morojele | 350 | – | – | – | **350** | – | – | **350** | – |
| | 1 750 | – | – | – | **1 750** | – | – | **1 750** | – |
| ***For services, as directors, to subsidiary companies*** | | | | | | | | | |
| *Current directors* | | | | | | | | | |
| Keith Getz[5] | 115 | – | – | – | **115** | – | – | **115** | – |
| Keith Madders[6] | 72 | – | – | – | **72** | – | – | **72** | – |
| | 187 | – | – | – | **187** | – | – | **187** | – |
| **Total non-executive directors** | **1 937** | **–** | **–** | **–** | **1 937** | **–** | **–** | **1 937** | **–** |
| **Total remuneration** | **12 932** | **907** | **1 660** | **385** | **15 884** | **3 644** | **1 217** | **20 745** | **–** |
| **Senior managers[7]** | | | | | | | | | |
| Senior manager 1 | 991 | – | 146 | 51 | **1 188** | 40 | 139 | **1 367** | 2 577 |
| Senior manager 2 | 807 | 150 | 161 | 40 | **1 158** | 40 | 112 | **1 310** | – |
| Senior manager 3 | 995 | – | 146 | – | **1 141** | 40 | 133 | **1 314** | 2 577 |

## 34. DIRECTORS', PRESCRIBED OFFICERS' AND SENIOR MANAGEMENT'S EMOLUMENTS continued

The following number of share appreciation rights have been allocated to directors, prescribed officers and senior managers in terms of the long-term share-linked retention scheme and were outstanding as at the reporting date (refer note 21):

| | Rights – tranche 1 | |
|---|---|---|
| | 2013 000's | 2012 000's |
| **Executive** | | |
| Allen Ambor | **150** | 150 |
| Pierre van Tonder | **480** | 480 |
| Mark Farrelly | **330** | 330 |
| Ronel van Dijk | **270** | 270 |
| Kevin Robertson (prescribed officer/previous director)[1] | **270** | 270 |
| **Total rights allocated** | **1 500** | 1 500 |

| | Rights – tranche 2 | |
|---|---|---|
| | 2013 000's | 2012 000's |
| **Executive** | | |
| Allen Ambor | **110** | 110 |
| Pierre van Tonder | **352** | 352 |
| Mark Farrelly | **242** | 242 |
| Ronel van Dijk | **198** | 198 |
| Kevin Robertson (prescribed officer/previous director)[1] | **198** | 198 |
| | **1 100** | 1 100 |
| **Senior managers[2]** | | |
| Senior manager 1 | **50** | 50 |
| Senior manager 2 | **50** | 50 |
| Senior manager 3 | **50** | 50 |
| | **150** | 150 |
| **Total rights allocated** | **1 250** | 1 250 |

| | Rights – tranche 3 | |
|---|---|---|
| | 2013 000's | 2012 000's |
| **Executive** | | |
| Allen Ambor | **110** | – |
| Pierre van Tonder | **352** | – |
| Mark Farrelly | **242** | – |
| Ronel van Dijk | **198** | – |
| Kevin Robertson (prescribed officer/previous director)[1] | **198** | – |
| | **1 100** | – |
| **Senior managers[2]** | | |
| Senior manager 1 | **50** | – |
| Senior manager 2 | **50** | – |
| Senior manager 3 | **50** | – |
| | **150** | – |
| **Total rights allocated** | **1 250** | – |

Footnotes

[1] Kevin Robertson resigned as a director of the company with effect from 29 February 2012 and was simultaneously appointed to the board of Spur Group (Pty) Ltd. He is the group's only 'prescribed officer' as defined by the Companies Act of South Africa (Act No. 71 of 2008).

[2] Senior managers are the top three earning employees, who are not directors or prescribed officers of the company, in the respective financial years. The composition of these senior managers varies from year to year.

## 35. RETIREMENT BENEFITS

The group has its own defined contribution provident fund in South Africa with 272 members at 30 June 2013 (2012: 205 members). The Spur Group (Pty) Ltd Provident Fund is administered by Liberty Group Ltd. Refer note 5 for contributions made to the fund.

## 36. MARKETING FUNDS

In terms of the group's franchise agreements, the group receives marketing contributions from franchisees which are held and accounted for separately in marketing funds. These funds are utilised for the procurement of marketing and advertising services for the benefit of franchisees. During the year, the marketing funds received R164.8 million (2012: R140.8 million) in advertising contributions. Marketing funds received are not included in the group's revenue as these are for the exclusive benefit of franchisees. To the extent that funds received are under/(over) spent, a loan payable/(receivable) to/(from) franchisees is recognised in the group statement of financial position (refer notes 12.5 and 24). These loans also comprise the net asset values of the respective marketing funds to the extent that the assets and liabilities of the funds are recognised in the consolidated statement of financial position.

## 37. OPERATING LEASES

Future minimum lease payments under non-cancellable operating leases are as follows:

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Next year | **26 098** | 17 416 |
| Year two through to year five | **91 487** | 56 930 |
| More than five years | **107 545** | 76 054 |
| | **225 130** | 150 400 |

Lease payments in foreign currencies have been translated into rands at the rates prevailing at the reporting date.

Certain leases concluded in the United Kingdom are for a total period of 25 years. Rentals in terms of these leases are subject to a review every five years. The rental payments are fixed for the period of five years between the review periods. In respect of such leases, the future minimum lease payments have been calculated at the rates of rent prevailing at the reporting date for the remaining period of the leases.

Other leases are for periods ranging from five to ten years, subject to renewal options for further five-year periods. Certain of these leases have fixed annual escalations for the period of the lease that were market related at the time of concluding the lease. Other leases are subject to an inflation-linked increase; in which case, for the purposes of this note, the current rental cost has been projected for the remaining lease term.

Certain leases provide that the rent to be paid is the greater of the basic rental and a certain percentage of turnover. The percentage of turnover was market related at the time of concluding the lease.

## 38. RELATED PARTY DISCLOSURES

### 38.1 TRANSACTIONS BETWEEN GROUP SUBSIDIARIES

During the year, in the ordinary course of business, certain companies within the group entered into transactions which have been eliminated on consolidation. Also refer to note 10 of the company financial statements on page 159 for guarantees given to subsidiary companies.

### 38.2 IDENTITY OF RELATED PARTIES

A number of the group's directors, previous directors, prescribed officers and key management personnel (or parties related to them) hold positions in other entities, where they may have significant influence over the financial or operating policies of those entities. To the extent that the group has any relationship or dealings with those entities, they are listed as follows:

| Director/former director/ prescribed officer | Entity | Relationship with entity |
|---|---|---|
| Dean Hyde | African Spirit (Pty) Ltd (note i)[1] | 30% Indirect interest |
| Keith Getz | Bernadt Vukic Potash & Getz | Partner |
| Kevin Robertson | Prepix Properties 36 CC (trading as Running Bear Spur)[2, 4]<br>Randtip 29 (Pty) Ltd (trading as Arrow Ridge Spur)[2, 4] | 15% Member<br>15% Shareholder |
| Kevin Robertson (Spouse) | Bravopix 359 CC (trading as Panarottis Lakeside Mall)[2]<br>Clearpan (Pty) Ltd (trading as Panarottis Clear Water Mall)[2] | 25% Member<br>20% Shareholder |
| Keith Madders | Gemini Mood Trading 294 (Pty) Ltd (note ii)<br>Spur Ekwiti Restaurants (Pty) Ltd (note iii)<br>Kamplans Ltd[3] | 49% Shareholder<br>49% Shareholder<br>100% Indirect |
| Keith Madders (Son 1) | Gold Rush Steak Ranch (Pty) Ltd (trading as Gold Rush Spur)[2] | 5% Shareholder |
| Keith Madders (Son 2) | Gold Rush Steak Ranch (Pty) Ltd (trading as Gold Rush Spur)[2] | 5% Shareholder |

* Refer page 140 for notes and footnotes.

