SPUR CORP.

PASSIONATE PEOPLE BUILDING GREAT BRANDS

# UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND CASH DIVIDEND DECLARATION FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

Prepared under the supervision of the
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(Registration number: 1998/000828/06)

www.spurcorporation.com

# OVERVIEW

### RESTAURANT SALES

**6.5%***

* Excluding Captain DoRegos, disposed of 1 March 2018

### COMPARABLE PROFIT BEFORE INCOME TAX

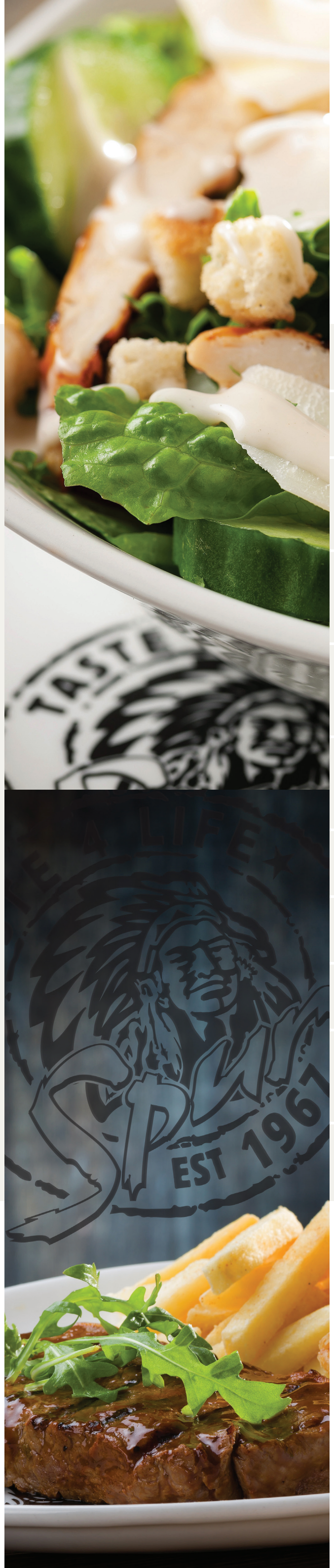
**12.4%**

### COMPARABLE HEADLINE EARNINGS PER SHARE

**11.7%**

### DIVIDEND PER SHARE

**63 cents**



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# RESULTS COMMENTARY

## TRADING PERFORMANCE

In an environment of low economic growth in South Africa, increasing demands on disposable income and weakening sentiment among the group's middle-income customer base, Spur Corporation reported a competitive trading performance for the six months to December 2018.

Total franchised restaurant sales across the local and international operations increased by 4.8% to R3.9 billion, and by 6.5% excluding the results of the Captain DoRegos chain, which was sold with effect from 1 March 2018.

Franchised restaurant sales in South Africa, excluding Captain DoRegos, grew by 5.7%. Sales increased by 11.3% in the first quarter to September 2018, supported by the continued recovery in the Spur Steak Ranches brand and a strong performance in The Hussar Grill. However, sales growth in the second quarter to December 2018 slowed to 1.2% as discretionary spending came under growing pressure, which contributed to a further decline in shopping centre foot traffic.

Management's primary focus in the current economic climate has been on enhancing franchisee profitability to ensure the sustainability of the group's business model. Following the successful changes to the promotional and discounting strategies for Spur in the previous financial year, further initiatives are being undertaken to improve franchisee margins across the brands. These include expanding the range of "home-made" products manufactured in Spur restaurants, rationalising menu offerings in certain brands to promote efficiencies, renegotiating rentals and reducing the size of restaurants where appropriate. These measures are positively impacting franchisee margins and profitability, resulting in a more sustainable franchise business.

Spur Steak Ranches increased restaurant sales by 6.1% and by 5.1% in existing restaurants. The strength of the iconic Spur brand among South African families and the loyal customer base of 1.2 million Spur Family Card members has been key to driving growth in the current weak trading environment.

Restaurant sales in Pizza and Pasta, incorporating Panarottis and Casa Bella, declined by 1.5% as the Panarottis chain was impacted by aggressive discounting by competitors in the takeaway pizza market. The brand continues to focus on high-quality ingredients while generating sustainable margins for its franchisees. Operating profit in Pizza and Pasta increased by 9.4% for the first half.

Restaurant sales in RocoMamas grew by 6.0% as the brand's urban millennial market was not immune to the economic downturn. The brand has been through a period of consolidation following the unprecedented increase in restaurant numbers, which saw its national footprint expand to 70. RocoMamas has grown restaurant sales by an annual compound rate of 45.9% since being acquired by the group in 2015.

John Dory's restaurant sales declined by 0.8%, impacted by the temporary closure of two major outlets for shopping-mall redevelopment, which only reopened in December.

The Hussar Grill grew restaurant sales by 13.8% as the brand's higher-income customers proved more resilient in the weakening economy. The Hussar Grill has successfully expanded into a national premium steakhouse brand from its regional roots in the Western Cape and been effective in diversifying the group's target market.

International restaurant sales (excluding Captain DoRegos) increased by 12.1% on a constant exchange rate basis and by 12.7% in rand terms, driven largely by the opening of 14 restaurants during the period. Trading in Mauritius, the Middle East and Africa has been buoyant, although the performance in certain African countries was negatively impacted by political instability and volatile exchange rates. At a constant exchange rate, restaurant sales in Africa grew by 22.3% (47 outlets (2017: 39)), Mauritius by 21.2% (13 outlets (2017: 10)) and the Middle East by 69.9% (4 outlets (2017: 2)).

However, the performance in Australia and New Zealand continues to disappoint and restaurant sales declined by 16.8% for the six month period. Management is re-evaluating its operations in these countries in the wake of the challenging trading conditions and high franchisee operating costs.

## RESTAURANT EXPANSION

The group continued its measured restaurant expansion programme and opened 39 outlets across all brands. In South Africa, 25 outlets were opened and six closed. In addition, the group acquired the Nikos Coalgrill Greek chain which comprised six restaurants at the effective date of 1 August 2018 and opened two further outlets in Gauteng during the period.

Fourteen international outlets were opened over the past six months. These include the group's first restaurant in India (Pune), being a RocoMamas outlet. The Hussar Grill opened its first outlet in Saudi Arabia (Khobar). Seven Panarottis restaurants opened in Zambia, increasing the number of outlets in the country to 12. Other restaurants were opened in Mauritius (Panarottis and RocoMamas), Botswana (RocoMamas), Namibia (Spur) and Saudi Arabia (RocoMamas). The group's international expansion strategy focuses mainly on territories where the business has an established presence, in order to ultimately reach critical mass. However, new territories will be considered where the group is able to secure a local partner with the necessary expertise, infrastructure and financial resources to open a set minimum number of franchised restaurants, and where the local economic and political environment can support our presence.

**Restaurant footprint at 31 December 2018**

| Franchise brand | South Africa | International | Total |
|---|---|---|---|
| Spur Steak Ranches | 289 | 38 | **327** |
| Spur Grill & Go | 7 | 2 | **9** |
| Panarottis Pizza Pasta | 86 | 20 | **106** |
| Casa Bella | 7 | – | **7** |
| John Dory's Fish Grill Sushi | 53 | 3 | **56** |
| The Hussar Grill | 20 | 2 | **22** |
| RocoMamas | 70 | 11 | **81** |
| Nikos Coalgrill Greek | 8 | – | **8** |
| **Total** | 540 | 76 | **616** |

## FINANCIAL PERFORMANCE

Group revenue increased by 5.3% to R370.2 million, with revenue from the South African operations growing by 4.9% and international revenue by 12.1%.

Franchise revenue in Spur showed a strong recovery and increased by 12.2%. Pizza and Pasta grew by 5.4%, John Dory's 2.6%, The Hussar Grill by 5.7% and RocoMamas by 8.6%.