| Director/former director/ prescribed officer | Entity | Relationship with entity |
|---|---|---|
| Mark Farrelly | Amarillo Steak Ranch (Pty) Ltd (trading as Amarillo Spur)[2] | 25% Shareholder |
| | Barleda 293 CC (trading as Cancun Spur)[2] | 25% Member |
| | Gold Rush Steak Ranch (Pty) Ltd (trading as Gold Rush Spur)[2] | 22% Shareholder |
| | Lexmar Entertainment CC | 50% Member |
| | Stone Eagle Steak Ranch (Pty) Ltd (trading as 7 Eagles Spur)[2] | 20% Shareholder |
| Mark Farrelly (Brother) | Amarillo Steak Ranch (Pty) Ltd (trading as Amarillo Spur)[2] | 10% Shareholder |
| Mark Farrelly (Daughter) | Dog and Deer Productions | |
| Pierre van Tonder | Meltrade 286 CC (trading as Silver Dollar Spur)[2, 4] | 25% Member |
| | Seasons Find 976 CC (trading as Ottawa Spur)[2, 4] | 25% Member |

| Key management | Entity | Relationship with entity |
|---|---|---|
| Blaine Freer | Amarillo Steak Ranch (Pty) Ltd (trading as Amarillo Spur)[2] | 25% Shareholder |
| | Evening Star Trading 384 (Pty) Ltd (trading as Maverick Spur)[2] | 25% Shareholder |
| | Gold Rush Steak Ranch (Pty) Ltd (trading as Gold Rush Spur)[2] | 25% Shareholder |
| | Pizza Mall of the North (Pty) Ltd (trading as Panarottis Mall of the North)[2,4] | 25% Shareholder |
| | Stone Eagle Steak Ranch (Pty) Ltd (trading as 7 Eagles Spur)[2] | 22% Shareholder |
| Derick Koekemoer | Barleda 293 CC (trading as Cancun Spur)[2] | 25% Member |
| | Servigyn CC (trading as Thunder Bay Spur)[2, 4] | 27.5% Member |
| | Stone Eagle Steak Ranch (Pty) Ltd (trading as 7 Eagles Spur)[2] | 15% Shareholder |
| | Ten Cents Investments 16 CC (trading as Sarasota Spur)[2] | 50% Member |
| Duncan Werner | Ambicor 195 CC (trading as Cincinnati Spur)[2, 7] | 15% Member |
| Duncan Werner (Spouse) | Design Form | Sole proprietor |
| Leonard Coetzee | Founad Trading 89 CC (trading as Grand Canyon Spur)[2] | 11% Member |
| | JJ Links CC (trading as John Dory's Wilsons Wharf)[2] | 11% (2012: 10%) Member |
| | Waterstone Trading 51 (Pty) Ltd (trading as Atlanta Spur)[2] | 11% (2012: 15%) Shareholder |
| Sacha du Plessis | Meltrade 286 CC (trading as Silver Dollar Spur)[2] | 20% Member |
| | Seasons Find 976 CC (trading as Ottawa Spur)[2, 4] | 25% Member |
| Tyrone Herdman-Grant | Amarillo Steak Ranch (Pty) Ltd (trading as Amarillo Spur)[2] | 10% Shareholder |
| | Stone Eagle Steak Ranch (Pty) Ltd (trading as 7 Eagles Spur)[2] | 16.5% Shareholder |
| | Pizza Mall of the North (Pty) Ltd (trading as Panarottis Mall of the North)[2, 4] | 25% Shareholder |

## 38.3 TRANSACTIONS WITH RELATED PARTIES

***Amarillo Steak Ranch (Pty) Ltd (trading as Amarillo Spur) (Mark Farrelly; Mark Farrelly's brother; Blaine Freer; Tyrone Herdman-Grant)***
This outlet serves as a training facility used by the group's training department to train other franchisees. The group paid this outlet R65 039 (2012: R42 400) for the training services provided (refer note iv).

***Ambicor 195 CC (trading as Cincinnati Spur) (Duncan Werner)***
The group provided marketing assistance (refer note v) to the outlet in the amount of R35 721 (2012: R28 244).

In the prior year, the group acquired Spur décor products from the franchisee in the amount of R30 000.

In the prior year, the group reimbursed the franchisee for certain store opening costs in the amount of R21 923. In terms of the group's internal policies, a certain percentage of the initial one-off franchise fee may be utilised to assist franchisees with store opening costs. The same policy applies to other franchisees (who are not related parties). Mr Werner was excluded from any decision in this regard.

***Autumn Star Trading 738 (Pty) Ltd (trading as John Dory's Canal Walk) (Dean Hyde) – to November 2012***
A subsidiary of the group has entered into a rental subsidisation agreement with the franchisee of John Dory's Canal Walk. In terms of the agreement, the group will reimburse the franchisee for the rental expense incurred by the franchisee (excluding utility costs) that exceeds the greater of 8% of its turnover or an amount of R79 343.71 excl VAT (increasing by 8% per annum on 1 October each year) per month. The agreement remains in place for the duration of the lease which will continue until September 2016 (subject to further renewal). The agreement was concluded to secure a franchisee for this high profile location which the board considered critical for the expansion of the John Dory's brand into the Western Cape and nationally. The value of the subsidy provided for the current year (up to November 2012) amounts to R414 516 (2012: R844 223). The directors consider the terms of the subsidy to be commercially sound and in the interests of the group's stakeholders. The franchisee paid R221 942 (2012: R592 109) and R177 554 (2012: R473 687) in franchise and marketing fees respectively to the group in respect of the outlet in question for the year under review up to November 2012.

The group paid the franchisee an amount in respect of sales incentives (refer note vi) of Rnil (2012: R38 794).

The group provided marketing assistance (refer note v) to the outlet in the amount of Rnil (2012: R18 519).

***Barleda 293 CC (trading as Cancun Spur) (Mark Farrelly; Derick Koekemoer)***
This outlet serves as a training facility used by the group's training department to train other franchisees. The group paid this outlet R71 850 (2012: Rnil) for the training services provided (refer note iv).

* Refer page 140 for notes and footnotes.

***Bernadt Vukic Potash & Getz (Keith Getz)***
Bernadt Vukic Potash & Getz serves as the group's principal legal counsel and has provided legal services (other than services included with directors' emoluments per note 34) on various matters in the ordinary course of business to the value of R2 851 643 in 2013 (R2 350 773 in 2012). Bernadt Vukic Potash & Getz charges the group hourly rates that are commensurate with the rates charged to its other clients.

***Bravopix 359 CC (trading as Panarottis Lakeside Mall) (Kevin Robertson's spouse)***
The group has granted this outlet temporary marketing and franchise fee concessions (refer note vii) in the amount of Rnil (2012: R52 841).

The group provided marketing assistance (refer note v) to the outlet in the amount of Rnil (2012: R11 000).

***Clearpan (Pty) Ltd (trading as Panarottis Clear Water Mall) (Kevin Robertson's spouse)***
This outlet serves as a training facility used by the group's training department to train other franchisees. The group paid this outlet R23 623 (2012: R8 514) for the training services provided (refer note iv).

The group provided marketing assistance (refer note v) to the outlet in the amount of Rnil (2012: R20 000).

***Design Form (Duncan Werner's spouse)***
Karen Werner trading as Design Form provided architectural and design services to the group in the amount of R147 899 (2012: R435 271). The services are provided with the consent of franchisees. The costs incurred by the group are recovered, for the most part, from franchisees. The fee charged to the group's franchisees is consistent with the fee that Design Form charges any other party.

***Dog and Deer Productions (Mark Farrelly's daughter)***
Dog and Deer Productions provided internal marketing-related services to the group in the amount of R241 500 (2012: Rnil).

***Founad Trading 89 CC (trading as Grand Canyon Spur) (Leonard Coetzee)***
The group paid the franchisee an amount of R130 012 (2012: R35 701) in respect of outdoor events catering (refer note viii).

The group has reimbursed the franchisee for costs incurred on the group's behalf in respect of corporate social investment projects amounting to R41 368 (2012: Rnil).

***Golden Gate Steak Ranch (Pty) Ltd (trading as Golden Gate Spur) (Keith Madders)***
The group paid the franchisee an amount of R2 621 (2012: Rnil) in respect of outdoor events catering (refer note viii).

***Gold Rush Steak Ranch (Pty) Ltd (trading as Gold Rush Spur) (Mark Farrelly; Blaine Freer; Keith Madders; Keith Madders' sons)***
This outlet serves as a training facility used by the group's training department to train other franchisees. The group paid this outlet Rnil (2012: R6 000) for the training services provided (refer note iv).

***JJ Links CC (trading as John Dory's Wilsons Wharf) (Leonard Coetzee)***
The group paid the franchisee an amount in respect of sales incentives (refer note vi) of R2 847 (2012: R6 169).