Local retail revenue, representing the group's interests in four The Hussar Grill restaurants and one RocoMamas outlet, declined by 2.2%. While The Hussar Grill outlets performed well, turnover at RocoMamas in Green Point (Cape Town) declined by 31% for the period following the opening of a franchised RocoMamas restaurant in a nearby suburb, which diverted takeaway and delivery business away from the Green Point outlet.

The manufacturing and distribution division grew revenue by 0.7%, impacted by lower volumes of product being procured through the group's outsourced distribution system as an increasing proportion of products are now being made in the restaurants.

In the international division, the operations in Africa, Mauritius, the Middle East, India, Pakistan and Cyprus collectively increased revenue by 26.3%. Revenue in Australasia was 32.6% lower.

Profitability in Australasia was negatively impacted by lower revenue and franchisee loan impairment losses of R2.9 million. This contributed to the international division posting a loss of R2.0 million for the six month period.

Profit before income tax decreased by 0.8% to R130.0 million. This includes financial instrument impairment losses of R7.8 million (2017: nil), including an impairment of R4.3 million relating to the Grand Parade Investments Limited black economic empowerment transaction funding and the Australian franchisee loans referred to above, R1.6 million relating to the settlement of a legal dispute with a former franchisee in Zambia (previously disclosed as a contingent liability) and R1.4 million in severance payments following a restructure in the group's décor manufacturing business. The previous comparable period includes a R10.6 million fair value loss on the RocoMamas contingent consideration liability and a profit of R17.5 million on the disposal of the Braviz rib manufacturing facility.

Comparable profit before income tax, excluding exceptional and one-off items (including those listed above), increased by 12.4%.

Headline earnings declined by 11.2% to R83.9 million with diluted headline earnings per share 10.9% lower at 87.8 cents.

The interim dividend has been maintained at 63 cents per share.

## PROSPECTS

The current pressure on consumer discretionary spending is expected to persist in the months ahead as the country's economic prospects remain weak. This is likely to be compounded by rising utility and living costs, electricity load shedding and uncertainty ahead of the country's general election in May.

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

The group plans to open at least 12 restaurants in South Africa in the second half of the financial year across Spur Steak Ranches (five), Panarottis (four), RocoMamas (two) and Nikos (one).

Internationally, the group plans to open at least eight new restaurants. These include three outlets in Zambia (two Panarottis and one RocoMamas), a Spur in Namibia, a Panarottis in Kenya and one new RocoMamas restaurant in each of Mauritius, Egypt and Cyprus.

## CASH DIVIDEND

Shareholders are advised that the board of directors of the company has, on Wednesday, 27 February 2019, resolved to declare an interim gross cash dividend for the six month period to 31 December 2018 of R68.343 million, which equates to 63 cents per share for each of the 108 480 926 shares in issue, subject to the applicable tax levied in terms of the Income Tax Act (Act No. 58 of 1962) as amended ("dividend withholding tax") of 20%.

The dividend has been declared from income reserves. The net dividend is 50.4 cents per share for shareholders liable to pay dividend withholding tax. The company's income tax reference number is 9695015033. The company has 108 480 926 shares in issue at the date of declaration.

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

| Event | Date |
|---|---|
| Last day to trade 'cum dividend' | Tuesday, 26 March 2019 |
| Shares commence trading 'ex dividend' | Wednesday, 27 March 2019 |
| Record date | Friday, 29 March 2019 |
| Payment date | Monday, 1 April 2019 |

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

Share certificates may not be dematerialised or rematerialised between Wednesday, 27 March 2019 and Friday, 29 March 2019, both days inclusive.

For and on behalf of the board

**A Ambor**
*Executive Chairman*

**P van Tonder**
*Group Chief Executive Officer*

28 February 2019

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

| R'000 | Unaudited six months ended 31 December 2018 | Restated† unaudited six months ended 31 December 2017 | % change | Restated† year ended 30 June 2018 |
|---|---|---|---|---|
| **Revenue** | **370 244** | 351 702 | 5.3 | 684 294 |
| **Gross profit** | **271 302** | 252 023 | 7.6 | 490 296 |
| Operating profit before finance income^ | **113 881** | 115 650 | (1.5) | 197 481 |
| Interest income* | **16 649** | 15 412 | | 31 322 |
| Interest expense | **(10)** | (17) | | (33) |
| Share of loss of equity-accounted investee (net of income tax) | **(547)** | – | | (1 813) |
| **Profit before income tax** | **129 973** | 131 045 | (0.8) | 226 957 |
| Income tax expense | **(42 214)** | (33 580) | | (66 924) |
| **Profit** | **87 759** | 97 465 | (10.0) | 160 033 |
| **Other comprehensive income#** | **958** | (1 129) | | 3 433 |
| Foreign currency translation differences for foreign operations | **1 051** | (1 028) | | 3 617 |
| Foreign exchange loss on net investments in foreign operations | **(93)** | (101) | | (184) |
| **Total comprehensive income** | **88 717** | 96 336 | (7.9) | 163 466 |
| **Profit attributable to:** | | | | |
| Owners of the company | **83 892** | 94 504 | (11.2) | 155 671 |
| Non-controlling interests | **3 867** | 2 961 | | 4 362 |
| **Profit for the period** | **87 759** | 97 465 | (10.0) | 160 033 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the company | **84 850** | 93 375 | (9.1) | 159 104 |
| Non-controlling interests | **3 867** | 2 961 | | 4 362 |
| **Total comprehensive income for the period** | **88 717** | 96 336 | (7.9) | 163 466 |
| **Earnings per share (cents)** | | | | |
| Basic earnings | **88.01** | 98.82 | (10.9) | 162.87 |
| Diluted earnings | **87.80** | 98.66 | (11.0) | 162.56 |

^ Includes total impairment losses on financial instruments of R7.798 million (six months ended 31 December 2017: Rnil; year ended 30 June 2018: R6.618 million).

* Interest income comprises interest revenue calculated using the effective interest rate method.

\# All items included in other comprehensive income are items that are, or may be, reclassified to profit or loss.

† Refer note 2.2.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| R'000 | Unaudited as at 31 December 2018 | Restated* unaudited as at 31 December 2017 | Restated* as at 30 June 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **495 313** | 599 837 | 605 752 |
| Property, plant and equipment | **98 263** | 98 315 | 101 094 |
| Intangible assets and goodwill | **368 508** | 361 870 | 362 709 |
| Interest in equity-accounted investee (refer note 8) | **3 581** | – | 3 461 |
| Loans receivable | **20 773** | 133 970 | 132 816 |
| Deferred tax | **527** | 1 472 | 1 736 |
| Leasing rights | **3 661** | 4 210 | 3 936 |
| **Current assets** | **537 401** | 439 799 | 424 734 |
| Inventories | **15 216** | 16 485 | 15 702 |
| Tax receivable | **32 587** | 42 686 | 36 197 |
| Trade and other receivables | **124 579** | 150 078 | 99 997 |
| Loans receivable | **110 446** | 17 098 | 12 943 |
| Contingent consideration receivable (refer note 4) | **594** | – | – |
| Cash and cash equivalents | **253 979** | 213 452 | 259 895 |
| **Total assets** | **1 032 714** | 1 039 636 | 1 030 486 |
| **EQUITY** | | | |
| **Total equity** | **858 055** | 850 384 | 854 673 |
| Ordinary share capital | **1** | 1 | 1 |
| Share premium | **294 663** | 294 663 | 294 663 |
| Shares repurchased by subsidiaries | **(122 597)** | (106 412) | (107 202) |
| Foreign currency translation reserve | **30 640** | 25 120 | 29 682 |
| Share-based payments reserve | **5 224** | 2 950 | 3 731 |
| Retained earnings | **639 977** | 622 979 | 624 374 |
| **Total equity attributable to owners of the company** | **847 908** | 839 301 | 845 249 |
| Non-controlling interests | **10 147** | 11 083 | 9 424 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | **83 619** | 83 440 | 84 423 |
| Contract liabilities (refer note 2.2) | **29 059** | 26 489 | 27 813 |
| Operating lease liability | **3 227** | 2 969 | 3 919 |
| Deferred tax | **51 333** | 53 982 | 52 691 |
| **Current liabilities** | **91 040** | 105 812 | 91 390 |
| Bank overdrafts | **–** | 3 484 | – |
| Tax payable | **1 781** | 1 318 | 1 067 |
| Trade and other payables | **68 353** | 67 670 | 74 438 |
| Loans payable | **15 980** | 12 235 | 10 722 |
| Contract liabilities (refer note 2.2) | **4 255** | 4 115 | 4 532 |
| Contingent consideration liability (refer note 11) | **–** | 16 404 | – |
| Shareholders for dividend | **671** | 586 | 631 |
| **TOTAL EQUITY AND LIABILITIES** | **1 032 714** | 1 039 636 | 1 030 486 |