The group provided marketing assistance (refer note v) to the outlet in the amount of R5 626 (2012: Rnil).

The group reimbursed the franchisee for costs of R34 834 (2012: Rnil) relating to a possible relocation of the restaurant in question that did not materialise.

***Kamplans Ltd (Keith Madders)***
Kamplans Ltd provided the consulting services of Keith Madders to the group (other than services included with directors' emoluments per note 34). During the year an amount of £424, the equivalent of R5 881, was paid in respect of direct and incidental costs relating to services provided to international subsidiaries. In the prior year, an amount of £20 843, the equivalent of R253 436, was in respect of services provided locally from 1 July 2011 to 31 March 2012 and included £3 808, the equivalent of R46 297, as a contribution towards direct and incidental costs; and an amount of £6 773, the equivalent of R90 002, was in respect of services provided to international subsidiaries from 1 July 2011 to 30 June 2012 and included £2 013, the equivalent of R24 843, to cover direct and incidental costs.

***Lexmar Entertainment CC (Mark Farrelly)***
Lexmar Entertainment CC has provided conference facilities to the group amounting to R161 336 (2012: R159 180). The board is satisfied that the cost of the facilities provided is reasonable in relation to competitive quotes obtained.

***Mystic Blue Trading 65 (Pty) Ltd (trading as Seven Spur) (Dean Hyde) – to November 2012***
The group has reimbursed the franchisee for costs incurred on the group's behalf in respect of corporate social investment projects amounting to R2 045 (2012: R4 500).

The group provided marketing assistance (refer note v) to the outlet in the amount of Rnil (2012: R3 250).

***Nungu Trading 442 (Pty) Ltd (trading as Malibu Spur) (Dean Hyde) – to November 2012***
The group has granted this outlet temporary marketing and franchise fee concessions (refer note vii) in the amount of Rnil (2012: R101 802).

***Pizza Mall of the North (Pty) Ltd (trading as Panarottis Mall of the North) (Blaine Freer; Tyrone Herdman-Grant)***
The group has granted this outlet temporary marketing and franchise fee concessions (refer note vii) in the amount of R98 672 (2012: Rnil).

The group provided marketing assistance (refer note v) to the outlet in the amount of R70 857 (2012: Rnil).

This outlet serves as a training facility used by the group's training department to train other franchisees. The group paid this outlet R14 263 (2012: Rnil) for the training services provided (refer note iv).

***Sharp Move Trading 186 (Pty) Ltd (trading as Golden River Spur) (Dean Hyde) – to November 2012***
The group has reimbursed the franchisee for costs incurred on the group's behalf in respect of corporate social investment projects amounting to R2 621 (2012: R477).

***Stone Eagle Steak Ranch (Pty) Ltd (trading as 7 Eagles Spur) (Mark Farrelly; Derick Koekemoer; Blaine Freer; Tyrone Herdman-Grant)***
This outlet serves as a training facility used by the group's training department to train other franchisees. The group paid this outlet R121 767 (2012: R67 117) for the training services provided (refer note iv).

***Ten Cents Investments 16 CC (trading as Sarasota Spur) (Derick Koekemoer)***
The group has granted this outlet temporary marketing and franchise fee concessions (refer note vii) in the amount of R529 225 (2012: R430 900).

***Twin Cities Trading 210 (Pty) Ltd (trading as Little Creek Spur) (Dean Hyde) – to November 2012***
The group has reimbursed the franchisee for costs incurred on the group's behalf in respect of corporate social investment projects amounting to R2 090 (2012: R10 190).

***Utah Steak House (Pty) Ltd (trading as Panarottis Bayside, Table View) (Dean Hyde) – to November 2012***
The group has granted this outlet temporary marketing and franchise fee concessions (refer note vii) in the amount of R102 273 (2012: R155 583).

The group provided marketing assistance (refer note v) to the outlet in the amount of Rnil (2012: R13 553).

Notes:

i) African Spirit (Pty) Ltd holds 100% in the following entities:
   - Autumn Star Trading 738 (Pty) Ltd (trading as John Dory's Canal Walk)[2]
   - Sharp Move Trading 186 (Pty) Ltd (trading as Golden River Spur)[2]
   - Twin Cities Trading 210 (Pty) Ltd (trading as Little Creek Spur)[2]
   - Mystic Blue Trading 65 (Pty) Ltd (trading as Seven Spur)[2]
   - Nungu Trading 442 (Pty) Ltd (trading as Malibu Spur)[2]
   - Blue Route Steakhouse (Pty) Ltd (trading as Silver Mountain Spur)[2]
   - Utah Steak House (Pty) Ltd (trading as Panarottis Bayside, Table View)[2]

ii) Gemini Moon Trading 294 (Pty) Ltd holds a 28% interest in Gold Rush Steak Ranch (Pty) Ltd (trading as Gold Rush Spur)[2].

iii) Spur Ekwiti Restaurants (Pty) Ltd holds a 30% interest in Golden Gate Steak Ranch (Pty) Ltd (trading as Golden Gate Spur)[2].

iv) Training facility fees: Fees to outlets which serve as training facilities are determined based on the number of delegates trained and the number of days each delegate is trained. The fee charged is the same fee charged by other training stores (which are not related parties).

v) Marketing assistance: Marketing assistance is provided to franchisees as the need arises. Typically, this is to compensate a franchisee for piloting a new concept or to assist a franchisee in minimising the negative impact of competing brands in the outlet's proximity. The basis for determining the assistance is the same as for any other franchisee (which is not a related party).

vi) Sales incentives: Sales incentives are paid to franchisees based on sales of a particular item which is subject to promotion. The incentives are usually financed in the main by the suppliers whose products are the subject of the promotion. The terms applicable to the incentive payments are the same as for any other franchisee (which is not a related party).

vii) Temporary concession: The concession is a percentage of franchise and/or advertising fee income that would ordinarily be collected by the group in terms of the standard franchise agreement. Franchise and marketing fee concessions are granted to franchisees in the ordinary course of business to provide relief from some temporary external influence (outside of the franchisee's control) which has a negative impact on franchisee's profitability and may threaten the sustainability of the outlet. Examples of such circumstances include increased competitive activity in the proximity of the restaurant, construction or other interference impeding foot traffic and excessive rentals (provided that these are in the process of being renegotiated). The concession is subject to strict authorisation protocols and is conditional upon the franchisee complying with all of the group's operational requirements. The concession may be withdrawn at the group's discretion at any time. Any franchisee (including one which is not a related party) is eligible for a concession should the circumstances so dictate and each case is considered on its own merits after careful scrutiny of franchisee financial records and other supporting documentation.

viii) Outdoor events catering: The group has outsourced its outdoor events catering trailers to certain franchisees. The franchisees in question are paid a vending fee for each event depending on the duration of the event and the distance travelled. The terms applied are the same as those applied to any other franchisee (which is not a related party) who manages an outdoor catering trailer.

ix) With reference to notes iv, v, vii and viii above, in terms of the group's Conflict of Interest Policy, the director, previous director, prescribed officer or member of key management personnel in question is excluded from any decision in these matters. With reference to note vii, any concession granted to a restaurant in which a director or prescribed officer has an interest must be approved by a disinterested quorum of the board.

## 38.4 KEY MANAGEMENT[5]

The key management personnel compensations are as follows:

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Short-term employee benefits | **12 270** | 10 307 |
| Other long-term benefits | **1 449** | 1 230 |
| Equity compensation benefits (refer note 21) | **2 529** | 282 |
| **Total remuneration included in profit** | **16 248** | 11 819 |
| Amount paid to key management in terms of Management Incentive Scheme (refer note 26.1)[6] | **–** | 5 154 |

Key management comprises 12 (2012: 12) employees.

Footnotes

[1] These interests were held by a trust of which Dean Hyde is a trustee. Certain of Mr Hyde's immediate family members are beneficiaries of the trust. Mr Hyde disposed of his interests in African Spirit (Pty) Ltd in November 2012 with effect from 28 February 2012, following the fulfilment of all suspensive conditions per the sale agreement.

[2] These entities are franchisees. Franchise fees and advertising fees of 5% and 4% of restaurant turnover respectively are collected by the group in terms of the standard franchise agreement, unless otherwise indicated under the related party transactions described above.

[3] These interests are held indirectly through trusts. The directors/key management personnel in question are beneficiaries of these trusts.

[4] These interests were acquired during the current year.

[5] Key management are listed on page 21 and exclude directors (directors' emoluments are detailed in note 34).

[6] The cost of the Management Incentive Scheme and payments relating to the winding up thereof were charged directly to equity.

[7] These interest were disposed of during the current year.

## 39. FINANCIAL INSTRUMENTS

The group has exposure to the following risks from its use of financial instruments:
- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing these risks, and the group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The group's objective is to manage effectively each of the above risks associated with its financial instruments, in order to limit the group's exposure as far as possible to any financial loss associated with these risks.

The board of directors has overall responsibility for the establishment and overseeing of the group's risk management framework. The board has established the risk committee, which is responsible for developing and monitoring the group's risk management policies. The committee reports regularly to the board of directors on its activities.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group to the extent that these have an impact on this integrated report.

### 39.1 CREDIT RISK

Credit risk is the risk of financial loss to the group if a counterparty to a financial asset fails to meet its contractual obligations, and arises principally from the group's receivables from customers, franchisees, operating partners and associated entities.

**Exposure to credit risk**
The aggregate of the carrying amounts of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

| | Carrying amount | |
|---|---|---|
| | **2013 R'000** | **2012 R'000** |
| Cash and cash equivalents (note 18) | **112 096** | 98 804 |
| Derivative financial assets (refer note 15) | **37 790** | 4 654 |
| Financial assets included in trade and other receivables (note 17)* | **68 932** | 63 267 |
| Loans receivable (note 12) | **16 798** | 8 039 |
| Loans to equity-accounted investees (note 11) | **1 883** | 2 375 |
| | **237 499** | 177 139 |

* Includes trade receivables, staff loans, deposits and other financial assets as defined in terms of IAS 32: Financial Instruments: Disclosure and Presentation.

***Cash and cash equivalents***
The group's cash is placed with major South African and international financial institutions (in the respective jurisdictions in which the group trades) of high credit standing. A treasury committee comprising the group chief executive officer, group chief financial officer and other senior members of management reviews cash flow projections, manages liquidity and monitors cash investments. This committee reports to the risk committee from time to time. The group's policy is to place cash balances with multiple financial institutions to mitigate against the risk of loss to the group in the event that any one financial institution was to fail. Consequently, the group does not consider there to be any significant exposure to credit risk.

***Derivative financial asset***
The counterparty to the derivative financial assets is a reputable and well-established financial institution in South Africa. The counterparty has acquired a number of shares in Spur Corporation Ltd equivalent to the number of share appreciation rights that the instruments hedge. The directors consider the risk of default by the counterparty as low.

***Financial assets included in trade and other receivables***
The group's exposure to credit risk is influenced mainly by the individual characteristics of each franchisee and customer. There are no significant concentrations of credit risk.

In the main, trade and other receivables comprise franchisees that have been transacting with the group for several years, and significant losses have occurred infrequently. In monitoring customer credit risk, customers are grouped together according to their geographic location, ageing profile and existence of previous financial difficulties. There is furthermore one significant wholesale customer. The risk of counterparties defaulting is controlled by the application of credit approvals, limits and monitoring procedures. In the event that a risk of default is identified for a particular debtor, management actively engages with the debtor to identify opportunities to assist the debtor in an effort to limit the potential loss to the group. Such measures include, but are not limited to, assisting with landlord negotiations, granting extended credit terms and negotiating with financial institutions to restructure debt. Credit risk in respect of Captain DoRegos distribution centre debtors is managed by stopping supply to those customers who are not in compliance with the group's credit policy.

The group does not require collateral in respect of trade and other receivables although all signatories to a franchise agreement sign a personal suretyship in favour of the group.

The group establishes an allowance for impairment that represents its estimate of incurred losses at the reporting date in respect of trade and other receivables.

| | Carrying amount 2013 R'000 | Carrying amount 2012 R'000 |
|---|---|---|
| The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was: | | |
| Domestic | **59 321** | 56 627 |
| Eurozone countries | **1 804** | 1 096 |
| United Kingdom | **1 552** | 1 138 |
| Australia | **896** | 869 |
| | **63 573** | 59 730 |

| | Carrying amount 2013 R'000 | Carrying amount 2012 R'000 |
|---|---|---|
| The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was: | | |
| Wholesale customers | **13 483** | 11 635 |
| Franchisees (franchise businesses) | **46 379** | 45 011 |
| Franchisees (distribution centre business) | **3 711** | 3 084 |
| | **63 573** | 59 730 |

There are no significant amounts that are considered to be past due. Where individual customers are not in compliance with the group's standard credit terms but formal repayment plans have been agreed, these amounts are not considered past due provided that the repayment terms are being substantially complied with.

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| The movement in the allowance for impairment in respect of trade receivables during the year was as follows: | | |
| Balance at beginning of year | **127** | 67 |
| Additional impairment losses recognised | **130** | 127 |
| Irrecoverable debts written off | **(127)** | (67) |
| **Balance at end of year** | **130** | 127 |

The allowance in respect of trade receivables is used to record impairment losses unless the group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off directly against the financial asset. During the current year, R0.741 million (2012: R0.304 million) of trade receivables was written off as irrecoverable in addition to the amount provided for in the impairment allowance for the current and prior years.

***Loans receivable***

The group limits its exposure to credit risk by advancing loans only to counterparties with good credit ratings. Given the good credit ratings, management does not expect any counterparty to fail to meet its obligations.

The board acknowledges that loans advanced to international franchisees to assist their funding in respect of start-up operations have a higher credit risk associated with them due to the uncertainty of the financial success of the operations in question.

The loans to local franchisees are advanced only to those franchisees which have an established track record of generating cash sufficient to service the loan. The risk of default on these loans is consequently considered low.

The credit risk in respect of the loan advanced to the Spur Marketing Fund is considered low as the group manages the liquidity of the related marketing fund.

The group's policy is to obtain collateral in respect of material loans advanced. The extent of collateral held by the group in relation to loans receivable is detailed in note 12.

***Loans to equity-accounted investees***

The group has advanced foreign loans to equity-accounted investees. The board acknowledges that as these loans are part of the initial investments in the equity-accounted investees, there is a higher level of credit risk associated with them. This risk is managed through continued management involvement in these entities.

***Guarantees***

The group's policy is to provide financial guarantees only to subsidiaries domiciled in South Africa. At 30 June 2013 no guarantees were outstanding from a group perspective (30 June 2012: Nil).

### 39.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The group's franchise divisions are largely cash generative. Typically, the group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of at least six months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The treasury committee regularly reviews group cash flow forecasts to ensure that liquidity is maintained. Cash investments are generally short-term in nature.

In terms of the Memorandum of Incorporation of the group's main local operating subsidiary, Spur Group (Pty) Ltd, that company has no limitations to its borrowing powers.

The group has no non-trade credit facilities in place. This decision was made following the implementation of legislation in South Africa in 2008 which requires banks to comply with the Revised Framework on International Convergence of Capital Measurement and Capital Standards (better known as Basel II or the New Capital Accord) and which resulted in South African banks introducing a commitment fee in respect of unutilised credit facilities. Given that the group has a favourable relationship and credit rating with its principal bankers and a strong statement of financial position, the board is of the view that credit could be secured to manage any short-term liquidity risk, if the need arose.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

| | | Contractual cash flows | | | |
|---|---|---|---|---|---|
| | Carrying amount R'000 | Total R'000 | 1 – 12 months R'000 | 1 – 2 years R'000 | 2 – 5 years R'000 |
| **30 June 2013** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Unsecured loans payable (refer notes 20 and 24) | **19 569** | **19 642** | **19 192** | **225** | **225** |
| Financial liabilities included in trade and other payables (refer note 23)* | **57 535** | **57 535** | **57 535** | **–** | **–** |
| Bank overdraft (refer note 18) | **1 605** | **1 605** | **1 605** | **–** | **–** |
| **30 June 2012** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Unsecured bank loans (refer note 20) | 2 428 | 2 459 | 2 459 | – | – |
| Unsecured loans payable (refer notes 20 and 24) | 22 783 | 23 049 | 22 549 | 167 | 333 |
| Financial liabilities included in trade and other payables (refer note 23)* | 44 313 | 44 313 | 44 313 | – | – |
| Bank overdraft (refer note 18) | 1 854 | 1 854 | 1 854 | – | – |

* Includes trade payables, accruals, unredeemed gift voucher liability and other financial liabilities as defined in terms of IAS 32: Financial Instruments: Disclosure and Presentation.