* Refer notes 2.2 and 17.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| R'000 | Ordinary share capital and share premium (net of treasury shares) | Retained earnings and other reserves | Non-controlling interests | Total |
|---|---|---|---|---|
| **Balance at 30 June 2017 (audited)** | 191 708 | 633 449 | 12 019 | 837 176 |
| IFRS 15 change in accounting policy (refer note 2.2) | – | (18 605) | (1 167) | (19 772) |
| **Restated balance at 30 June 2017** | 191 708 | 614 844 | 10 852 | 817 404 |
| **Restated total comprehensive income for the year** | – | 159 104 | 4 362 | 163 466 |
| Profit for the year | – | 155 671 | 4 362 | 160 033 |
| Other comprehensive income | – | 3 433 | – | 3 433 |
| **Transactions with owners recorded directly in equity** | | | | |
| **Contributions by and distributions to owners** | (4 246) | (116 161) | (5 790) | (126 197) |
| Equity-settled share-based payment (refer note 5.2) | – | 2 387 | – | 2 387 |
| Own shares acquired | (4 246) | – | – | (4 246) |
| Dividends | – | (118 548) | (5 790) | (124 338) |
| **Balance at 30 June 2018** | **187 462** | **657 787** | **9 424** | **854 673** |
| IFRS 9 adjustment on initial application (refer note 2.1) | **–** | **(10 126)** | **(21)** | **(10 147)** |
| **Adjusted balance at 1 July 2018** | **187 462** | **647 661** | **9 403** | **844 526** |
| **Total comprehensive income for the period** | **–** | **84 850** | **3 867** | **88 717** |
| Profit for the period | **–** | **83 892** | **3 867** | **87 759** |
| Other comprehensive income | **–** | **958** | **–** | **958** |
| **Transactions with owners recorded directly in equity** | | | | |
| **Contributions by and distributions to owners** | **(15 395)** | **(56 670)** | **(3 840)** | **(75 905)** |
| Equity-settled share-based payment (refer note 5.2) | **–** | **1 434** | **–** | **1 434** |
| Indirect costs arising on intra-group sale of shares related to equity-settled share-based payment (refer note 5.2) | **–** | **(610)** | **–** | **(610)** |
| Own shares acquired | **(15 395)** | **–** | **–** | **(15 395)** |
| Dividends | **–** | **(57 494)** | **(3 840)** | **(61 334)** |
| **Changes in ownership interests in subsidiaries** | **–** | **–** | **717** | **717** |
| Acquisition of controlling interest in business (refer note 4) | **–** | **–** | **717** | **717** |
| **Balance at 31 December 2018** | **172 067** | **675 841** | **10 147** | **858 055** |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| R'000 | Unaudited six months ended 31 December 2018 | Restated* unaudited six months ended 31 December 2017 | Audited year ended 30 June 2018 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Operating profit before working capital changes | **130 166** | 122 623 | 224 787 |
| Working capital changes | **(30 043)** | (65 512) | (27 560) |
| Cash generated from operations | **100 123** | 57 111 | 197 227 |
| Interest income received | **11 475** | 10 208 | 22 570 |
| Interest expense paid | **(10)** | (17) | (33) |
| Tax paid | **(37 937)** | (33 513) | (60 646) |
| Dividends paid | **(61 294)** | (61 236) | (124 250) |
| **Net cash flow from operating activities** | **12 357** | (27 447) | 34 868 |
| **Cash flow from investing activities** | | | |
| Additions of intangible assets | **(477)** | (675) | (1 924) |
| Additions of property, plant and equipment | **(2 121)** | (2 772) | (10 291) |
| Cash outflow from share-based payment hedge (refer note 5.1) | **–** | (13 740) | (13 740) |
| Loans advanced to franchisees | **(354)** | (8 499) | (11 188) |
| Proceeds from disposal of associate (refer note 9) | **–** | – | 17 500 |
| Proceeds from disposal of property, plant and equipment | **3** | 142 | 302 |
| Repayment of loans receivable | **5 800** | 5 080 | 11 160 |
| Increase in investment in associate (refer note 8) | **(667)** | – | (5 274) |
| Acquisition of business (refer note 4) | **(5 012)** | – | – |
| **Net cash flow from investing activities** | **(2 828)** | (20 464) | (13 455) |
| **Cash flow from financing activities** | | | |
| Acquisition of treasury shares | **(15 395)** | (3 456) | (4 246) |
| Settlement of contingent consideration (refer note 11) | **–** | – | (18 542) |
| **Net cash flow from financing activities** | **(15 395)** | (3 456) | (22 788) |
| **Net movement in cash and cash equivalents** | **(5 866)** | (51 367) | (1 375) |
| Effect of foreign exchange fluctuations | **(50)** | (127) | (192) |
| Net cash and cash equivalents at beginning of period | **259 895** | 261 462 | 261 462 |
| **Net cash and cash equivalents at end of period** | **253 979** | 209 968 | 259 895 |

**Note**

Total depreciation and amortisation included in profit before income tax for the period is R5.371 million (six months ended 31 December 2017: R5.620 million; year ended 30 June 2018: R10.687 million).

* Refer note 17.

## RECONCILIATION OF HEADLINE EARNINGS

| R'000 | Unaudited six months ended 31 December 2018 | Restated* unaudited six months ended 31 December 2017 | % change | Restated* year ended 30 June 2018 |
|---|---|---|---|---|
| **Total group** | | | | |
| Profit attributable to owners of the company | **83 892** | 94 504 | (11.2) | 155 671 |
| Headline earnings adjustments: | | | | |
| Profit on disposal of intangible assets (refer note 10) | **–** | – | | (4 750) |
| Loss/(profit) on disposal of property, plant and equipment | **10** | (64) | | (156) |
| Income tax impact of above adjustments | **(3)** | – | | 44 |
| Amount of above adjustments attributable to non-controlling interests | **–** | – | | (1) |
| **Headline earnings** | **83 899** | 94 440 | (11.2) | 150 808 |

* Refer note 2.2.

## SHARE INFORMATION

| | Unaudited six months ended 31 December 2018 | Restated^ unaudited six months ended 31 December 2017 | % change | Restated^ year ended 30 June 2018 |
|---|---|---|---|---|
| Total shares in issue (000's) | **108 481** | 108 481 | – | 108 481 |
| Net shares in issue (000's)* | **94 849** | 95 539 | (0.7) | 95 509 |
| Weighted average number of shares in issue (000's) | **95 319** | 95 632 | (0.3) | 95 580 |
| Diluted weighted average number of shares in issue (000's) | **95 545** | 95 789 | (0.3) | 95 761 |
| Headline earnings per share (cents) | **88.02** | 98.75 | (10.9) | 157.78 |
| Diluted headline earnings per share (cents) | **87.81** | 98.59 | (10.9) | 157.48 |
| Net asset value per share (cents) | **904.65** | 890.09 | 1.6 | 894.86 |
| Dividend per share (cents)# | **63.00** | 63.00 | – | 123.00 |
| **Reconciliation of weighted average number of shares in issue (000's)** | | | | |
| Gross shares in issue at beginning of period | **108 481** | 108 481 | | 108 481 |
| Shares repurchased at beginning of period | **(12 972)** | (12 812) | | (12 812) |
| Shares repurchased during period weighted for period held by the group | **(190)** | (37) | | (89) |
| **Weighted average number of shares in issue for the period** | **95 319** | 95 632 | | 95 580 |
| Dilutive potential ordinary shares weighted for period outstanding (refer note 5.2) | **226** | 157 | | 181 |
| **Diluted weighted average number of shares in issue for the period** | **95 545** | 95 789 | | 95 761 |

* 108 480 926 total shares in issue less 6 966 701 (as at 31 December 2017: 6 166 901; as at 30 June 2018: 6 196 901) shares repurchased by wholly-owned subsidiary companies, 6 164 698 (as at 31 December 2017 and 30 June 2018: 6 374 698) shares held by The Spur Management Share Trust (consolidated structured entity) and 500 000 (as at 31 December 2017 and 30 June 2018: 400 000) shares held by The Spur Foundation Trust (consolidated structured entity).

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

^ Refer note 2.2.

## OPERATING SEGMENT INFORMATION

| R'000 | Unaudited six months ended 31 December 2018 | Restated* unaudited six months ended 31 December 2017 | % change | Restated* year ended 30 June 2018 |
|---|---|---|---|---|
| **External revenue** | | | | |
| Manufacturing and distribution | **102 017** | 101 340 | 0.7 | 186 224 |
| Franchise – Spur | **119 934** | 106 910 | 12.2 | 210 865 |
| Franchise – Pizza and Pasta | **19 442** | 18 454 | 5.4 | 35 931 |
| Franchise – John Dory's | **10 718** | 10 443 | 2.6 | 20 014 |
| Franchise – Captain DoRegos (refer note a) | **–** | 1 610 | (100.0) | 2 526 |
| Franchise – The Hussar Grill | **3 392** | 3 208 | 5.7 | 6 243 |
| Franchise – RocoMamas | **17 487** | 16 101 | 8.6 | 31 300 |
| Franchise – Nikos (refer note b) | **1 567** | – | | – |
| Retail (refer note c) | **34 354** | 35 144 | (2.2) | 69 534 |
| Other South Africa (refer note d) | **31 142** | 31 568 | (1.3) | 67 852 |
| **Total South African segments** | **340 053** | 324 778 | 4.7 | 630 489 |
| Unallocated – South Africa (refer note e) | **12 390** | 11 046 | 12.2 | 23 258 |
| **Total South Africa** | **352 443** | 335 824 | 4.9 | 653 747 |
| Australasia | **2 613** | 3 876 | (32.6) | 7 118 |
| Other International (refer note g) | **15 000** | 11 876 | 26.3 | 23 180 |
| **Total International segments** | **17 613** | 15 752 | 11.8 | 30 298 |
| Shared services – International | **188** | 126 | 49.2 | 249 |
| **Total International** | **17 801** | 15 878 | 12.1 | 30 547 |
| **TOTAL EXTERNAL REVENUE** | **370 244** | 351 702 | 5.3 | 684 294 |
| **Profit/(loss) before income tax** | | | | |
| Manufacturing and distribution | **34 288** | 33 523 | 2.3 | 61 050 |
| Franchise – Spur | **100 349** | 89 923 | 11.6 | 176 328 |
| Franchise – Pizza and Pasta | **12 326** | 11 269 | 9.4 | 21 732 |
| Franchise – John Dory's | **5 067** | 4 858 | 4.3 | 9 409 |
| Franchise – Captain DoRegos (refer note a) | **–** | 15 | (100.0) | 4 604 |
| Franchise – The Hussar Grill | **2 729** | 2 431 | 12.3 | 4 790 |
| Franchise – RocoMamas | **12 854** | 11 885 | 8.2 | 21 471 |
| Franchise – Nikos (refer note b) | **480** | – | | – |
| Retail (refer note c) | **4 171** | 3 571 | 16.8 | 6 785 |
| Other South Africa (refer note d) | **(3 338)** | (2 311) | (44.4) | (4 953) |
| **Total South African segments** | **168 926** | 155 164 | 8.9 | 301 216 |
| Unallocated – South Africa (refer note e) | **(36 426)** | (25 934) | (40.5) | (65 352) |
| **Total South Africa** | **132 500** | 129 230 | 2.5 | 235 864 |
| Australasia (refer note f) | **(4 094)** | (399) | (926.1) | (10 980) |
| Other International (refer note g) | **6 768** | 5 405 | 25.2 | 10 378 |
| **Total International segments** | **2 674** | 5 006 | (46.6) | (602) |
| Unallocated – International (refer note h) | **(4 654)** | (3 191) | (45.8) | (6 492) |
| **Total International** | **(1 980)** | 1 815 | (209.1) | (7 094) |
| **PROFIT BEFORE INCOME TAX AND SHARE OF PROFIT OF EQUITY-ACCOUNTED INVESTEE** | **130 520** | 131 045 | (0.4) | 228 770 |
| Share of loss of equity-accounted investee (net of income tax) (refer note 8) | **(547)** | – | | (1 813) |
| **PROFIT BEFORE INCOME TAX** | **129 973** | 131 045 | (0.8) | 226 957 |

* Refer note 2.2.

### NOTES

a) **Franchise – Captain DoRegos** – The business was disposed of with effect from 1 March 2018. The prior year to 30 June 2018 includes a profit on disposal of the trademark and related intellectual property attributable to the business of R4.750 million (refer note 10).

b) **Franchise – Nikos** – The business was acquired with effect from 1 August 2018 (refer note 4).

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

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

e) **Unallocated – South Africa** – Revenue includes marketing fund administration fee income (refer note 2.2). Profit includes:

| R'000 | Note | Six months ended 31 December 2018 | Six months ended 31 December 2017 | Year ended 30 June 2018 |
|---|---|---|---|---|
| Net finance income | | **16 244** | 15 044 | 30 537 |
| Profit on disposal of Braviz funding instruments | 9 | **–** | 17 500 | 17 500 |
| Impairment loss – GPI receivable | 3 | **(4 303)** | – | – |
| Impairment loss – expected credit loss on other financial instruments | 2.1 | **(627)** | – | – |
| Cash-settled share-based payment credit | 5.1 | **–** | 885 | 885 |
| Fair value loss on related economic hedge | 5.1 | **–** | (3 168) | (3 168) |
| Equity-settled share-based payment charge | 5.2 | **(1 493)** | (1 138) | (1 919) |
| Contingent consideration fair value adjustment | 4 & 11 | **50** | (10 607) | (12 745) |
| Profit/(loss) of Spur Foundation Trust, all of which is attributable to non-controlling interests | | **301** | 79 | (907) |

f) **Australasia** – The current period includes expected credit impairment losses of R2.913 million (refer notes 2.1 and 3). The prior year to 30 June 2018 includes an impairment loss of R6.753 million relating to loans granted to Australian franchisees, relocation expenses of R0.477 million incurred on behalf of a franchisee, and R2.253 million relating to travel, legal, marketing and pre-opening costs for the establishment of the RocoMamas Australia business and first RocoMamas restaurant in Australia (refer note 8).