Where there are no formal repayment terms, the contractual cash flows are assumed to take place within 12 months and no interest is included.

**Share appreciation rights and related hedge derivative**

In addition to the financial instruments listed above, the group is exposed to liquidity risk in respect of share appreciation rights issued in terms of its long-term share-linked retention scheme (refer note 21). To mitigate against this risk, the group has concluded a hedge as detailed in note 15. The hedge is effective in the event that the share price increases above the forward price of the hedge. In any event, the group is exposed to the cost of the hedge, being the difference between the strike price of the rights in issue and the forward price of the related hedge. At the reporting date, this amounted to R14.685 million (2012: R8.160 million). Should the share price be below the strike price of the rights, the group is required to pay the hedge counterparty the difference between the strike price of the rights and the share price at the date of vesting. In the event that the share price reduces to 1 cent per share, the maximum additional exposure to the group is R76.065 million (2012: R44.130 million).

The hedge also provides for a guaranteed dividend stream (detailed in note 15) on the company's shares. In the event that the dividends declared are less than those guaranteed, the group is required to pay the deficit to the hedge counterparty.

The group does not apply cash flow hedge accounting.

## 39.3 MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the group's income or the carrying values of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Price risk**

The group is exposed to equity securities price risk due to derivative financial instruments held by the group related to the share price of the company. These derivatives were concluded to hedge economically the liquidity risk arising from share appreciation rights granted in terms of the group's long-term share-linked employee retention scheme (refer note 39.2). Gains and losses on the derivatives are recognised immediately in profit or loss, while the share appreciation rights liability is charged to profit or loss over the vesting periods of the rights. In the event that the share price appreciates over the vesting periods of the rights, on realisation of the hedges and the rights, there will be an effective economic hedge. As detailed above, in the event that the share price drops below the strike price of the rights, the group is exposed to further liquidity risk.

***Sensitivity analysis***

The impact on profit or loss before income tax of a 10% increase or decrease in the company's share price as it impacts the share appreciation rights liability and related hedging derivative financial instrument is detailed below:

| | Profit or loss before income tax | |
|---|---|---|
| | **10% increase R'000** | **10% decrease R'000** |
| **30 June 2013** | | |
| Share appreciation rights | **(6 101)** | **6 021** |
| Derivative hedge forward contracts | **12 088** | **(12 088)** |
| **Net effect on profit or loss before income tax** | **5 987** | **(6 067)** |
| **30 June 2012** | | |
| Share appreciation rights | (1 390) | 1 265 |
| Derivative hedge forward contracts | 5 186 | (5 194) |
| **Net effect on profit or loss before income tax** | 3 796 | (3 929) |

**Currency risk**

***International operations***

The group's international operations are structured such that items of revenue, expenses, monetary assets and monetary liabilities attributed to group entities are all denominated in the respective group companies' functional currencies to the extent possible, with the exception of the group's international franchise company, Steak Ranches International BV. That company is exposed to currency risk as revenue and related receivables are denominated in currencies other than that company's functional currency which is the euro. That company is, furthermore, exposed to currency risk in respect of loan receivables denominated in currencies other than the euro. The most significant of these other currencies are Australian dollars and pounds sterling.

Trade and loan receivables and payables are not hedged as the group's international operations trade in jurisdictions that are considered to have relatively stable currencies.

Exchange gains/losses relating to loans that are considered to be part of the net investment in a foreign entity are included in other comprehensive income.

***Local operations***

The group's local operations are exposed to exchange risk only to the extent that it imports raw materials and certain merchandise for resale from time to time and exports merchandise to foreign franchisees. The number and value of these transactions are not considered significant. The group uses forward exchange contracts to hedge its exposure to currency risk in respect of imports and requires upfront payment from export customers (other than group entities) to minimise its exposure to currency risk in respect of exports. The group does not use forward exchange contracts or other derivative contracts for speculative purposes.

***Consolidation***

The group's consolidated results are influenced by exchange fluctuations between the functional currencies of group entities and the group's reporting currency. The group entities' functional currencies include primarily the euro, pound sterling and Australian dollar.

The group's investments in equity-accounted investees are not hedged as those currency positions are considered to be long term in nature.

***Exposure to currency risk***

The group's exposure to foreign currency risk was as follows as at 30 June:

| | GBP '000 | USD '000 | AUD '000 | EUR '000 | BWP '000 | MUR '000 | TZS '000 | KES '000 | AED '000 | NGN '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and cash equivalents | **672** | **43** | **902** | **101** | **–** | **–** | **–** | **–** | **–** | **–** |
| Trade and other receivables | **187** | **57** | **164** | **94** | **112** | **340** | **10 485** | **961** | **7** | **357** |
| Loans receivable | **5** | **–** | **78** | **43** | **–** | **–** | **–** | **–** | **–** | **–** |
| Total assets | **864** | **100** | **1 144** | **238** | **112** | **340** | **10 485** | **961** | **7** | **357** |
| **Liabilities** | | | | | | | | | | |
| Loans payable | **(380)** | **–** | **(99)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Trade and other payables | **(505)** | **–** | **(329)** | **(254)** | **–** | **–** | **–** | **–** | **–** | **–** |
| Bank overdraft | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Total liabilities | **(885)** | **–** | **(428)** | **(254)** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Total net exposure** | **(21)** | **100** | **716** | **(16)** | **112** | **340** | **10 485** | **961** | **7** | **357** |
| **2012** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and cash equivalents | 677 | 290 | 689 | 19 | – | – | – | – | – | – |
| Trade and other receivables | 214 | 36 | 162 | 9 | 112 | 265 | 5 030 | 512 | 7 | 515 |
| Loans receivable | 203 | – | 91 | 61 | – | – | – | – | – | – |
| Total assets | 1 094 | 326 | 942 | 89 | 112 | 265 | 5 030 | 512 | 7 | 515 |
| **Liabilities** | | | | | | | | | | |
| Loans payable | (392) | – | (101) | – | – | – | – | – | – | – |
| Trade and other payables | (537) | – | (398) | (40) | – | – | – | – | – | – |
| Bank overdraft | – | – | – | – | – | – | – | – | – | – |
| Total liabilities | (929) | – | (499) | (40) | – | – | – | – | – | – |
| **Total net exposure** | 165 | 326 | 443 | 49 | 112 | 265 | 5 030 | 512 | 7 | 515 |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| AUD1 = R | **9.0740** | 8.0343 | **9.0476** | 8.4217 |
| GBP1 = R | **13.8685** | 12.3389 | **15.0525** | 12.9438 |
| Euro1 = R | **11.4601** | 10.4141 | **13.1275** | 10.4643 |

*Sensitivity analysis*
A 10% strengthening of the rand against the following currencies at 30 June would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | Equity R'000 | Profit or loss R'000 |
|---|---|---|
| **30 June 2013** | | |
| Euro | **3 289** | **(5 609)** |
| GBP | **(2 243)** | **39** |
| AUD | **(2 003)** | **1 971** |
| **30 June 2012** | | |
| Euro | (1 657) | (504) |
| GBP | (2 240) | (113) |
| AUD | (2 161) | 29 |

A 10% weakening of the rand against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant.

**Interest rate risk**
The group adopts a policy of ensuring that its exposure to changes in interest rates is on a floating rate basis as far as possible. No derivative instruments are used to hedge interest rate risk.

***Interest rate risk profile***
At the reporting date the interest rate profile of the group's interest-bearing financial instruments was:

| | Carrying amount | |
|---|---|---|
| | 2013 R'000 | 2012 R'000 |
| **Fixed rate instruments** | | |
| Financial assets | **602** | 574 |
| Financial liabilities | **602** | 574 |
| **Variable rate instruments** | | |
| Financial assets | **127 548** | 106 078 |
| Financial liabilities | **7 343** | 14 455 |

*Cash flow sensitivity analysis for variable rate instruments*
A change of 50 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss before income tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | Profit or loss before income tax | |
|---|---|---|
| | 50 bp increase R'000 | 50 bp decrease R'000 |
| **30 June 2013** | | |
| Variable rate assets | **575** | **(575)** |
| Variable rate liabilities | **(36)** | **36** |
| **Cash flow sensitivity (net)** | **539** | **(539)** |
| **30 June 2012** | | |
| Variable rate assets | 570 | (570) |
| Variable rate liabilities | (65) | 65 |
| **Cash flow sensitivity (net)** | 505 | (505) |

The group accounts for fixed rate instruments at amortised cost. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

### 39.4 FAIR VALUES

At the reporting date the carrying values of the group's financial instruments on the statement of financial position approximate their fair values.