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

h) **Unallocated – International** – The current period includes the Zambia litigation settlement and related legal costs amounting to R1.641 million (refer note 12.2). Includes a foreign exchange loss of R0.432 million (six months to 31 December 2017: R0.174 million; year to 30 June 2018: R0.357 million).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 31 December 2018 have been prepared in accordance with the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa (No. 71 of 2008 amended). The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by *IAS 34 – Interim Financial Reporting*. The accounting policies applied in the preparation of these condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the preparation of the group's consolidated financial statements for the year ended 30 June 2018, except for the adoption of new standards effective for financial periods commencing as from January 2018, as detailed in note 2 below. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 2. NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP

### 2.1 IFRS 9 – Financial Instruments

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

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

| R'000 | Audited as at 30 June 2018 | IFRS 9 adjustment | As at 1 July 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Loans receivable | 132 816 | (6 884) | 125 932 |
| **Current assets** | | | |
| Trade and other receivables | 99 997 | (2 875) | 97 122 |
| Loans receivable | 12 943 | (1 193) | 11 750 |
| **EQUITY** | | | |
| Retained earnings | 645 827 | (10 126) | 635 701 |
| Non-controlling interests | 10 919 | (21) | 10 898 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred tax | 61 748 | (805) | 60 943 |

#### 2.1.1 Changes to the group's accounting policies

***Classification and measurement***

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

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

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

| Financial asset | IAS 39 Classification | IFRS 9 Classification | IAS 39 carrying amount R'000 | IFRS 9 carrying amount R'000 |
|---|---|---|---|---|
| Loans receivable | Loans and receivables | Amortised cost | 145 759 | 137 682 |
| Financial instruments included in trade and other receivables | Loans and receivables | Amortised cost | 95 727 | 92 852 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 259 895 | 259 895 |

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

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

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

***Impairment of financial assets***

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

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

For trade and other receivables, the group has applied the standard's simplified approach and has calculated ECLs based on lifetime ECLs. For debt financial assets, the ECL is based on the 12 month ECL. The 12 month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. In all cases, the group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group.

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

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

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

| | R'000 |
|---|---|
| Loss allowance at 30 June 2018 under IAS 39 | 7 553 |
| Trade receivables | 800 |
| Loans receivable | 6 753 |
| Additional impairment recognised at 1 July 2018 | 10 952 |
| Trade receivables | 2 875 |
| Loans receivable | 8 077 |
| **Loss allowance at 1 July 2018 under IFRS 9** | **18 505** |
| Trade receivables | **3 675** |
| Loans receivable | **14 830** |

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

### 2.2 IFRS 15 – Revenue from contracts with customers

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

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

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

| R'000 | Audited as at 30 June 2017 | IFRS 15 adjustment | As at 1 July 2017 |
|---|---|---|---|
| **EQUITY** | | | |
| Retained earnings | 605 388 | (18 605) | **586 783** |
| Non-controlling interests | 12 019 | (1 167) | **10 852** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Contract liabilities | – | 23 637 | **23 637** |
| Deferred tax | 60 924 | (7 689) | **53 235** |
| **Current liabilities** | | | |
| Contract liabilities | – | 3 824 | **3 824** |

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

| R'000 | Unaudited as at 31 Dec 2017 | IFRS 15 adjust-ment | Restated as at 31 Dec 2017 | Audited as at 30 June 2018 | IFRS 15 adjust-ment | Restated as at 30 June 2018 |
|---|---|---|---|---|---|---|
| **Statement of financial position** | | | | | | |
| **EQUITY** | | | | | | |
| Foreign currency translation reserve | 25 016 | 104 | **25 120** | 30 022 | (340) | **29 682** |
| Retained earnings | 643 769 | (20 790) | **622 979** | 645 827 | (21 453) | **624 374** |
| Non-controlling interests | 12 432 | (1 349) | **11 083** | 10 919 | (1 495) | **9 424** |
| **LIABILITIES** | | | | | | |
| **Non-current liabilities** | | | | | | |
| Contract liabilities | – | 26 489 | **26 489** | – | 27 813 | **27 813** |
| Deferred tax | 62 551 | (8 569) | **53 982** | 61 748 | (9 057) | **52 691** |
| **Current liabilities** | | | | | | |
| Contract liabilities | – | 4 115 | **4 115** | – | 4 532 | **4 532** |

| R'000 | Unaudited six months ended 31 Dec 2017 | IFRS 15 adjust-ment | Restated six months ended 31 Dec 2017 | Audited year ended 30 June 2018 | IFRS 15 adjust-ment | Restated year ended 30 June 2018 |
|---|---|---|---|---|---|---|
| **Statement of profit or loss and comprehensive income** | | | | | | |
| **Revenue** | 344 553 | 7 149 | **351 702** | 667 192 | 17 102 | **684 294** |
| **Gross profit** | 244 874 | 7 149 | **252 023** | 473 194 | 17 102 | **490 296** |
| **Profit before income tax** | 134 333 | (3 288) | **131 045** | 231 368 | (4 411) | **226 957** |
| Income tax expense | (34 501) | 921 | **(33 580)** | (68 159) | 1 235 | **(66 924)** |
| **Profit** | 99 832 | (2 367) | **97 465** | 163 209 | (3 176) | **160 033** |
| Other comprehensive income | (1 233) | 104 | **(1 129)** | 3 773 | (340) | **3 433** |
| **Total comprehensive income** | 98 599 | (2 263) | **96 336** | 166 982 | (3 516) | **163 466** |
| **Profit attributable to:** | 99 832 | (2 367) | **97 465** | 163 209 | (3 176) | **160 033** |
| Owners of the company | 96 689 | (2 185) | **94 504** | 158 519 | (2 848) | **155 671** |
| Non-controlling interests | 3 143 | (182) | **2 961** | 4 690 | (328) | **4 362** |
| **Total comprehensive income attributable to:** | 98 599 | (2 263) | **96 336** | 166 982 | (3 516) | **163 466** |
| Owners of the company | 95 456 | (2 081) | **93 375** | 162 292 | (3 188) | **159 104** |
| Non-controlling interests | 3 143 | (182) | **2 961** | 4 690 | (328) | **4 362** |
| Earnings per share (cents) | 101.11 | (2.28) | **98.82** | 165.85 | (2.98) | **162.87** |
| Diluted earnings per share (cents) | 100.94 | (2.28) | **98.66** | 165.54 | (2.97) | **162.56** |
| Headline earnings | 96 625 | (2 185) | **94 440** | 153 656 | (2 848) | **150 808** |
| Headline earnings per share (cents) | 101.04 | (2.28) | **98.75** | 160.76 | (2.98) | **157.78** |
| Diluted headline earnings per share (cents) | 100.87 | (2.28) | **98.59** | 160.46 | (2.97) | **157.48** |

2.2.1 Changes to the group's accounting policies

*Marketing fund administration fees*

The group provides administrative services to various marketing funds, which are managed by the group on behalf of the respective bodies of franchisees in accordance with the franchise agreements concluded between the group and independent franchisees, as more fully described in notes 2.1 and 39 on pages 118 and 171 respectively of the annual integrated report for the year ended 30 June 2018.

The group charges the respective marketing funds for the administrative services provided. The amounts charged by the group were previously considered a recovery of costs incurred by the group and as such were included in *other income* in the statement of profit or loss and other comprehensive income, and not revenue in accordance with IAS 18. However, the group has a contractual obligation to perform the administrative services for the marketing funds in terms of the franchise agreements in the ordinary course of the group's ordinary activities and is remunerated by the marketing funds for these services. The fees charged by the group for the administrative services are therefore *revenue* for the purposes of IFRS 15. The fees have accordingly been reallocated from *other income* to *revenue* in the statement of profit or loss and comprehensive income.

*Initial franchise fees*

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

| R'000 | Restated unaudited six months ended 31 December 2017 | Restated year ended 30 June 2018 |
|---|---|---|
| **Adjustment to revenue upon adoption of IFRS 15** | | |
| Marketing fund administration fees (reallocated from other income) | 10 437 | 21 513 |
| Initial franchise fees | (3 288) | (4 411) |
| | 7 149 | 17 102 |

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

## 3. FINANCIAL INSTRUMENT IMPAIRMENTS

| R'000 | Unaudited at 31 December 2018 | Unaudited at 31 December 2017 | Audited at 30 June 2018 |
|---|---|---|---|
| **Loans receivable** | | | |
| **Grand Parade Investments 1 (RF) (Pty) Ltd[1]** | | | |
| Gross carrying amount | **105 344** | 96 296 | 100 695 |
| Impairment allowance | **(8 428)** | – | – |
| Transition to IFRS 9 recognised in retained earnings at 1 July 2018 | **(4 125)** | – | – |
| Current period impairment allowance | **(4 303)** | – | – |
| Net carrying amount | **96 916** | 96 296 | 100 695 |
| **Franchisees (foreign: Australian dollars) (Australia)[2]** | | | |
| Gross carrying amount at reporting date | **4 486** | 7 096 | 7 531 |
| Impairment allowance | **(2 512)** | – | (2 916) |
| Opening impairment allowance | **(2 916)** | – | – |
| Transition to IFRS 9 recognised in retained earnings at 1 July 2018 | **(591)** | – | – |
| Current period impairment allowance | **(1 921)** | – | (2 916) |
| Impairment allowance reversed against actual write off | **2 916** | – | – |
| Net carrying amount | **1 974** | 7 096 | 4 615 |
| **Panawest Pty Ltd trading as Panarottis MacArthur (Australia)[3]** | | | |
| Gross carrying amount | **4 987** | – | 5 196 |
| Impairment allowance | **(4 987)** | – | (3 837) |
| Opening impairment allowance | **(3 837)** | – | – |
| Current period impairment allowance | **(1 150)** | – | (3 837) |
| Net carrying amount | **–** | – | 1 359 |
| **Other loans receivable[4]** | | | |
| Gross carrying amount | **35 379** | 57 738 | 39 090 |
| Impairment allowance | **(3 050)** | – | – |
| Transition to IFRS 9 recognised in retained earnings at 1 July 2018 | **(3 361)** | – | – |
| Current period impairment allowance | **311** | – | – |
| Net carrying amount | **32 329** | 57 738 | 39 090 |
| **Total net carrying amount** | **131 219** | 161 130 | 145 759 |

[1] Refer note 15.5 on page 144 of the annual integrated report for the year ended 30 June 2018.
[2] Refer note 15.2 on page 143 of the annual integrated report for the year ended 30 June 2018.
[3] Refer note 15.8 on page 145 of the annual integrated report for the year ended 30 June 2018.
[4] Refer note 15 on page 142 of the annual integrated report for the year ended 30 June 2018.

The receivable from Grand Parade Investments 1 (RF) (Pty) Ltd ("GPIRF") was advanced in October 2014 to partially fund the acquisition by that entity of shares in Spur Corporation Ltd as part of a broad-based black economic empowerment transaction. The receivable is secured by a reversionary interest in the Spur Corporation Ltd shares, but ranks behind the debt owing by GPIRF to an external finance company. Based on the Spur Corporation Ltd share price at the reporting date, the value of the shares held by GPIRF is insufficient to settle the group's receivable, in the event of default, after GPIRF has settled the external debt. Accordingly, an impairment allowance has been recognised in the current period, in addition to the IFRS 9 transitional adjustment at 1 July 2018 (refer note 2.1).

Persistent difficult trading conditions in Australia have increased the financial pressure on franchisees in that country. In certain instances, the group has granted payment holidays to these franchisees in order to assist their cash flow. During the period:

- The loan to Panarottis Currambine of R2.916 million which had been impaired at 30 June 2018, was written off following the liquidation of that entity.
- The franchisee of Apache Spur has defaulted on a loan of R2.326 million. In addition to the IFRS 9 transitional adjustment of R0.313 million, the remaining balance of the loan has been impaired in the current period.
- Panawest Pty Ltd defaulted on its loan. An impairment loss of R3.837 million was recognised in the prior year and the remaining balance of the loan has been impaired in full in the current period.

## 4. NIKOS ACQUISITION

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

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

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

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

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

The maximum purchase consideration is theoretically unlimited, although in determining the third year's EBITDA, the revenue of the business will be limited to that attributable to the first 40 restaurants in operation (if applicable). A financial asset measured at fair value of R0.544 million at the acquisition date (and R0.594 million at the reporting date) has been recognised in respect of the contingent consideration payable of R1.100 million. This is due to the fact that a significant portion of the initial R5.012 million paid is expected to be refunded by the sellers on the first anniversary of the effective date.

In the event that the forecast EBITDA increases by 5% or decreases by 5%, the gross contingent consideration will increase to R1.405 million or decrease to R0.795 million respectively. The contingent consideration liability is designated as a level 3 financial instrument in terms of the IFRS 13 fair value hierarchy as inputs into the valuation model are not based on observable market date. The fair value is determined based on the expected aggregate purchase consideration payments, discounted to the present value using a risk-adjusted discount rate of 22.08%, being the weighted average cost of capital specific to the acquired business. Had the discount rate increased by 2% or decreased by 2% on the acquisition date, the fair value of the contingent consideration receivable would have increased to R0.629 million or decreased to R0.451 million respectively.

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

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

From the date of acquisition, the business contributed R1.567 million revenue, profit before income tax of R0.369 million and profit after income tax of R0.262 million, of which R0.128 million is attributable to non-controlling interests. The acquired business has only been formally trading since July 2017. Had the group acquired the business at 1 July 2018, the impact on the group's revenue and profit would not have been materially different to that reported.

## 5. SHARE INCENTIVE SCHEMES

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

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

| R'000 | Unaudited six months ended 31 December 2018 | Unaudited six months ended 31 December 2017 | Audited year ended 30 June 2018 |
|---|---|---|---|
| Gross cash outflow on vesting of cash-settled rights | – | – | – |
| Gross cash outflow from economic hedging instrument | – | (13 410) | (13 410) |
| Payment of difference in guaranteed dividend to hedge counterparty | – | (330) | (330) |
| **Net cash flow effect** | – | (13 740) | (13 740) |
| Share-based payment credit | – | 885 | 885 |
| Fair value loss on economic hedging instrument | – | (3 168) | (3 168) |
| **Net expense included in profit before income tax** | – | (2 283) | (2 283) |

Further details of the share appreciation rights and related hedges are detailed in notes 27 and 28 respectively on pages 157 and 158 respectively of the annual integrated report for the year ended 30 June 2018.