The fair value of non-derivative financial liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In the event of interest-free loans without any repayment terms, the fair value is considered to approximate the carrying value.

The fair value of trade and other receivables and loan receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

The fair value of the hedge forward derivative instrument (refer note 15) is determined by external, independent valuators using the external valuator's Black-Scholes pricing model.

**Fair value hierarchy**

IFRS 7 – Financial Instruments: Disclosures specifies a hierarchy of valuation techniques for assets and liabilities measured at fair value based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the group's market assumptions.

The table below provides the valuation method of financial instruments carried at fair value. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **Financial assets/(liabilities)** | | |
| *Financial assets/(liabilities) recognised at fair value through profit or loss* | | |
| Hedge forward derivative instruments – level 2 (refer note 15) | **37 790** | 4 654 |

### 39.5 CAPITAL MANAGEMENT

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the demographic spread of shareholders, the level of distributions to ordinary shareholders, as well as the return on capital. Capital consists of total shareholders' equity, excluding non-controlling interests.

From time to time the group purchases its own shares on the market; the timing of these purchases depends on market prices. The board is considering various options regarding the existing treasury shares as there is currently no specific intention or purpose for these shares other than improving returns on shareholder equity and enhancing earnings per share. The group does not have a defined share buy-back plan. However, depending on the availability of cash, prevailing market prices and committed capital expenditure, shares may be repurchased.

There were no changes in the group's approach to capital management during the year.

## 40. SUBSEQUENT EVENTS

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

### 40.1 DIVIDENDS

The board declared a dividend of 56.0 cents per ordinary share payable on 7 October 2013 as referred to in note 25 and in the directors' report on page 94 of this report.

## 41. CONTINGENT LIABILITIES

### 41.1 INCOME TAX IN RESPECT OF CONTROLLED FOREIGN COMPANIES

As reported in the prior year, the South African Revenue Service ("SARS") previously forwarded correspondence to a wholly owned subsidiary of the group, Spur Group (Pty) Ltd, indicating its intention to assess that company for income from the group's controlled foreign companies. The correspondence afforded the board of that company the opportunity to respond to the conclusions drawn by SARS by 18 October 2012. Spur Group (Pty) Ltd duly responded to the queries and further subsequent queries.

In finalisation of the matter, SARS has issued Spur Group (Pty) Ltd with assessments in respect of income relating to controlled foreign companies of the group in the amount of R2.842 million (comprising income tax of R2.273 million and interest of R0.569 million) for the 2009, 2010 and 2011 years of assessment. The board of that company has objected to the assessments and is confident that it is able to defend the assessments. SARS has not yet concluded on the objections raised. Following the objection process, should any amount of tax be payable, it is expected that the tax liability will be substantially less than that assessed. Consequently, a liability has not been raised in respect of the assessments issued.

### 41.2 LEGAL DISPUTE WITH FORMER ZAMBIAN FRANCHISEE

As reported in the prior year, Steak Ranches Ltd ("SRL") instituted action in the prior year 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.

SRL is claiming for 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 is defending the action, denying the repudiation of the franchise agreement. SRIBV avers that it validly cancelled the agreement as SRL breached the terms thereof. The board of SRIBV is confident that it will be able to defend the claim successfully. A court date has yet to be determined.

## 42. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated and separate financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgements, assumptions and estimates made in applying the group's accounting policies that potentially have a significant effect on the amounts recognised in the financial statements are as follows:

**Property, plant and equipment**
Items of property, plant and equipment are depreciated over the assets' remaining useful lives, taking into consideration their estimated residual values. The remaining useful lives and residual values of these assets are reviewed and considered at each reporting date, taking into account the nature and condition of the assets.

**Intangible assets**
The directors assess the indefinite useful life assertion in respect of certain intangible assets on an annual basis as disclosed in note 10. In respect of intangible assets with a finite useful life, the remaining useful lives and residual values of these assets are reviewed and considered at each reporting date, taking into account the nature of the assets as indicated in note 10.

**Impairment of non-financial assets**
Goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually. Property, plant and equipment are considered for impairment when an indication of possible impairment exists. An asset is impaired when its carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value-in-use.

Determining if non-financial assets are impaired requires an estimation of the values-in-use of the cash-generating units to which goodwill, intangible assets and property, plant and equipment have been allocated. The value-in-use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable pre-tax discount rate that is reflective of the cash-generating unit's risk profile in order to calculate the present value. The variables applied in determining the above have been disclosed in the relevant notes to the financial statements with specific reference to notes 5.1, 9.1 and 10.

**Deferred tax**
In the group, each entity assesses the recoverability of deferred tax assets and the recognition of deferred tax assets in respect of computed tax losses. The recognition is based on the entities' abilities to utilise these computed tax losses based on expected future taxable income. In note 7.2, the total unrecognised computed tax losses are disclosed. The rationale for recognising deferred tax assets in respect of tax losses is disclosed in note 13.

**Financial assets**
Certain assumptions are made in respect of the recoverability of the group's financial assets. These assets mainly comprise loans receivable from associate companies and external parties and trade receivables.

At each reporting date, the group evaluates whether there is any objective evidence that a financial asset is impaired. If there is objective evidence that loans or receivables are impaired, the amount of the loss is determined without reference to future irrecoverable debts that have not been incurred. Refer note 17 for the amount of any impairment allowance recognised or reversed against trade receivables.

**Derivative financial assets**
Certain assumptions are applied by an independent external valuations expert in determining the value of the derivative financial instruments used to hedge economically the group's exposure to share appreciation rights granted in terms of the group's long-term share-linked retention scheme. These assumptions and the key inputs into the pricing model are disclosed in note 15.

**Employee benefits**
Certain assumptions are applied in determining the liability in respect of the group's long-term share-linked retention scheme by an independent external valuations expert. The key inputs into the pricing model are disclosed in note 21.

**Accounting for marketing funds**
The group administers a number of marketing funds which have been established by the group to meet the group's obligations in terms of the franchise agreements concluded between various subsidiaries of the group and external franchisees. In terms of these franchise agreements, the franchisor (the group) is mandated to spend the marketing fund receipts on behalf of the respective bodies of franchisees on marketing-related costs for the benefit of those bodies of franchisees. The franchise agreements permit the franchisor to retain so much of the fund receipts necessary to defray the costs of administering the respective marketing funds. Each marketing fund is housed in a separate legal entity that is ring-fenced from the franchisor and other marketing funds. IAS 18 – Revenue requires that revenue be recognised in the instance where an entity is acting as principal; and that revenue should not be recognised in the instance where an entity is acting as agent. In terms of IAS 18, an entity is acting as agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. The board has exercised judgement in concluding that the group is not exposed to the significant risks and rewards associated with the marketing fund receipts and therefore acts as agent, save to the extent that marketing fund receipts are retained to defray the costs of administering the marketing funds in which case the group acts as principal. Consequently, to the extent that marketing fund receipts are retained to defray the costs of administering the marketing funds, these are recognised as income (refer note 4), and the balance of the marketing fund receipts are not recognised as income (refer notes 12.5, 24 and 36).

## 43. ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations applicable to the group are not yet effective for the year ended 30 June 2013, and have not been applied in preparing these consolidated financial statements. Those standards and interpretations which are (or may be) applicable to the group in the future are presented below. Those standard and interpretations which have no bearing on the group's existing accounting policies, have no impact on the group's assets and liabilities as at the reporting date or their subsequent measurement and no impact on the accounting treatment of transactions that the group is likely to be party to, are not listed below. All standards and interpretations will be adopted at their effective date.

**IAS 27 (2011): Separate Financial Statements**
IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The standard will be adopted for the group's 2014 financial year but is not expected to have any significant impact on the company's separate financial statements.

**IAS 28 (2011): Investments in Associates and Joint Ventures (2011)**
IAS 28 (2011) supersedes IAS 28 (2008) and carries forward the existing accounting and disclosure requirements with limited amendments. These include:

- IFRS 5: Non-current Assets Held for Sale and Discontinued Operations is applicable to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held-for-sale; and
- on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the company does not remeasure the retained interest.