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

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

During the current period, on 26 November 2018:

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

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

**Number of shares/rights in issue:**

| | Unaudited six months ended 31 December 2018 | Unaudited six months ended 31 December 2017 | Audited year ended 30 June 2018 |
|---|---|---|---|
| **FSP shares** | | | |
| Balance at beginning of period | **274 000** | 314 000 | 314 000 |
| Granted during the period | **209 800** | – | – |
| Forfeited during the period | **(4 000)** | (24 000) | (40 000) |
| Balance at end of period | **479 800** | 290 000 | 274 000 |
| Comprising | | | |
| Tranche 1 (April 2016) | **133 000** | 141 000 | 133 000 |
| Tranche 2 (April 2017) | **141 000** | 149 000 | 141 000 |
| Tranche 3 (November 2018) | **205 800** | – | – |
| **SARs** | | | |
| Balance at beginning of period | **3 868 045** | 4 590 889 | 4 590 889 |
| Granted during the period | **3 189 176** | – | – |
| Forfeited during the period | **–** | (722 844) | (722 844) |
| Balance at end of period | **7 057 221** | 3 868 045 | 3 868 045 |
| Comprising | | | |
| Tranche 1 (April 2016) | **1 636 852** | 1 636 852 | 1 636 852 |
| Tranche 2 (April 2017) | **2 231 193** | 2 231 193 | 2 231 193 |
| Tranche 3 (November 2018) | **3 189 176** | – | – |

**The terms of each tranche are as follows:**

| | First tranche (April 2016) | Second tranche (April 2017) | Third tranche (November 2018) |
|---|---|---|---|
| **FSP** | | | |
| Grant date | 1 April 2016 | 3 April 2017 | 26 November 2018 |
| Initial vesting date | 1 April 2019 | 2 April 2020 | 25 November 2021 |
| Date from which shares may be traded | 31 March 2021 | 1 April 2022 | 24 November 2023 |
| Service condition | 3 years | 3 years | 3 years |
| Performance conditions | None | None | Personal performance |
| Grant date fair value per share | R19.57 | R23.03 | R15.35 |
| **SAR** | | | |
| Grant date | 1 April 2016 | 3 April 2017 | 26 November 2018 |
| Initial vesting date | 1 April 2019 | 2 April 2020 | 25 November 2021 |
| Date from which shares may be traded | 31 March 2021 | 1 April 2022 | 24 November 2023 |
| Service condition | 3 years | 3 years | 3 years |
| Performance condition – return on equity (“ROE”) | Minimum 15% | Minimum 15% | Between 0% and 100% vesting where ROE is between 12.75% and 17.25% |
| Performance condition – earnings | Between 0% and 100% vesting where comparable headline earnings grows between CPI and CPI+4% per annum over initial vesting period | Between 0% and 100% vesting where comparable headline earnings grows between 0% and CPI+4% per annum over initial vesting period | Between 33% and 100% vesting where adjusted headline earnings (including impairments) grows between CPI and CPI+6% per annum over initial vesting period |
| Strike price per right | R29.40 | R33.15 | R23.13 |
| Grant date fair value per rights | R6.40 | R5.36 | R4.91 |
| No. of rights expected to vest based on meeting of non-market performance conditions | – | 197 112 | 1 410 732 |

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

| | |
|---|---|
| Risk-free rate (based on R186 South African Government bond) | 7.48% |
| Expected dividend yield (based on historic dividend yield over historic period equivalent to vesting period) | 5.47% |
| Expected volatility (based on historic volatility over historic period equivalent to vesting period) | 38.97% |
| Liquidity discount due to trade restriction (5 years in the case of FSP) | 19.59% |
| Liquidity discount due to trade restriction (2 years in the case of SAR) | 6.99% |

**The financial impact of the incentive schemes is summarised below:**

| R’000 | Unaudited six months ended 31 December 2018 | Unaudited six months ended 31 December 2017 | Audited year ended 30 June 2018 |
|---|---|---|---|
| **Cumulative share-based payment expense:** | | | |
| Balance at beginning of period | **3 731** | 1 812 | 1 812 |
| Share-based payment expense included in profit before income tax | **1 493** | 1 138 | 1 919 |
| **Balance at end of period** | **5 224** | 2 950 | 3 731 |
| Income tax credit included in profit | **304** | 225 | 456 |
| Income tax (charge)/credit included in equity (retained earnings) | **(59)** | 241 | 468 |
| Capital gains tax arising on intra-group sale of shares charged to equity (retained earnings) | **553** | – | – |
| Transaction costs arising on intra-group sale of shares charged to equity (retained earnings) | **57** | – | – |
| Dilutive potential ordinary shares (FSP) | **226 105** | 156 607 | 180 950 |

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

## 6. LOAN TO SPUR STEAK RANCHES MARKETING FUND

The Spur Steak Ranches Marketing Fund, which is managed by the group for and on behalf of the body of Spur Steak Ranches franchisees, is established in terms of the franchise agreements concluded between the group and franchisees, as more fully described in notes 2.1 and 39 on pages 118 and 171 respectively of the annual integrated report for the year ended 30 June 2018.

The Marketing Fund’s main source of income is the marketing contributions received from franchised restaurants which are determined as a percentage of the franchised restaurants’ sales. During the prior year, the board approved a loan facility to be made available to the Marketing Fund in the amount of R35.000 million. This was necessary in order to ensure the liquidity and solvency of the wholly-owned subsidiary that manages the Marketing Fund. The facility bears interest at the prime rate of interest and is repayable in 48 equal monthly instalments commencing July 2019. As at the reporting date, the gross amount receivable was R30.344 million (31 December 2017: R29.557 million; 30 June 2018: R25.725 million). While the loan is eliminated on consolidation, repayment of the intercompany loan and the interest thereon will be funded by future marketing contributions from franchisees. As a result, at the reporting date, there is a net Marketing Fund receivable, comprising the net liabilities and cumulative over-spend of the Marketing Fund, of R14.140 million (31 December 2017: R19.495 million; 30 June 2018: R14.332 million). Given that the intercompany loan is only repayable from 1 July 2019, it is not anticipated that the Marketing Fund receivable will reduce significantly before then. The amount due within 12 months of the reporting date of R1.999 million is classified as current, while the balance of the receivable is classified as non-current, in the consolidated statement of financial position.

## 7. TAX RATE RECONCILIATION

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

| % | Unaudited six months ended 31 December 2018 | Restated unaudited six months ended 31 December 2017 | Restated year ended 30 June 2018 |
|---|---|---|---|
| South African normal tax rate | **28.0** | 28.0 | 28.0 |
| Non-deductible loan impairments (refer note 3) | **1.5** | – | 0.8 |
| Non-deductible termination settlements | **0.6** | – | 0.5 |
| Non-taxable profit on disposal of Braviz loans (refer note 9) | **–** | (6.2) | (3.6) |
| Non-taxable dividend income | **(1.0)** | (0.9) | (1.1) |
| Non-deductible fair value adjustment on RocoMamas contingent consideration liability (refer note 11) | **–** | 2.3 | 1.6 |
| Non-deductible other expenditure (capital items and items not in the production of income) | **1.3** | 1.0 | 1.7 |
| Prior year underprovision | **0.4** | – | 0.1 |
| Tax losses on which deferred tax not raised | **0.3** | 0.3 | 0.6 |
| Tax losses utilised on which deferred tax not provided | **(0.5)** | (0.5) | (0.5) |
| Withholding taxes not recoverable | **1.6** | 1.5 | 1.6 |
| Other | **0.3** | 0.1 | (0.2) |
| **Effective rate of tax** | **32.5** | 25.6 | 29.5 |

## 8. INVESTMENT IN ASSOCIATE (ROCOMAMAS AUSTRALIA)

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

During the current period, further advances of R0.667 million were made to RRA on the same terms as above, to fund working capital of the business.

| R'000 | Unaudited six months ended 31 December 2018 | Unaudited six months ended 31 December 2017 | Audited year ended 30 June 2018 |
|---|---|---|---|
| **Carrying value of equity-accounted investee** | | | |
| Balance at beginning of period | **3 461** | – | – |
| Investment | **667** | – | 5 274 |
| Share of loss of equity-accounted investee (net of income tax) | **(547)** | – | (1 813) |
| **Balance at end of period** | **3 581** | – | 3 461 |

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

## 9. PRIOR YEAR DISPOSAL OF INVESTMENT IN ASSOCIATE (BRAVIZ FINE FOODS)

In March 2014, the group acquired a 30% interest in Braviz Fine Foods (Pty) Ltd ("Braviz"), a start-up operation which established a rib processing plant in Johannesburg for R0.400 million. The group had previously advanced loans in the amount of R46.250 million to the entity, the full extent of which were impaired in the financial year ended 30 June 2017.