The standard will be adopted for the group's 2014 financial year but is not expected to have any significant impact on the group.

**IFRS 9: Financial Instruments**
IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional requirements relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

This standard becomes mandatory for the group's 2016 financial statements and will be applied retrospectively subject to transitional provisions. The impact on the group has not yet been determined.

**IFRS 10: Consolidated Financial Statements**
This standard introduces a single control model to assess whether an investee should be consolidated. This control model requires entities to perform the following in determining whether control exists:

- identify how decisions about the relevant activities are made;
- assess whether the entity has power over the relevant activities by considering only the entity's substantive rights;
- assess whether the entity is exposed to variability in returns; and
- assess whether the entity is able to use its power over the investee to affect returns for its own benefit.

Control should be assessed on a continuous basis and should be reassessed as facts and circumstances change.

The standard will be applied for the first time in the group's 2014 financial statements on a retrospective basis if there is a change in the control conclusion between IAS 27/SIC 12 and IFRS 10. The impact on the group has not yet been determined.

**IFRS 11: Joint Arrangements**
IFRS 11 establishes that classification of joint arrangements depends on whether parties have rights to and obligations for the underlying assets and liabilities. Joint arrangements are divided into two types, each having its own accounting model:
- joint operations whereby the jointly controlling parties, known as joint operators, have rights and obligations for the liabilities relating to the arrangement; and
- joint ventures whereby the joint controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

All joint ventures are to be equity accounted.

The standard will be applied for the first time in the group's 2014 financial statements on a retrospective basis subject to certain transitional provisions. The impact on the group has not yet been determined.

**IFRS 12: Disclosure of Interests in Other Entities**
This standard combines, in a single standard, the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

The required disclosures aim to provide information to enable users to evaluate:
- the nature of, and risks associated with, an entity's interests in other entities; and
- the effects of those interests on the entity's financial position, financial performance and cash flows.

The adoption of this new standard will increase the level of disclosure provided for the group's interests in subsidiaries, joint arrangements, associates and structured entities. The standard will be applied for the first time in the group's 2014 financial statements and will result in enhanced disclosure in respect of group entities.

**IFRS 13: Fair Value Measurement**
This standard introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosure requirements for fair value measurements. Key principles include:
- fair value is an exit price;
- measurement considers characteristics of the asset or liability and not entity-specific characteristics;
- measurement assumes a transaction in the entity's principal (or most advantageous) market between market participants;
- price is not adjusted for transaction costs;
- measurement maximises the use of relevant observable inputs and minimises the use of unobservable inputs; and the three-level fair value hierarchy is extended to all fair value measurements.

The standard is effective for the group's 2014 financial year and will be applied prospectively with no restatement of comparatives. The impact on the group has not yet been determined.

# COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| Dividend income | | **101 294** | 73 842 |
| Accounting distribution from subsidiary company | 1 | **–** | 5 799 |
| Prescribed dividends | | **112** | – |
| Interest income | | **21** | 28 |
| Operating expenses | | **(1 821)** | (1 769) |
| **Profit before income tax** | 2 | **99 606** | 77 900 |
| Income tax expense | 3 | **(5)** | (9) |
| **Profit for the year** | | **99 601** | 77 891 |
| **Total comprehensive income for the year** | | **99 601** | 77 891 |

# STATEMENT OF FINANCIAL POSITION

## AT 30 JUNE 2013

| | Note | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Interest in subsidiary companies | 4 | **14 479** | 14 479 |
| Dividends receivable | 5 | **22 562** | 22 562 |
| **Total non-current assets** | | **37 041** | 37 041 |
| **Current assets** | | | |
| Tax receivable | | **2** | 2 |
| Cash and cash equivalents | | **366** | 995 |
| **Total current assets** | | **368** | 997 |
| **Total assets** | | **37 409** | 38 038 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Ordinary share capital | 6 | **1** | 1 |
| Share premium | | **6** | 6 |
| Retained earnings | | **156** | 141 |
| **Total equity** | | **163** | 148 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Loans from subsidiary companies | 7 | **36 843** | 36 935 |
| **Current liabilities** | | | |
| Trade and other payables | | **76** | 35 |
| Shareholders for dividend | | **327** | 920 |
| **Total current liabilities** | | **403** | 955 |
| **Total equity and liabilities** | | **37 409** | 38 038 |

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2013

| | Ordinary share capital R'000 | Share premium R'000 | Retained earnings/ (accumulated loss) R'000 | Total equity R'000 |
|---|---|---|---|---|
| **Balance at 1 July 2011** | 1 | 6 | (679) | (672) |
| **Total comprehensive income for the year** | | | | |
| *Profit for the year* | – | – | 77 891 | 77 891 |
| **Transactions with owners, recorded directly in equity** | | | | |
| *Contributions by and distributions to owners* | | | | |
| Accounting distribution from subsidiary company (refer note 1) | – | – | (5 799) | (5 799) |
| Distributions to equity holders (refer note 9) | – | – | (71 272) | (71 272) |
| **Total transactions with owners** | – | – | (77 071) | (77 071) |
| **Balance at 30 June 2012** | **1** | **6** | **141** | **148** |
| **Total comprehensive income for the year** | | | | |
| *Profit for the year* | **–** | **–** | **99 601** | **99 601** |
| **Transactions with owners, recorded directly in equity** | | | | |
| *Contributions by and distributions to owners* | | | | |
| Distributions to equity holders (refer note 9) | **–** | **–** | **(99 586)** | **(99 586)** |
| **Balance at 30 June 2013** | **1** | **6** | **156** | **163** |

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Operating expenses | | **(1 821)** | (1 769) |
| Working capital changes | | **41** | 35 |
| **Cash utilised by operations** | | **(1 780)** | (1 734) |
| Interest received | | **21** | 28 |
| Tax paid | 8 | **(5)** | (9) |
| Dividends received | | **101 294** | 73 842 |
| Dividends paid | 9 | **(100 067)** | (70 964) |
| **Net cash flow from operating activities** | | **(537)** | 1 163 |
| **Cash flow from financing activities** | | | |
| Decrease in loans from subsidiary companies | | **(92)** | (828) |
| **Net cash flow from financing activities** | | **(92)** | (828) |
| **Net movement in cash and cash equivalents** | | **(629)** | 335 |
| Cash and cash equivalents at beginning of year | | **995** | 660 |
| **Cash and cash equivalents at end of year** | | **366** | 995 |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING DISTRIBUTION FROM SUBSIDIARY COMPANY

This related to the loss incurred by a wholly owned subsidiary company, Share Buy-back (Pty) Ltd, during the prior year on the sale of treasury shares at the behest of the company to satisfy the exercising of options on the company in terms of the 2004 Management Incentive Scheme (refer note 26.1 on page 130). The profit forgone on the sale of the shares in question by Share Buy-back (Pty) Ltd was nevertheless recognised as income by that company and treated as an accounting distribution to its shareholder, being the company.

## 2. PROFIT BEFORE INCOME TAX

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| The following items have been taken into account in determining profit before income tax: | | |
| Consulting fees | **436** | 495 |
| JSE listing fees and other related costs | **483** | 562 |
| Donations | **112** | – |

## 3. INCOME TAX EXPENSE

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| South African normal current tax – current year | **5** | 9 |

| | 2013 % | 2012 % |
|---|---|---|
| **Reconciliation of rate of tax** | | |
| South African normal tax rate | **28.0** | 28.0 |
| Non-taxable income | **(28.5)** | (28.6) |
| Non-deductible expenditure | **0.5** | 0.6 |
| Effective tax rate | **–** | – |

The company had secondary tax on companies ("STC") credits of R2 646 032 as at 30 June 2012. These STC credits were utilised during the current year to reduce the value of dividends declared that may be subject to the local dividend tax of 15% charged in terms of the Income Tax Act (Act No. 58 of 1962, as amended).

## 4. INTEREST IN SUBSIDIARY COMPANIES

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Shares at cost less impairment and amounts written off | **1** | 1 |
| Equity-settled share-based payments on behalf of subsidiary | **11 213** | 11 213 |
| Loans to subsidiary companies | **3 265** | 3 265 |
| | **14 479** | 14 479 |

In terms of the group's accounting policies, equity-settled share-based payments, determined in accordance with IFRS 2: Share-based Payments, by a subsidiary of the company in previous financial years are treated as a further investment in the subsidiary in question.

Loans to subsidiary companies are unsecured, interest-free and no fixed dates of repayment have been determined.

Details of the share capital and the company's interests in the subsidiary companies are as follows:

| | Country of incorporation | Issued capital R'000 | Loan to subsidiary R'000 | % interest in company |
|---|---|---|---|---|
| Trading | | | | |
| – Spur International Ltd* | British Virgin Islands | 1.4 | | 100 |
| – Spur Group (Pty) Ltd | South Africa | 0.1 | | 100 |
| – Spur Advertising (Pty) Ltd* | South Africa | 0.1 | | 100 |
| – Panarottis Advertising (Pty) Ltd* | South Africa | 0.1 | | 100 |
| – The Ad Workshop (Pty) Ltd* trading as Captain DoRegos Advertising | South Africa | 0.1 | | 100 |
| – Share Buy-back (Pty) Ltd | South Africa | 0.1 | | 100 |
| – Spur Group Properties (Pty) Ltd | South Africa | 0.1 | 3 265 | 100 |
| – John Dory's Franchise (Pty) Ltd* | South Africa | 0.1 | | 100 |
| – John Dory's Advertising (Pty) Ltd* | South Africa | 0.1 | | 100 |
| – Vantini Spur Ltd* | Gibraltar | 0.1 | | 100 |
| – Steak Ranches International BV* | The Netherlands | 173.3 | | 100 |
| – Spur Corporation Australia Pty Ltd* | Australia | 0.6 | | 100 |
| – Spur Advertising Australia Pty Ltd* | Australia | 0.6 | | 100 |
| – Panarottis Advertising Australia Pty Ltd* | Australia | 0.6 | | 100 |
| – Spurcentral Pty Ltd* | Australia | 0.6 | | 100 |
| – Panhold Pty Ltd* | Australia | 5.0 | | 100 |
| – Panawest Pty Ltd* | Australia | 631.0 | | 93 |
| – Caspur Pty Ltd* | Australia | 772.0 | | 100 |
| – Spur Steak Ranches Unit Trust* | Australia | 0.1 | | 100 |
| – Panatug Pty Ltd* | Australia | 0.6 | | 100 |
| – Spur Corporation UK Ltd* | United Kingdom | 3.0 | | 100 |
| – Larkspur One Ltd* | United Kingdom | 1.4 | | 100 |
| – Larkspur Two Ltd* | United Kingdom | 1.4 | | 100 |
| – Larkspur Three Ltd* | United Kingdom | 1.3 | | 80 |
| – Larkspur Five Ltd* | United Kingdom | 1.1 | | 71 |
| – Larkspur Six Ltd* | United Kingdom | 0.1 | | 100 |
| – Larkspur Seven Ltd* | United Kingdom | 0.1 | | 100 |
| – Mohawk Spur Ltd* | United Kingdom | 15.1 | | 100 |
| – Spur Advertising UK Ltd* | United Kingdom | 1.3 | | 100 |
| – Trinity Leasing Ltd* | United Kingdom | 13.0 | | 90 |
| – Larkspur Eight Ltd* | Ireland | 0.1 | | 100 |
| Dormant | | 1.4 | | 100 |
| | | | 3 265 | |

* Indirect

## 5. DIVIDENDS RECEIVABLE

The dividends receivable relates to dividends received by the Spur Management Share Trust in the financial year ended 30 June 2010 that were vested with the company by the trustees in that year. The amount is unsecured, interest-free and there are no fixed terms of payment.

## 6. ORDINARY SHARE CAPITAL

| | 2013<br>R'000 | 2012<br>R'000 |
|---|---|---|
| **Authorised** | | |
| 201 000 000 ordinary shares of 0.001 cents each | **2** | 2 |
| **Issued** | | |
| 97 632 833 ordinary shares of 0.001 cents each | **1** | 1 |

The ordinary shares have equal rights to distributions declared by the company.

In terms of the company's Memorandum of Incorporation, the unissued shares of the company may be issued by the directors of the company only with the approval of the shareholders by way of an ordinary resolution passed at a general meeting. No such authority has been granted.

The company does not have any unlisted shares.

## 7. LOANS FROM SUBSIDIARY COMPANIES

| | 2013<br>R'000 | 2012<br>R'000 |
|---|---|---|
| Share Buy-back (Pty) Ltd | **8 000** | 8 000 |
| Spur Group (Pty) Ltd | **28 843** | 28 935 |
| | **36 843** | 36 935 |

These loans are unsecured and bear no interest. The company has the unconditional right to defer settlement of the loans for at least 12 months after the reporting date.

## 8. TAX PAID

| | 2013<br>R'000 | 2012<br>R'000 |
|---|---|---|
| Tax paid is reconciled to the amount disclosed in profit or loss as follows: | | |
| Amount receivable at beginning of year | **2** | 2 |
| Current tax charged to profit or loss | **(5)** | (9) |
| Amount receivable at end of year | **(2)** | (2) |
| | **(5)** | (9) |

## 9. DIVIDENDS

| | 2013<br>R'000 | 2012<br>R'000 |
|---|---|---|
| Dividends declared are as follows: | | |
| Final 2011 – dividend of 33.0 cents per share | **–** | 32 219 |
| Interim 2012 – dividend of 40.0 cents per share | **–** | 39 053 |
| Final 2012 – dividend of 47.0 cents per share | **45 888** | – |
| Interim 2013 – dividend of 55.0 cents per share | **53 698** | – |
| **Total distributions** | **99 586** | 71 272 |

The directors have approved a final dividend of 56.0 cents per share, funded by income reserves, to be paid in cash on 7 October 2013. The dividend is subject to the applicable tax levied in terms of the Income Tax Act (Act No. 58 of 1962, as amended) ("dividend tax") of 15%. The net dividend is therefore 47.6 cents per share for shareholders liable to pay dividend tax.

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Dividends paid are reconciled to the amount disclosed above as follows: | | |
| Amount payable at beginning of year | **(920)** | (612) |
| Dividends declared | **(99 586)** | (71 272) |
| Prescribed dividends | **112** | – |
| Amount payable at end of year | **327** | 920 |
| **Dividends paid** | **(100 067)** | (70 964) |

## 10. GUARANTEES

The company has provided unlimited guarantees to financial institutions in respect of debts of certain local subsidiary companies.

## 11. RELATED PARTY DISCLOSURES

**Identity of related parties**
Refer note 4 for a detailed list of subsidiaries.

**Related party transactions**
An amount of R685 545 (2012: 663 121) was paid to wholly owned subsidiary, Spur Advertising (Pty) Ltd, for printing and publishing expenses relating to circulars, interim results and the annual integrated report of the group. This includes a reimbursement of expenses paid to unrelated third party suppliers as well as an hourly rate for desktop publishing services which is the same rate charged by that company to franchisees (who are unrelated parties) for the same services.

NOTES

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# CORPORATE INFORMATION

## DIVIDENDS

| | |
|---|---|
| Interim dividend | 55.0 cents per share |
| Record date | 5 April 2013 |
| Payment date | 8 April 2013 |
| Final dividend | 56.0 cents per share |
| Record date | 4 October 2013 |
| Payment date | 7 October 2013 |
| Reports 2013 | Interim for six months ended 31 December 2012 published March 2013 |
| | Preliminary announcement for year ended June 2013 published September 2013 |
| | Annual for year ended 30 June 2013 published October 2013 |

## ADMINISTRATION

| | |
|---|---|
| Registered office | 14 Edison Way,<br>Century Gate Business Park,<br>Century City<br>7441 |
| Registration number | 1998/000828/06 |
| Postal address | PO Box 166, Century City, 7446 |
| Telephone | 27-21-555-5100 |
| Fax | 27-21-555-5111 |
| E-mail | spur@spur.co.za |
| Internet | http://www.spurcorporation.co.za |
| Transfer secretaries | Computershare Investor Services (Pty) Ltd<br>70 Marshall Street<br>Johannesburg<br>2001 |
| | PO Box 61051<br>Marshalltown<br>2107<br>Telephone: 27-11-370-5000 |
| Auditors | KPMG Inc. |
| Attorneys | Bernadt Vukic Potash & Getz |
| Sponsor | Sasfin Capital (a division of Sasfin Bank Ltd) |
| Secretary and registered address | Ronel van Dijk<br>14 Edison Way, Century Gate Business Park,<br>Century City<br>7441 |