During the prior year, with effect from 6 November 2017, the group concluded an agreement to sell its equity interest and loan claims with Braviz to the existing Braviz shareholders for the sum of R17.500 million. This was received in cash in March 2018. A profit before income tax of R17.500 million, and a tax credit of R3.257 million was recognised in the period to 31 December 2017.

## 10. PRIOR YEAR DISPOSAL OF CAPTAIN DOREGOS

During the prior year, with effect from 1 March 2018, the group concluded an agreement to dispose of the Captain DoRegos business, comprising largely of the Captain DoRegos trademarks and related intellectual property, for a consideration of R4.750 million. The Captain DoRegos intangible assets had been impaired in full as at 30 June 2017. The transaction therefore resulted in a profit on disposal of R4.750 million included in profit before income tax in the prior period. No income tax was applicable to the sale. Of the total consideration, R0.750 million was paid in cash in two instalments on 1 March 2018 and 1 May 2018 and the balance of R4.000 million is payable in equal monthly instalments over 48 months with effect from 1 June 2018, subject to interest at two percent above the prime overdraft rate of interest. As at the reporting date, the carrying amount of the receivable, included in loans receivable in the consolidated statement of financial position, was R3.611 million (30 June 2018: R4.042 million). The receivable is secured by guarantees from the purchaser and a trust which holds immovable property.

## 11. ROCOMAMAS CONTINGENT CONSIDERATION

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

The purchase consideration was determined as five times RocoMamas' profit before income tax of the third year following the date of acquisition, which ended on 28 February 2018. Following an initial payment of R2.000 million on the effective date, annual payments were due on the first, second and third anniversaries of the acquisition date, calculated as five times the profit before income tax of the year immediately preceding the anniversary date, less any aggregate payments already made. Payments of R20.369 million and R18.271 million were made on the first and second anniversaries of the acquisition date respectively and the final payment of R18.542 million was paid in March 2018.

**The movement in the contingent consideration liability was as follows:**

| R'000 | Unaudited six months ended 31 December 2018 | Unaudited six months ended 31 December 2017 | Audited year ended 30 June 2018 |
|---|---|---|---|
| Balance at beginning of period | – | 5 797 | 5 797 |
| Fair value adjustment recognised in profit before income tax | – | 10 607 | 12 745 |
| Payment made | – | – | (18 542) |
| **Balance at end of period (current)** | – | 16 404 | – |

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

## 12. SUBSEQUENT EVENTS

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

### 12.1 Dividend

A dividend of 63 cents per ordinary share in issue, amounting to R68.343 million, was declared by the board on 27 February 2019 and is payable on 1 April 2019.

### 12.2 Zambia litigation

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

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

SRIBV defended the action, denying the repudiation of the franchise agreement. Following several years of stalled legal proceedings, the matter was finally resolved by a court-ordered mediation on 30 January 2019. Giving consideration to the uncertainty, costs and time to litigate against a Zambian franchisee, under Zambian law and in a Zambian court, the board of SRIBV concluded that it was in the interests of the company to agree to an amount of US$120 000 in full and final settlement of the matter, without conceding on the legal merits of the case. Accordingly, a liability in the amount of R1.566 million has been recognised at the reporting date.

## 13. CONTINGENT LIABILITIES

### 13.1 Legal dispute with former Zambian franchisee

Refer note 12.2.

### 13.2 Other contingent liabilities

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

## 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

## 15. RELATED PARTIES

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

## 16. STANDARDS ISSUED BUT NOT YET EFFECTIVE

As detailed in note 46 on page 191 of the annual integrated report for the year ended 30 June 2018, *IFRS 16 – Leases* will be effective for the group's financial year ending 30 June 2020, and is expected to have a significant impact on the group's financial statements. This standard has not been early adopted in the preparation of these interim condensed consolidated financial statements. No further progress has been made on the transition to this standard, subsequent to the preparation of the consolidated financial statements for the year end 30 June 2018 referred to above.

## 17. CORRECTION OF ERROR

As reported in note 7 to the condensed consolidated financial statements for the six month period to 31 December 2017, the group had advanced an amount of R29.000 million to the Spur Steak Ranches Marketing Fund in the six month period to 31 December 2017 (refer note 6 for further details of the loan).

The carrying amount of the loan, R29.557 million, was incorrectly reflected as a loan receivable (non-current) in the statement of financial position as at 31 December 2017, and the amount of R29.000 million was incorrectly reflected as a cash outflow arising from investing activities in the consolidated statement of cash flows for the six month period ended 31 December 2017. The loan granted was a transaction between two wholly-owned subsidiary companies of the group, and should accordingly have been eliminated on consolidation in accordance with *IFRS 10 – Consolidated Financial Statements*. The Marketing Fund Loan was reflected as a loan payable of R10.062 million as at 31 December 2017, which should have been reflected as a loan receivable (non-current) of R19.495 million. The movement in the Marketing Fund loan is a cash flow arising from operating activities in accordance with *IAS 7 – Statement of Cash Flows* and the R29.000 million should accordingly be reflected as a change in working capital.

The impact of the restatement is detailed as follows:

| R'000 | Unaudited as at 31 December 2017 as previously stated* | Correction of error | Restated unaudited as at 31 December 2017* |
|---|---|---|---|
| **Statement of financial position** | | | |
| **ASSETS** | | | |
| **Non-current assets** | **609 899** | **(10 062)** | **599 837** |
| Loans receivable | 144 032 | (10 062) | 133 970 |
| **Total assets** | **1 049 698** | **(10 062)** | **1 039 636** |
| **LIABILITIES** | | | |
| **Current liabilities** | **111 759** | **(10 062)** | **101 697** |
| Loans payable | 22 297 | (10 062) | 12 235 |
| **Total equity and liabilities** | **1 049 698** | **(10 062)** | **1 039 636** |

| R'000 | Unaudited six months ended 31 December 2017 as previously stated | Correction of error | Restated unaudited six months ended 31 December 2017* |
|---|---|---|---|
| **Statement of cash flows** | | | |
| **Cash flow from operating activities** | | | |
| Working capital changes | (36 512) | (29 000) | (65 512) |
| Cash generated from operations | 144 032 | (29 000) | 115 032 |
| **Net cash flow from operating activities** | **1 553** | **(29 000)** | **(27 447)** |
| **Cash flow from investing activities** | | | |
| Loan advanced to Spur Steak Ranches Marketing Fund | (29 000) | 29 000 | – |
| **Net cash flow from investing activities** | **(49 464)** | **29 000** | **(20 464)** |
| **Net movement in cash** | **(51 367)** | **–** | **(51 367)** |

* Prior to change in accounting policy arising from adoption of IFRS 15 (refer note 2.2).

## 18. CHANGES IN DIRECTORS

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

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

# ADMINISTRATION

## DIRECTORS

**Executive Chairman**: Allen Ambor

**Chief Executive Officer**: Pierre van Tonder

**Chief Operating Officer**: Mark Farrelly

**Chief Financial Officer**: Phillip Matthee

**Non-executive Directors**: Keith Getz (retired 6 December 2018); Keith Madders (retired 6 December 2018); Prabashinee Moodley (retired 6 December 2018)

**Independent Non-executive Directors**: Mike Bosman (appointed 15 November 2018); Dean Hyde (retired 6 December 2018); Muzi Kuzwayo; Dineo Molefe; Mntungwa Morojele

## COMPANY INFORMATION

**Spur Corporation Ltd** (registration number 1998/000828/06)

**Share code**: SUR

**ISIN**: ZAE000022653

**Company Secretary**: Nazrana Hawa

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

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

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

**Website**: www.spurcorporation.com